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Radian Group Inc. (RDN)

Q4 2022 Earnings Call

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CORPORATE PARTICIPANTS

John Damian
Senior Vice President of Corporate Development and Investor Relations, Radian Group Inc.

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

Robert J. Quigley
Executive Vice President, Corporate Controller, Chief Accounting Officer and Interim Principal Financial Officer, Radian Group Inc.

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

OTHER PARTICIPANTS

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

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

Mihir Bhatia
Analyst, BofA Securities, Inc.

Eric Hagen
Analyst, BTIG LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Radian Group Fourth Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I'll now like to hand the conference over to your speaker today, John Damian, Senior Vice President of Corporate Development and Investor Relations. Please go ahead.

John Damian
Senior Vice President of Corporate Development and Investor Relations, Radian Group Inc.

Thank you and welcome to Radian's fourth quarter and year-end 2022 conference call. Our press release, which contains Radian's financial results for the quarter and full year, was issued yesterday evening and is posted to the Investors section of our website at www.radian.com. This press release includes certain non-GAAP measures that may be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity.

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

Today you'll hear from Rick Thornberry, Radian's Chief Executive Officer; and Rob Quigley, Controller and Chief Accounting Officer. Also on hand for the Q&A portion of the call is Derek Brummer, President of Radian Mortgage.

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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 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 2021 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

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

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, John, and good afternoon. Thank you all for joining us today and for your interest in Radian. Despite headwinds in the macroeconomic environment and continued cooling across the mortgage and real estate markets, I'm pleased to report another solid quarter for Radian. In a few minutes, Rob will discuss the details of our financial results, expense management progress and capital actions.

Before we begin, let me share a few thoughts on the environment, our strategic focus and how we are positioned to navigate the road ahead. In terms of the macroeconomic environment, the weakness in the economy continues to be driven by the dual headwinds of high inflation and interest rates. Although there are concerns related to a potential recession, inflation has begun to ease somewhat in 2023, which the Fed recognized with a reduced interest rate hike last week. And despite these economic factors, there continues to be a strong labor market with the lowest unemployment rate in more than 50 years.

And from a mortgage or real estate market perspective, despite near-term challenges, our outlook for housing remains generally positive over the near and long-term. In 2022, the doubling of interest rates negatively impacted volumes, with mortgage applications falling to recent record lows. For 2023, recent industry mortgage origination forecasts call for a bottoming out of the origination market with a decline of approximately 20% followed by a return to growth in 2024 with increased purchase loans and expected strong participation by first time homebuyers.

And after a two year run where the real estate market saw significant gain in home prices, many regions across the country are seeing home prices coming off their record highs that we believe should support a healthy real estate market in coming years. And although the rapid rise of mortgage rates has created pressure on affordability, another important variable in the market is the supply and demand imbalance. There are millions of millennials expected to continue to reach the prime homebuying age for the next several years.

And there is an extreme shortage of affordable housing stock, which is further impacted by homeowners that have a mortgage note rate in the mid 2% and low 3% range and are less likely to move. While the shortage of affordable housing, combined with the strong market demand creates affordability challenges for first time homebuyers, it is a positive for our insured portfolio as it helps to mitigate downside risk in terms of home values. And it is also creating pent-up demand, which is expected to drive purchase market growth in 2024 and beyond.

As you've heard me say from a strategic perspective, our team remained focused throughout the year across our three areas of strategic value creation, growing the economic value and the future earnings of our mortgage insurance portfolio, growing our homegenius business and managing our capital resources. In terms of growing the economic value of our mortgage insurance portfolio by leveraging our proprietary analytics and RADAR Rates platform focused on driving economic value along with our deep customer relationships and dynamic pricing

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strategies, we wrote $68 billion of high quality mortgage insurance business in 2022. This contributed to a 6.1% growth in our mortgage insurance in-force portfolio year-over-year.

We've been able to calibrate our dynamic risk-based pricing to address the risk and opportunities that we see in the current market. We increased our prices in 2022 based on the environment, particularly in the second half of the year, and have continued to increase pricing in 2023. While we believe NIW volumes will slow over the next year, we expect to see continued opportunity to put our capital to work at attractive risk-adjusted returns.

Our mortgage interest rates are driving higher persistency across our large and valuable $261 billion insurance in force portfolio. And the increase in interest rates has resulted in higher yields across our $5.8 billion investment portfolio. The higher yield support returns on our mortgage insurance business and generate incremental income that flows directly to our bottom line.

In terms of growing our homegenius business, during 2022, we experienced a decline in homegenius revenues due to the rapid decrease in industry-wide mortgage or real estate transaction volume. Over the last few quarters, we've been making adjustments to our homegenius cost structure that are reflective of the depressed market environment. We remain focused on building awareness of our homegenius suite of products and services, and continue to believe in the growth opportunities for this business, albeit at a slower pace than originally expected due to market conditions. Throughout the year, the team concentrated on expanding our market reach in a number of ways.

We launched geniusprice, our intelligent pricing engine for more accurate home price estimates and homegenius connect, a digital referral and rebate network that seamlessly connects homebuyers with our network of high quality real estate agents. We introduced the real estate sector's first automated valuation model that uses both artificial intelligence and computer vision technology. We also increased the availability of our purchased title offering by adding 22 states and further enhancing the digital features of our titlegenius platform.

And most recently, we launched a new version of homegenius.com, positioning us to transform the search to close experience for homebuyers. And in terms of managing our capital resources, in 2022, we returned significant capital to our stockholders, paying dividends of $135 million and purchasing $400 million of Radian Group common stock, representing an 11% of total shares outstanding.

As we announced last month, we completed a series of capital actions in the fourth quarter that resulted in a $382 million distribution from Radian Guaranty to Radian Group. And for the first time since the beginning of the great financial crisis 15 years ago, Radian Guaranty is positioned to resume paying recurring ordinary dividends to Radian Group this year, which we projected to be between $300 million and $400 million in 2023.

Ordinary dividends in 2024 and beyond are expected to approximate Radian Guaranty's ongoing statutory earnings. In addition, last month, our board approved a new share repurchase program of $300 million over two years. And at December 31, Radian Group maintained nearly $1.2 billion of total holding company liquidity.

It's also important to note that we continue to make the necessary adjustments to manage our expense structure across all of our businesses based on the changes that we see in the environment with a focus on driving greater operational efficiency. While this effort involved very difficult decisions related to our people, I'm pleased with the team's focus on addressing the dramatic market shift, and I believe the result will help position us as a stronger and more agile competitor, while continuing to deliver exceptional service to our customers. Rob will provide more details regarding the expected savings related to these initiatives.

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Let me spend a few minutes discussing how we are positioned to successfully navigate the current environment. For our mortgage insurance business, in terms of defaults and claims paid, one of the most important factors is the ultimate level and duration of unemployment through the cycle. As I mentioned, the labor market currently remains strong with very low unemployment. Our insurance portfolio has been well-underwritten and has a strong overall credit profile with meaningful embedded equity. Credit trends remain very positive with new default counts back to pre-pandemic levels. We expect new notices of default to increase throughout the year as the portfolio naturally seasons and the economic environment potentially becomes a bit more challenging for borrowers.

As I mentioned previously, we've been increasing our pricing to reflect the environment and continue to see evidence of price increases among our mortgage insurance peers as well. And perhaps most important is the quality of the mortgage industry's loan manufacturing and servicing processes remain strong, including exhaustive efforts to support borrowers experiencing hardship. And we continue to execute our aggregate, manage and distribute mortgage insurance business model focused on lowering the risk profile, mitigating tail risk and through-the-cycle volatility of the business by utilizing risk distribution structures, optimizing between the capital and reinsurance markets.

As you've heard me say before, our company is built to withstand economic cycles, significantly strengthened by the PMIERs capital framework, dynamic risk-based pricing and the distribution of risk into the capital reinsurance markets. We remain committed to our business strategy across our mortgage and homegenius businesses and have made adjustments to our cost structure that are reflective of the economic environment to help ensure our success.

Additionally, we believe the strength of our capital position, following the transformative year-end transaction, significantly enhances our financial flexibility now and going forward. And while we continue to navigate through the reality of lower industry volumes for the near-term, we will remain nimble in this economic climate, leveraging our outstanding customer relationships and our diversified set of innovative products and services, as well as our experienced and passionate team to provide the solutions our customers need and to drive our future success.

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

Robert J. Quigley

Executive Vice President, Corporate Controller, Chief Accounting Officer and Interim Principal Financial Officer, Radian Group Inc.

Thank you, Rick. And good afternoon, everyone. I appreciate the opportunity to speak today on behalf of the Radian team about our fourth quarter and full year results, especially given the strength of those results and the positive impacts from the capital actions that we completed during the quarter.

As reported last night in the fourth quarter of 2022, we earned GAAP net income of $162 million or $1.01 per diluted share compared to $1.07 per diluted share in the fourth quarter a year ago. For the full year, net income was $743 million or $4.35 per diluted share, compared to $3.16 per diluted share in 2021. Those earnings helped produce an 18.2% return on equity for the full year 2022, compared to 14.1% for 2021 with the year-over-year improvement driven primarily by favorable credit trends that benefited our mortgage insurance loss provision.

Adjusted diluted net operating income per share was $0.04 higher than the GAAP amount for the fourth quarter and $0.52 higher for the full year, as reflected in the detailed reconciliations provided in our press release.

Turning to more detail behind these results, I will first address our revenue and related drivers, which were impacted by the broader macroeconomic environment in both positive and negative ways. As detailed on Exhibit D in our press release, we reported total net premiums earned of $233 million in the fourth quarter of 2022.

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Compared to prior periods, this amount reflects a decline in revenues resulting from fewer single premium policy cancellations in our mortgage insurance portfolio, as well as lower title insurance volume, both due primarily to the significant reduction in mortgage refinance activity during 2022.

Changes in the size and average premium yield of our in force mortgage insurance portfolio also impacted our net premiums earned. Our primary insurance in force grew 6% year-over-year to $261 billion as of December 31, 2022, including 10% year-over-year growth in monthly premium in force, which is expected to be the most significant driver of our future revenues and now represents 86% of our total insured portfolio.

Contributing to this growth was $68 billion of new insurance written for 2022, including nearly $13 billion written during the fourth quarter. In both the fourth quarter and full year 2022 monthly and other recurring premiums accounted for 95% of our new volume. The new insurance written in 2022 reflects a decline from the record pace experienced in 2020 and 2021 due to the reduction in the overall mortgage origination market. However, while the market slowdown in purchase and refinance originations has had a negative impact on our new insurance written, it has significantly benefited our persistency rate.

In the fourth quarter, our persistency rate increased to 84% on a quarterly annualized basis, compared to 72% a year ago. We expect our persistency rate to remain elevated, in particular since approximately 86% of our insurance in force had a mortgage rate of 5% or less as of year-end 2022 and are therefore less likely to cancel in the near-term due to refinancing. Given the shift in mix of our insured portfolio in recent years toward our monthly premium products, we believe this increase in persistency is an especially positive indicator for our future premiums earned and recurring cash flows.

As shown on webcast slide 13, our in force portfolio premium yield for our mortgage insurance portfolio was approximately 38 basis points for the fourth quarter of 2022, reflecting a decline over the past year that was more moderate compared to prior years and consistent with our previously stated expectations as the composition of our insured portfolio continued to shift to more recent vintages.

Given elevated persistency rates and the current industry pricing environment, we expect the in force portfolio premium yield to stabilize further and remain relatively flat over the course of 2023. As a reminder, the total net yield of our insured portfolio can fluctuate from period to period due to several other factors, such as changes in our risk distribution programs, profit commissions earned and single-premium policy cancellations.

In addition to the positive impact on persistency rates, another benefit from the rising interest rate environment has been a notable increase in our investment income to $59 million in the fourth quarter of 2022, compared to $37 million in the fourth quarter of 2021. The book yield on our investment portfolio increased to 3.5% as of year-end 2022, and the higher rate environment should continue to be positive for the reinvestment of future cash flows.

In contrast, rising interest rates have had a negative effect during the year on the fair value of our investment portfolio, resulting in increased unrealized losses that have had a temporary negative impact on our book value since these unrealized losses are primarily recorded directly to our stockholders' equity as shown on webcast slide 9. We do not currently expect to realize these losses as we have the ability and intent to hold these securities until recovery, which may be to their maturity dates.

As Rick noted, the industry-wide decline in mortgage and real estate transactions also negatively impacted our homegenius segment revenues, which totaled $19 million for the fourth quarter of 2022, compared to $25 million for the third quarter of 2022 and $45 million for the fourth quarter of 2021. Our reported homegenius pre-tax

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operating loss, before allocated corporate operating expenses, was $25 million for the fourth quarter of 2022, compared to a loss of $20 million for the third quarter of 2022 and income of $3 million for the fourth quarter of 2021. The loss for the fourth quarter of 2022 included $5 million in severance and related charges as we made necessary adjustments to our expense structure to align with current market conditions.

Moving to our provision for losses. The positive trends that we have been experiencing continued this quarter. As noted on webcast slide 16 and consistent with the direction in recent quarters, we had a net benefit of $44 million in our mortgage provision for losses for the fourth quarter of 2022 due to favorable prior period reserve development.

For full year 2022, we had a net benefit of $339 million in our mortgage provision for losses, which was the result of $160 million of loss provision for new defaults, more than offset by $499 million of benefit from positive reserve development on prior period defaults. The number of new defaults reported each period is the driver of our provision for new defaults, along with our estimates of both the number of those defaults that will ultimately be submitted as a claim and the corresponding average claim paid.

As noted on webcast slide 17, our new defaults of approximately 10,700 in the fourth quarter of 2022 were slightly elevated by defaults in areas affected by Hurricane Ian as well as by an operational reporting change introduced in the quarter, neither of which are expected to have a material impact on our reserves or ultimate claims paid.

Although current cure trends have been more favorable, due in large part to forbearance programs and a strong home price appreciation experienced in recent years, we maintained our key default to claim rate assumption for those new defaults at 8%, given the risks and uncertainties associated with the current economic environment. Similar to recent quarters, we lowered our ultimate claim assumptions in the fourth quarter for defaults from certain prior periods due to continuing favorable cure trends, resulting in the release of $89 million of prior period reserves in the quarter.

Turning to our other expenses. For the fourth quarter of 2022, our other operating expenses totaled $110 million, an increase compared to $91 million in the third quarter of 2022 and $80 million in the fourth quarter of 2021. Our other operating expenses were elevated in the fourth quarter of 2022 due primarily to two items. $15 million in impairment of long-lived assets and other non-operating items, primarily from impairments to lease related assets, as well as $12 million in total severance and related charges. Based on our expense savings actions to date and consistent with our previously shared estimates, we anticipate our 2023 full year consolidated other operating expenses to be approximately $330 million to $340 million, while 2023 full year cost of services are expected to be approximately $50 million to $60 million.

On a combined basis these amounts represent a reduction in total expenses on a year-over-year basis of $60 million to $80 million or 13% to 17%. As a reminder, these expenses can fluctuate due to changes in items such as variable incentive compensation and volume related costs.

Moving finally to our capital and available liquidity. As Rick highlighted, we reached an important milestone for the company this quarter with the return of Radian Guaranty's ability to pay ordinary dividends, following a series of capital actions completed as part of our ongoing efforts to enhance financial flexibility.

In December, we completed an agreement with an unrelated third-party insurer to novate the entire insured portfolio of our Radian Reinsurance subsidiary, which consisted of credit risk transfer transactions issued by the GSEs. Following the novation, and as part of this overall strategy, we completed the merger of Radian Reinsurance into Radian Guaranty, our flagship mortgage insurer.

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Once this merger was completed, the Pennsylvania Insurance Department approved a $282 million return of capital and a $100 million early repayment of an outstanding surplus note from Radian Guaranty to Radian Group. And both were paid at the end of 2022. As a result of the favorable impact of these capital actions, as well as our outstanding financial results discussed earlier, Radian Guaranty ended 2022 with a positive unassigned funds balance of $258 million, as shown on webcast slide 22.

As Rick highlighted, given this favorable position, we expect Radian Guaranty to resume paying recurring ordinary dividends to Radian Group without the need for prior regulatory approval, beginning in the first quarter of 2023.

It is important to note that the payment of recurring ordinary dividends does not prohibit us from seeking approval from the Pennsylvania Insurance Department to pay an extraordinary distribution, which we have been able to do successfully in the past. As Rick also noted, based on current balances and projections, we expect the amount of the ordinary dividends to approximate $300 million to $400 million in 2023. Beginning in 2024, when more sizeable contingency reserve releases are scheduled, we anticipate Radian Guaranty's ordinary dividend capacity to be primarily driven by the entity's ongoing statutory earnings, consistent with the limitations under Pennsylvania insurance laws.

Radian Guaranty's excess PMIERs available assets over minimum required assets increased during the fourth quarter to $1.7 billion, which represents a 45% PMIERs cushion. Our available holding company liquidity increased during the fourth quarter from $573 million to $903 million as a result of the capital actions described earlier.

During the fourth quarter of 2022, we returned approximately $33 million to stockholders through both dividend and share repurchase activities. While for the full year 2022, we returned over $535 million to stockholders through these activities. While we are mindful of the risks and uncertainties in the broader macroeconomic environment, we believe we are well-positioned to deliver meaningful value to our customers, policyholders and stockholders, given the expected future cash flows from our in force mortgage insurance portfolio, the level of risk distribution we have in place, and the current financial strength and flexibility at both our holding company and Radian Guaranty.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Rob. Before we open the call to your questions, I want to highlight that we are pleased with our results and remain focused on executing our strategic plans. We are driving operational excellence across our businesses and aligning our overall expense structure and resources to reflect the market environment. Our $261 billion mortgage insurance portfolio is highly valuable and is expected to deliver significant earnings going forward.

We continued to strategically manage capital by maintaining strong holding company liquidity and PMIERs cushion, opportunistically repurchasing shares and paying the highest yielding dividend in the industry to stockholders and are now positioned to pay recurring ordinary dividends from Radian Guaranty.

We continue to focus on our ESG efforts and recently issued our first DEI annual report. I am also pleased to report that Radian was named for the fifth consecutive year to the Bloomberg Gender Equality Index in recognition of our commitment to advancing gender equality in the workplace.

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And as I've mentioned previously, we are extremely proud of our success over the years in ensuring the American dream of homeownership. And we know we are in a unique position to do even more as a cornerstone partner of the MBA's Convergence Philadelphia Initiative. We look forward to the launch next month and to working together with the MBA and other local partners to help address homeownership barriers for people and communities of color.

And finally, I want to thank our team for helping to drive our 2022 results and for the outstanding work they do every day.

Now, operator, we would be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Doug Harter with Credit Suisse. Your line is open.

< <Q – [05QJJQ-E]Doug Harter – Credit Suisse Securities (USA) LLC>: Thanks. Hoping you could talk a little bit about how you're viewing the competitive environment, still seems like there are still big market share shifts kind of across the industry and just kind of how you're seeing the competitive pricing dynamics?

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

A

Hi, Doug. This is Derek. So, I wouldn't say we've seen necessarily bigger market share shifts. We typically do see shifts when we see kind of a change in terms of cycles. So you tend to see market share shifts if you're in a down-cycle from pricing or an up-cycle. And I would characterize that we're in an increasing cycle right now. I think we've seen on the competitive side more increases in Q4. We actually started increasing prices in July and have continued into 2023.

So overall, I would say, in the aggregate, an increasing cycle continued to be very focused on picking our spots where we find the most economic value with a particular focus on geographic pricing. And that's played out pretty well for us. We've been pretty aggressive in terms of how we price geos and we've seen pretty good correlation of geos that we've priced up, that we've been under-allocated from a share perspective. And that has also correlated closely with the geos where we've seen more of a decrease in home prices recently. And I would say the reverse was true that geos that we were leaning in, we have outsized market share and we've seen prices hold up better.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Appreciate that perspective. Thank you.

Operator: Thank you. Our next question comes from the line of Bose George with KBW. Your line is now open.

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

Q

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Hey, guys. Good afternoon. The unusual expenses that you mentioned, how much of that was at homegenius? And also what do you think homegenius could do, I mean, do you think homegenius could get to breakeven if the mortgage market remains up $2 trillion say for the next couple of years?

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

A

So Let me – Bose, thank you for the question. Good afternoon to you. And Rob may add to this, but let me just give a little bit of a homegenius kind of update, because I think that covers both of your questions. I think 2022 is really kind of a – was a challenging year from many perspectives across homegenius, kind of a bit of a perfect storm and so like many others in the space across the mortgage and real estate markets, we saw a rapid decline in volumes, as you've seen in some of the other businesses that you follow.

And that clearly disrupted our kind of near-term plans for growth. We anticipated some of that change in our plans, but we also like we all know the market volume declined at a pace and size that no one contemplated, certainly the speed at which it occurred. So the greatest impact across our plans throughout the year and even today has been the rapid decline in title business as the revenue and contribution from this business is off materially year-over-year.

Regardless of the reasons the 2022 financial performance of homegenius was – it was just not acceptable from our perspective, which is why we took aggressive expense management actions that are making other adjustments to better position us for 2023 and beyond. So for homegenius, we reduced overall direct allocated expenses to your question, including cost of services approximately 15% to 20% through today.

And so, given the volatility in a business that continues, and specifically related to market volumes and the direction that volume will go, both in the real estate and mortgage market, we're not able to provide guidance related to this business. But, based on all the seasonality factors and the current run rates and the overall market that are somewhat challenged, we expect the first quarter to be – continue to be challenging, but albeit at a lower expense base, right, as we prepared for it.

That being said, our team remains focused on developing the high-level components of our platforms and continuing to navigate this business towards a profitable contribution. And that is the focus and I think by virtue of our actions that we took throughout last year, as we saw, really the market changed dramatically. I think we're positioned better now obviously than we were throughout 2022 position towards benefiting from growth, benefiting from a lower expense base. And I think in certain of our businesses, we certainly see them bottoming out. We see new technologies that we're bringing to the market that are – we're receiving positive feedback to. And so as we look forward in the year, our focus is to kind of guide this – not guide from a financial guidance point of view, but to navigate the business back to profitability. So that's our focus. And I think that's a little bit of the history of how we've operated throughout the year.

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

Q

Okay, great. That's helpful. Thanks, Rick. And then actually just one more. Just given the increased, I guess, flexibility on statutory capital, can you just remind us sort of the other constraints like debt to capital that you have as we kind of model, what could be the level of capital return over the next couple of years?

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

A

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Yeah. So maybe again, Rob and I can even tag team this. I think in terms of, we – one of the great things that occurred in the fourth quarter as we crossed over a very important, very important threshold which was to that was 15 years in the making really since a great financial crisis to kind of move from a regulatory point of view are negative other side surplus, a positive, right, which puts us in a situation to pay ordinary dividends from Radian Guaranty to Radian Group on a recurring basis. Right. And so that – for us, that's a transformational change in the overall capital structure.

When you think about like binding capital, obviously the regulatory requirements are, I think we're in good shape on from a overall kind of risk perspective. When you look at PMIERs, we've got significant cushion. So from a Radian Guaranty, I think the strength of the current capital structure puts us in a position to pass capital to Radian Group, as Rob and I both stated in our comments.

When you look at the leverage, the overall leverage of the business today we feel really comfortable where we sit. And I think, this business, one of the great things about our business is that it's – it naturally, de-leverages very quickly. And so you can see that kind of over time.

We also have kind of maturities on our two debt securities, which we commented on when we did the 2025 maturity issuance that they aligned very well with the capital flows. So we feel like we're in a great financial flexibility position to manage leverage, feel good about where we're at and we don't think it really creates any barriers for us in the future in terms of our ability to leverage our financial flexibility across our capital structure.

Robert J. Quigley
Executive Vice President, Corporate Controller, Chief Accounting Officer and Interim Principal Financial Officer, Radian Group Inc.

A

Yeah. Thanks, Rick. And I'll just add – this is Rob. I'll add the constraint on the statutory side. As we said in our remarks, we expect Radian Guaranty for 2023 to distribute $300 million to $400 million up to our holding company. We'd expect that to happen relatively evenly throughout the year and then in future years we'd expect the distributions from Radian Guaranty to Group to mirror the statutory earnings of Radian Guaranty. And that is still one of the constraints around ordinary dividends under the Pennsylvania insurance laws. So in terms of sizing that amount of capital flowing up to Radian Group, we think it would mirror closely Radian Guaranty's statutory earnings.

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

Q

Okay. Great. Thanks a lot.

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

A

Thank you.

Operator: Thank you. Our next question comes from the line of Mihir Bhatia with Bank of America. Your line is now open.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Thank you. I did want to ask about – about the Radian – I wanted to follow up both these question about just the capital distribution, maybe talking another way. Does the fact that you now have ordinary distributions available, does that change in any way your view around capital return, waiting between dividends, maybe you want to grow

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the stock dividend a little bit more because now you have more confidence you don't have to go through the extra approval process, anything on that? Thank you.

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

A

Yeah. Mihir, thank you. By the way, we love the sounds of children in the background. We've all gotten used to that over the last three years and never feel like you had to apologize for that. But look I think we have – thanks for the question, really, really, I think thoughtful. We've been good – I think we have a history of being great stewards of capital. I think over the last five years, we've returned $1.7 billion of capital to shareholders. Last year, we returned $535 million through a combination of $135 million of dividend and $400 million of share buybacks, of which we bought back about 11% of our outstanding shares so.

And our board just recently authorized the $300 million in January from a share repurchase plan over the next two years. So I think our track record and our history kind of says we take managing capital very seriously. And I do this, as you highlighted an Bose highlighted this change for us that occurred in December is transformational, gives us tremendous financial flexibility around how we connect earnings to capital flows, the Radian Group, how we manage the overall capital growth from – capital position to kind of drive growth. So having said that, the team's worked incredibly hard to get to this point. I couldn't be more proud of them. It's a big monumental accomplishment.

We, as you know, that's a long winded way of giving you this answer, sorry – but as you know, we don't comment on kind of future capital plans. But I think, again, our track record speaks for itself. And I think we have a track record of managing it appropriately. We will obviously manage this on any kind of share buybacks, as we have in the past on a value-based approach. I think given the economic environment that we're all kind of monitoring very closely today, we're going to take a very balanced approach and make sure that we're considering the changes in the economic environment as we navigate through our capital plan.

And then, as we have in the past, we'll update you each quarter on kind of our plans and our planned execution from a progress point of view and different capital activities. But we're very proud and very happy with where we sit today in terms of our overall capital position and the ability, as Rob described, to continue to release capital from Radian Guaranty based on future earnings as we go forward. And puts us in a position to exercise our capital of strength as we go forward.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Got it. Thank you. And just one other question for me in terms of going to the last thing you've mentioned about, just the economy and where we sit and just some kind of general softening, is there anything, whether in your portfolio that you're seeing in the environment, that you're hearing from originator partners, that makes you worry about housing credit specifically, like obviously, I understand the macro concerns and potential if you have a recession or unemployment goes up, but is there anything related to like credit standards or some – or just something related to housing specifically that is giving you pause, making you maybe be a little bit more cautious?

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

A

It's a great question. It's one, Derek and I probably talk about on a daily basis, kind of and the teams, I would say today and I think we're cautiously optimistic about kind of where things are because the economy, there are legitimate fears about a recession. I think, more economists are kind of leaning towards the direction of that being

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not an extended, harsh kind of environment, but that the things that we're encouraged by from a housing credit, housing value point of view are, really unique to this environment. So maybe coming out of COVID, where we have a significant home price appreciation, kind of embedded equity within our existing portfolio today we have a demand/supply imbalance across the housing market where you have millennials, as my comments suggested, where you have millennials entering the market at just huge numbers with no homes to buy, especially in our market.

Remember, we operate in kind of the bread and butter market of the housing market across the country. We're not in the $10 million homes in New York or in Naples, Florida, or San Francisco. We're in the basic first time home buyer, middle income home. That market is undersupplied by a significant number. So from a home price appreciation is we see and we challenge every day we actually see more balance in that and are, yes, more comforted by that than you might otherwise expect going into a recession.

So I think when we look at it, we're obviously I'm not – I wouldn't want to leave you with the impression that we've let our guard down at all. But we do have a level of confidence around housing today that I think informs our view about the future and makes us feel good about kind of our overall position, Derek you want to...

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

A

I would just add, I mean, the credit quality, the underwriting quality continues to be very solid as well as the servicing quality. So when you look at all of those metrics, very positive. From a macroeconomic perspective, Rick alluded to the fact of just supply and demand imbalance, which is kind of helping from a home price perspective, so when we talked last quarter, at that point, the FHFA Index, again, most representative of the business that we write, we saw that decrease in July and August, we're actually seeing that kind of flatline in the last several months. So we've talked in the past, our base case is still for home prices to go down, I would say I'm a bit more optimistic than what I was of last quarter in terms of some of the data we're seeing from a home price appreciation perspective at this point.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Got it. Thank you. Thanks again. Appreciate it.

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

A

Thank you, Mihir.

Operator: Thank you. Our next question comes from the line of Eric Hagen with BTIG. Your line is now open.

Eric Hagen
Analyst, BTIG LLC

Q

Hey. Thanks. Good afternoon. Hope you guys are well. I just think I got a couple here. I'm curious how to think about the loss provision on current period defaults going forward. Like which cohort of loans do you see defaults maybe being concentrated? What are the variables at the loan level, which you're looking at to make that determination? And then I'm curious how you see pricing developing in response to lower mortgage rates from here, like are there any cohorts of the market where you could get maybe more aggressive because rates are lower and there's more visibility for certain elements of that kind of borrower cohort? Thanks.

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

A

So, this is Derek, I'll take the two parts, in terms of cohorts are, what we're looking at in terms of defaults, a lot of it's going to be driven by seasoning. So as you kind of have certain vintages go through their peak kind of default years, you're going to see those go at bit higher rate. But in terms of the indicators, I think that the traditional ones you're going to look at, right. So it's going to be driven by FICO and LTV. What we're finding in terms of new defaults is the embedded equity is holding up. So we've talked about the embedded equity in our default portfolio. But when we look at new defaults in Q4, again, they gradually shift from a vintage perspective, but importantly, they still have significant embedded equity. So that's what we're looking at.

Then on the macro side, what we're looking at is our home price projections and unemployment and re-employment rates, right. So the propensity to cure is driven very much by that re-employment rate and the HPA or embedded equity in the houses. And that's why it's very important when we construct the portfolio that we're doing it at a very kind of granular geographic level, because that embedded equity can see quite a bit of dispersion in terms of performance embedded equity. So those are some of the things we look at there.

In terms of your second question, in terms of products and given, I think it was related to interest rates and the decline, not a huge impact. The way we would view it is depending upon where rates are, it'll affect the persistency potentially. So as we kind of think about that, you'll have different durations and so that can affect how we would price it. But I would say on the margins, I don't think rates being down 100 basis points significantly affects how we're pricing in different segments.

Eric Hagen
Analyst, BTIG LLC

Q

Yes. That's helpful. Thank you very much.

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

A

Thank you.

Operator: Thank you. And I'm currently showing no further questions at this time. I'd like to hand the call back over to Rick Thornberry for closing remarks.

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

Thank you and thank you all for joining us today and for your interest in Radian. Before we sign off, I have to note the excitement of Sunday's Super Bowl matchup as the Philadelphia Eagles, which is home to many of our Radian team, as I'm surrounded by many of them here in Wayne, Pennsylvania, take on my Kansas City Chiefs. We hope you enjoy the game as much as we will, whoever you favor, I want to wish my Philadelphia-based teammates, good luck, but I will be rooting for the Chiefs, as they're all quite aware. And we hope you take care and we look forward to talking to you soon. And thank you again for joining us today. And we will talk soon. Take care.

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

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