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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Radian Second Quarter 2018 Earnings Call. During today's conference call, phone lines are in a listen-only mode. Later on, we will have an opportunity for a question-and-answer session, and instructions will be given at that time. [Operator Instructions] And as a reminder, today's conference call is being recorded.

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

Emily Riley

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

Thank you, and welcome to Radian's second quarter 2018 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning and is posted to the Investors section of our website at www.radian.biz. The press release includes certain non-GAAP measures which will be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, adjusted net operating return on equity, tangible book value per share as well as Services adjusted EBITDA and a new related non-GAAP measure, Services adjusted EBITDA margin. A complete description of these measures and their reconciliation to GAAP may be found in Press Release Exhibits F and G, and on the Investors section of our website.

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

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections, and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially. For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release and the risk factors included in our 2017 Form 10-K, and subsequent reports filed with the SEC. These are also available on our website.

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

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Emily, and good morning. I'd like to thank each of you for joining us today and for your interest in Radian. This morning, we reported outstanding financial results for the second quarter. While I have the pleasure of delivering this news to you today, I want to emphasize that our performance reflects the success of our business strategy as one Radian, our strong customer relationships, the strength and flexibility of our financial position, the value of our $211 billion insurance portfolio and the hard work of our outstanding team and the support and guidance of our board of directors.

Before I turn the call over to Frank to cover the financial results, I'd like to share a few thoughts and observations related to our strong operating performance. In terms of our financial performance, net income for the second

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quarter was $209 million or $0.96 per diluted share which includes a positive impact from the previously announced resolution of our longstanding tax matter. Adjusted diluted net operating income per share increased 44% year-over-year to $0.69 and our return on equity was 27% for the second quarter and adjusted net operating return on equity was 19%.

In terms of our market performance, we set a company record with a highest volume of Mortgage Insurance business written on a flow basis in the quarter, writing $16.4 billion in NIW driving strong economic value to our portfolio. We are now projecting approximately $55 billion of NIW for the year, which would be another record breaking level of flow for NIW versus our original 2018 guidance of approximately $50 billion. We are achieving this market leading level of performance based on the breadth and depth of our customer relationships and the excellent customer service delivered by our entire team, while maintaining attractive returns.

Also from a market performance perspective, I want to highlight that the revenues from our Services segment in the second quarter grew 19%, including $2.8 million of revenues contributed by our strategic acquisition of a nationally licensed title insurance company that we announced last quarter. This acquisition broadens our geographic reach and helps us to provide title and settlement services to customers across the country.

Aside from the additional title revenues, we are beginning to see growth across our due diligence businesses fueled by an expansion of the securitization markets. This growth combined with our growing sales pipeline across our mortgage, real estate and title and settlement services, is consistent with our business strategy and expectations. The opportunity across our Services business is maturing and will continue to develop over the coming quarters. I am proud of how our enterprise sales and services teams are working in partnership to execute our plan.

From a strategic perspective at Radian, we have demonstrated our ability to navigate market, competitive and regulatory changes in the ordinary course of managing our business and based on our financial and market performance, we've done that very well.

And now in terms of our insurance portfolio, our strong new business volume in the quarter combined with continued favorable persistency helped us to grow our high quality insurance in force portfolio, which is the primary driver of our future earnings by 10% year-over-year to $211 billion. I believe it is also worth reiterating what I stated last quarter, our highly valuable $211 billion of insurance in force is one of the largest high-quality portfolios in the industry and the future economic value of this portfolio is not reflected in our current period financial statements nor is it reflected in our reported book value, but it is expected to be recognized over time.

One of the greatest benefits from tax reform for Radian was the increased economic value of our insurance portfolio, which is a permanent change in value resulting from a reduction in federal tax rates as of January 1, 2018. Importantly, the value of this portfolio provides us with significant strategic financial flexibility.

In terms of capital management, during the second quarter, we completed our most recent share program. We are pleased that our strong financial position has afforded us the opportunity to return value to our stockholders opportunistically through our share repurchase programs. Frank will provide more details about the most recent programs as well as the share repurchases over the past several years.

In terms of future PMIERs 2.0 capital requirements, last month we received revisions to the draft rules as well as an update on timing. As I have mentioned previously, PMIERs provides our industry with risk-based capital requirements that allow us to manage risk and returns based on a consistent framework. We now expect that PMIERs 2.0 will become effective at the end of the first quarter of 2019 and based on our understanding of the

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current draft of the proposed PMIERs, at the effective date, we expect to be able to fully comply and to maintain substantially the same excess of available assets over minimum required assets as we do today under the current PMIERs. Our expectation is based on our financial strength and flexibility including our projections for positive operating results between now and the end of the first quarter of 2019.

Continuing on capital management, the capital markets and reinsurance markets continue to have strong interest in Mortgage Insurance credit risk. Unlike most of the other MI players, currently we only distribute the risk of our Single Premium business through our unique singles only quota share reinsurance program under which we generally cede 65% of the risk of our new singles production. This has been a very effective portfolio and capital management tool.

While we've not utilized other forms of execution such as insurance linked notes or excess of loss reinsurance, we are continually exploring these forms of execution. We should also point out that the opportunity for Radian to utilize these structures is significant. Relative to other industry players, there is only 16% of our risk in force is ceded to reinsurance. What this means is we have significant accessible untapped capital resources relative to our risk in force and therefore greater financial flexibility.

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

We believe it is important to achieve a balance between the use of proprietary capital and third-party capital. That is where our current capital strength provides us with a strong competitive advantage. Our capital plan contemplates retaining a strong capital position and opportunistically leveraging third-party capital to distribute risk and reduce the volatility associated with any credit cycle dislocation.

Given some of the news in the first half of 2018, I would like to take a moment here to share my perspectives on a couple of topics related to competition in the Mortgage Insurance industry that have been top of mind for investors, specifically, the GSE pilot programs and industry pricing changes. I consider much of the news related to these topics to be temporary noise in the market and all part of the ordinary course of a competitive industry.

On the GSE pilot programs, Fannie Mae recently announced a pilot program called EPMI similar to Freddie Mac's previously announced IMAGIN program. While these programs provide an alternative way for lenders to deliver loans to the GSEs with greater than 80% LTV, there are a few important factors to remember. These programs are in a pilot stage. It is our understanding that to-date there is limited market participation and they are focused on lender-paid single premium mortgage insurance, which represents a limited portion of our business today. In fact, lender-paid single is a product that we have actively reduced over the past several years and in the most recent quarter represented only 10% of our NIW or 3% to 4% net of reinsurance.

Next, let me address the pricing environment. Although, we continue to see price competition around the edges, I would characterize the environment today as competitive yet stable. We and our competitors made changes to rates and underwriting guidelines that went into effect this summer and from Radian's perspective, we have transitioned to a structure that is even more granular in nature and improves our ability to manage and price for the risk that we take.

Clearly, the industry continues to evolve its risk-based pricing, which we fully support and we believe the changes we made to our rates and guidelines better incorporate the primary risk attributes that are most important to capture.

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Finally, in terms of alternative channels for delivery and pricing, we closely monitor our customer needs and we are prepared to introduce a black box pricing platform if and when it makes strategic sense. So net-net, we have far more tailwinds than headwinds today based on the positive market environment and our strong operating performance. 19.3% adjusted operating return on equity this quarter, our strong market share with a projection of $55 billion of NIW this year and the future earnings associated with our highly valuable $211 billion Mortgage Insurance portfolio that we grew 10% year-over-year.

It's a great time to be in the Mortgage Insurance business. The business fundamentals are incredibly strong. The credit environment is excellent with guardrails in place for mortgage lending and servicing under Dodd-Frank. Our Mortgage Insurance industry is governed by clear consistent and transparent risk-based capital requirements under PMIERs and operating guidelines with a uniform master policy and there is strong business momentum fueled by growth in the purchase of mortgage origination market.

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

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

J. Franklin Hall

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

Thank you, Rick; and good morning, everyone. Rick has highlighted our headline financial performance for the quarter, so I'll spend some time discussing the drivers of our $0.69 per share adjusted diluted net operating income for the second quarter of 2018, which was an increase of 17% over the first quarter of 2018 and 44% over the same quarter last year.

I'll start with the key drivers of our revenue. Our new insurance written was $16.4 billion during the quarter, compared to $11.7 billion last quarter, and $14.3 billion in the second quarter of 2017. Our second quarter 2018 volume marks our highest quarterly new insurance written on a flow basis. Monthly premium NIW was up 14% year-over-year to its highest quarterly level in over a decade. Single-premium NIW represented 24% of our total production on a gross basis, and on a net basis after our 65% cession to reinsurers, our retained single-premium percentage was only 8% in the second quarter of 2018.

It is also noteworthy that our single-premium NIW volume had more borrower-paid policies than lender-paid policies. Borrower-paid singles, which have higher returns than lender-paid policies, represented 14% of our total NIW compared to only 2% in the second quarter of 2017. In contrast, lender-paid single premium NIW declined to just 10% down from 21% of total NIW in the prior year. This shift in business mix is both expected and deliberate, and designed to improve the return profile of our Single Premium business overall.

The new business we are writing today continues to consist of loans that are expected to produce excellent risk adjusted returns. Primary insurance in force increased to $210.7 billion at the end of the quarter, a 10% increase over the same period last year. As Rick previously mentioned, the in force portfolio is the primary source of our future earned premiums, and as such, is expected to generate future earnings that are not reflected in the current

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period financial statements, nor is it reflected in our reported book value, but it is expected to be recognized over time.

Persistency trends remain positive and our 12-month persistency rate was relatively flat at 80.9% in the second quarter 2018, compared to 81.0% in the first quarter of 2018. Our quarterly persistency was 82.3% this quarter, down slightly from 82.8% in the second quarter of 2017. Our direct in force portfolio yield was relatively flat at 48.4 basis points this quarter, compared to 48.7 basis points last quarter as seen on slide 10.

Our primary direct in force portfolio yield has been relatively stable over the past several quarters, as the mix of new business we are writing today, has expected yields that are roughly in line with our current portfolio yield. Net premium yields, which include the impact of single premium policy cancellations and ceded premiums under our reinsurance arrangements, are also presented on webcast slide 10, which shows the components of our net premium yields over the most recent five quarters.

Net Mortgage Insurance premiums earned were $249 million in the second quarter of 2018 compared to $242.6 million in the first quarter of 2018 and $229.1 million in the second quarter of 2017. This 9% increase from the second quarter of 2017 was primarily attributable to our insurance in force growth, particularly with regard to monthly premium policies.

Total Services segment revenue for our Mortgage and Real Estate Services segment increased to $40.5 million for the second quarter of 2018 compared to $34.2 million for the first quarter of 2018. In addition to the inclusion of net premiums earned on title insurance of $2.4 billion, the increase in Services revenue on a linked quarter basis was primarily driven by an increase in securitization activity.

Our reported Services adjusted EBITDA of approximately $2 million for the second quarter of 2018 represents an approximate 5% Services adjusted EBITDA margin. Excluding both the restructuring charges and the operating impact of our recently acquired title insurance company, the Services segment adjusted EBITDA margin would have been approximately 10%. Excluding the operations of our recently acquired title insurance company and any remaining restructuring charges, we continue to expect the Services adjusted EBITDA margin to be in the 10% to 15% range beginning in the second half of 2018 with an annualized run rate for revenue of between $150 million and $175 million. Our investment income this quarter was approximately $37 million, a 10% increase over the prior quarter and a 25% increase over prior year, due to both higher rates and higher balances in our investment portfolio.

Our strategic shift to slightly shorten the duration of the portfolio during 2017 has also proven effective and our quarterly cash flows have been reinvested into a rate environment with higher yielding securities. We are continually looking for ways to enhance the performance of our investment portfolio and apply our management expertise to produce greater investment income while also being mindful of asset and liability duration matching and risk levels.

Moving now to our loss provision and credit quality, as noted on slide 14, during the second quarter of 2018, we had positive development on prior period defaults of $18.1 million. This positive development was driven primarily by a reduction in assumed claim rates on existing defaults, mainly those older than 12 months based on observed trends including an increase in cure rates on these defaults. The defaults to claim rate applied to new primary defaults received in the quarter was approximately 9%, which reflects recent observed trends and seasonal patterns and is flat to the first quarter of 2018 and compares to a 11% in the second quarter of 2017.

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We believe that if observed trends continue default to claim rates would fall as low as our historical lows of 8% although the likelihood and timing of this decline is difficult to predict. The total number of new defaults decreased by 8.3% compared to the first quarter of 2018 and by 2.7% compared to the second quarter of 2017. We continue to expect most of the new defaults we received between September 2017 and February 2018 in FEMA-designated areas to cure within 2018.

These defaults will cure at a higher rate than non-FEMA designated areas. So we assigned a materially lower estimated claim rate to these new defaults. We have observed a significant increase in cures of hurricane related defaults since December 2017. Please see slide 16 for further details on the default activity.

As economic indicators have continued their positive trends, cumulative loss ratios on our post 2008 business continued to track at historically low levels. Overall, the performance of our portfolio remained strong with positive trends continuing further evidence of both the strong credit profile of business written after 2008, which is now 93% of our primary MI risk in force including HARP loans, as well as greater predictability around the pre-2009 portfolio.

Now turning to expenses. Other operating expenses were $70.2 million in the second quarter of 2018 compared to $63.2 million in the first quarter of 2018 and $68.8 million in the second quarter of 2017. Compared to prior quarter, the primary drivers of the increase in expense were the inclusion of operating expense associated with our recently acquired title insurance company, which were $3.7 million this quarter, as well as the seasonal impact of our annual stock-based incentive compensation awards.

Compared to the second quarter of 2017 and excluding the addition of our recently acquired title insurance company, operating expenses show a decline of approximately 3%. As for future expense expectations, exclusive of our recently acquired title insurance company, we still expect that our total other operating expenses for 2018 will not exceed our 2017 expense levels and that we will achieve positive operating leverage for the full-year, which means that our revenues will grow at a faster rate than our expenses.

On a year-to-date through the second quarter of 2018, revenue has increased 3%, while other operating expenses have decreased by 6%, both as compared to the same period in 2017 exclusive of the operating results of recent acquisitions. These results are consistent with Radian's strategic objective of increasing operating leverage through revenue growth and disciplined expense management.

Moving now to taxes, we are pleased to report the resolution of a longstanding legacy tax matter that has had an overhang of uncertainty for close to 10 years related to our 2000 to 2007 tax years. For the second quarter of 2018, we recorded a tax benefit of $28.4 million, which included the previously mentioned $74 million benefit relating to our settlement, as well as the reversal of state and local tax liabilities.

Under the terms of the settlement, which remains subject to U.S. Tax Court approval, we expect to submit approximately $31 million of our $89 million qualified deposit with the U.S. Department of Treasury and the remaining unused portion of the deposits to be returned to the company in the coming months. Our expectation for our 2018 annualized effective tax rate before discrete items is approximately the statutory rate of 21%.

Now moving to capital activities, the company has purchased an approximate 2.5 million shares of its common stock in the second quarter of 2018 for a total of approximately 3 million shares repurchased year-to-date in 2018. We have fully utilized our previously disclosed repurchase authorization of $50 million.

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In total, since 2015, Radian has authorized three repurchase programs and is used $150 million to repurchase 12.5 million shares which represents approximately 5% of total diluted shares outstanding prior to these transactions. This is a clear demonstration that Radian is committed to providing shareholder value through a prudent use of its capital and by being opportunistic and forward-looking in its management thereof.

Holding company liquidity at the end of this quarter was $202 million and excludes the expected IRS settlement payment of $31 million. This liquidity level was approximately equivalent to the level of the end of the prior quarter. And finally, under PMIERs, Radian Guaranty had available assets of $3.7 billion and our minimum required assets were $3.3 billion as of the end of the second quarter 2018. The excess available assets over the minimum required assets of $482 million represent a 15% PMIERs cushion.

We have also noted on slide 20 our current PMIERs excess available resources on a consolidated basis of $874 million, which, if fully utilized, represents a 26% excess of our minimum required assets.

As previously announced, in December 2017, Radian Guaranty received the proposed changes to the PMIERs known as PMIERs 2.0. In June 2018, we received revisions to the PMIERs 2.0 that take into consideration among other items, the comments previously provided by the private mortgage insurance industry to the GSEs and FHFA.

As Rick mentioned, we expect the PMIERs 2.0 will be finalized in the third quarter of 2018 and after an implementation period will become effective at the end of the first quarter of 2019. Based on the most recent version of PMIERs 2.0 as of the effective date, Radian expects to be able to fully comply with PMIERs 2.0 and to maintain substantially the same excess of available assets over minimum required assets under PMIERs 2.0 as it does today under the current PMIERs without a need to take further actions to do so.

Our expectation is based on our current understanding of the most recent version of PMIERs 2.0, our forecasted NIW, our projections for ongoing positive operating results, our strong capital position, and the benefits of our reinsurance programs.

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 achieved outstanding financial results for the second quarter with significant growth in net income, a 44% increase in adjusted diluted net operating income per share, and a 11% increase in book value per share, and adjusted net operating return on equity of 19%.

We broke a company record for quarterly flow NIW, continue to make progress in repositioning our Services segment for sustained growth and profitability, and we grew our mortgage insurance in force portfolio 10% year-over-year, which is the primary driver of future earnings.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] First question today comes from the line of Mark DeVries with Barclays. Please go ahead.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks. I believe your comments around PMIERs were revised from the last statement, adding the comment that you would expect to have the same cushion and implementation as you have today. Does that reflect a revision in what they communicated after comments [ph] that's a (00:31:06) little bit more favorable to you, or is it another way of just kind of casting it where you're now factoring in retained earnings and kind of a build in available assets over the period between now and implementation?

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

A

Yeah. Mark, this is Frank. Thanks for the question. Dissecting the elements of attribution for the PMIERs cushion, the additional guidance that we gave, is a little bit difficult. I think what you can expect though is that we are aligned with the guidance that Rick gave of our new NIW guidance for the year. So we are factoring in growth, but because of the limitations that we have to speak to the specifics around the PMIERs details, it's difficult to ascertain that or difficult to speak to it. So we just thought it would be helpful to provide just a general guidance that our cushion will remain substantially the same and hope that that's helpful to you.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Fair enough. A separate question, now that you've filled the latest buyback authorization, is there anything you can share with us on thoughts for any kind of future buybacks?

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

A

Sure. So, the buybacks, as you would imagine, are one of many elements that go into our capital plan overall. And just as a reminder, our recently completed authorization of $50 million ahead of scheduled expiration for the end of July. And that's why I wanted to give some historical context over the way that we have handled repurchase programs in the past. And since 2015, we've had three authorizations and so since 2015, we have had a repurchase authorization in place for more of that time horizon than we have [ph] not (00:32:56).

So I think – as we think about it going forward, the company has demonstrated a willingness to buy back its shares opportunistically when the value supports that. But it is an element of a broader capital plan and it is something that we are in continual conversation with our board of directors.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. And is the board scheduled to meet any time soon in the meeting in which it might make sense to take that up?

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

A

Yeah. We have, as you would imagine, regularly scheduled meetings. The next one is scheduled for mid-August.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Great. Thank you.

Operator: Our next question is from the line of Randy Binner with B. Riley.

Randy Binner
Analyst, B. Riley FBR, Inc.

Q

Good morning. Thanks. I'd like to follow-up on Rick's comment around introducing [ph] a – about (00:33:48) black box model and kind of when that would make sense. You mentioned you had that ability, can you kind of fill that out a little bit more how the market has maybe stabilized around rate card pricing here in July? And then what would change in the environment that would make you move more towards a black box model?

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

A

Sure. Randy, thanks for the question. I think certainly the industry, we see a continuing move towards greater risk based pricing and we think a black box is really nothing more than a delivery mechanism. If you go – I can't speak for all the other MIs right, but I think the analytics we have from a risk and pricing granularity, from a return point of view are all quite sophisticated. And so it's just really a matter of delivery mechanism. And so we look at the move towards greater risk-based pricing and greater granularity that we achieved. And I think you saw us go even a few steps further and the industry kind of lined up generally even with that but we believe the factors that we put out there really addressed the really important risk that we manage around our business.

So increased granularity I think is certainly a positive thing. We have the capabilities, we certainly are ready to – we are in a position to offer and implement black box pricing, but we do think of it as a delivery mechanism as opposed to some further greater expansion towards risk-based pricing, which we think we're able to really manage and control well today.

So, I think for us, what drives it and just to kind of wrap up the answer to your question, ultimately, we're driven by our customers. And I – myself and Derek and many of others of our team, obviously our sales team, spend a lot of time with our customers talking to them about a variety of topics, one of which is this concept of black box from a pricing delivery point of view. And I think as we see customers express the need or the desire for it, we're in a position to accommodate that requirement. So, at this point, we're going to be customer-driven and because we believe from a risk point of view, we are very comfortable with how we can manage our risk return profile through the different pricing mechanisms we have in place today.

Randy Binner
Analyst, B. Riley FBR, Inc.

Q

Great. The one follow-up I have and I think I heard this in your comments is that can you confirm that the pricing environment at least for the four MIs who use rate cards has stabilized after some price changes that came through earlier this month, as opposed to where the pricing environment was in June?

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

A

Yeah. Well, look I won't comment specifically about other MIs, [ph] but see (00:36:48) any four because I'm not sure which four you might – we could check the boxes that which ones are really using black box to any degree versus others. But there – the fact is from a pricing point of view, I think we feel very comfortable that the market has stabilized. There's a normal level of noise that we hear from a competitive point of view. But I think truly our results speak for themselves from a market process point of view. We've taken a different approach. Again, we feel like we have very strong risk granularity from pricing. We're very pleased, quite frankly very pleased with the changes that we were able to make in June from a risk distribution point of view, so we take that as a big positive.

Our ability to manage the risk across our customers and our origination sources, I think, remains extremely high, very powerful, but different than – I think it's important to think about this as an industry. Remember pricing is one element of risk management, okay? So when we talk about black box pricing, we talk about the risk granularity, I feel like we have all the capability to do that and it's a stable yet competitive environment, as I said earlier.

But I think the other part where I believe, we excel and really have Derek and the team, Brien, sales team, the way that we focus on the customers we do business with and the value that we derive from those relationships is kind of a two-way street. So I think when you think about pricing it's also about how we think about not only the competitive environment, which I feel is in a good place today, it's also about how we distribute risk-based pricing which I think is in a good place today.

It's also how we manage our customers and who we do business with, who originates the loans that we ensure from a quality point of view and just as important whose services the risk that we have. Sorry for the sirens in the background of Philadelphia's Finest.

Randy Binner
Analyst, B. Riley FBR, Inc.

Q

Yeah. Normal noise, right?

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

A

Normal. So that's – so it's appropriate for our pricing discussion that we would hear normal noise in the background a little bit. But I think, as I said earlier, it's a stable environment, I believe the most important point for I think if I would emphasize anything from this call perspective is we're very good at managing kind of the market vicissitudes, if you will and the volatility that you might see around different factors. We're in a competitive, regulated environment and we do a very good job of managing the complexity and the changes that occur in that and I think our results demonstrate that our team is doing a very good job of maintaining the relationships and we're growing the value for our shareholders.

Randy Binner
Analyst, B. Riley FBR, Inc.

Q

I appreciate the comments. Thanks.

Operator: We'll go next to the line of Phil Stefano of Deutsche Bank. Please go ahead.

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Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, thanks. I guess continuing these – the granularity pricing conversation a little bit, but maybe taking a different direction. So, one of the things that I started to think about is when I look at your results, the 95% plus LTV has ticked up a little bit and the 620 to 679 FICO has picked up a little bit. Again, these have been incremental changes. We're not trying to make mountain out of molehill. But to what extent should we start to or could we start to read through as granularity and pricing increases? Someone whose premium yields hold up better than maybe we expected or someone whose NIW grows maybe better than we expected, they're expanding their credit box, so they're starting to nibble into maybe worse credit risk than they had before?

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

A

Hi. This is Derek. So, there's a lot packed in there, so a few things. So when you look at the volume and I think we've seen quarter-over-quarter a bit, a pickup in greater than 95% LTV. The last couple of months that's starting to reverse and some of that you're going to see as we move production from LP singles to BP singles. BP singles product tend to be higher credit quality. So, we've seen that movement. In terms of the 620 to 679 bucket, again, that's been pretty stable, probably moved 10 basis points to 20 basis points really over the last year. So [ph] I would see (00:41:18), from a credit mass perspective, I would say we haven't seen an expansion

The important thing and Rick emphasized this earlier is looking on a lender-by-lender level, right? So, we spend a lot of time segment our customers looking at the delivery. So, what we're really focused on are those particular customers that might be pushing the envelope from a credit perspective and take action accordingly. When you actually see that translate in our portfolio, I would say from a credit quality perspective, I would see it as very stable. We haven't seen an overall, I would say, expansion of the credit box to drive volume.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

But would it make sense that – I'm not accusing you guys of anything, because as I said, these are small changes and I'm not trying to make more of it than it is. But thinking a couple of years down the line as we see these things develop, right, could it be indicative that the credit box is expanding as we see premium yields hold up?

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

A

You're going to see I think a natural expansion in the credit box. The important thing to keep in mind though is kind of where we are now versus kind of many years ago and so far as we have risk adjusted pricing at a much more granular level. So, to the extent that we see the credit box expand, when you look at it from an expected return perspective, it's more neutral kind of across the credit spectrum and that's dramatically different. So, now when you see a natural expansion in the credit box, one, we're priced for it, right. From a return perspective, we're more than adequately priced. And also that's a natural governor in terms of the expansion in the credit box. So, when lenders try to expand the credit box, they have to pay more premium, borrowers have to pay more premium, so that has a natural kind of impact.

The other thing we're not seeing from a credit perspective is we're not seeing the risk layering we saw before. And again, a lot of that's driven by the fact that now that you priced on many more dimensions, so as you see risk layering, you have pricing that incrementally goes up and as a result returns go up as well.

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Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Got it. Okay. And then a second question on the other operating income. It feels like the commentary around this has largely persisted where the expectations [ph] of the (00:43:17) 2018 should not exceed 2017, but it feels like this quarter there was a caveat [ph] inserted (00:43:23) excluding title. I guess title, in my mind, would have been included in this thought because the acquisition closed in March and the last earnings call was in April. I guess, is this an inflection in some way in the other operating or am I – I just parsing [ph] words to finely (00:43:42)?

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

A

Well, I wouldn't accuse you of doing that Phil, but do I think the – and that's why we wanted to call out some of the detail associated with our expenses. Really thematically what I'm trying to convey is that our expense guidance overall that we gave last year is that they won't exceed. The reality is on a year-to-date basis both with or without the acquisition, our expenses are lower than they were last year. I'm simply calling out something that didn't exist when I first gave that guidance, just as sort of a further emphasis of what we looked like on a comparative basis.

But overall, the key message here is that our expense control is actually very good. Our operating expenses are lower across any time period that you look it really with or without the results of the acquisition. We also wanted to call out just the seasonal blip that we have in the second quarter related to the compensation-related expense that we called out, but that happens every quarter.

The other point to note, Phil, is that the acquisition happened in March, so there really wasn't any first quarter impact associated with that. This is really the first quarter [ph] where we've seen (00:45:08) any type of impact related to the acquisition.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

No, got it. Thank you and best of luck with the rest of the year.

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

A

Thank you.

Operator: Our next question is from Mackenzie Aron with Zelman & Associates. Please go ahead.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Thanks. Good morning. Congrats on the strong quarter.

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

A

Thank you.

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Mackenzie Aron
Analyst, Zelman & Associates

Q

First question, just being on NIW with volume up almost 15% year-to-date tracking very well and the comps in the back half get easier, can you just provide an updated thought on where we shake out for the full-year for volumes? I think last quarter, you had still been expecting something more flattish for the full-year.

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

A

Hi, Mackenzie, this is Rick, and by the way, thank you. We feel like we had a good quarter and I appreciate the thanks. So we expect $55 billion of NIW versus our previous guidance of $50 billion. So another record breaking year over last year, I think we were at $54.6 billion or something. So we expect to exceed 2017, and I think that reflects just the momentum we have both year-to-date and the momentum we have and see going forward across our team. So we're expecting a relatively strong year in comparison to what our previous guidance was.

And I'd like to just say I think as you think about all the changes and all the noise in the industry from whether it's GSE competition, as we talked about EPMI and IMAGIN or you talk about pricing and you talk about different strategies, ultimately, we, as a company and our team, both our sales team and our service delivery teams, our operating teams and our risk teams that work with our customers every day, doing an excellent job of continuing to manage and build our franchise and I think that's what's enabling us to have a very strong performance this year and continue to build momentum.

Mackenzie Aron
Analyst, Zelman & Associates

Q

And that's great to hear. And then just one on the Services business. Is there – when you look out over the next year, year-and-a-half, is there further room for acquisitions similar to the Entitle Direct and how would you think about kind of the – what the Services business offers today and where you would like it to go?

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

A

Yeah, that's a great question, thank you. I think, look we are very pleased with the progress we're making on the Services side and I think the team is doing a great job. We're executing our plan, our enterprise sales team and the products and services that we've defined for those businesses, I think are well-positioned in the marketplace and becoming increasingly relevant to our customers.

We executed the title insurance underwriter acquisition, simply, one, it was an immaterial transaction from a purchase price point of view with a tremendous amount of strategic leverage that both expand our state footprint to be 46 states or essentially national across our two title businesses, create a platform where it gave us the opportunity to, not only from a geography point of view but from a product point of view, really be thoughtful about how we build that business going forward. So it was a unique opportunity that quite frankly we saw a tremendous amount of accretive fit.

So as we look forward in our Services business, our business plan is based upon organic growth. Certainly, if we saw other similar type of acquisition opportunities like we saw with the title underwriter, we would certainly consider, and we see deals almost every day, right? There's somebody walking in with a [indiscernible] (00:49:12) telling us. So we have a very, very high standard, a very strong filter. I kind of come from the world of quick-to-kill, so we don't spend a lot of time on deals. So I'd say it's not part of our thesis to acquire our way towards growth, it would be much more from an accretive thoughtful opportunity perspective and how it fits with what we're doing.

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And so today our Services business, as Frank went through our results, I think is tracking very well along our expectations. And Eric and Brien and the team are doing a great job across those businesses really building a pipeline and a platform to deliver products. So I'd like where we're at. If we see opportunities they have to pass a very high standard and fit strategically, but I would say it's not our focus, our focus is building organically.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Okay, great. Thanks so much.

Operator: Our next question will come from the line of Bose George with KBW.

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

Q

Hey. Good morning. Just wanted to follow-up on your comments on the borrower-paid singles versus the lenders. Can you remind us was that change in mix towards borrower-paid driven by pricing changes and is that percentage, do you think that'll change further?

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

A

Yeah. Hi, this is Derek. So a couple of things on that. So some of that is driven by pricing changes, so relatively the execution between borrower-paid and lender-paid we improved. We've selectively been increasing pricing on with respect to lender-paid product as well. And so the reason we're trying to drive that shift is it's important to note that the borrower-paid product is subject to automatic cancellation under the Homeowners Protection Act and what that means the borrower-paid product, compared to the lender-paid product, has a significantly shorter duration.

In addition, because it's subject to of [indiscernible] (00:51:04) cancellation, it's not subject to the capital multipliers under PMIERs, so what that effectively means is over the life of the policy, you hold less capital. And in addition to that, because it has a shorter duration, the claim [ph] rates lower as a (00:51:17) result. So when you kind of factor both of those in, what that results in is a materially higher expected return on the borrower product versus the lender product. So as a result, that's why we're trying to make that shift.

In terms of where that settles out, I think we've had a pick up since we've made pricing changes, the rest of the industry has matched. So you see some of that shift, maybe I would say moderate out. But I think the overall trend in terms of having a much bigger percentage of singles being borrower-paid, we think that will stick and that's consistent with our strategy.

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

Q

Okay, great. That's helpful. Thanks. And then just switching to capital, can you remind us in terms of your uses of excess capital, how are we thinking about leverage?

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

A

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Sure, Bose. This is Frank. So we've consistently stated that we have a long-term objective of returning the holding company to investment grade. And so what that translates to from a debt to total cap basis is roughly 20%. So that is what we would look to return to over time.

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

Q

Okay. Thanks. And let me just try and sneak one in on PMIERs. The language in your text, where you noted, without a need to take further action, is that safe to say that means your assumption on PMIERs' available assets assumes that the reinsurance part of what you're doing remains stable?

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

A

Yeah. So I think that's a safe assumption that as we are today, the comment that we're making would apply for that future state as well.

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

Q

Okay, great. Thanks.

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

A

Thank you.

Operator: Our next question in from the line of Douglas Harter with Credit Suisse.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Can you just remind us what your – or how much holding company liquidity you would like to hold in light of upcoming debt maturities? And when we might think that you could roll those over?

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

A

Sure. Great question. This is Frank. So, Douglas the way that we think about holding company liquidity, as you stated in terms of sources and usage and the $202 million level is lower than we have operated at historically. But part of our comfort level with that – holding that level of liquidity has a lot to do with the credit facility that we have now. So, when you look at the available resources that we have, they are more today than they have been historically. But certainly, the upcoming debt maturities and things of that nature play into the analysis in the forecasting and the planning that we do.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

And as we're moving closer to PMIERs certainty, I guess, how could we think about the opportunity to get cash up to the holding company on a sort of a more recurring basis?

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

A

Sure. Another great question. So, it's important to remember for Radian and we are somewhat unique and that we have an expense and tax sharing agreement in place with the subsidiaries; meaning that we are meeting the operating needs of the parent company with pre-arranged cash flow that has been approved by the Pennsylvania regulators on a regular basis.

And so, when you look at the need for cash to be up-streamed, if you will, from the subsidiaries to the holding company, we don't need it to support our operations. But on a go-forward basis, any additional cash that we would upstream would really be in the context of the broader capital plan that we are evaluating. And so, it's in that broader context that we would make those arrangements.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you, Frank.

Operator: Next we have a question from Jack Micenko with SIG.

John Gregory Micenko
Analyst, Susquehanna International Group, LLP

Q

Hi, good morning. Rick, wanted to go back to something you said last quarter. I think you had talked about a $50 billion NIW number and I think it was really in the context of we're not going to chase business, we're not going to chase mispriced business and now we're here $55 billion and it's obviously a good sign. But beneath the surface here in housing I'm just trying to figure out what the demand picture is, is rising rates impacting or not and what segments are healthy? And I guess my point is you put up much better NIW growth year-over-year than another large established competitor this quarter. And your numbers are now – your outlooks are a bit better. Is it market lift driving this, is it Radian specific? Help us understand what the underlying demand drivers look like relative to what Radian is may be doing on their own?

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

A

Thank you, Jack. That's a great question. I'm glad you asked it, because I think look, as I said last quarter, I think we were only [ph] one quarter in (00:56:16) looking at pretty strong momentum in our business despite a lot of noise in the marketplace from a pricing competition point of view. And I think as we said last quarter, we felt like we have a lot of strength and momentum. And so, I think we're reflecting that in our guidance towards $55 billion.

So I'd say, for us what's really important to understand about how we approach the business is purely from a portfolio management point of view. We're focused on generating economic value in our portfolio and that's why I spent little time today talking about the value of that portfolio both from a tax rate adjustment, but also from a future earnings point of view. And I think – so our model, we haven't changed our model. Our model is basically focused on risk-adjusted returns through the cycle, being very thoughtful and analytical about how we approach each and every risk that we take and understanding that we're looking to build a portfolio that can endure through the cycles and generate attractive returns from an economic value point of view.

And as part of that, we're very, very focused on who we do business with, who our customers are, how they perform, the quality they produce and we – and not only from an origination point of view, but also from a

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servicing point of view. So I think as over the past year plus, Derek and his team have been working very, very closely with the sales team to really refine and evolve our customers towards – customers that are really producing value. And the good news is a large – 90 – I won't throw you numbers out, but obviously we had a great group of customers before, but we've continued to refine and work with our customers at a very granular level about the quality of their business and the mix of their business and how we can improve their businesses.

So I think this combination of granular risk-based pricing and being very analytical and very thoughtful from a portfolio point of view, combined with who we do business with and I'll say this just generally and I won't give any specifics. But the reality is, is that we have also walked away from customers. So, we walked away from customers and I say walk away it's – we will not – as Derek mentioned, we won't do business where we feel like the risk profile at a customer level [ph] is wrong (00:58:49). So we walked away from small and large customers. Interesting enough, we see our competitors quickly fill that slot, which we're fine with, because we made a conscious decision to go focus our capital and our portfolio development and other areas.

So I think it's a combination of just being very aligned from the sales and risk perspective, aligned with our customers, being very analytical and very deliberate, and thinking about the long-term. We're not – I never focus – haven't said the word market share, really I don't think, maybe I said it in my comments one time that we have strong market share. But we don't focus on market share growth or market share participation, we focused on economic value creation. I think our formula is working. I'd say our formula is working.

John Gregory Micenko
Analyst, Susquehanna International Group, LLP

Q

Okay, thanks for that. And then in the opening comments, it sounded like there was a little more of a constructive view around the linked note structure. I think the recent transaction went at about 2.3% cost of capital. My question for you is or Frank, what do you with the money? Is it something you're contemplating? Could it replace the reinsurance on the singles? Would it be additional dry powder to do something from a capital manager standpoint, how do we think about the go forward as it pertains to your company?

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

A

Well, first off thanks for asking that question because I think – as I tried to go through my comments, and I've said this for the last several quarters. One of the great things about our business is the enormous financial flexibility that we have as a company and as we – as I try to briefly articulate today is that we have this untapped capital resource capacity, if you will. So we're quite familiar with all these structures. And to your point, because of our capital strength and our ability to fund our ongoing growth of our business without the need to kind of lever up each quarter from an insurance linked note point of view, we really are in the best of all worlds today from a capital perspective.

So your point is exactly the right one. It's not a question of availability of sources, it's all about the uses. And from the first day I got here, Frank and I and Derek have spent a lot of time. We always talk about sources and uses when we think about capital. And so for us as we continue to execute and evolve our capital plan, we continually think about that we're quite knowledgeable about the sources and I think the reinsurance transaction is a perfect indication of pulling that lever and doing it a highly competitive efficient capital way. I think for us it's all about thinking through the access to capital and also ultimately the uses.

So it's not something here that we're – we kind of describe in detail, but to your point, for us, having the sources of capital provides us significant amount of financial flexibility to think about uses. And I think we're – I like the position we're in and I say that because it's something we think about, talk about, focus on every day in terms of

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how we manage our business. And I would rather be in a situation where I have strong proprietary capital to drive through the cycle and I can leverage other capital, where it makes sense from a source point of view to think about how we managed any kind of volatility or tail risk associated with any future credit cycle downturn. So we're very thoughtful about it, very strategic about it, but I think we're in a great position given our flexibility.

John Gregory Micenko
Analyst, Susquehanna International Group, LLP

Q

Thank you.

Operator: Our next question comes from the line of Geoffrey Dunn with Dowling & Partners.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Thanks. Just two quick ones. With respect to the shifting mixing singles, is that shift and the projected shift over the next three quarters, any kind of meaningful part of your improved commentary around PMIERs?

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

A

No.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

All right. So the shift in capital charges is not part of – expecting the same kind of...

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

A

No, I mean, when we do our projections that's going to factor in our mix of business, our volume and other factors. So obviously that plays in, but I would not read into that shift and mix and impact on kind of the PMIERs projections from that perspective.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

All right. And then Frank, with the HoldCo, obviously you bought back stock this quarter, the balance remain pretty flat sequentially. Is that the impact of the tax sharing arrangement? Did some of that money come up from guarantee to HoldCo to help that balance out?

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

A

Yes, Geoff, it is. So as you look at the ins and outs of the holding company cash flow, we've excluded the IRS expected payment of $31 million, we did have $40 million of repurchase, we did have a contribution to our new title insurers. So all of those cash flows in combination were just about equally offset by tax payments from the subsidiaries. That is not a permanent dynamic, it is a temporary dynamic as the NOLs have been fully utilized at the subsidiaries. And so, they're making tax payments up to the parent company. Parent company still has some NOLs available for utilization, which should taper off toward the end of this year.

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Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. And when is that IRS payment going to go through?

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

A

I think the expectation is over the next couple of months, but we don't have great clarity into that just yet.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

All right. Thanks.

Operator: Our next question comes from the line of Mihir Bhatia with Bank of America.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Hello, and thank you for taking my questions. Just really two quick ones. The first one was just on the NIW. Are there – obviously very strong NIW this quarter and it sounds guidance is increasing, so I think you're suggesting momentum might continue. And I was curious what is driving that? Is there some – is it just general market trend? Are there particular pockets, maybe a little bit of credit expansion, but...

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

A

Yeah.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

...any comments on just what's driving this strong NIW?

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

A

Yeah. Mihir, this is Rick. Thank you for the question. I think look we are – as a kind of walk-through, I think we have a very specific plan of how we're approaching the market about how we manage the risk and pricing and who we do business with from a customer point of view. And I think it's – we're fortunate to have a tremendous group of sales – a tremendous sales team along with the folks from our risk and service delivery point of view, doing a great job with our customers.

But I think fundamentally we're just executing well in the marketplace. We've navigated through all the pricing competition and let's say what some might think of us encroachment by the GSEs, which we see as being having a minimal impact in the market today. And so I think from a business point of view we're just executing well. We have a very risk-based granular pricing structure in the marketplace. We have a strong understanding of our customers and the business that they generate and the quality they generate. And our team is very, very focused on economic value.

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And so as we think about our business we never think about NIW, we never think about market share. We focus on economic value. Internally, it's a metric that drives everything we do from how we make business decisions and – which is highly reflective of risk-adjusted returns against the cost of capital as we talked about last quarter. So from our business, I think the components of how we're managing our business and who we're doing business with and how our customers perceive the value of our relationships is strong.

I would add just because I don't ever want to forget this. We also are becoming – having increasing our relevance across our customers as we [ph] did (01:07:30) with our Services business and having broader discussions and we – and I think it's also interesting to note despite kind of what I mentioned about customers, the ones that we've actually moved away from, I think in year-to-date, we've added I think over 90 new customers, I think 99 new customers in our MI business and we've added 74 new Services segment customers and some of those overlap between MI, I think a third of that 74 overlap with MI customers. So our enterprise sales model is also assisting in how we are positioned in the marketplace with our customers and how much they're beginning to see us as a broader business partner.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Right. Yeah, I know that was actually exactly – the last part what you talked was kind of what I was trying to get at. [ph] So you (01:08:27) do think this – I think I'll shift it to this enterprise sales approach and that [ph] is there, (01:08:38) I mean, I guess the question I think you kind of referred to it with your number, so it sounds like, is this a lot of more cross-selling that's going on?

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

A

Yeah, I'm...

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

I'm just – what I'm trying to understand is, is this sustainable effectively, right? I mean is this new approach really what's driving it or is it just more granular pricing?

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

A

Yeah. Thank you. I would say on the MI side, look it's really about the execution of our business model and it's – our sales team and our operations teams and our risk team really working very, very well and integrated together. And so I'd say it is a very strong execution of our plan and I think we've done that through all the noise and I think we've been successful and we've done that very well.

The point I added about our Services team is I think around our Services – enterprise sales is that I do think it does become important to – it becomes relevant to have a broader discussion with the CEO of a mortgage company or the president or the [ph] head of (01:09:47) capital markets. And I've sat through probably a dozen or so enterprise sales meetings, where we talk about the breadth of services we can offer and it does aid the relationship. But I would say from an MI point of view, we're just executing extremely well in the marketplace and we're very happy with the value we're creating from a sourcing of risk and how we're managing that risk through our portfolio.

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Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. And then just another – just one question on the Services segment. I think you all have mentioned that 10% to 15% margin for the back half of this starting – back off of this year. Is that the run rate margin you see longer term and also would it change once you start incorporating title fully in there?

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

A

Yeah. So this is Frank. A great question. When you look at the Services EBITDA margin and also the – we call it normalized revenue that we achieved for this quarter excluding the items that I mentioned around restructuring and the title. On an annualized basis, we're already at the run rate that we projected for the second half of the year. So we're already at $150 million annualized revenue and a 10% EBITDA margin.

Your point is right though as you start to fold in the impact of title, it's going to change the mix because our projections were given before we had acquired that particular company. So as Rick said, as we evolve that over time, we'll certainly be sure to update the guidance. And Rick, I don't know if you want to add something there?

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

A

Yeah. No, thank you. I think, look, we're just at the front end of having repositioned this business. Eric joined us three or four months ago, [ph] times flying by for him (01:11:46) I'm sure. But we feel very good about the frame – kind of the starting point that we're at from a positioning point of view. I think the broader title business that we see building is one that does not reflect the current state of the existing title industry, which is agent driven and brick and mortar and what I would say is high combined ratio and low margin business. That's not our interest. Our interest is working – really being very thoughtful about how a title and settlement services business should and could be built in the future leveraging technology, digital technology and thinking about how we approach the marketplace from a customer point of view in a different way.

And so, I think as we evolve, our title business as we evolve, our mortgage services business as we evolve, our Real Estate Services business, I think we're going to – our focus is to continue to grow revenues and grow the contribution which we measure in the context of adjusted EBITDA margin, and grow that in the context of how it can contribute to our business meaningfully, both in terms of profit and value. And so, I think we'll continue to provide guidance, but I think we're going to hit our first milestone, and kind of – as we continue forward, we'll provide kind of – we'll look forward as we start to get our baseline positioned under us.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. Just on – not looking for guidance, but do you expect title to be margin accretive long-term or not? Does that make sense?

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

A

No, I understand the question. I think at this point we'll probably not provide that guidance.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

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Okay. Fair enough.

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

A

But I would say, looking at the current industry, it's not reflective of the margins we target.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Thank you. With that, I'll turn the conference back over to Rick Thornberry.

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

Thank you. And thank you to each of you for participating in this call, I think – and the excellent questions. I really appreciate that. And I know it takes time out of your day. I want to thank our team for the excellent work they are doing to build value for our shareholders. I think the results of this quarter are reflective of a tremendous team effort. And so, thank you. And hope every one of you have a great day, and look forward to seeing many of you soon.

Operator: Thank you. That does conclude our conference for today. We thank you for your participation and for using AT&T teleconference. You may now disconnect.

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