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Radian Group Inc. (RDN)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Radian's Second Quarter 2020 Earnings Call. My name is Sylvia and I'll be your operator for today's call. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to John Damian, Senior Vice President of Investor Relations. Mr. Damian, you may begin.

John W. Damian

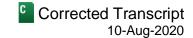
Senior Vice President - Corporate Development - Financial and Strategic Planning, Radian Group Inc.

Thank you and welcome to Radian's second quarter 2020 conference call. Our press release, which contains Radian's financial results for the quarter was issued last Friday evening and is posted to the Investor section of our website at www.radian.com. This press release includes certain non-GAAP measures which will be discussed during the today's call including adjusted pre-tax operating income, adjusted diluted net operating income per share, adjusted net operating return on equity, and real estate adjusted EBITDA.

A complete description of these measures and the reconciliation to GAAP may be found in press release Exhibits F and G and on the Investor section of our website. In addition, we have also included a related non-GAAP measure, real estate adjusted EBITDA margin, which we calculate by dividing real estate adjusted EBITDA by GAAP total revenue for the Real Estate segment.

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, President of Radian Mortgage. Due to the current environment, all of our speakers this morning are remote. I would ask that you please excuse any sound quality or technical issues that may arise during the call.

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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 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 2019 Form 10-K as updated in our quarterly report on Form 10-Q for the second quarter of 2020 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, John, and good morning. Thank you all for joining us today and for your interest in Radian. These are clearly unprecedented times. Before I talk about our second quarter financial results I'd like to address the business and economic environment that we are operating in today. First, I'd like to discuss the current state of our business operations. In March, at the onset of the COVID-19 pandemic, we asked the vast majority of our team to work-from-home and we committed to a conservative approach focused on employee safety and business continuity. Although there's no playbook for this environment, I'm pleased to report that our technology and business continuity plans were in place and our people were ready to provide our customers with the same high quality service they expect from Radian, all while working remotely without missing a beat. I'm very proud of the resilience of our businesses and the strength and commitment of our One Radian unified team. I can say with confidence that our businesses are operating well with strong momentum during this unprecedented time.

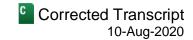
Next, I'd like to address the economic environment. The negative impact of the COVID-19 pandemic on the overall economy has resulted in a sharp increase in unemployment claims as well as higher mortgage defaults, including as a result of borrowers participating in mortgage forbearance programs. The government has provided broad support to help ease the burden of the crisis. We believe that the programs implemented through the CARES Act and other programs, specifically the financial assistance through forgivable business loans, taxpayer stimulus, expanded and increased unemployment benefits, mortgage forbearance programs and loss mitigation workout options, and the suspension of foreclosures and evictions, have and should continue to provide meaningful support to mortgage borrowers through this temporary hardship and help them remain in their homes.

The economic environment has also fueled record low interest rates. These low rates impact our business in several ways. We have seen a significant increase in refinance activity, which drives higher new insurance written as well as lower persistency within our existing mortgage insurance portfolio. And this low interest rate environment has also contributed to a strong purchase mortgage market, which we've seen recover in impressive fashion from the COVID-19 related disruption earlier this year.

The lower rates also reduce our investment portfolio yield over time as we look to reinvest maturing assets and operating cash flows. I know that the uncertainty and unprecedented nature of this environment has made it difficult to assess the impact on our business. In order to address one question posed by many of you during the quarter, let me explain why we think today's environment is different than the Great Financial Crisis. There are several factors that we believe make the impact of this environment on our business very different.

First, the financial crisis of 2008 was a housing-led economic crisis. We entered the current economic cycle with a strong, balanced and healthy housing market in terms of demand, supply and home values. We believe that many borrowers are in a more sustainable homeownership position heading into the current economic downturn where they have built up significant equity in their home. And we expect that these trends will continue to insulate the mortgage insurance industry from claims and ultimate losses.

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Second, the financial crisis was fueled by toxic products, poor underwriting and weak servicing standards. The quality of mortgage products, underwriting and servicing standards has improved dramatically over the past decade through regulatory reform to help ensure sustainable homeownership, and has resulted in increased quality, transparency and certainty of mortgage transactions.

Third, as opposed to the last financial crisis where foreclosures and evictions were prevalent, today, there is both industry alignment and government support for homeowners, with programs in place to help them successfully manage through this environment and remain in their homes.

Fourth, heading into the financial crisis, the quality of our insurance portfolio was vastly different than it is today. Today's portfolio consists of high quality loans that are priced on more granular risk attributes with an average FICO score of 741, as compared to our 2007 book that represented the market at that time, including low documentation, subprime and alt-A loans with lower FICO scores.

Fifth, the capital structure for the industry during the financial crisis was materially different than it is today. The mortgage insurance industry has transformed over the past decade to a consistently applied, risk-based capital framework for the industry through PMIERs.

And finally, prior to the financial crisis, the industry was a originate and hold portfolio model, leveraging rate card pricing. Today, we are an aggregate, manage and distribute portfolio model where we actively manage the risk profile of our portfolio through customer and loan analytics, granular risk-based pricing and risk distribution to capital partners, such as mortgage insurance-linked notes and quota share reinsurance. The combination of enhanced capital models and active portfolio management puts us in a very different position today versus the financial crisis. Overall, the housing and mortgage markets today are very different than the Great Financial Crisis in a positive way. And we believe the mortgage insurance industry is well prepared to navigate this environment.

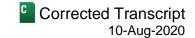
Turning now to the second quarter, as expected, our results were significantly impacted by an increase in the number of new defaults during the quarter which resulted from the pandemic economic environment and forbearance programs. Our financial results include a net loss of \$30 million or \$0.15 per share and an adjusted pre-tax operating loss per share of \$0.36. Book value grew 13% year-over-year to \$20.82 per share and our book value grew \$0.52 in the second quarter of 2020 as a result of unrealized gains in other comprehensive income. The loss this quarter was primarily due to our provision for losses of \$304 million. The loss provision is driven by an increase in new defaults and our assumptions related to the ultimate default to claim rate.

While there's no historical experience with defaults under forbearance programs during a pandemic, we develop our loss estimate by using our market and loan level analytics, factoring in an estimate for the benefit from loss mitigation efforts put in place by the GSEs and loan servicers and applying our judgment. We understand that the ultimate loss will be influenced by the depth and duration of this economic cycle. We will continue to assess our actual experience against our estimate as we progress through the cycle.

In terms of the most recent trends I'm pleased to report that we saw a decline in the number of new defaults and an increase in the number of cures reported to us in July resulting in a net decline of outstanding defaults of 3.3% ending with 67,433 total defaults at July 31.

Turning now to the broader mortgage and real estate market. During last quarter's earnings call we had predicted a slowdown in purchase loan volume based on the economic strain of COVID-19. I'm pleased to report that based on recent performance and trends, we are seeing the US housing market rebound with June existing home sales

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increasing 21% after three months of declines. Based on the latest data from our own Radian Home Price Index, there was a 10% increase in new real estate listings in June versus May, and a 35% increase in home sales. And while there has been localized volatility in home prices during the pandemic, prices overall have remained resilient. Based on increased purchase loan demand combined with low interest rates driving strong refinance volume, we wrote record volume of new primary insurance business of \$25.5 billion in the second quarter.

While the high volume of refinances during the quarter did drive persistency lower, and slowed the growth of our \$241.3 billion insurance portfolio, it's important to note that this large and high quality portfolio has grown approximately 5% year-over-year. It is also worth noting that in July we set a monthly NIW record for the third time this year with more than 70% of volume from purchase loans. Given the current environment, the strong NIW during the second quarter and a significant commitment pipeline heading into the third quarter, we now expect to write new MI business in 2020 of more than \$75 billion.

In our real estate business, we reported segment revenues of \$26.1 million. We continue to see growth in our title business with a strong sales pipeline of large clients. However, our real estate valuation and asset management businesses have experienced slowdowns as a result of the COVID-19 environment. Consistent with our strategy, we continue to make investments in our data, analytics and technology platforms across our title, valuation, asset management and real estate businesses to position our products and services to address evolving market opportunities.

Given today's environment, our capital position is critical. We understand that there continues to be uncertainty in the overall economic recovery path and accordingly we believe we are well positioned to leverage the strength of our overall capital position and navigate this environment through the cycle. During the second quarter of 2020, we strengthened our available liquidity by extending the term of our existing credit facility and issuing \$525 million of senior notes due 2025.

At June 30, Radian Group maintained a strong capital position with \$1.1 billion of available liquidity. We also remain focused on Radian Guaranty's PMIERs position. Our available assets under PMIERs were approximately \$4.2 billion at June 30, resulting in a cushion of approximately \$1 billion or 31% above our minimum required assets.

In terms of risk distribution, we have a clear track record of disturbing risk to the capital and reinsurance markets, when we see the opportunity. We continually monitor the markets and evaluate opportunities. Today, the strength of our capital position is even more valuable given the economic environment and it enables us to continue writing high-quality business through the cycle without dependence on these markets. We will maintain our strategy of accessing these markets for risk distribution on terms that are most economically attractive to our company. Given that we expect the timeline for the ultimate resolution of pandemic-related defaults could span multiple years, we believe that our current capital resources combined with the continued future financial contribution from our valuable insurance portfolio positions us well. We plan to continue to take a conservative approach, leveraging our experience to manage the business operationally and financially.

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

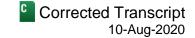
J. Franklin Hall

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

Thank you, Rick, and good morning, everyone. To recap our financial results issued Friday evening, we reported a GAAP net loss of \$30 million or \$0.15 per diluted share for the second quarter of 2020 as compared to net income of \$0.70 per diluted share in the first quarter of 2020 and net income of \$0.78 per diluted share in the



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second quarter of 2019. Adjusted diluted net operating loss was \$0.36 per share in the second quarter of 2020 as compared to adjusted diluted net operating income per share of \$0.80 in the first quarter of 2020 and the second quarter of 2019.

I'll now turn to the key drivers of our revenue. As Rick mentioned earlier, our new insurance written was \$25.5 billion during the quarter compared to \$16.7 billion last quarter and \$18.5 billion in the second quarter of 2019. Our second quarter 2020 volume is our highest level of quarterly new insurance written on a flow basis. Primary new insurance written for refinances was 44% of total new insurance written for the second quarter of 2020 compared to 34% in the first quarter of 2020 and 10% for the same quarter in the prior year. Direct monthly and other recurring premium policies were 85% of our new insurance written this quarter, an increase from 81% for the first quarter of 2020 and 83% for the second quarter a year ago.

In total, borrower-paid policies were 98% of our new business for the second quarter. Primary insurance in force decreased slightly to \$241.3 billion at the end of the quarter as compared to \$241.6 billion in the first quarter of 2020 with year-over-year insurance in force growth of approximately 5%. The quarter-over-quarter decrease was due primarily to low persistency driven by high refinance activity. Our 12 month persistency rate of 70.2% decreased from 75.4% in the prior quarter and 83.4% in the second quarter of 2019.

Our quarterly annualized persistency rate was 63.8% this quarter, a decrease from 76.5% in the first quarter of 2020 and 80.8% in the second quarter of 2019. The year-over-year decline in quarterly annualized persistency is driven by increased refinance activity observed in the quarter. Given the current mortgage rate environment, it is expected that near-term persistency will remain below long-term trends.

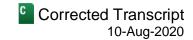
Moving now to our portfolio premium yield as detailed on slide 10. Our direct in force premium yield was 44.3 basis points this quarter compared to 46.1 basis points last quarter and 47.9 basis points in the second quarter of 2019. As noted in previous quarters, we expect our in force portfolio yield to continue to decline due to the difference in credit mix and associated premium rates of today's NIW relative to prior vintages.

Recent trends of lower persistency and higher levels of new insurance written have contributed to a faster rate of change in the yield of our mortgage insurance portfolio. The timing and magnitude of future portfolio yield changes will continue to depend on several factors including the volume, mix and pricing of new business relative to volume and mix of cancellations and prepayments in our portfolio.

Our level of single-premium cancellations increased to 8.2 basis points compared to 4 basis points in the first quarter of 2020 and 2.8 basis points of yield in the same quarter a year ago. The increase in single premium cancellations is due to higher refinance activity driven by the low-interest rate environment. The negative yield impact of ceded premiums net of profit commission was 11.5 basis points as compared to 4.5 basis points in the first quarter of 2020 and 4.3 basis points in the same quarter a year ago.

This change of 7 basis points compared to prior quarter is made up of two components. The primary driver is a reversal of previously accrued profit commission which declined from a positive \$16.4 million in the first quarter to a negative \$10.6 million in the current quarter as noted on press release Exhibit L. This \$27 million decline on a linked-quarter basis is due to the reduction of expected profit commissions related to elevated new defaults observed in the quarter and the associated impact on our ceded loss provision. It is important to note this adjustment is offset by a dollar-for-dollar increase in ceded losses, which reduces our provision for losses. This change in profit commission accounted for 4.6 basis points of the change in ceded premium portfolio yield compared to the first quarter of 2020. The other component of the change in ceded premium yield was attributable to higher single premium acceleration resulting in another 2.5 basis points.

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With regard to our pricing on new business, we remain focused on maximizing economic value and generating attractive risk adjusted returns which are targeted to be in the mid-teens. These targeted returns do not include the impact of insurance-linked notes but do incorporate the impact of our single-premium quota share reinsurance program, which is a forward commitment by our panel of reinsurers and is in place at the time of loan origination.

Net premiums earned were \$249.3 million in the second quarter of 2020 compared to \$277.4 million in the first quarter of 2020, and \$299.2 million in the second quarter of 2019. The decrease of 10% on a linked-quarter basis is primarily attributable to the adjustment to accrued profit commission due to increased loss provision, which was partially offset by an increase in single-premium policy cancellations. Again, it is important to note that this adjustment to accrued profit commission was offset by an increase in ceded losses under our single-premium quota share reinsurance agreement during the period, which reduced our provision for losses and thus the net impact was not material to our results for the quarter.

Our net premiums earned decreased 17% as compared to the second quarter in 2019. In addition to the profit commission impact as noted, this decrease was primarily attributable to a positive cumulative adjustment in the second quarter of 2019 related to our single-premium policies which resulted in \$32.9 million of additional net premiums earned in that quarter.

Total real estate segment revenues was \$26.1 million for the second quarter of 2020, representing a 9% decrease compared to \$28.6 million for the first quarter of 2020 and a 5% decrease compared to \$27.6 million from the second quarter of 2019. Our reported real estate adjusted EBITDA for the second quarter of 2020 was a loss of \$702,000. Our year-to-date revenue however was up 8% year-over-year.

Our investment income this quarter of \$39 million was down 5% from the prior quarter and 12% from the same quarter prior year due to lower investment yields which were partially offset by additional investments from underwriting cash flow and proceeds from our May 2020 senior debt offering. In addition, there was a significant market value increase during the quarter of approximately \$246 million. At quarter end, the investment portfolio duration was approximately 4.1 years, up slightly from the prior quarter.

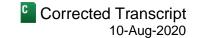
Moving now to our loss provision and credit quality. As noted on slide 13, the provision for losses for the second quarter of 2020 increased to \$304 million compared to the \$35.2 million in the first quarter of 2020 and \$47.2 million in the second quarter of 2019. As noted earlier, our ceded losses, which is a benefit under our reinsurance programs also increased to \$39.6 million in the second quarter of 2020 compared to \$2 million in the first quarter of 2020 and \$1.9 million in the second quarter of 2019.

As shown on slide 14, we had approximately 63,000 new defaults in the second quarter of 2020 as compared to approximately 10,000 in the first quarter of 2020, and approximately 9,000 in the second quarter of 2019.

Also as shown on slide 16, approximately 90% of these new defaults were reported to be in a forbearance program as of June 30, 2020. It is important to note that these new defaults were from recent origination vintages and as a result, the average risk written on these policies is higher than our recent average claims paid experience, which have been more heavily concentrated on older vintages. These new defaults were the primary driver of our provision for losses during the second quarter as the reserve development on prior period defaults was not material.

The default to claim rate assumption on new defaults was increased to 8.5% for the second quarter of 2020, an increase from 7.5% for the first quarter of 2020 and 8% for the second quarter of 2019. The increase in the new

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default to claim rates is reflective of the current level of uncertainty in the economic landscape and the uncertainties surrounding the magnitude and timing of any further economic deterioration should it occur. While we have drawn analogies of this pandemic to natural disasters in the past, it has become clear to us that the broader economic risks associated with this global pandemic are unique insofar as we expect that the economic impact will be longer in duration. Thus far, however, we have seen strong government support including forbearance programs and foreclosure moratoriums that should be significant mitigants to these risks and are expected to provide significant loss protection by allowing homeowners to stay in their homes, thereby avoiding claims. The new defaults we saw in the quarter were of a much higher weighted average FICO than in previous quarters and were predominantly from newer vintages with over half coming from vintages 2017 and newer.

It is important to remember that our reserve estimate is based upon the best available information we have at the time, which includes our assessment of the quality and potential volatility of future economic estimates and the range of outcomes within our own proprietary models. As we have all observed since the beginning of this pandemic, the variability and frequency of change in many economic estimates has been elevated and continues to vary widely.

Since our loss reserves are a point-in-time estimate, it is subject to change at each reporting period based upon available information at that time. Keep in mind that we are estimating the amount of future claim payments which under normal circumstances won't be realized for several years. We have also shared additional information on forbearance program mechanics and participation rates for our portfolio on webcast slide 16. Again, these forbearance programs are positive for our industry as they are intended to keep people in their homes.

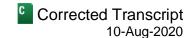
Now turning to expenses. Other operating expenses were \$60.6 million in the second quarter of 2020 compared to \$69.1 million in the first quarter of 2020 and \$70 million in the second quarter of 2019. The decrease in operating expenses on a linked-quarter basis was primarily driven by lower share-based incentive compensation. The decrease in expenses compared to the second quarter of 2019 was also driven by lower share-based incentive expenses as well as a decrease in various other operating expenses.

Moving now to taxes; our overall effective tax rate for the second quarter of 2020 was 29.1%. Our annualized effective tax rate before discrete items remains generally consistent with the statutory rate of 21%.

Now moving to capital and available liquidity; Radian Guaranty had PMIERs available assets of approximately \$4.2 billion and our minimum-required assets were approximately \$3.2 billion as of the end of the second quarter of 2020. The excess available assets over minimum-required assets of \$1 billion represents a 31% PMIERs cushion. We have also noted on slide 19, our PMIERs excess available resources on a consolidated basis of \$2.4 billion, which if fully utilized represents 73% of our minimum required assets as of June 30, 2020. Based on our PMIERs cushion at June 30, 2020, Radian Guaranty would have been able to absorb a default rate of approximately 25% in the second quarter, nearly 4 times our second quarter default rate of 6.5% and continue to remain in compliance with the PMIERs financial requirements. And based on our total available resources at June 30, 2020 which includes our PMIERs cushion as well as resources available at our holding company, Radian Guaranty would have been able to absorb a default rate of approximately 50%. As of June 30, 2020, we have reduced Radian Guaranty's PMIERs minimum required asset requirements by \$1.5 billion by distributing risk through both insurance-linked notes and third-party reinsurance execution as noted on press release exhibit L.

As previously reported during the second quarter, Radian Group also issued \$525 million aggregate principal amount of senior notes due 2025 and we extended our \$267.5 million unsecured revolving credit facility to January of 2022. For Radian Group, as of June 30, 2020, we maintained \$1.1 billion of available liquidity. Total liquidity which includes the company's \$267.5 million credit facility was \$1.4 billion as of June 30, 2020. It's also

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important to remind our listeners that most of the cash flows of the parent company are funded by a longestablished, regulator-approved expense, interest and tax sharing agreements with its subsidiaries and not through dividends from subsidiaries.

This provides us with an enhanced level of certainty and predictability in parent company cash flows. Despite the increased risks and uncertainties posed by the COVID-19 pandemic, the quality of our mortgage insurance portfolio and the steps we have taken in recent years to enhance our financial strength and flexibility have positioned us well for an economic downturn, and we believe will help us weather the macroeconomic stresses ahead. And while the strategic and systemic defenses in place will not provide complete immunity to the expected near-term negative effects to our financial results, we believe that we are in a much better position to absorb the impact of economic stress than during the global financial crisis and will emerge from this crisis strong and we remain ready to fulfill our mission.

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 take your questions, I'd like to remind you that given the significant improvements made since the last financial crisis, we believe that we are well positioned to serve our role as a private mortgage insurer. It is important to note that our industry remains the only committed source of permanent private capital that has continued to consistently underwrite and support mortgage creditors through the market cycles, including this time of economic disruption. We continue to write significant high-quality new business today, supporting our customers and their borrowers, and we expect to write through the cycle by utilizing our strong risk management discipline to build economic value.

We've been preparing over the past few years to weather an economic downturn by improving our debt maturity profile, utilizing economic value to construct our portfolio, proactively managing our customer relationships, implementing greater risk-based granularity into our pricing and increasing our use of risk distribution strategies to lower the risk profile and financial volatility of our mortgage insurance portfolio. These efforts combined with building our PMIERs cushion and Radian Group liquidity, have better positioned us to navigate this unprecedented environment.

Operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Jack Micenko from SIG.

Jack Micenko

Analyst, Susquehanna International Group, LLP

Hi, good morning, everybody. I guess to kick it off. The first question the obvious one, you guys are looking at about an 8.5% claim rate, and I think the other folks that have reported this quarter were at a 7%. And I hear you, you want to be conservative. There's a lot of uncertainty and this is going to take years not months to work through. But is there anything in your portfolio specifically that would have caused that differential or and I certainly don't know what other people's models are telling them. But what do you think the difference is in your assumption set versus others in the industry since they're all kind of aligned around that 7% figure.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Yeah. Thanks, Jack. This is Rick and I'll take that question and Derek and Frank can jump in and comment as well if they wish. But we obviously can't comment on the specifics related to the peers and how they drew their conclusions. I think, there's no playbook on the scenario that we can necessarily draw from, but I think there are significant differences from the previous financial crisis as I mentioned previously.

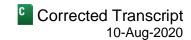
I believe the difference that we see, is just simply different management teams expressing different judgment related to the economic environment, which is still very early in the cycle. We're very early in the stage and there is uncertainty that remains as to how this will play out. We believe we've gone through a thoughtful process to assess based on the market factors and really looking at the programs in place. So along with just simply applying our judgment.

And so, when you kind of think about it on a comparative basis, through the cycle and I think some of the analysts have commented on the differences across the portfolios being – there being no differences on a relative basis across the portfolio. But when we look at it, we would expect really no meaningful difference of outcome ultimately from a claims rate perspective as we go through the cycle. But remember, we're in the first quarter of this and I think we've gone through a thoughtful approach. We're going to continue to monitor and look for trends – look for the trends to stabilize and gain greater certainty and kind of how the economic environment is going to develop.

I think, specifically, we're going to be watching default trends. We did report our July trends. We're going to watch the economy from an unemployment point of view and we're going to watch the housing market specifically around home prices. So, I think it's just important to remember at this point we are using our best judgment as I think everyone is. We don't expect any material differences as we go through the cycle across the MIs because we've all underwritten the same loans, from the same originators, during the same period of time, the legacy book of business is really no longer relevant.

So – and the other thing as we watch this, we're putting reserves up based upon what we believe today and ultimately those claims are two years away before we actually start to pay a claim, yeah, two years plus or minus. So I think we're comfortable where we are today. I can't really comment relative to peers but I do think you're seeing judgment applied. I think ultimately we're going to see – we're not going to see meaningful differences between the participants as this plays out.

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Jack Micenko

Analyst, Susquehanna International Group, LLP

Okay, great. And then on the pricing side, there's been talk in the industry about some increases that kind of rolled out, and there's a little bit of discussion around whether those pricing changes kind of narrowed in or motivated to maybe a higher quality mix or whether it was more broad based across the board. So I'm curious just your perspective on pricing and then, how do we think about those pricing changes in the context of sort of the 44 in force yield? Are we pricing business today that's generally accretive to that and it can sort of offset the other pressures or how are you guys positioned on pricing today?

Derek V. Brummer

President-Mortgage, Radian Group Inc.

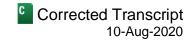
Hey, Jack. It's Derek. So, in terms of pricing, it's tough to compare it because – just on absolute premium rate because that's going to depend very much upon the credit mix. I think what we had indicated is, kind of across the industry in the black box engine there was prices increases we had indicated (sic) [seen]. We saw that anywhere from 10% to 50%. We took the approach of a pretty broad based price increase with certain segments I would say, we were more aggressive in increasing price, particularly in those areas, where we thought there might be more difficult performance, relative to kind of historical. So we kind of backed off in those segments.

I would say some of our competitors were I would say more targeted from that perspective and the way we approach pricing is we look at what our economic scenario is and then set the pricing to get to an appropriate risk-adjusted return. And we might find certain segments depending upon where competitors are priced to have higher economic value and what we've always indicated is we'll set the pricing and kind of shift from a portfolio perspective accordingly. So I would say generally the price increases are there and kind of what you're seeing now in the competitive landscape, I would say are different MIs kind of tweaking pricing to get the mix and the return that they're looking for across the kind of credit spectrum.

Jack Micenko Analyst, Susquehanna International Group, LLP	Q
Okay. Thank you. Thanks, guys. Good luck.	
Richard G. Thornberry Chief Executive Officer & Director, Radian Group Inc.	A
Thanks, Jack.	
J. Franklin Hall Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.	A
Thank you, Jack.	
Operator: Our following question comes from Bose George from KBW.	
Bose George Analyst, Keefe, Bruyette & Woods, Inc.	Q

Hey all. Good morning. Rick, you know that home prices clearly are a big driver and you're going to keep a close eye on that. Just how should we think about how that sort of feeds it through to your expectations? If home prices remain very strong, should we see maybe a change in the default to claim assumption for you or just trying to think about how that benefit sort of flows through?

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Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Yeah, Bose. Hi, thank you for the question. I think as you look at the home prices and you compare it to the Great Financial Crisis, right, home prices in that scenario really led the crisis. Here we have a strong housing market that's, well – it's balanced, it's healthy and I think that's really ultimately a material difference. Obviously, we're watching unemployment. We're watching borrower behavior from a default point of view and servicer performance. But when you think about one of the great differences today is we had a very strong housing market. It rebounded very quickly kind of coming into the COVID and recovered. So we're going to watch it.

It is an important factor. I don't think I'm prepared to say you know whether it's going to change – how it'll affect our view of the future. But today one of the things that we are – we feel good about that we are watching carefully is kind of how home prices are I guess developing across the market. I mean when you look at what's occurring there is a – we knew coming into this market there was a great supply shortage and demand excess and that's really served to be very balanced through this environment and we have the combination of low rates, low supply and high demand. And so we're seeing very qualified borrowers come through, buy homes. I think in our July numbers, we had over 70% purchases versus through the second quarter I think it was 54%, 56% kind of in the mid-50s. So we're seeing that purchase market kind of develop even as refinances may slow down [indiscernible] (00:42:04) purchase market and that's going to provide a strong support to houses – home prices. So I don't have specifics to tell you, but I think it's an important factor and we feel good about how it's developing and evolving today.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. No, that makes sense. Thanks. And the cure rate that you had from July, would you characterize that as being better than expected or in line with expectations or how would you characterize that?

Derek V. Brummer

President-Mortgage, Radian Group Inc.

I would characterize the trends we're seeing are coming in better than expected. So I think what we saw in July, a little faster than expected is that cure to new default ratio, I think it was a 126% in July. So I think that's stronger than what I would have been expecting at this point.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

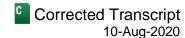
Okay. Great. And so, let me just sneak in one more. The mark-to-market LTV on the loans that are in forbearance, do you happen to have that number?

Derek V. Brummer

President-Mortgage, Radian Group Inc.

I don't have it specifically broken out by those that are in forbearance. But I would say kind of broadly and we've talked about this certainly from a home equity perspective, certainly, that's going to be an important component in terms of the default inventory. So when you kind of look at the portfolio overall, and I don't think it's going to be necessarily dramatically different, we're seeing significant portion, plus 80%, that have 10% or more equity but I don't have it at hand in terms of broken out from those loans that are actually in forbearance.

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Bose George Analyst, Keefe, Bruyette & Woods, Inc.	Q
Okay. Great. Thanks very much.	
Richard G. Thornberry Chief Executive Officer & Director, Radian Group Inc.	A
Yeah. Thank you, Bose.	
Operator: Our next question comes from Douglas Harter from Credit Suisse. Douglas if your line is mute please unmute yourself. And our next question comes from Mihir Bhatia from Bank of America.	ed,
Mihir Bhatia Analyst, BofA Securities, Inc.	Q
Hi. Good morning and thank you for taking my questions. I just wanted to go back	
Richard G. Thornberry Chief Executive Officer & Director, Radian Group Inc.	A
Good morning.	
Mihir Bhatia Analyst, BofA Securities, Inc.	Q

...to Jack's question on default to claim rate assumptions for a second. And I appreciate the color on your process, but I was wondering if you could maybe just tell us a little bit more about just in terms of how much of a benefit did the government support programs provide to that assumption. Like, because I guess we have a pretty unusual environment. You have unemployment up a lot but the housing market has held up pretty nicely. So just trying to understand what would it have looked like if you just had the economy as is with outside government support?

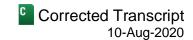
Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Mihir, thank you for the question. I think Derek and I can tag team this one. I think it's – when you think about the scenario we're in – if you think about with or without forbearance programs you probably have different answers, right, in two ways. One without forbearance programs we probably wouldn't have the number of defaults that we have today, right, because there are a number of people that are in forbearance programs that kind of probably are more on the margin or did it more from a hedge. If so, when you think about that factor, it just plays out differently.

So I think from a scenario perspective I would think of it as in the context that we are today, we do factor in the existence of forbearance programs. We're monitoring the trends very carefully to watch as Derek just mentioned thinking through how cures play, how new defaults enter. We were pleased in July, not only to see the cure rate, but also to see the number of new defaults, right, because ultimately new defaults are what drive future claims. So, we are monitoring very carefully, but in our analysis, we do take into account forbearance programs and other support we see in the market from an economic point of view, the CARES Act, other opportunities for supporting home borrowers through this temporary moment of hardship to keep them in their homes. And so, but we think we're early in the cycle. We need to continue to evaluate it and watch the trends and watch kind of how unemployment develops, watch how home prices develop as I mentioned earlier, but we do believe factoring in

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forbearance gives you a different answer from default-to-claim rate, but also if you didn't have forbearance program we'd probably have lesser defaults. So, I hope that's helpful.

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

Yeah.

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

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

Yeah.

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

A

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

Lilke to add anything.

Yeah, I would add. I think you have to separate. So, talking about support I think about that a little more in the short-term and that's probably a driver of the rate of new defaults that are coming in the portfolio. When you think of the default-to-claim rate and the propensity of those in defaults ultimately to roll to claim, just keep in mind that it takes years usually at least one to two years default results in a claim. So, ultimately the propensity to roll to claim is probably going to be driven less by kind of short-term government support and more so the fundamentals of the economy and in particular the fundamentals of a housing market. So, as you kind of see to the extent that it continues which has been an important factor in the housing market continued home price appreciation, continued positive supply, demand, kind of mechanics in the market that will help lower that default to claim ratio because it allows borrowers to get out from under. We have acquisition option in terms of the property, so I would look at it more from that perspective kind of short term, long term.

Mihir Bhatia

Analyst, BofA Securities, Inc.

President-Mortgage, Radian Group Inc.

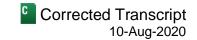
Understood. No, that's helpful. Thank you. And then if I could switch to the services segment just for a minute here, I wanted to ask about the services segment and just in terms of the performance in the second quarter as it relates to your expectation. And then I guess just more generally can you remind us some of the drivers for that business, because you had a pretty strong housing market, right in 2Q and yet I think the segment was not profitable. And I was just wondering what kind of housing backdrop or what needs to happen for that segment to start contributing from a profitability standpoint?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Yes. Thank you for that question. I think you know what, we are – as I've mentioned before these are businesses that are in kind of early stage of growth, especially as we kind of exited the Clayton business early in this year and we've repositioned really across this real estate segment. So where we've seen significant growth and kind of

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momentum from a revenue perspective but also from a client pipeline related to our title business and that's being really fueled by particularly our MI relationships and our relevance in service delivery from a title perspective.

The other businesses – there's three other pieces of the puzzle, which is the asset management business which is our single-family residential due diligence business which has kind of hit a pause button a little bit because of the COVID environment. So we'll see that come back and we have a strong market position. Our valuation business, the appraisal business has also kind of hit a little bit of a slowdown just simply because of more automated appraisals being offered by the GSEs. Our data driven side of that I think is well-positioned.

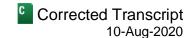
And then I would say kind of our true real estate technology is kind of an investment. So when you look at our real estate business we see a trajectory of growth in terms of growing revenues and contributing profitability. But I do think as you kind of step back and look at the business and the assets we've got. Title probably has the nearest-term contribution from a profitability point of view given the pipeline of clients. The other businesses have been impacted little bit by COVID but we feel like we're well-positioned to grow the revenues across our valuation and our asset management businesses while at the same time we're also heavily investing in those businesses around data and analytics and technology.

And so where you may see volatility in some of the ultimate expense numbers of that business, but our objective is to kind of grow through this cycle, leverage our strong relationships in the market and build growth across our title, valuation and asset management business and ultimately rollout our technology more broadly across our real estate business. So I think to sum it up, I would look at it as where you're going to see the title business continue to develop and grow. Valuation business will recover as we kind of come out of this COVID-19 environment. And I think our SFR, our asset management business, REO management business are well-positioned for the future as well, so.

But along the way here we're going to continue to invest in our platforms from a data analytics, and technology [standpoint]. And that's going to – that will have an impact on expenses. But I think in the long run, as I've said before, we're going to see value accrue in these businesses really ahead of financial contribution – that is the play. But I think just one other comment I'll make on that because I think it's relevant, when you look at what's going on in the FinTech and PropTech space relative to the businesses that we're in, where we see things like Ellie Mae and Optimal Blue and we see transactions in the marketplace. I think I like the collection of assets we have. I like the collection of data and analytics and technology we have. I think we're uniquely positioned and we're very focused on building long-term value and that may have some volatility in the short-term around earnings contribution.

Mihir Bhatia Analyst, BofA Securities, Inc.	Q	
Understood. Thank you. Thanks for taking my questions.		
Richard G. Thornberry Chief Executive Officer & Director, Radian Group Inc.	A	
Thank you.		
Operator: Our next question comes from Douglas Harter from Cred	dit Suisse.	
Douglas Harter Analyst. Credit Suisse Securities (USA) LLC	Q	

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Thanks. Could you talk about the decision to raise debt during the quarter given the figures you referenced in terms of your ability to withstand significantly higher default rates than you're actually experiencing?

J. Franklin Hall

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

Sure, Doug, this is Frank, and thanks for the question. The decision to raise debt was really predicated upon just the uncertainty in the landscape. And when you look at when we raised it, in particular, there was certainly a significant amount of uncertainty and lack of clarity on what government programs would be in place et cetera. So we just wanted to make sure as we've done historically that we just maintain strength and flexibility in our capital structure. We've done that historically and we thought it was prudent to have the additional resources just in case. And so it was primarily from a defensive standpoint that we raised new debt.

And then, I would say also from an offensive standpoint, we also wanted to make sure that we were well-positioned to take advantage of any potential disruption from any of our competitors and any decisions that they may make to pull back for any type of capital preservation reason. So it was good for us both defensively and also, potentially, offensively as well.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Great. I appreciate that, Frank.

Operator: And we have no further questions.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Okay. Well, I want to thank everyone. I appreciate the questions and thank everybody for joining the call today and for your participation and confidence in Radian. I want to thank the Radian team for really the tremendous effort that has been displayed during this COVID-19 environment as we all work remotely and continue to serve our customers at a very high level. So but again, thank you. I look forward to talking to all of you soon and have a good day, stay safe and stay well. Take care.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

***Editor's note: Texts in brackets have been inserted at the request of the company after the event to make clarification on certain statements.

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