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Radian Group Inc. (RDN)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Second Quarter 2025 Radian Group Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Dan Kobell, Head of Investor Relations and Capital Management, please go ahead.

Daniel Kobell

Executive Vice President, Capital Management and Investor Relations, Radian Group Inc.

Thank you and welcome to Radian's second quarter 2025 conference call. Our press release, which contains Radian's financial results for the quarter, was issued yesterday evening and is posted to the Investors section of our website at radian.com. This press release includes certain non-GAAP measures that may be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, and adjusted net operating return on equity. A complete description of all of our non-GAAP measures may be found in the press release Exhibit F, and reconciliations of these measures to the most comparable GAAP measures may be found in press release Exhibit G. These exhibits are on the Investors section of our website.

Today you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Sumita Pandit, President and Chief Financial Officer.

Before we begin, I would like to remind you that comments made during the call will include forward-looking statements. These statements are based on current expectations, estimates, projections, and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our

earnings release and the risk factors included in our 2024 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.

Good morning and thank you, all, for joining us today. I am pleased to report strong performance for Radian in the second quarter and the first half of the year. Our results continue to reflect the strength of our high-quality mortgage insurance portfolio as well as our disciplined approach to capital management and operational efficiency. I will start by sharing a few financial and business highlights.

We increased book value per share by 12% year-over-year, generating net income of \$142 million in the second quarter and delivering a return on equity of 12.5%. Our primary mortgage insurance in force, which is the main driver of future earnings for our company, grew to another all-time high of \$277 billion. And consistent with trends over the last several quarters, our mortgage insurance portfolio delivered strong credit performance with Cures exceeding new defaults during the quarter. Overall, our outlook for our mortgage insurance business remains positive. Our strong financial position and capital flexibility have allowed us to deliver excellent financial results and help our customers transform risk into opportunity while also returning value to our stockholders.

Turning to the housing and mortgage market, there's no shortage of headlines today about the challenges facing the housing market, particularly with regard to housing supply constraints and elevated home prices. While these factors challenge affordability, there is stability in the consumer and labor market, including positive employment trends and wage growth. At the same time, housing demand remained strong especially among first time homebuyers as millennials, the largest generation in American history, have moved into their prime homebuying years. While these are prominent market trends nationally, they vary in each region across the country, and the future outlook for each of these regions also evolves over time, which is why our approach is grounded in data.

We take these market factors and regional nuances into account as we leverage our proprietary data and analytics, including our RADAR Rates risk-based pricing, to inform our strategic pricing decisions. This allows us to dynamically adjust our market and credit segment exposure, taking into consideration national and regional trends in order to maximize economic value for our company and stockholders.

I'm proud to say that since 1977, Radian has supported lenders and their borrowers by helping more than 8.5 million families achieve their dream of homeownership in an affordable, responsible, and sustainable way. For many families, it has been estimated to take more than two decades to save for a 20% down payment. Our private mortgage insurance products helps qualified borrowers overcome this financial hurdle while also creating a path to potential wealth accumulation with their home as an investment. The recent passage of the One Big Beautiful Bill Act further enhances this affordability as mortgage insurance premiums are once again tax deductible.

And as I've said before, our mortgage insurance industry is well-positioned to play an important role in the housing finance system and serve as the only source of permanent private capital that stands in front of US taxpayers, consistently underwriting mortgage credit risk through the market cycles. As a result, we remain closely aligned with policymakers on Capitol Hill, the administration, and the FHFA in our shared mission of bridging the gap to affordable, responsible, and sustainable homeownership for more Americans through various economic cycles.

Sumita will now cover the details of our financial and capital positions.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

Thank you, Rick, and good morning to you all.

Our second quarter results demonstrate another strong quarter of performance. We achieved net income of \$142 million or \$1.02 per diluted share, an increase compared to \$0.98 per diluted share reported in the first quarter. We generated a return on equity of 12.5%, reflecting the strong fundamentals of our business, and grew book value per share 12% year-over-year to \$33.18. This book value per share growth is in addition to our regular stockholder dividends, which were \$35 million during the quarter. Our reported book value per share also includes \$2.02 of unrealized net loss on investments that is expected to accrete back into book value per share over time. Turning now to a few key drivers of our results, which highlight the consistency, balance, and resiliency of our mortgage insurance business model.

Our total revenues continued to be strong in the second quarter at \$318 million. Slides 10 through 12 in our presentation include details on our mortgage insurance in force portfolio as well as other key factors impacting our net premiums earned. We generated \$234 million in net premiums earned in the quarter, consistent with the past several quarters. Our large, high-quality primary mortgage insurance in force portfolio grew to another all-time high of \$277 billion. We wrote \$14.3 billion of new insurance written in the second quarter of 2025 marking a 3% increase compared to the same period last year. As shown on slide 10, our persistency rate remained strong at 84% this quarter.

We remain focused on writing NIW that we believe will generate future earnings and economic value while effectively maintaining the portfolio's health, balance, and profitability. As of the end of the second quarter, over 60% of our insurance in force had a mortgage rate of 6% or lower. Given current mortgage interest rates, these policies are less likely to cancel due to refinancing in the near term. And we therefore continue to expect our persistency rates to remain strong.

As shown on slide 12, the in force premium yield for our mortgage insurance portfolio remained stable as expected at 38 basis points. With strong persistency rates and the current positive industry pricing environment, we expect the in force premium yield to generally remain stable for the remainder of the year as well. Our provision for losses and related credit trends continue to be positive with strong cure activity and very low claim levels.

On slide 16, we provide trends for our primary default inventory. Total defaults decreased to approximately 22,000 loans at quarter end, resulting in a portfolio default rate of 2.27%, down 6 basis points from the previous quarter. Cures continue to outpace new defaults with new defaults decreasing 8% to approximately 11,500 in the second quarter compared to approximately 12,500 reported in the first quarter. As we noted in the past, our new defaults continue to contain significant embedded equity, which has been a key driver of recent favorable trends, including higher cure rates and reduced severity for policies that result in claims submission.

As shown on slide 17, our cure trends have been very consistent and positive in recent periods, meaningfully exceeding our initial default to claim expectations. Cure rates in the second quarter exhibited typical seasonal trends and compare favorably to similar periods from prior years.

Let's turn to slide 18. We maintained our initial default to claim rate of 7.5%, which resulted in \$48 million of loss provision for new defaults in the second quarter. Positive reserve development on prior period defaults of \$36

million partially offset this provision for new defaults. As a result, we recognized a net expense of \$12 million in the second quarter compared to \$15 million in the first quarter.

Moving to our other business lines. Adjusted pre-tax operating loss for all other was approximately \$16.4 million in the second quarter compared to the loss of approximately \$3.5 million in the first quarter. The increase is primarily driven by lower revenue this quarter within our Mortgage Conduit business as a result of mark-to-market changes on residential mortgage loans held for sale.

Now, turning to our other expenses where we continue to seek additional operating efficiencies. For the second quarter, our other operating expenses totaled \$89 million. The increase from prior quarter was expected as it aligns with the timing for our annual share-based incentive plan similar to previous years. As communicated previously, we expect operating expenses of \$320 million for the full year 2025, a decrease of 8% compared to \$348 million in 2024.

Moving to our capital, available liquidity, and related strategic actions. Radian Guaranty's financial position remained strong. We paid a \$200 million dividend to Radian Group in the second quarter while maintaining a stable PMIERs cushion of \$2 billion. We expect that Radian Guaranty will pay up to \$795 million of total distributions to Radian Group in 2025, in line with the 2024 statutory net income. This \$795 million of total capital return includes the \$400 million already paid in the first half of the year.

Moving to our holding company, Radian Group. In the first half of 2025, we repurchased approximately 13.5 million shares of our common stock, surpassing the combined repurchases of 2023 and 2024 as we took advantage of the market opportunity to purchase significant shares at a price level that is immediately accretive to book value. This brought our total return of capital to stockholders in the first half of the year to more than \$500 million. Our available holding company liquidity was \$784 million at the end of the second quarter. The decline in liquidity this quarter of approximately \$50 million was due to higher share repurchases, which we continue to believe was an attractive use of a portion of our excess liquidity. We also have an undrawn credit facility with borrowing capacity of \$275 million, providing us with additional financial flexibility.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Sumita.

Our results in the quarter continue to reflect the balance and resiliency of our company, as well as the strength and flexibility of our capital and liquidity positions. I want to recognize and thank our Radian team for the outstanding work they do every day.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Please stand by while we compile the Q&A roster. And our first question comes from Doug Harter of UBS. Your line is open.

Douglas Harter

Analyst, UBS Securities LLC

Q

Thanks. I'm hoping you could talk about your view on how much liquidity do you feel like you want to hold up at the holding company as we think about the magnitude of capital return that you can continue in the second half.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

A

Yeah. Thanks, Doug, for the question. So, I think as I walked through in my prepared remarks, we continue to have really strong liquidity in our holding company. I think we ended the quarter at \$784 million, which is lower than the first quarter number. But, again, as I mentioned, we've used some of that liquidity towards opportunistic share repurchases. We were able to buy back our shares at really good prices that were extremely accretive to our book value. And so, we went ahead and did that.

As you can see, we are bringing down our liquidity a little bit in the holding company. If you go back two years, we had higher liquidity numbers in our holding company of about \$1 billion and more. Last year, we repaid some of our outstanding debt, brought down our leverage to less than 20%. So, we are being, I would say, very, very careful and yet I would say planned in terms of how we are thinking about our overall liquidity at the holding company. And we will continue to take judicious decisions with regard to capital allocation and how much liquidity we will keep in the holding company. We've not put out any forward statements in terms of what is that exact balance. But I think we would be comfortable saying that right now our liquidity is quite in excess of what we may think is the appropriate buffer at the holding company.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

A

Yeah I might just add, Sumita too just – as we mentioned last quarter, in this year, we expect to bring up \$795 million from Radian Guaranty of which this year so far we brought up \$400 million. So, we have good visibility to cash flow from Radian Guaranty kind of now into the future. And so, that's a really strong position to be in, but I just wanted to make sure we add that.

Operator: Thank you.

Douglas Harter

Analyst, UBS Securities LLC

Q

The sustainable...

Operator: Go ahead.

Douglas Harter

Analyst, UBS Securities LLC

Q

It's just how should we think about the sustainability of that \$795 million dividend up to the HoldCo as we kind of move into next year?

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

A

Yeah. I mean, I think again, just trying to avoid any forward guidance of what would be the exact, I would say, income levels. But, as you know, that dividend from RGI is driven by the statutory net income of the prior year. So, I would say whatever is our stat net income in 2025 would be an indicator of what we could pay next year, in 2026, and it is a little bit mechanical. We are trying to make sure that whatever we can dividend up from RGI, we are maximizing that dividend. So, I would say our stat net income would be the best proxy of our dividend capacity from RGI to group.

Douglas Harter

Analyst, UBS Securities LLC

Q

Thank you.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

A

You're welcome.

Operator: And our next question comes from Bose George of KBW. Your line is open.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, everyone. Good morning. Actually, you'll notice the marks on those loans held for sale that drove some of the decline in earnings at homegenius for the others segment. What was the magnitude of the marks?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. Bose, thank you for that question. I'll kind of walk you through a little bit just because you referenced homegenius. And kind of in general, I think it's probably worth just kind of doing a little bit of kind of an update. So, we know historically there's some connection to all other and maybe the segment previously known as homegenius. But I just want to take a moment to kind of walk through all the activities of all other, including the Conduit.

So, last year we restructured the businesses that were part of homegenius, and we don't really run it as a homegenius segment today. They're in all other. I think it's also – I just want to highlight for Real Estate Tech that part of our business that was homegenius, we made a decision in the second quarter to discontinue kind of our investment in the technology on that business as kind of a follow-on to what we've talked about in previous quarters. I just want to highlight that. And then, as you kind of flow through all other, it's got the holding company investment income, it's got the title of real estate businesses, which were generally consistent with the prior quarter. And so, the Conduit business, as we went through the second quarter, we actually saw the pipeline and loans held for sale grow to, I think, close to \$900 million. And as Sumita highlighted in her comments, we saw the spread volatility kind of on the mark-to-market at June 30 kind of widen out specifically around interest-only kind of instruments, if you will. And the impact combined with kind of higher expenses with the higher volume was

about \$9 million in the quarter. The positions hedge valuations are going to fluctuate from time to time. And so, as we go through our quarter end, we make those adjustments. But I would say that's the amount, the \$9 million.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. That's helpful. Thanks. And then, just thinking of homegenius, is there a way to think about or how do you guys think about just the timeline to getting that to breakeven, especially if we were in a higher for longer, which presumably makes it a little tougher on the title side? And are there any strategic actions that you could take to accelerate what's going on there?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

A

Yeah, I appreciate the question. So, the way I would comment on that without providing kind of forward guidance is, is that actually our title business quarter-over-quarter I think you'll see in the revenue breakout was up. I think it's up year-over-year. So, we're actually, through the combination of additional clients and penetration of existing clients, seeing some growth. The numbers are small. Real Estate Services has actually been more impacted by higher rates for longer just because of some of the pullback on SFR financings.

So, I would say the combination of those two businesses have been fairly consistent and not really necessarily impacting the financial outcome of all other. The volatility has come through our Conduit business. And then, I think also in the quarter, we had an accounting adjustment between mortgage and group of about \$4 million that when you look at the year-to-date, it's kind of a zero impact, but it was a reclass of about \$4 million.

So, I think really for this quarter, the noise is primarily in Conduit in that adjustment. But as it relates to what we do going forward, I would just say more to come on that. The teams are working hard and continue to kind of focus on finding avenues of growth and continuing to find ways to produce a positive contribution.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thank you.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. Appreciate it.

Operator: Thank you. This concludes our question-and-answer session. I'd now like to turn it back to Rick Thornberry for closing remarks.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you again for joining us today and your questions and your interests in Radian, we appreciate it. We're pleased to report another strong quarter for Radian marked by, I think, very strong results and continued positive credit trends. We look forward to connecting with many of you in the months ahead and sharing our progress on the next quarter. Thank you.

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

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