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Radian Group Inc. (RDN)

Q1 2022 Earnings Call

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Nate Reilly

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MANAGEMENT DISCUSSION SECTION

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

I'd now like to hand the conference over to John Damian, Senior Vice President, Investor Relations and Corporate Development.

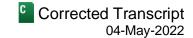
John Damian

Senior Vice President-Investor Relations and Corporate Development, Radian Group Inc.

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

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

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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.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. For discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release and the risk factors included in our 2021 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now, I 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. This morning I'm pleased to report a strong start to the year. Our team remains focused across our three areas of strategic value creation, growing the economic value and the future earnings of our mortgage insurance portfolio, growing our homegenius business and managing our capital resources.

Before we start, I want to highlight that 2022 marks our 45th year in business and our 30th year as a publicly traded company. We are proud of our history of ensuring an affordable, sustainable and equitable home ownership for so many years and are even more excited about the promise of our future. Frank will discuss the details of our financial position shortly, but let me share a few highlights from the quarter.

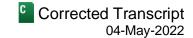
We reported net income of \$181 million or \$1.01 per share. Adjusted diluted net operating income was \$1.17 per diluted share. Return on equity was 17.2%, an increase from 11.8% reported a year ago. Frank will discuss the favorable prior period reserve development, which was largely driven by better than expected cure activity. We grew our book value per share by more than 7% year-over-year or 14% after adjusting for the impact of accumulated other comprehensive income, which Frank will discuss in more detail shortly. We also returned \$116 million in dividends to stockholders over the past year.

In our Mortgage segment, we wrote \$18.7 billion of NIW in the first quarter. We are continuing to see a higher mix of purchase business with a 43% increase on purchase volume year-over-year. And as I mentioned last quarter, we typically deploy more capital in a purchase-driven market and expect the environment in 2022 to continue to provide strong opportunities to put our capital to work at attractive risk adjusted returns. We believe our ability to leverage the strength of our proprietary analytics and RADAR Rates platform, utilizing artificial intelligence and machine learning, has been and continues to be a differentiator for Radian in terms of optimizing economic value across a competitive marketplace.

Our primary insurance in force, which is the main driver of future earnings for our company, grew more than 4% year-over-year to nearly \$249 billion at March 31, 2022. Our monthly premium in force portfolio grew more than 10% year-over-year while our single premium in force portfolio declined 19%.

Additionally, nearly 70% of our mortgage insurance portfolio was comprised of business written since 2020 at historically low interest rates. We are pleased with the positive credit trends that we are seeing in our defaulted loan portfolio. The total number of loans in default declined by 49% year-over-year.

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We've seen a sharp increase in cures over the past year for loans in forbearance programs particularly among the population that has missed 12 payments or more. As we've noted previously, cures have outpaced new defaults each period beginning in the third quarter of 2020. For those borrowers who remain in default, we are actively monitoring and communicating with servicers and supporting efforts by the GSEs to effectively navigate a successful resolution.

For our homegenius segment, total revenues for the quarter were \$33.9 million, a 31% increase compared to the first quarter of 2021. In the first quarter, we saw increased revenue and strong performance from our real estate services, specifically our single-family rental business and our valuation products and services. We saw a decline in volume from our centralized lender refinance title business due to a significant industry-wide decline in mortgage refinance activity from the fourth quarter of 2021.

Although we and other mortgage industry participants expected the decline and refinances to occur, the rise in rates during the first quarter alone was more rapid than expected and industry forecasts now anticipate a more significant slowdown in total refinance activity for the year versus the original 2022 projections. Despite this decrease in overall volume, we remain well-positioned with our current customers to continue growing our share in this market while also attracting new centralized lender customers.

We continue to develop our innovative direct purchase title business, leveraging our award-winning titlegenius technology platform. And although volumes are small, we are encouraged by the traction we are gaining with homebuyers, real estate agents, lenders, and investors.

In terms of our technology products, we are pleased with the customer response to our software-as-a-service solutions for real estate agents, specifically geniusprice, an innovative property intelligence technology platform offered by our Red Bell Real Estate brokerage.

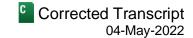
Over the last couple of months, we've signed geniusprice contracts with real estate brokers as well as marketing partnerships with large real estate franchise companies. These relationships provide us with sponsored access to market and deliver our geniusprice SaaS solution to more than 200,000 real estate agents across the country.

Additionally, I am proud to highlight that in March, homegenius was named the 2022 TECH100 Real Estate winner by HousingWire. The award recognizes the most innovative technology companies in our industries, and we were honored to be chosen for our geniusprice technology and our digital purchase title platform, titlegenius, which leverages patent-pending blockchain technology. Frank will provide additional details on our homegenius financial results and an update on our expectations for this business.

Turning now to our capital liquidity. At March 31st, Radian Group maintained a strong capital position with \$1.3 billion of total holding company liquidity. At March 31, Radian Guaranty's Available Assets under PMIERs totaled approximately \$5.1 billion, resulting in a cushion of \$1.6 billion or 44%. Frank will update on our capital actions during the quarter.

Moving now to the broader mortgage and real estate market, we are closely monitoring the impact from inflation and the rising interest rates on the mortgage and housing markets as well as our businesses. Despite current inflationary pressure, rising interest rates and steady home price appreciation, the strong demand for housing continues. This is fueled largely by the constrained supply of homes available for sale and demand from first-time homebuyers who are most likely to use private MI.

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In terms of the overall housing market, we saw positive momentum continuing in the first quarter with purchase originations increasing 11% year-over-year. Based on the latest data from our own Radian Home Price Index, over the first three months of 2022, continued strong housing demand and relatively limited supply in the market led to an annualized 13% increase in home prices across the country. We expect the rate of home price appreciation to moderate this year, and we believe the combination of low unemployment and positive housing market dynamics in terms of low supply and strong demand will support a strong and stable national housing market in 2022.

The increase in mortgage interest rates is expected to drive higher persistency on our existing in force portfolio and in turn contribute to growth in our large, high-quality insurance in force portfolio.

Additionally, the increase in interest rates is likely to result in higher reinvestment yields in our investment portfolio. Based on the most recent origination projections for 2022, we expect the private mortgage insurance market to be approximately \$500 billion to \$525 billion, which would represent the third largest MI volume year in history.

And finally, while we are extremely proud of our success over the years in ensuring the American dream of homeownership, we know we are in a unique position to do even more. That's why we launched an affordable homeownership initiative within Radian to further address access to affordable, sustainable and equitable homeownership with a particular focus on closing the homeownership gap for underserved communities.

Our initiative builds upon our industry and trade association partnerships, our research and analytics capability, our unique expertise across the mortgage and real estate ecosystem and our extensive training and education platforms. We believe we can play an important role in extending the homeownership opportunity to even more deserving families and look forward to reporting on our progress.

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

J. Franklin Hall

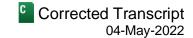
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Thank you, Rick, and good morning, everyone. To recap our financial results issued last evening, we reported GAAP net income of \$181.1 million or \$1.01 per diluted share for the first quarter of 2022 as compared to \$1.07 per diluted share in the fourth quarter of 2021, and \$0.64 per diluted share in the first quarter of 2021. Adjusted diluted net operating income was \$1.17 per share in the first quarter of 2022 compared to \$1.07 in the fourth quarter of 2021, and \$0.68 in the first quarter of 2021.

I'll now turn to the key drivers of our revenue. Our new insurance written was \$18.7 billion during the quarter compared to \$23.7 billion in the fourth quarter of 2021, and \$20.2 billion in the first quarter of 2021. New insurance written for purchase transactions was \$17 billion, an increase of 43% year-over-year. Purchase volume accounted for 91% of our total new insurance written for the first quarter of 2022 compared to 59% in the first quarter of 2021.

Our reported quarterly annualized persistency rate increased to 76.9% this quarter compared to 62.5% a year ago. Rising interest rates in 2022 are expected to result in continued declines in refinance activity, which we would expect to drive further increases in our portfolio persistency and support insurance in force growth. Primary insurance in force increased \$3 billion during the quarter to \$249 billion. Our outlook for 2022 insurance in force growth remains at approximately 10% given the expected higher persistency and strong NIW volume.

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Total net premiums earned were \$254.2 million in the first quarter of 2022, down compared to \$261.4 million in the fourth quarter of 2021, and \$271.9 million in the first quarter of 2021. As noted last quarter, premiums earned in the fourth quarter were elevated by approximately \$5.5 million due to several small items, and the earned premium decrease on a linked quarter basis is primarily driven by these items, as premiums would have otherwise been roughly in line with prior quarter. The decline in net premiums earned year-over-year was due primarily to lower single premium policy cancellations, along with lower monthly premiums.

Webcast slide 11 shows the mortgage insurance in force portfolio premium yields trend over the past five quarters. Our direct in force premium yield was 39.6 basis points this quarter compared to 41 basis points last quarter and 42.7 basis points in the first quarter of 2021. As noted in the prior quarter, the in force yield for the fourth quarter of 2021 would have been approximately 40.1 basis points, absent \$5.5 million of adjustments noted earlier. The decline from this adjusted level of approximately half a basis point is consistent with our expectation for a 2-basis point decline for the full year of 2022.

Investment income increased 2% on a linked quarter basis and was relatively flat to the same quarter prior year. While the rising rate environment is expected to be positive for the reinvestment rate of future cash flows, there was a negative impact on period end market values. As a result, we experienced an increase in unrealized losses on the investment portfolio. These unrealized losses also negatively impacted our book value and GAAP earnings but is not included in our adjusted pre-tax operating income. We do not, however, expect to realize these losses as we have the ability to hold our investments to maturity and the unrealized losses are expected to diminish as securities are expected to trend to par value the closer they get to maturity.

Our ability to hold securities to maturity is another benefit of our strong operating cash flow.

Our homegenius segment revenues were \$33.9 million for the first quarter of 2022 compared to \$44.7 million for the fourth quarter and \$25.8 million in the first quarter of 2021, which is a 31% increase year-over-year. Title premiums of \$9 million in the first quarter of 2022 were up 25% from the first quarter of 2021 but down 23% from the fourth quarter of 2021. Our reported homegenius pre-tax operating loss before allocated corporate operating expenses was \$8.2 million for the first quarter of 2022 compared to income of \$2.7 million for the fourth quarter of 2021 and a loss of \$6.5 million for the first quarter of 2021.

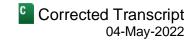
Our reported homegenius adjusted gross profit for the first quarter of 2022 was \$12.1 million compared to \$19.7 million for the fourth quarter of 2021 and \$8.5 million for the first quarter of 2021. A reconciliation of our homegenius non-GAAP measures to the comparable GAAP measures can be found on Exhibit G.

As Rick previously mentioned, the rapid increase in mortgage rates has driven a significant decline in refinance activity, which negatively impacts our Title business. While we anticipated a decline in refinance activity in our long-term homegenius plans, the accelerated timing of this volume decline does create downward pressure on our near-term financial projections.

Accordingly, we are revising our 2022 full-year revenue estimates downward for homegenius to be between \$160 million and \$180 million, but still an increase over our 2021 actual results of \$149 million.

We have also updated our 2022 guidance for adjusted gross profit; now expected to be between \$70 million and \$80 million, and adjusted pre-tax operating income before corporate allocations to be between \$1 million and \$5 million for the full year 2022. Our 2025 estimates, however, are still expected to be within range of our original guidance shared at our Investor Day in June 2021. We remain confident about this business and are making steady progress on our client acquisition and operational milestones.

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Moving now to our loss provision and credit quality, as noted on webcast slide 14, we had a benefit of \$84.2 million in our mortgage provision for losses for the first quarter of 2022 compared to a benefit of \$46.5 million in the fourth quarter of 2021 and a loss of \$45.9 million in the first quarter of 2021. Also, as noted on webcast slide 14, the provision for losses for the first quarter 2022 includes positive reserve development on prior defaults of \$124.9 million. This positive development was primarily driven by more favorable trends in cures than previously estimated, aided by forbearance programs as well as positive trends in home price appreciation, which resulted in a change to the assumptions related to prior period defaults.

We maintained our prior quarter assumptions for new defaults reported in 2022 including the default to claim rate assumption on new defaults at 8% for the first quarter of 2022. We continue to closely monitor the trends in cures and claims for our default inventory including the resolution of COVID-related forbearance programs.

As of March 31, 2022, 95% of new defaults from the second quarter of 2020, the largest COVID-related default quarter, have cured. These favorable trends for defaults reported in 2020 were the primary catalyst for the positive reserve development reported this quarter. For additional context, based on the continued strong cure volume, we reduced the default to claim rate assumption for the large population of defaults first reported in the second quarter of 2020 to an ultimate rate of approximately 4% this quarter compared to 6.5% last quarter, and our original assumption of 8.5% set in the second quarter of 2020.

Now, turning to expenses, other operating expenses were \$89.5 million in the first quarter of 2022, an increase compared to \$80.5 million in the fourth quarter of 2021, and \$70.3 million in the first quarter of 2021. The increase in other operating expenses as compared to the prior quarter and the same quarter prior year is primarily related to an increase in variable incentive compensation expense including share-based compensation. The increase compared to prior year also includes a \$3.7 million decrease in ceding commissions associated with lower single premium acceleration. To aid in the analysis of our operating expenses, we have provided segment level detail on press release Exhibit E.

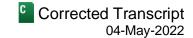
Moving on to taxes, our overall effective tax rate for the first quarter of 2022 was 22.6%. The increase in our effective tax rate over the statutory rate for the first quarter was primarily due to the impact of permanent book to tax adjustments relating to equity compensation and our company-owned life insurance. Our annualized effective tax rate for 2022 before discrete items is expected to be approximately 21.8%.

Now, moving to capital and available liquidity. Radian Guaranty's excess PMIERs Available Assets over minimum required assets was \$1.6 billion as of the end of the first quarter, which represents a 44% PMIERs cushion. As of March 31, 2022, we have reduced Radian Guaranty's PMIERs minimum required asset requirements by \$1.2 billion by distributing risk through both insurance-linked notes reinsurance and other third-party reinsurance arrangements, as noted on press release Exhibit K.

As of March 31, 2022, Radian Guaranty had risk distribution covering approximately 67% of our risk in force. For Radian Group, as of March 31, 2022, we maintained \$1 billion of available liquidity. Our liquidity in the first quarter was enhanced by the \$500 million return of capital from Radian Guaranty to Radian Group approved by the Pennsylvania Insurance Department in February 2022. Total liquidity, which includes the company's five-year \$275 million credit facility, was \$1.3 billion as of March 31, 2022.

During the first quarter of 2022, we repurchased 927,000 shares, and through the end of April 2022, we purchased an additional 1.8 million shares at an average share price of \$23.01 and \$21.89, respectively. We have also continued to pay a dividend to common stockholders throughout the pandemic. During the first quarter of

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2022, we returned approximately \$36 million to shareholders through dividends. As a reminder, we most recently increased our quarterly dividend by 43% during the first quarter of 2022.

Last quarter, I spoke about the mechanics of our statutory capital and the importance of having positive unassigned funds to support ordinary dividend capacity from Radian Guaranty to Radian Group. Given the strong financial performance this quarter and assuming the continuation of the current positive trends in our mortgage insurance business, we expect this transition from negative to positive unassigned funds could now potentially occur as soon as [late] 2023 or early 2024. Given the capital strength at Radian Guaranty and the financial flexibility provided by our available liquidity at Radian Group, we believe that we are well-positioned to support our businesses and deliver value to our shareholders.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Frank. Before we open the call to your questions, I want to highlight that we are pleased with our start for 2022 and remain focused across our three areas of strategic value creation: growing the economic value and the future earnings of our mortgage insurance portfolio, growing our homegenius business, and managing our capital resources. Overall, we believe the macroeconomic conditions and strong home purchase market provides significant tailwinds for long-term growth in the economic value and projected future earnings of our mortgage insurance portfolio.

We are pleased with how the credit performance of our portfolio continues to improve as we emerge from the pandemic environment. In our homegenius business, we remain excited about the future for this business based on the market response to our innovative products and services and look forward to reporting on our progress in the coming quarters. And we continue to strategically manage capital by maintaining strong holding company liquidity and PMIERs cushion, opportunistically repurchasing shares and paying the highest yielding dividend in the industry to stockholders.

Finally, we will continue to leverage the strength of our team and utilize data analytics and technology to differentiate ourselves from the competition and help our customers succeed in this fast-moving digital market.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Mark DeVries with Barclays.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Yeah. Thanks. My first question is probably for Derek. We've obviously had a pretty significant deterioration in housing affordability with the big spike in mortgage rates and high HPA. Could you just discuss kind of what history has taught you, what the implications are for default rates and also for your abilityto grow risk?

Derek V. Brummer

President-Mortgage Business, Radian Group Inc.

Sure. So, as we're kind of looking at it historically, I think we also have to put this in a different context where you've kind of seen this run up in home prices, certainly very different from what you would have seen kind of going into the financial crisis. I think what's driving it here is not kind of, I would say, excess demand that's being driven kind of on the credit side. Credit continues to be very tight. Underwriting continues to be very high quality.

Also, there's a lot of favorable demographic tailwinds as well. So, as a result, the way I'd see it in terms of an adjustment makes it more likely that you're probably going to have a decrease in the acceleration of home price appreciation, and you're starting to see some of that and first expressed in home sale measures, right? So, existing home sales, new home sales, pending home sales are starting to come down a bit. And we actually think that's healthy.

So, in terms of having rates go up, a moderation in the home price appreciation is a positive from our perspective. Having it go up at the rates it's been going up with rates down was continuing, I would say, to create more markets where you'd become concerned that the values were out of line with fundamentals. But kind of seeing this adjustment now, we see that probably kind of moderating out.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

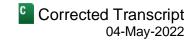
Okay. Got it. And then, next question, could somebody just address the latest trends of what you're seeing in terms of pricing across the industry?

Derek V. Brummer

President-Mortgage Business, Radian Group Inc.

Sure. I'll take that as well. Competitive environment and pricing environment, I would characterize as pretty stable and normal. I think what we're seeing now is different companies picking their spots and adjusting pricing. Our focus continues to be identifying and deploying capital in the highest value segments of the market. So, we're constantly adjusting pricing up and down based upon credit characteristics that we see relative value, same thing with respect to geos. We – also this quarter, our pricing was probably overall flat. We did implement kind of a moderate price increase in that 3% range. I think we've seen our estimate of clearing rates, kind of, from competitors, we probably saw that go down moderately, so, maybe about 2% to 3% range. And I think some of that translated, we probably gave up a bit of market share, which we'd expect in that environment where, again, we're not going to be a price leader going down and we look at this as an opportunity to potentially increase rates a little bit.

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Mark C. DeVries

Analyst, Barclays Capital, Inc.

Got it. And would you expect rates to be biased more higher than lower, just given some of the increasing macro uncertainty and risk around recession?

Derek V. Brummer

President-Mortgage Business, Radian Group Inc.

Well, all I can do is kind of say from our perspective, we certainly took that into account and that was expressed in an increase in rates this quarter.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Okay. Great. Thank you.

Operator: Our next question comes from Doug Harter with Credit Suisse.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Thanks. I'm hoping you could just talk about the impact of lower refinance activity and how that plays out in terms of the premium yields you expect and just kind of when we might see the bottom in that?

J. Franklin Hall

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

Yeah. This is Frank. The guidance that we gave on portfolio yields last quarter, which was about a 2 basis point decrease throughout the year, we still expect to hold. So – and that's updated for our current expectations around what the mix of NIW looks like on a go-forward basis. So, last quarter, we had an adjusted 40.1 basis point of portfolio yield and that was at 39.6 basis points this quarter, and we expect to see again that trend down to probably 38 basis points by the fourth quarter. But again, mindful of and inclusive of the mix of business that we would see.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

And then, lastly, obviously, rates having risen a fair amount, how does that play out in kind of the – your investment yield and kind of how do you expect that to trend over the course of the year?

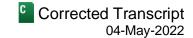
J. Franklin Hall

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

Sure. I mean, certainly, rising rates are helpful for persistency. So, we saw a good uptick in persistency this quarter – quarterly, annualized in 76.9%. We think that could certainly trend into the low to mid-80s if these trends continue, so, definitely positive in that regard. Persistency is a very powerful driver of revenue and earnings for the organization. So that's very good.

Investment portfolio, earnings as well, we expect to see the yield on the investment portfolio increase. We have just over a four-year duration on the portfolio and there's a tremendous amount of cash flow that we're reinvesting each and every year. So, that will be invested at higher rates. So, very, very positive on both of those attributes.

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And I think the important thing to remember, too, for both of those is that's incremental revenue to the business without incremental cost, and that's, again, very powerful driver for earnings for the company.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Operator: Our next question comes from Bose George with KBW.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Hey, guys. Good morning. So just wanted to go back to your guidance on the homegenius operating income. What's the level of corporate allocation of OpEx that we should think about for the year, just wondering if that changes as well with the lower revenue guidance?

J. Franklin Hall

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

Sure, Bose. The – if you look at Exhibit E in the prepared materials, we've outlined what the corporate allocation is for homegenius. And it's – it trended around \$5 million or so each quarter that may moderate, or excuse me, may fluctuate period to period just based on things like what we saw this quarter with compensation accruals, things of that nature. But, generally, that's the level where we're staying.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Great. Thanks. And then, actually just going back to the pricing, just like spreads have widened on the ILNs that we've – we're seeing in the market. Rates obviously have increased, which is pushing up the effect of pricing on that. I mean, do you think that will translate into some impact on pricing, potentially push pricing a little higher?

Derek V. Brummer

President-Mortgage Business, Radian Group Inc.

It's difficult to say. Like I said, we kind of expressed our view in terms of making a pricing adjustment. The other thing to keep in mind, we'd never take into account in terms of our pricing and our return calculation risk distribution. That is obviously an outlet to decrease tail risk to efficiently utilize our capital and to – it does provide enhancement to returns. We just don't bake that in. But it's a little difficult to tell where things will go from a competitive environment perspective.

I think the other thing to keep in mind, if you just look at the fundamentals, while there is some increased recession risk if you look at the fundamentals in the housing market, again, I think that there's solid equity cushion. We still expect home price appreciation. The employment market, the labor market remains extremely strong. So, what our competitors and how they factor that all in and whether that's a price increase or decrease, I mean, time will tell.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Great. Thanks.



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

Nate Reilly

Analyst, Bank of America

Hi. This is Nathanial on for Mihir. Just coming back to homegenius quickly. Your long-term targets I feel like you had a target of 14% margin in the long term. Does that still stand with this high rate environment?

J. Franklin Hall

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

Yeah. I'm sorry. Could you repeat that? I didn't hear the first part of your question.

Nate Reilly

Analyst, Bank of America

Sorry. So, on homegenius, I think you said your long-term targets that you're trying to get to a 14% operating margin. Does that still stand in this higher rate environment?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Yeah, absolutely. I mean, the long term, I'll call it the economics of the business at scale, are unchanged. And what we had contemplated, as I said in my prepared remarks, was that refinance activity we expected to slow anyway. It just occurred, it occurred faster than we had originally anticipated in 2022. So, yeah, the economics at scale, margins at scale, all of those still hold. And we remain confident in our 2025 estimates.

Nate Reilly

Analyst, Bank of America

Awesome. Okay. And then, just curious, like the higher interest rate environment, I mean, obviously, there's mixed reduction on the refi side. But curious, if you saw any demand change for purchase volumes in April? Can you speak to that?

Derek V. Brummer

President-Mortgage Business, Radian Group Inc.

I mean, I – we follow the rates. I mean, we've seen purchase volume increase as a percentage of production, and we've seen that increase in April as well. So, that's really following the rates, much more of a purchase market, which is positive looking in NIW having that shift, it's a good environment for us; insofar as that increased persistency, we have a growing and we expect a continuing growing purchase market. And that's really feeding into just an increase in the size of our insurance in force. And so, we expect to see that. And I think as Frank had mentioned, up to 10% in 2022. And we see the demographic tailwinds as being very strong over the next several years. So – and that's really what's embedding our future earnings. And so, we continue to see that as a real positive.

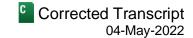
Nate Reilly

Analyst, Bank of America

Got it. Thanks for taking my questions.

Operator: [Operator Instructions] Our next question comes from Ryan Gilbert with BTIG.

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Ryan Gilbert

Analyst, BTIG LLC

Hi. Thanks. Good morning, guys. The first question is on the purchase NIW up by, I think, 40-plus percent year-over-year, a pretty sharp increase. Anything in particular you want to call out there, or is it just the – within the normal range of the fluctuations for the quarter?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

I think – hi, Ryan, this is Rick. I think nothing new to call out. I think it's really just a function of the overall market environment. I think we're – this is evolving to a much stronger purchase-driven market where mortgage insurance is really literally 12 times more likely to be used for a purchase transaction than a refinance transaction. So, I think, that's – if I understood your question, I think that's what we're seeing. Nothing other than that.

Ryan Gilbert

Analyst, BTIG LLC

Okay. Got it. Yeah. That's what I was asking. The second question is on capital return. The share repurchase volume was a bit lower than I expected in 1Q 2022. Is there – although it's – obviously, has picked back up in April. Any changes to how you're thinking about share repurchases here? I mean, the stock is trading well below book value at this point.

J. Franklin Hall

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

Sure, Ryan, this is Frank. Yeah, I think you'll see historically we've always had a very disciplined value-oriented approach to our share repurchase. And if you recall, we have a \$400 million authorization that expires in two years from the time of issuance. So, we're comfortable with the amount of share repurchase activity that we've had. We'll continue to be value oriented in that regard. And I think it's a very important part of our overall capital management by returning capital to shareholders certainly at these value levels. And we continue to pay our dividend, which increased last quarter by 43%. So, I think, net-net, our return of capital to shareholders is very strong over time and continues to be so.

Ryan Gilbert

Analyst, BTIG LLC

Okay. Great. Thanks very much.

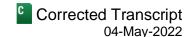
Operator: I'm showing no further questions in queue at this time. I'd like to turn the call back to Rick Thornberry for closing remarks.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you. I just want to thank everybody for their questions and participating in the call today. And as always, thank our team for the great work that they're doing on behalf of our customers and our shareholders. So, I wish all of you all a wonderful Wednesday, and we look forward to seeing you soon, and take care. Thank you again for your interest in Radian.

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



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