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CORPORATE PARTICIPANTS

Emily Riley *Radian Group Inc. - SVP Corporate Communications & IR*

S.A. Ibrahim *Radian Group Inc. - CEO*

Frank Hall *Radian Group Inc. - EVP & CFO*

Teresa Bryce Bazemore *Radian Group Inc. - President Radian Guaranty Inc.*

Derek Brummer *Radian Group Inc. - EVP, Chief Risk Officer*

Jeff Tennyson *Radian Group Inc. - Interim President Clayton Holdings LLC*

CONFERENCE CALL PARTICIPANTS

Patrick Kealey *FBR & Co. - Analyst*

Bose George *KBW, Inc. - Analyst*

Eric Beardsley *Goldman Sachs - Analyst*

Mackenzie Aron *Zelman & Associates - Analyst*

Douglas Harter *Credit Suisse - Analyst*

Mark DeVries *Barclays Capital - Analyst*

Jack Micenko *SIG - Analyst*

Vic Agrawal *Wells Fargo - Analyst*

Ron Bobman *Capital Returns Management - Analyst*

Geoffrey Dunn *Downing & Partners - Analyst*

Chris Gamaitoni *Autonomous Research - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Radian second-quarter 2016 earnings call. (Operator Instructions) As a reminder, today's conference call is being recorded.

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

Emily Riley - *Radian Group Inc. - SVP Corporate Communications & IR*

Thank you and welcome to Radian's second-quarter 2016 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning and is posted to the Investors section of our website at www.Radian.biz.

This press release includes certain non-GAAP measures which will be discussed during today's call. A complete description of these measures and their reconciliation to GAAP may be found in press release Exhibits G and H and on the Investors section of our website.

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

Before we begin I would like to remind you that comments made during 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 2015 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

And now I would like to turn the call over to S.A.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Thank you, Emily. Thank you all for joining us and for your interest in Radian. Before we dive into the details of this quarter, let me first highlight several of our most recent accomplishments.

First, in the second quarter we grew our NIW by 60% from the first quarter of 2016 and 10% from the second quarter of last year. In addition to capturing more high-quality business that we expect to generate attractive returns and strengthening our MI franchise, this new business growth should also help extend our future earnings momentum.

Second, we were able to redeem our entire $325 million surplus note at the earliest possible date, enhancing our Holding Company liquidity position and reflecting Radian's strong financial performance.

Third, we announced our intention to accelerate our capital plan with the goal of positioning Radian Group for a return to investment-grade ratings in the future. We continue to believe that we are better positioned to drive long-term value today than ever before in Radian's history.

Turning to the quarter's results. Earlier today, we reported net income for the second quarter of 2016 of $98 million or $0.44 per diluted share. Adjusted pretax operating income was $131 million for the second quarter of 2016, and adjusted diluted net operating income per share for the second quarter was $0.38. Importantly, book value per share grew for the fourth consecutive quarter to $13.09, an increase of 16% over last year.

And now turning to the Mortgage Insurance segment, we continued to improve the quality of our large Mortgage Insurance in-force book, which drives future earnings for Radian. We wrote $12.9 billion in new MI business in the second quarter.

While we had expected a seasonal increase in volume, we exceeded even our own expectations and in June we wrote our third-largest monthly volume of primary flow NIW. June also represented our largest month ever for purchase primary flow business, which reflects a positive development in the housing market, particularly for our industry.

Estimates for the size of the MI market in the second quarter have increased and now stand at approximately $70 billion. To put this in perspective, this was the size of our industry's entire market for the full-year 2011. Based on this market growth, our strong second-quarter volume, and our significant new business pipeline, we now expect in 2016 to surpass the $41 billion in NIW we wrote in 2015.

We remain focused on writing as much high-quality new business as possible while maintaining a well-balanced portfolio mix that we expect to generate a mid-teens leverage return on required capital. We grew our Mortgage Insurance in-force by 3% over the second quarter of last year, and we continue to expect our in-force book to grow and to enhance our strong foundation for future earnings.

Radian's success in writing a large share of high-quality and profitable new business after 2008 has helped to improve the composition of our Mortgage Insurance portfolio and has served as a differentiator within our industry among legacy peers. For the second quarter, our total primary Mortgage Insurance risk in-force consisted of 86% of business written after 2008, or 78% excluding HARP volume. You may find these details on webcast slide 11.

Slides 12 and 13 compare the loan characteristics of Radian's existing risk in-force as of 2003, 2007, and 2011 with the risk in-force in the second quarter of 2016. These comparisons are important to understand in terms of dealing with any future economic stress and given that the composition of our risk in-force reflects the environment in which the loan was underwritten.

In general, loans written before 2009 reflect the relatively weaker credit environment and underwriting standards of that time, as well as a much more lenient regulatory environment. In contrast, loans written after the downturn in 2009 and later reflect a tighter credit environment and more stringent underwriting requirements.

This environment, in combination with Radian's own investment in risk management resources, tools, and discipline, has driven the outstanding credit quality of the loans we insure. For example, in 2007, only 26% of our primary risk in-force consisted of loans with a 740 FICO score or better. In the second quarter of 2016 that high-quality business represents nearly 60% of our risk.

Also, in 2007 nearly a quarter of our primary risk in-force consisted of higher LTV loans greater than 95%. In the second quarter of 2016, that business represented only 7% of our risk.

And back in 2003, nearly one-third of our book consisted of exotic products such as subprime, Alt-A or low-doc loans, combined in some cases with teaser ARMs. In the second quarter of 2016, 95% of our risk in-force was prime credit quality.

So you can see that the credit quality of today's portfolio is vastly superior to the business written prior to the housing and economic downturn. This is an important aspect of our business; and as I have emphasized before, the large volume of high-quality business written after 2008 is the key driver of future earnings for Radian.

Turning to the mortgage origination market, industry sources are now projecting a slightly larger market than last year, coming in at $1.8 trillion, which is expected to consist of fewer refinancings compared to last year and a long-awaited increase in penetration from purchase originations.

As I mentioned earlier, we now expect the total MI market to be larger this year than last year, given the expected growth in the origination market, combined with the fact that private mortgage insurance is 3 to 4 times more likely to be used for purchase loans than for refinancings.

Turning to the credit trends, Radian's total number of primary delinquent loans declined again, with a year-over-year decrease of 21% as you can see on slide 18, and our primary default rate fell to 3.4%.

A topic of recent interest has been the potential for an FHA pricing change. While public comments made by the FHA haven't suggested any price action, it is possible that one could take place.

What we do know is that the role of the FHA, which is to provide affordable home financing options for underserved Americans, is not reflected in the most recent statistics on FHA volume. According to their last report to Congress in June, nearly 20% of the business the FHA wrote this year consisted of loans for borrowers with FICO scores between 720 and 850. This clearly runs completely counter to the Administration's stated goal to reduce the taxpayer role in and exposure to the housing market and to providing homeownership access to the underserved. If as an industry the private MI market were able to recapture only half of that business, where we now have a pricing advantage, it would increase the overall MI market by more than 10%.

There is also a growing preference among many lenders for conventional versus FHA lending, and borrowers are often attracted to the cancellation options offered by our product. This, combined with the growing number of higher LTV programs focused on private MI that have been introduced by lenders recently, could help increase our industry's penetration of the insured market.

Our mortgage and real estate Services segment reported second-quarter 2016 total revenues of $39 million, which is an increase over last quarter. Overall, the segment saw improvements in most of its business lines, but experienced headwinds from a soft market for single-family rental securitizations, which we believe is improving.

What's most important to remember is that the Services segment adds a diversified source of fee-based revenue for Radian. And the Clayton family of companies broadens our participation in the residential mortgage market value chain with services that complement our MI business and increase the relevance and depth of our customer relationships.

During the second quarter, Clayton was named the first and only rated deal agent by both Morningstar and Fitch. This recognizes Clayton's expertise within the RMBS market and provides some signs of progress in the return of the private-label securitization market where Clayton has historically been an active participant.

In addition, we continue to see progress in our cross-sell initiatives for Radian and Clayton, where we are now having success in adding new MI customers based on Clayton's services and have broadened and deepened our existing MI customer relationships as well.

Finally, turning to the regulatory and legislative environment, while there are no recent updates on the progress of housing reform legislation, there is an increasing focus on the future of the GSEs and we are actively engaged in those discussions. Part of this discussion involves how to reduce taxpayer exposure by allowing private capital to take on more risk, which is referred to as credit risk transfer.

Last month, the FHFA issued a request for information on various credit risk transfer structures. Our industry has received significant support, in particular for our ability to provide deeper cover, which would increase coverage to 50% of a loan's value versus the standard coverage today of approximately one-third. We look forward to hearing more about the input that FHFA receives and to their analysis of next steps.

Separately, 25 financial services and residential real estate trade associations and consumer groups sent a letter to the FHFA in May seeking to lower or eliminate the LLPAs charged by the GSEs. The objective is to expand the opportunity for affordable homeownership, which would also decrease the total cost to the borrower for a loan with private mortgage insurance.

And now I would like to turn the call over to Frank for details of our financial position, after which I'll come back with some comments before we turn to questions.

Frank Hall - *Radian Group Inc. - EVP & CFO*

Thank you, S.A., and good morning. Before I get into the details of the results, let me first draw your attention to our new press release Exhibit D, which is designed to provide further visibility into certain items impacting our premiums earned and other operating expenses. I'll discuss these items in more detail shortly, and we will continue to break out notable items impacting our results each quarter. We hope you find the information useful.

Turning now to the drivers of our revenue, new insurance written was $12.9 billion during the quarter, compared to $8.1 billion last quarter and $11.8 billion in the second quarter of 2015. As S.A. mentioned, the new business we're writing today consists of loans with excellent credit characteristics. For example, more than 60% of NIW in the second quarter consisted of loans with FICO scores greater than or equal to 740, and only 7% with FICO scores below 680.

Our direct single premium business represented 26% of our total NIW in the second quarter, as compared to 29% in the first quarter. Our retained single premium exposure this quarter was 17%, net of the insurance ceded with our singles-only quota-share reinsurance transaction.

Primary insurance in-force increased to $177.7 billion during the quarter. Refinancing decreased slightly to 18% of volume this quarter, compared to 19% last quarter, and was down from 23% a year ago.

Our 12-month persistency increased from 79.4% in the first quarter of 2016 to 79.9% in the second quarter of 2016, as noted on Exhibit N. With respect to how persistency is currently trending, our annualized three-month persistency decreased from 82.3% in the first quarter of 2016 to 78% in the second quarter of 2016, primarily due to an increase in prepayments.

Our long-term normalized persistency expectations of low 80%s remain unchanged; but given the recent refinance activities, we may not see that level return for several periods. That said, we continue to expect our insurance in-force to grow modestly in 2016 due in large part to the strong NIW this year.

Net premiums earned for the quarter increased from $221 million in the first quarter of 2016 to $229.1 million in the second quarter of 2016, primarily as a result of an increase of $5 million due to the accelerated recognition of unearned premiums on single premium policy cancellations and a related increase of approximately $1.8 million profit commission impact under the single premium QSR noted on Exhibit D.

It is also noteworthy to mention that net premiums written for the second quarter were $232 million, compared to $26 million in the first quarter of 2016. The first quarter was significantly impacted by a reduction in premiums written related to ceded premiums written on the single premium QSR in the amount of $198 million.

Our investment income increased 6% in the quarter due to greater deployment of liquidity. Our portfolio yield increased slightly to 2.68% for the second quarter-end from the first quarter-end. Our portfolio duration remained relatively unchanged at approximately five years. These results are consistent with our long-term plan for investment management and take into consideration regulatory guidelines and the current risk appetite of the organization.

Total services revenue for our mortgage and real estate Services segment was approximately $39 million for the quarter, as compared to $32 million in the first quarter and $45 million in the second quarter of last year. As we've mentioned previously and as you can see on slide 21, we expect fluctuations in revenues in this business, as the transactional and seasonal nature of these businesses contributes to greater volatility.

This quarter, we experienced significant increases across several business lines. However, business volumes continue to be impacted more notably by the sluggish single-family rental securitization activity, which is served by Green River Capital and Red Bell, as well as a continued slow nonagency securitization volume.

Moving now to our loss provision and credit quality, the loss ratio was 21.9% this quarter, as compared to 19.6% in the first-quarter 2016 and 13.3% in the second quarter last year. The primary difference in the year-over-year change was due to positive development in prior-year defaults, as noted on slide 16.

We observed improvement in the level of new defaults, which decreased approximately 5% over new defaults in the second quarter of last year and was flat to the first quarter of 2016. Given trends observed during the quarter, our estimated default-to-claim rate on new defaults was approximately 12.5%, consistent with the prior quarter.

As a reminder, we have seen lower historical claim rates on new defaults at around 10%. However, based on the continued experience of our positive trends, we still do not expect more than a total 100 basis point decrease in 2016, inclusive of the 50 basis point reduction we realized in the first quarter.

On slide 16, you will find the presentation we introduced last quarter for the defaults impacting our loss provision. This separates the impact of losses on default notices received in the current year from the impact of reserve development on default notices received in prior years. This presentation aligns with the components of our default roll-forward disclosed on slide 18.

As a result, we hope that this presentation helps you further understand the components and drivers of our provision for losses each quarter. Generally, the impact to the provision from current-quarter defaults is driven by the 9,544 new defaults as disclosed in our roll-forward, multiplied both by our estimated default-to-claim roll rate for new defaults and by our expected average claim paid.

We observed positive development of approximately $6.1 million on current-year defaults from prior quarters as a result of a reduction in observed claim rates on those defaults. You will see this noted on slide 16.

Cumulative incurred loss ratios applied to the original notional value of business written after 2008 remain extremely low and are presented on webcast slide 15. It is also noteworthy to remind you that the majority of our default notices are from our legacy book of business, which now represents only 14% of our portfolio. We see this as further evidence that the credit quality of the recent vintages are very high and are expected to perform very well.

The primary Mortgage Insurance delinquency rate improved to 3.4% in the second quarter, compared to 3.5% in the first quarter of 2016 and 4.3% in the second quarter of 2015. Claims paid for 2016 are still expected to decline significantly from recent years to approximately $400 million.

Now moving on to expenses, our reported other operating expenses for the quarter were $65.7 million, as compared to $59 million in the first quarter of 2016 and $67.7 million in the second quarter of 2015. Exhibit D contains further details regarding key drivers of fluctuations in the period shown.

Of particular note in the quarter was the impact of compensation expense of $7.3 million, related primarily to the accelerated expense associated with annual grants of new equity-settled long-term incentive awards. Employees that are retirement-eligible are considered vested immediately; and consequently, the expense is accelerated.

For comparison, last year's annual grants and the $4 million accelerated expense associated with them were made in the third quarter. Of the total $7.3 million recognized this quarter, approximately $1 million related to the Mortgage Insurance segment.

The expense increase in the second quarter of 2015 of $5.3 million represents the impact of stock price appreciation on the estimated fair value of cash-settled equity-based long-term incentive awards that were valued in large part relative to the price of Radian Group's common stock. As a reminder, based on changes in our long-term incentive programs, this type of adjustment will be insignificant in future quarters.

Ceding commissions on reinsurance transactions in the second quarter of 2015 were $6.3 million, compared to $5.8 million in the first quarter of 2016 and $3.3 million in the second quarter of 2015. We maintain our expectation that the fourth-quarter 2016 operating expenses will fully reflect the successful application of our targeted efficiency initiatives that we have discussed previously.

We will provide you with updates on our progress, as we have made this one of our top priorities for the year. We expect our future revenues to grow at a higher rate than our expenses after these steps are taken, thus providing the positive operating leverage we have targeted.

Throughout 2016, however, there may be some seasonal increase in expenses by quarter, as is the case this quarter. But the goals of the expense reduction initiative remain achievable.

Now moving to taxes, our actual effective tax rate for the second quarter was 37.3%. We currently estimate our annualized effective tax rate for 2016 before discrete items to be approximately 38.4%, above the statutory rate of 35% primarily because a material portion of the losses related to our convertible debt repurchases are non-deductible for tax purposes.

Now moving on to capital. Our capital activities completed this quarter and recently announced are indications of the improved outlook both for our Company and our industry. We have demonstrated both discipline and prudence and will continue to be opportunistic and deliberate in our management of capital.

We have also largely completed the capital plan that we outlined late last year, whereby we sought to improve our capital structure by removing the convertible notes and distributing our debt maturities more evenly. We continue to move forward on our path to returning to investment grade at the Holding Company.

On June 30, our Operating Company, Radian Guaranty, redeemed its surplus note with Radian Group in full, transferring $325 million in cash and securities that is now available liquidity at the Holding Company, bringing the total available liquidity at the Parent Company to $718 million. Radian Guaranty maintains a PMIERs available asset cushion of approximately $184 million, consistent with our expectations and guidance of approximately 5% to 8% of required assets at the Operating Company. Keep in mind that in addition to the cushion at the Operating Company, there is also accessible capital at the Parent Company that represents another 10% of required assets even after our expected future capital actions.

Following the redemption of the surplus note, Radian Group recently announced its plan to execute a new $125 million common equity share repurchase program, which we plan to initiate as soon as practicable. We have also notified holders of our 2017 senior unsecured notes that we will redeem those securities early, in accordance with the note terms.

The combination of these plans will result in approximately $340 million use of Holding Company liquidity. After this use, we expect available Holding Company liquidity to be approximately $380 million, a level that we believe is appropriate and consistent with the goals of our capital plan.

Additionally, these capital actions are expected to reduce our debt-to-capital ratio to below 30%, a key target threshold of our capital plan. Our plans for future capital actions will be in the context of positioning the Company for future growth, while being mindful of rating agency upgrades and shareholder preferences. We expect further significant improvement in our capital and liquidity position over time given the health of our Mortgage Insurance business, and we will keep investors well informed of our plans.

I will now turn the call back over to S.A.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Thank you, Frank. Before we open the call to your questions, let me take a moment to address the recent announcement of my planned retirement next year. I joined Radian in May 2005 and have now spent more than 11 years at Radian that have been the most demanding as well as rewarding of my professional career. I chose this time to announce my intention to retire because I feel the Company is better positioned today to drive long-term value than ever before.

All those who know me will attest that I have been the Company's most enthusiastic and unflappable cheerleader, even during some of the most challenging of times. During those difficult times, I've been fortunate to be surrounded and supported by an outstanding team throughout Radian, to have received encouragement from an energetic and engaged Board, and to have enjoyed the loyalty of customers who kept their faith and made it possible for Radian not only to survive but to thrive.

I look forward to my remaining tenure with the same enthusiasm I had when I joined in 2005, and I remain fully focused on our future. I'm committed to ensuring that we continue to build on our positive momentum, and to work with the Board and my successor in ensuring a smooth transition. The thoughtful process that our Board is applying to appointing our Company's next CEO will help us find the strongest leader for what I believe are Radian's best years that lie ahead.

And now, operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Patrick Kealey, FBR.

Patrick Kealey - *FBR & Co. - Analyst*

Good morning, everyone. Thanks for taking my question. I guess starting off with your remarks on the letter to the FHFA regarding LLPAs, maybe if you could give us your thoughts on what the next steps there would be, and to the extent you have a view, what a reasonable time frame for any adjustments could be in that process.

Teresa Bryce Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

This is Teresa. At this point there continues to be dialogue with the FHFA and the GSEs about their pricing. I don't know what the timing will be for any change, or whether they will make a change. But there is certainly a lot more focus on this in that, given within the industry view the pricing is higher than it needs to be for the risk that they are taking on, particularly when you consider that the LLPAs were really put in place during the crisis with respect to what was going on at that time.

So, some work is being done, analysis is being done. But the timing of any change or whether it will happen I just can't predict.

Patrick Kealey - *FBR & Co. - Analyst*

Okay, great. Then I guess maybe turning to competition within the industry. Post- the pricing adjustments we saw earlier this year, maybe can you comment on how you see things playing out right now?

And then as we look further out, there's been talk of consolidation within the industry. Can you maybe touch on how you feel, with seven players in the industry? Is that the right number? And how you think that plays out here as we go forward.

Teresa Bryce Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I'll take the first part in terms of how we're seeing the competition. One of the things we talked about was that as we started to see pricing competition moderate -- there is still pricing competition, but as we saw it moderate we thought that gave us a lot of benefit, because we could see our work around ease of business, our focus on customer service, our focus on training and relationships with our customers would help us do well.

And I think you saw that in the NIW that we wrote in the second quarter. So we're very pleased with that.

We're going to continue to compete every day for every piece of NIW. And I'll leave it to S.A. to talk a little bit about the consolidation in the industry, if that might happen.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Thanks, Teresa. I'd like to reiterate first Teresa's point that, while there are seven players in the industry right now -- and by the way, that was similar to when I joined Radian -- we, as we have demonstrated in the second quarter, in the stable environment we saw in the second quarter, have the ability to compete successfully and differentiate ourselves.

That said, of course we would welcome consolidation in the industry, because fewer players would mean that there is a greater opportunity for us to write business. And we are encouraged that there are some early signs, with one of the players having announced the intention to either IPO or perhaps maybe that will lead to a sale of the business.

My view of consolidation is the way consolidation economics work in this industry, obviously fewer competitors mean more share per competitor. But also there are some dynamics in terms of market share implications, franchise implications, and, most importantly, the scale benefits that accrue from combining back offices.

Patrick Kealey - *FBR & Co. - Analyst*

Okay, great. Thanks for the time.

Operator

Bose George, KBW.

Bose George - *KBW, Inc. - Analyst*

Good morning. First question, just what was your average premium on the new insurance written here now, just with the new pricing rolled in? Just want to see where premiums are trending.

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, this is Frank. We were in about a 50 basis point range.

Bose George - *KBW, Inc. - Analyst*

Okay, great. Thanks. Then actually switching to insurance in-force growth, in the comments you guys noted that you expect modest growth in insurance in-force. I guess the first half of the year it looks like it was about a little over 1%.

Do you think annualizing that is the run rate that you're thinking in terms of insurance in-force growth?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Bose, what we said is we do expect to see growth. I don't know that I would necessarily annualize the first half, but we do expect to see growth.

Bose George - *KBW, Inc. - Analyst*

Okay, great. And actually there's one more. Just what's the share count we should use going forward?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Let me get that number for you. I want to say it's -- 214 million shares.

Bose George - *KBW, Inc. - Analyst*

Okay, perfect. Thank you.

Frank Hall - *Radian Group Inc. - EVP & CFO*

Let me just clarify, that was for the second quarter.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Hi, thank you. Just as we think about the provision moving forward, where should we see the most improvement? Is it declining new notices, improved claim rates, or just more positive development on the back book?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

This is Derek. I think where you'll see it is continued improvement in new notices. So we've been running -- this quarter it was down 5% year-over-year; first quarter it was down 7%. So you will see it there.

And if we revert back, as Frank mentioned in his comments, the run rate on new defaults (multiple speakers) default-to-claim perspective is about 10% normalized. So if we see a return to that we'd also I think see some positive development there.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. The extra 50 basis points of decline in the claim rate, do you expect to happen at some point in the balance of the year? Is that more of a 3Q event or 4Q event?

Frank Hall - *Radian Group Inc. - EVP & CFO*

This is Frank. Not sure the timing of it, and really that estimate is based on the continuation of the trends that we've seen thus far, continuing at the levels that we've seen thus far. So that being said, we would expect to see that 50 basis point improvement in the back half, but couldn't speak to timing.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. Then just lastly, I guess with the reinsurance environment being relatively strong and you having done some more on the single premiums, what's your appetite to do reinsurance more on the back book? Is there pricing there yet?

Have you thought about doing that, if there is any capital arbitrage, given where the stock price is and potential to free up some cash?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

This is Derek. The way we look at reinsurance, the book we're writing now is obviously very strong returns. So when we look at reinsurance it's really looking at opportunities to manage our overall risk mix in terms of our portfolio.

So the way we look at it is in terms of our overall capital planning. And we will continue to be opportunistic, I think, in terms of executing in the reinsurance market.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. So nothing specific on whether you would consider doing some on the back book right now?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

No, nothing at this point.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Mackenzie Aron, Zelman & Associates.

Mackenzie Aron - *Zelman & Associates - Analyst*

Thanks. Good morning. In terms of this quarter's volume, can you maybe quantify how much of the incremental business came from some of the newer credit union channels that you've called out as being an area of growth?

Teresa Bryce Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Hi, Mackenzie. We don't actually separate it out by what we're getting from each channel. But we did see growth in the credit union space; but we also saw growth with some of our other customers where we gained share or had share -- additional customers even outside of the credit union space.

Mackenzie Aron - *Zelman & Associates - Analyst*

Okay, great. Then also just would be interested in your thoughts around some of these new 97% LTV programs that we've seen announced by some of the largest lenders, just in terms of how meaningful you think those could be for NIW going forward. And also if you think there's interest or ability for some of your smaller customers to also offer similar products.

Teresa Bryce Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

The products have been differing as you look at each one. Some of them are being done under the Freddie Home Possible program. Some of them are being done with state FHAs, and so they do vary amongst the programs.

We have seen an increase in the number of 97%s that we're doing. So we think it's a positive in terms of expanding access to credit.

We've been able to do quite a bit of training for our customers on both the Fannie and Freddie programs. So I think there's an opportunity for certainly some of the smaller customers to participate in those programs as they expand.

You saw that Fannie Mae just recently made some changes to make their program a little bit more accessible. So hopefully that's going to lead to more first-time homebuyers having an opportunity to participate in the market.

Mackenzie Aron - *Zelman & Associates - Analyst*

Great. Thank you.

Operator

Douglas Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Thanks. When you think about the excess PMIERs capital, how do you think that that should change on an organic basis within the MI sub?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Sure, this is Frank. It's a difficult number to estimate, but we do expect to see growth there, and it could range anywhere between $25 million and $50 million a quarter. But there are quite a few variables that go into calculating that number. But that general range is probably safe.

Douglas Harter - *Credit Suisse - Analyst*

I guess, if it happens in that range, would you be able to accelerate or do anything else in terms of capital return or getting capital out of the MI subsidiary now that you've gotten the surplus note?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, that's something that we evaluate when we're doing our overall capital planning. As you've heard us say, our targeted range for a PMIERs cushion is between 5% and 8%, and I think if you extend the math out there a few quarters into the out-years you see that we get well beyond the 8% cushion at some point.

So that's something that we're aware of, and I would tell you that we're cognizant of it and are looking at different ways to manage that within the context of our overall capital structure.

Douglas Harter - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Yes, thanks. It seems like your 10% year-over-year growth in NIW is actually stronger than what we're seeing more broadly in the purchase market, where it looks relatively flat. To what do you attribute that?

Do you think you're gaining share within the MI industry? Gaining share from the FHA with a higher percentage of the 97%s? Or you think you're actually seeing just a higher percentage of purchases coming from high LTV borrowers?

THOMSON REUTERS

Teresa Bryce Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Until everybody reports it's really difficult for us to get our arms around what all of those dynamics are. Certainly we've been very focused on our customers, growing share with them. Some of them have been growing as well.

And we did believe, and I think we've seen that, that as pricing started to moderate in terms of some of the competition, we'd again have the opportunity to leverage many of our strengths in the marketplace. And I think we're seeing that as well.

So it's hard to say which one of those dynamics, or what combination of them, may be driving our NIW growth. But we're certainly happy to see it.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Thanks. On a separate note, we got another announcement this morning from a mortgage REIT that's chosen to get out of its mortgage securitization business because of the challenges there from an economics perspective. So if anything, it seems like the nonagency market is really losing momentum instead of building it.

Have you at all thought about revisiting whether it makes sense to unwind the investment in mortgage services here?

S.A. Ibrahim - *Radian Group Inc. - CEO*

In terms of our investment in mortgage services, if we step back and think about why we made it, the number-one reason was to add relevance and depth to our customer relationships, which we believe has gone as well or better than we had imagined. And the business, very importantly, has many components that continue to perform even in the environment where the private-label securitization has not come back to date.

So we're very happy with that investment. It's an important differentiating factor for us, particularly in a stable market environment. And they have contributed to our success with our customers in that environment.

Our salesforce is very excited about it. And being a unique Company which puts -- we view ourselves as a Company run by mortgage lenders who have the ability of putting ourselves in the shoes of our customers. And I continue to get positive feedback from them on our expanded capabilities.

That said, let me ask Jeff Tennyson, who is the President of our Clayton group businesses to comment on the securitization, single-family securitization environment.

Jeff Tennyson - *Radian Group Inc. - Interim President Clayton Holdings LLC*

Yes, thanks, S.A. We're encouraged by the activity we're seeing in all of our business lines. While a private-label securitization market would enhance those activities, we're continuing to see it grow in various ways.

Regarding the private-label securitizations, as S.A. noted, Clayton was selected by Fitch and Morningstar to be the one and only deal agent in that product and that activity. So we are seeing some progress in its reemergence, and we'll continue to monitor that and be very active in its development.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Remember, interest rates remain down and they go up, so we have to build a business franchise at Radian which can compete and succeed in all interest rate environments. And I believe the combination of businesses we have now position Radian to be stronger in any interest rate environment.

Mark DeVries - *Barclays Capital - Analyst*

Okay, got it. Thank you.

Operator

Jack Micenko, SIG.

Jack Micenko - *SIG - Analyst*

Hey, good morning. Frank, wanted to ask about how you think about the cadence of the buyback. I know last time you did it, you did it all in one quarter.

With the stock and your book value here today, are you thinking a similar approach? Or are you going to spread that out?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, that is something that we'll be evaluating. We will, in all likelihood, utilize a 10b5-1 plan that will set specific price parameters around where the shares are repurchased.

As far as estimating the timing of it, that's probably not a safe thing for me to do. But it would take a similar approach to what we did last time.

Jack Micenko - *SIG - Analyst*

Okay, okay. Then on the expense discussion, is $58 million the right run rate to use? And can you talk about what a reduction would be off that number?

Or maybe, conversely, is there an expense ratio target, maybe for 4Q or 1Q in 2017, that you could help us size the planned efficiencies?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Sure, so what we've said -- I'll touch on a couple of the metrics that you just cited. What we've said about the MI expense ratio, we've said that we would like to have a long-term expense ratio target of 20%. I would tell you right now, relative to the competitors in the industry, we're already very low; so this would be an improvement off of an already low start point.

As it relates to a run rate for quarterly expenses, I would estimate fourth quarter of this year to be about $64 million on a GAAP basis. And that would be inclusive of the expenses that we cited previously as being duplicative, related to our technology spend. So, if you -- and that amount would be approximately $2.5 million to $3 million on a quarterly basis.

Jack Micenko - *SIG - Analyst*

Okay. Then related to that, it looks like the margins in mortgage services has come in over the past year. Weill some of those efficiency initiatives being focused in the mortgage services side as well?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Absolutely. We're focused all across the Company.

Jack Micenko - *SIG - Analyst*

Okay, all right, great. Thank you.

Operator

Vic Agrawal, Wells Fargo.

Vic Agrawal - *Wells Fargo - Analyst*

Thanks. Good morning. I think in your prepared remarks you said that you were expecting the securitization activity for the single-family rentals to pick up. With the single-family rental companies acquiring homes at a slower pace, how do you view that longer-term?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Jeff, do you want to take that?

Jeff Tennyson - *Radian Group Inc. - Interim President Clayton Holdings LLC*

Sure, this is Jeff Tennyson. I think in many ways the market has been somewhat soft from just the pent-up -- from the lack of activity within the securitization market, and people maintaining their acquisitions on their warehouse lines. That activity is appearing to free up some of that activity, and we're seeing more securitization requests and demand from our clients that we are actively -- given the dominating market share position that we have at Clayton regarding that space, we're seeing increased activity in that arena.

Vic Agrawal - *Wells Fargo - Analyst*

Great. And, Frank, I think you mentioned that you're expecting persistency rates to be a little bit lower than the 80% that you mentioned being sort of a baseline. Given that we hit lows in mortgage rates a couple weeks ago, are you expecting a similar type of magnitude on an annualized basis lower for potentially for next couple quarters? (multiple speakers)

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, so it's hard to predict, but I would say just given the recent prepayment activities -- and that does affect the entire portfolio -- I think lower persistency rates for the next quarter or two are probably within the realm of possibility.

Vic Agrawal - *Wells Fargo - Analyst*

I know it's hard to predict, but do you have a sense that you can help us with that?

Frank Hall - *Radian Group Inc. - EVP & CFO*

No, I really don't.

Vic Agrawal - *Wells Fargo - Analyst*

Okay. Thanks for the comments.

Operator

Ron Bobman, Capital Returns.

Ron Bobman - *Capital Returns Management - Analyst*

Hi, thanks a lot. I had a question about the reinsurance environment. Obviously it's heated and a growing level of interest in participating on the various cession opportunities from the PMIs. And it's gotten to the point where some of these reinsurers are actually on a fee-for-service basis underwriting business for other reinsurers and maybe even other capital providers.

I was wondering why Radian is not doing some to that effect or pursuing something to that effect already. Because I think these reinsurers have been doing it for some time.

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, this is Frank. I would say that we are always evaluating opportunities to increase revenues and to leverage the expertise that we have. We generally don't comment on any specific activities, but we're seeing the same things.

And again, it's within the realm of things that we evaluate from time to time.

S.A. Ibrahim - *Radian Group Inc. - CEO*

And as you can see from our history, we have strong relationships with our reinsurers. We have demonstrated our ability to often create unique deals in terms of the reinsurance space, and we remain focused on evaluating not just reinsurance but all opportunities to see if there are ways, creative or normal, to enhance our earnings and our shareholder revenue.

Ron Bobman - *Capital Returns Management - Analyst*

But what are the negatives? Like, what are the negative elements to pursuing it? Do you feel it's going to damage or reinsurance relationships? Are there other frictional items that I don't appreciate? Do you think it's a temporary phenomenon?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, I don't think it's appropriate for us to talk about any specific opinions or thoughts on any specific idea, but understand --

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Ron Bobman - *Capital Returns Management - Analyst*

Why is that? I'm sorry; why is that?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Well, from a competitive standpoint, generally speaking, we don't talk about the specifics of any of the things that we feel could create a competitive advantage for us. So for that reason alone, we generally don't comment.

Ron Bobman - *Capital Returns Management - Analyst*

Thanks for not helping me.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Downing & Partners - Analyst*

Thanks. Good morning. A couple questions. First, Frank, can you get into a little more detail on the development in the incurred loss ratio this quarter? I think you mentioned better cure experience on the 1Q delinquencies. What gave you confidence there?

And then what drove the modest prior-year adverse development? Was that settlement-related or anything like that?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

Yes, this is Derek. In terms of prior-year development, I would consider that noise, nothing material. In terms of the overall trends in the portfolio, continue to be positive.

If you look at, for instance, the increase in the cure rate on year-over-year basis, that continues to improve. So I would just view that simply as noise in terms of prior-year development. You're going to see that move up and down quarter to quarter.

Geoffrey Dunn - *Downing & Partners - Analyst*

How about just the first quarter? I think you commented on better cures.

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

On a year-over-year basis, the cures were up. We saw, I would say, particular improvement in the 12-month bucket in terms of improved cure rates. That's probably the highest level we've seen in a number of years.

Geoffrey Dunn - *Downing & Partners - Analyst*

Again, maybe I'm misunderstanding. So the current year default prior quarter, the minus $6 million in the incurred loss, I thought that was adjusting the provision you made for the first-quarter new notices.

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

Yes, Geoff, so in terms of that, that's really -- what we're looking at there is continued improvement on recent defaults. You're seeing that in really that $6 million number. So that continues I think the trend we've generally been seeing.

Geoffrey Dunn - *Downing & Partners - Analyst*

Okay. So if you are seeing continuing trend there, is that type of development something that leads to an ultimate revision of the incidence assumption (multiple speakers) the remaining 50?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

Yes, eventually that will feed into our assumption in making any changes with respect to that. That's what we would factor in, yes.

Geoffrey Dunn - *Downing & Partners - Analyst*

Okay. Then I wanted to ask about singles pricing. Obvious, capital charges are up year-over-year. Can you quantify how your average singles premium rate this quarter compared to the year ago?

We would hope that pricing would be up, given capital charges are up. But we didn't see that from one competitor. How did your numbers trend?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Yes, generally, Geoff, that's flat.

Geoffrey Dunn - *Downing & Partners - Analyst*

I asked the same thing of Mgic: Why should we be okay with that? Your capital charges are higher, assuming there's not much of a credit mix change; the industry's capital charges are up; but your pricing is unchanged despite your rate card filings. Why is that okay?

Frank Hall - *Radian Group Inc. - EVP & CFO*

A couple of things factor into that, Geoff, and I think we've shared this before. We look at returns on a blended basis and on a customer-by-customer basis. So generally we can't isolate a particular product set and say: We don't want this, we want something else.

So given that we have a mix of business to manage to, one of the things that we did last quarter was the singles-only reinsurance transaction. So we think we're bearing very disciplined and prudent in managing the returns on the overall business, the product mix that we're effectively exposed to, etc.

So, when we look at our blended returns, that's why we're confident saying that we're still generating mid-teen returns for the business that we're writing. So that is the entirety of the analysis that we do.

Geoffrey Dunn - *Downing & Partners - Analyst*

All right. It sounds like maybe this is a relationship-driven thing then. Why write it if it's becoming subpar?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Oh, we absolutely take into consideration relationship.

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

But, Geoff; this is Derek. I guess I wouldn't draw that conclusion with respect to that. You have to look at a couple of things.

One is just the increase in terms of the capital requirements and that shift in mix. So you definitely see that this quarter. In terms of average FICO it's up, so the business is of higher quality.

Generally I think the way the cards have been reconstructed is you see, I would say, more consistent returns across that card. So I don't think you can draw the conclusion that somehow the returns are subpar or suboptimal because of the change. I think there's a lot of moving pieces that go into it.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Geoff, as you know, we have demonstrated very strong discipline in writing business to achieve the desired return on our blended book of business. In fact, we have been willing to give up business which did not meet that as demonstrated by our past.

I tell investors that the measure of a successful risk company is knowing when to press the gas pedal and went to press the brakes. And we have demonstrated both.

But we manage the business to deliver a targeted return to our shareholders, and I'm pretty pleased with what we're achieving in that regard.

Geoffrey Dunn - *Downing & Partners - Analyst*

Okay, thanks.

Operator

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research - Analyst*

Good morning. Thanks for taking my call. Most of my questions have been answered. The one thing is, when do we think the old books will finally burn out? We're now 10 to 11 years away from when they were written.

As an outsider it's hard to get a sense of when they hit the 78% LTV. So do you have an idea of when there might be an acceleration in terminations on those legacy books just given HPA and time?

Derek Brummer - *Radian Group Inc. - EVP, Chief Risk Officer*

I mean it's embedded. We have projections with respect to that, but the run rate you're seeing with respect to that burn off and the shift to the newer book of business is a pretty good run rate, I think, in terms of that shift. So I would look at that. I don't think there's a significant cliff in terms of that.

Chris Gamaitoni - *Autonomous Research - Analyst*

No significant cliff. Okay. That's all I had left. Thank you.

Operator

I would now like to turn the conference back to S.A. Ibrahim for any closing remarks. Please go ahead.

S.A. Ibrahim - *Radian Group Inc. - CEO*

Thank you, operator, and thank you for participating on our call. Once again I'd like to reiterate that our quarter was characterized with strong NIW, stronger earnings in our Services business, and I believe that we are well positioned to continue for the future. So with that, I'd like to thank you all for participating on today's call.

Operator

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