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Radian Group Inc. (RDN)

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CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

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

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Eric Hagen
Analyst, BTIG LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the First Quarter 2023 Radian Group Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

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

John Damian

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

Thank you and welcome to Radian's first quarter, 2023 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 may be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, and adjusted net operating return on equity. In addition, specifically for our homegenius segment, other non-GAAP measures in our press release that may be discussed today include adjusted gross profit and adjusted pre-tax operating income or loss before allocated corporate operating expenses.

A complete description of all of our non-GAAP measures may be found in press release Exhibit F and reconciliations of these measures to the most comparable GAAP measures may be found in press release Exhibit G. These exhibits are on the Investors section of our website. Today, you will hear from Rick Thornberry, Radian's Chief Executive Officer and Rob Quigley, Controller and Chief Accounting Officer. Also on hand for the Q&A portion of the call is Derek Brummer, President of Radian Mortgage.

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Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections, and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially.

For 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 2022 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

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

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Good afternoon and thank you all for joining us today. Today, I'm pleased to report another solid quarter for Radian. GAAP revenues grew by 6% year-over-year to $311 million. Book value per share increased 10% year-over-year to $26.23. We generated net income of $158 million and our return on equity was 15.7% in the first quarter. Our overall liquidity and capital positions remained very strong, which I'll cover in a few minutes.

Our primary mortgage insurance in force, which is the main driver of future earnings for our company, grew 5% year-over-year to $261.5 billion, including 8% year-over-year growth at our more profitable monthly premium insurance in force. Our persistency rate, which represents the percentage of mortgage insurance in force that remains on our books over a period of time, increased to 84% on a quarterly annualized basis, compared to 77% a year ago. Given the current interest rate environment and the comparatively low mortgage rates across our portfolio, we expect our persistency rate to remain strong, which we believe is positive for the future insurance in force growth.

We continue to see positive credit performance in our mortgage insurance portfolio during the quarter, with our cure rate reaching the second highest level in 15 years. And although we generally expect new notices of defaults to increase in the future as the portfolio naturally seasons and the economic environment potentially becomes a bit more challenging for certain borrowers, in the first quarter, cures outpaced new defaults by 10% and our new default counts are in line with pre-pandemic levels.

It is worth noting that the increase in interest rates has also resulted in higher yields across our $6 billion investment portfolio. The higher yield support higher returns on our mortgage insurance business and generate incremental income that flows directly to our bottom line. Despite continued headwinds in the mortgage and real estate markets and continuing macro-economic uncertainty, our overall performance in the first quarter reflects the resilience of our business model, the strength of our insured portfolio, the depth of our customer relationships, and the commitment of our team.

Let me share a few thoughts on the mortgage and housing markets and how we are executing on our strategic priorities. In terms of the mortgage market for 2023, recent industry mortgage origination forecasts call for a bottoming out of the origination market, with a decline of approximately 26% from – compared to last year, followed by a return to growth in 2024.

Based on a total mortgage origination market of $1.7 trillion, we expect the private mortgage insurance market in 2023 to be approximately $300 billion to $325 billion. Despite a smaller overall market, origination volume is projected to be driven primarily by purchase loans, which are estimated to reach $1.4 trillion. This would represent the largest purchase market in the past 16 years, excluding the pandemic years of 2020 through 2022. We view

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these collective factors as a positive sign of a strong and more stable mortgage market for the mortgage insurance industry and specifically for our business.

In terms of the housing market, we saw home prices coming off their record highs last year, largely driven by higher mortgage rates, but more recently, we've seen home prices begin to stabilize and rebound according to industry data. This was largely driven by the imbalance of housing supply and demand. And while the inventory challenges and strong market demand continue to create challenges for first time homebuyers, these dynamics help to mitigate downside risk in terms of home values, which is positive for our insured portfolio.

And we believe the resulting pent-up demand provides strong support for continuing purchase market growth in 2024 and beyond. As such, our overall outlook for the housing market remains generally positive over the near and long-term.

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. In terms of growing the economic value of our mortgage insurance portfolio, we wrote $11.3 billion of high-quality mortgage insurance business in the first quarter of 2023, which, combined with the strong portfolio persistency, contributed to the growth of our large and valuable insurance in-force portfolio.

We continue to leverage our proprietary analytics and RADAR Rates platform, focused on driving economic value while calibrating our dynamic risk-based pricing to address the risk and opportunities that we see in the current market. We increased our prices in 2022 and continue to increase pricing in 2023 and we've seen evidence of the same among our mortgage insurance peers while maintaining an attractive share of the market. We expect to see continued opportunity to put our capital to work at attractive risk adjusted returns.

From a mortgage insurance portfolio perspective, as I mentioned earlier, we expect the persistency rate to remain strong based on the higher interest rate environment and greater concentration of the purchase versus refinance loans. From a quality perspective, our mortgage insurance portfolio has been well underwritten and has a strong overall credit profile and the quality of the mortgage industry's loan manufacturing and servicing processes remain strong, including exhaustive efforts to support borrowers experiencing hardship.

One recent example is that GSE's new enhancement to their payment deferral policies that was announced in March. The policy is similar to the solution offered during the pandemic to borrowers with COVID-19 hardships and based on their success the GSEs are now making this a part of their standard loss mitigation efforts.

This heightened focus on home retention on top of already strong underwriting and servicing is another example of how the mortgage industry has been transformed to the benefit of all participants, including, private mortgage insurers. With regard to our homegenius business, during 2022 and continuing into 2023, we experienced a decline in homegenius revenues due to the rapid decrease in industry-wide mortgage and real estate transaction volume.

We are managing the homegenius business through this challenging environment by continuing to focus on disciplined cost management. In addition, our team is focused on our strategic investments in data and analytics and technology, including the application of artificial intelligence and computer vision across our innovative real estate platforms.

The team is also focused on growing revenue by building awareness of our suite of digital real estate products and services, including several new and recently launched offerings, including our highly innovative homegenius

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IQ technology, which combines artificial intelligence and computer vision to power many of our products. Our homegenius digital toolkit, a customizable Platform-as-a-Service for lenders and other companies to provide their customers with a unique home buying, selling, and ownership experience and a refreshed homegenius.com website that delivers a highly personalized search to close experience for homebuyers.

Although I'm proud of how our homegenius team continues to serve our customers and navigate the challenging market environment, we know that we still have work to do as the current business results are not where we want to be. Our issue today is primarily revenue growth, which is largely driven by two challenges. First, the decline in real estate and mortgage volumes across the market. And second, adoption curves and customer sales cycles, given the macroeconomic backdrop. We are sharply focused on managing our cost structure, investing strategically, and growing our customer base in order to place homegenius on a path to profitability.

And in terms of our available liquidity and managing our capital resources, total holding company liquidity increased to $1.2 billion, including the benefit from a $100 million ordinary dividend paid by Radian Guaranty. This was the first ordinary dividend paid by Radian Guaranty, the Radian Group since the beginning of the great financial crisis 15 years ago. And we expect Radian Guaranty to pay between approximately $200 million to $300 million of additional ordinary dividends during the remainder of 2023 based on current performance expectations and consistent with our prior guidance.

Beyond 2023, future dividends from Radian Guaranty are expected to approximate Radian Guaranty's statutory income. Radian Guaranty maintains a strong PMIERs position with excess available assets of $1.7 billion or 44% over its minimum required assets. And we continue to execute on our aggregate, manage and distribute mortgage insurance business model, focused on lowering the risk profile, tail risk, and the through the cycle volatility of the business by utilizing risk distribution structures optimized between the capital and reinsurance markets based on availability and strength of execution.

I also want to highlight the strength of our liquidity position given recent depository-related market events. It is important to recognize that beyond our ongoing operating expense, dividends and debt service requirements, our primary liquidity needs relate to mortgage insurance claims management.

Given the normal course of mortgage defaults and the structure of our mortgage insurance policies, our default to claim cycle typically ranges between 2 to 4 years. Over the course of this claims paying cycle in addition to our current $6 billion investment portfolio, we also continue to generate significant cash flows from premiums and investment portfolio earnings, which provides significant liquidity and a strong source of claims paying resources through the claim cycle.

As a result, as compared to deposit-based financial institutions, our business is not subject to similar accelerated liquidity demands in the ordinary course and we have good visibility into the potential future cash outflows to allow for effective liquidity management. We believe the strength of our liquidity and capital position significantly enhances our financial flexibility now and going forward.

As you've heard me say before, our company is built to withstand economic cycles, significantly strengthened by the PMIERs capital framework, dynamic risk-based pricing, and the distribution of risk into the capital and reinsurance markets.

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

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Robert J. Quigley

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

Thank you, Rick, and good afternoon, everyone. I appreciate the opportunity to share additional details about our first quarter results, which reflect another strong quarter of operating performance, highlighted by the quality and resiliency of our mortgage insurance in-force portfolio, as well as, by the strength and flexibility of our investment, capital, and liquidity positions.

As reported last night, in the first quarter of 2023, we earned GAAP net income of $158 million or $0.98 per diluted share compared to $1.01 per diluted share in the first quarter a year ago. Adjusted diluted net operating income per share for the first quarter of 2023 was also $0.98 compared to $1.17 per diluted share in the first quarter of 2022, as reflected in the detailed reconciliations provided in our press release. Those earnings helped produce a 15.7% return on equity for the first quarter of 2023 and grow our book value per share 10% year-over-year to $26.23 as of March 31, 2023.

Turning to more detail behind these results, I will first address our revenue and related drivers. Despite the challenging macroeconomic environment, we generated $311 million in total GAAP revenues during the first quarter of 2023, compared to $293 million in the first quarter of 2022.

Our net premiums earned continue to be the most significant contributor to those totals. As detailed on Exhibit D in our press release, we've reported net premiums earned of $233 million in the first quarter of 2023, in line with the fourth quarter of 2022 and down from $254 million earned in the first quarter of 2022.

The change from prior year, primarily reflects an increase in ceded premiums under our reinsurance programs, including as a result of the quota-share reinsurance agreement that went into effect mid last year as part of our continued strategic use of risk distribution programs to mitigate risk and optimize our capital position.

In addition, our premiums earned in the first quarter of 2023 were impacted by fewer single premium policy cancellations in our mortgage insurance portfolio, as well as, lower title insurance volume, both due primarily to the significant reduction in mortgage refinance activity during the past year. The two most significant and consistent drivers of our net premiums earned remain the size and average premium yield of our large in-force mortgage insurance portfolio.

Our primary insurance in force grew 5% year-over-year to $261.5 billion as of March 31, 2023, including 8% year-over-year growth in monthly premium in force, which currently represents 86% of our total primary insured portfolio and is expected to be the most significant driver of our future revenues. Contributing to this growth was $11.3 billion of new insurance written for the first quarter of 2023, compared to $18.7 billion in the first quarter of 2022.

The year-over-year decline in new insurance written, reflects the reduction in the overall mortgage origination market. While the industry-wide decrease in purchase and refinance originations has had a negative impact on our new insurance written, it has significantly benefited our persistency rate, which increased to 84% on a quarterly annualized basis in the first quarter compared to 77% a year ago. Given the sharp rise in mortgage rates last year, following an extended period of very low rates, we expect our persistency rate to remain strong.

In particular, since 82% of our insurance in force had a mortgage rate of 5% or less as of the end of the first quarter and is therefore less likely to cancel in the near-term due to refinancing. Given the shift in mix of our insured portfolio in recent years, toward our monthly premium products, we believe this increase in persistency is

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an especially positive indicator for our future insurance in force growth, premiums earned, and recurring cash flows.

As shown on webcast slide 13 and consistent with our guidance provided last quarter, the in force portfolio premium yield for our mortgage insurance portfolio stabilized in the first quarter of 2023 at approximately 38.5 basis points, a modest increase from the level reported for the fourth quarter of 2022.

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

In addition to the positive impact on persistency rates, another benefit from the higher interest rate environment has been a significant increase in our investment income to $59 million in the first quarter of 2023, 55% higher than the $38 million reported in the first quarter a year ago, reflecting the size and strength of our investment portfolio.

As shown on webcast slide 9, our total investment portfolio of $6 billion consists of well-diversified, highly rated securities, with 97% of our fixed income and short-term investments rated investment grade.

The book yield on our investment portfolio increased during the first quarter from 3.5% to 3.8% at quarter-end. And the higher rate environment should continue to be positive for the reinvestment of future cash flows. At quarter-end, the duration of our investment portfolio was approximately 4.5 years, and we believe that our current assets and other claims paying resources are appropriately structured to address the expected timing of our liabilities.

As previously reported, rising interest rates had a negative effect on the fair value of our investment portfolio during 2022, resulting in unrealized losses, primarily recorded directly to our stockholders' equity. However, these unrealized losses partially reversed during the first quarter of 2023 by $70 million net of tax, with the unrealized loss reported in accumulated other comprehensive income declining from $457 million at year-end to $387 million as of the end of the first quarter.

Unless we identify specific risks or opportunities in the future that result in the need to rebalance our portfolio, we do not expect to realize these losses, given our ability to hold these securities until recovery due to the significant positive operating cash flows that we continue to generate each quarter and the other liquidity considerations that Rick discussed.

Our homegenius segment revenues totaled $13 million for the first quarter of 2023 compared to $34 million for the first quarter of 2022 and continue to be negatively impacted by the higher rate environment and industry-wide decline in mortgage and real estate transaction, as Rick noted.

Moving to our provision for losses, the positive trends that we have been experiencing have continued into 2023. As noted on webcast, slide 16 and consistent with the direction in recent quarters, we had a net benefit of $17 million in our mortgage provision for losses in the first quarter of 2023, compared to a net benefit of $84 million in the first quarter of 2022.

These positive benefits have been due primarily to defaults curing at rates greater than our previous expectations, in part, due to the impact of forbearance programs and the strong home price appreciation experienced in recent

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years. While still significant, the magnitude of that benefit has been declining in recent quarters as our remaining default inventory and mortgage insurance reserve balances have returned to pre-pandemic levels.

For the first quarter of 2023, the net benefit to our mortgage provision was the result of $67 million of benefit from reserve development on prior period defaults. As we again lowered our claim assumptions for certain prior periods due to favorable cure trends, partially offset by $50 million of loss provision for new defaults reported during the quarter.

Among other items, our provision for new default is determined largely by two key factors. First, the number of new defaults reported to us by servicers, which as noted on webcast, slide 17, declined slightly in the first quarter of 2023 to approximately 10,600. And second, our estimate of the frequency at which those defaults will become a paid claim. Consistent with recent quarters, we maintained this default to claim rate frequency assumption for new defaults this quarter at 8%. As we continue to balance the recent favorable cure trends and the benefit from embedded equity in our insured portfolio with the risks and uncertainties associated with the current economic environment.

Turning to our other expenses. For the first quarter of 2023, our other operating expenses totaled $83 million, a decrease compared to $90 million in the first quarter of 2022. The actions we took during 2022 and in particular the fourth quarter of last year to reduce our expenses in response to challenging market conditions, help to reduce the run rate of our expenses as expected. Based on our expense savings actions to-date and consistent with our previous guidance, we continued to anticipate our 2023 full-year consolidated other operating expenses to be approximately $330 million to $340 million, while we expect 2023 full-year cost of services to be approximately $50 million to $60 million.

On a combined basis, these amounts represent a reduction in total expenses on a year-over-year basis of $60 million to $80 million or 13% to 17%. These expenses can fluctuate due to changes in items such as volume-related costs and variable incentive compensation. And we do expect expenses to be elevated in the second quarter of 2023 due to the timing of certain employee compensation and benefits, including our annual share-based incentive grants.

Moving finally to our capital and available liquidity. As Rick highlighted following the series of capital actions completed at year end 2022, we are pleased to report that Radian Guaranty was able to pay an ordinary dividend of $100 million to Radian Group during the first quarter, its first since the start of the financial crisis in 2007.

As Rick further noted, Radian Guaranty expects to pay between approximately $200 million to $300 million of additional ordinary dividends to Radian Group during the remainder of 2023 based on current performance expectations and consistent with our prior guidance. After payment of the dividend, Radian Guaranty's excess PMIERs available assets over minimum required assets totaled $1.7 billion at quarter-end, which represents a 44% PMIERs cushion generally consistent with year-end levels.

Our available holding company liquidity increased during the first quarter from $903 million to $956 million. This increase was primarily result of the ordinary dividend from Radian Guaranty to the holding company, net of the payment of our quarterly dividend to Radian Group stockholders, which we increased by 12.5% in this most recent quarter to $0.225 per share and activities during the quarter under our current value-based share repurchase program, which resulted in the purchase of 716,000 shares at a total cost of $15 million.

Following an additional $5 million of share purchases in April, $280 million remains available under our current share repurchase authorization, which expires in January 2025. To recap, our results for this quarter, highlight not

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only the consistent earnings and cash flow power generated from our in-force mortgage insurance portfolio and the financial strength and flexibility at both our holding company and Radian Guaranty, but also the value we continued to deliver to our customers, policyholders and stockholders even in a challenging macroeconomic environment.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Rob. Before we open the call to your questions, I want to highlight that we are pleased with our results and remain focused on executing our strategic plans. We are driving operational excellence across our businesses and aligning our overall expense structure and resources to reflect the market environment.

Our $261.5 billion mortgage insurance portfolio is highly valuable and is expected to deliver significant earnings going forward. We continue to strategically manage capital by maintaining strong holding company liquidity and PMIERs cushion, while expecting to continue to pay ordinary dividends from Radian Guaranty to Radian Group opportunistically repurchasing shares and paying the highest yielding dividend in the industry to stockholders.

And importantly, we believe we are well positioned to navigate a modest recession which many economists are predicting for later this year. I want to thank our team for helping to drive our strong results and for the outstanding work they do every day.

And finally, I'd like to invite you to join us for our next Investor Day, which will be held on Tuesday, June 20 at the New York Stock Exchange. We look forward to providing details on our business strategy priorities, key business and product initiatives, and financial metrics.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Bose George with KBW.

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

Good afternoon. Just wanted to follow-up on the expense guidance you guys gave. Actually, what's the expectation from expenses just within the title segment for 2023?

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

Hi, Bose. This is Rick. We actually don't – I don't think we provide that guidance on that level of detail. I will say this from a homegenius perspective, we have been materially adjusting our expenses over the course of the last few quarters. And I think you see that starting to be reflected as we come into the first quarter of this year from an overall homegenius expense. And I think, we're continuing to moderate kind of our expense structure in the title business, specifically, to the volume we see today and kind of our expectations in the near-term. But I think as it relates to specific dollars, I would just kind of refer you back to Rob's guidance on the overall expense guidance that we gave.

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

Okay. Thanks. Actually then, switching over to investment income, just in terms of optics, looks like so the investment income in the title segment went down and then the other segment seemed to go up. Was that just like cash from the holding company moving or just curious what drove that mix?

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

Yes. Thank you, Bose. This is Rob. I think you might be referring to the mortgage segment versus the all other segment.

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

Versus other, yeah.

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

Yeah. And that is a result primarily of the distributions that we did at year-end. We moved $382 million at year-end from Radian Guaranty to Radian Group and then the additional $100 million dividend during the quarter. So primarily a result of shifting those assets, but no impact on a consolidated basis.

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

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Okay. Just a follow-up. The investment income overall was roughly flat quarter-on-quarter, but should we expect the trajectory of that to keep increasing just with if rates remain stable, I assume your reinvestment yield is higher than the existing portfolio?

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

A

Yes. That's exactly right. I think, we would expect it to trend higher as we reinvest new cash flows.

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

Q

Yeah.

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

A

And so, the benefit, Bose, as you know, the – just the quarterly cash flows that come in through our business, from our MI business combined with just reinvesting those investments that mature and we invest at higher rates. So higher rates actually have benefited greatly our investment portfolio and we would expect to see that continue to come through.

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

Q

Okay. Great. Thanks.

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

A

Yeah. Thank you.

Operator: Our next question comes from Mark DeVries with Barclays.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you. Just in light of the revenue weakness at homegenius and kind of the continued drag on earnings that's creating, was hoping to get your latest thoughts on the outlook for that business and your appetite to continue to invest in it?

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

A

Yeah, Mark. This is Rick. Thanks. Thanks for that question. I think, look, as we – I think as we said last quarter, we're continuing to watch this business and work very closely kind of towards the opportunities we see in the future. I think, we saw the revenues be lower, but also the operating loss be lower, largely because of our expense actions.

The market conditions continue to be very challenging. Homegenius is not alone. All you have to do is look at mortgage and real estate businesses across all the markets and you can see anything that's transaction related largely has been impacted materially.

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So it's a challenging environment. We're managing the homegenius business through this environment by continuing to focus on disciplined cost management. And I think, look, today as we kind of assess the business itself, the primary issue is really a revenue issue. So we're cutting expenses. But at some point revenues have to reestablish from a growth point of view, largely driven by two factors.

One is just the depressed kind of significantly lower mortgage and real estate volumes across the market. And there is a startup-like kind of aspect to this business around some of the newer products from a technology side. So that, in this kind of macroeconomic environment has been a little bit more challenging than we initially thought a year or two ago. So, I think, but despite those challenges, our team is very focused. And we continue to receive great feedback on products and our service delivery. And I've participated in several of those meetings as we've gone along the way.

So I would say, right now, focused on adding customers, which we've been successfully doing, there's just not much volume out there associated with those customers, increasing the awareness of our products and continuing to make strategic investments across the business where we see value in the future.

And I would just add that, look, we're going to – we'll continue to provide updates on this business as we go, but today we're focused on managing the cost structure, focused on investing strategically, and growing our customer base. They really put this on a path towards profitability and really looking at it in light of the environment we'd expect in the near-term. And quite frankly over the mid and long-term, which I think has changed greatly. So appreciate your question. I'm not here to give you specific guidance, but I can tell you that we're highly focused on kind of driving this back towards a positive outcome.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Understood. And then, just a question on kind of the favorable development and the reserves. I get that that's kind of down meaningfully year-over-year, but it's still pretty significant, kind of surprised given how little of the kind of the pandemic-related delinquencies remain. How much more room is there for favorable development? When should we expect that to kind of disappear?

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

A

Yeah. Thank you, Mark. This is Rob. I think, it's difficult to predict in future quarters. We try to come up with our best estimate each period, but we continue to be pleasantly surprised by the benefits and the strong cure trends. It's actually continued into April where cures outpaced new defaults by 136% or the cure to new default ratio rather was 136% and our total defaults are trending below 20,000.

So I think we continue to see even from the 2020, 2021 defaults vintages, continue to see good cure activity and continue to monitor at each quarter and try and come up with our best estimate. But it's hard to predict exactly how much more favorable development there could be. And so, we'll continue to update each quarter.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. And fair enough. But can I infer from your comments that at least in April, these trends continue to exceed what kind of you expected in the reserve levels?

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

A

Well, I don't know if we want to comment on the reserve levels per se, because we'll make that assessment at the end of the quarter. But I would say, we were – the very positive performance which we're pleased with where cures had actually in the month of April, as Rob said, 136%. Did I get that right? 136%, cures over defaults, really very positive given the macroeconomic environment.

So I think, we're going to continue to watch the trends. We look and say, hey, we have to expect a recession at some point. At least that seems to be the general consensus. But housing remains strong. Unemployment remains strong. And as demonstrated through our cure rates so far, people are finding ways to kind of cure their defaults effectively. So as I said in my – also in my prepared remarks, the GSEs also continue to kind of strengthen the loss mitigation plans associated with some borrowers who fall into hardship. So I think overall, I don't want to be optimistic. But I think overall the trends remain positive so far.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Got it. All right. Thank you.

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

A

Yeah. Thank you.

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

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Can you talk about your expectations for the pace of capital return? Yeah. Obviously the dividend as you mentioned is among the higher end, but to kind of how you see share repurchase going forward?

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

A

Yeah. Thank you, Doug. I appreciate the question. And I think, you know, we're in a great situation with a strong capital position with meaningful cushions across our PMIERs and our HoldCo liquidity, even after the buybacks that we've done recently and over the last five years. I think, it's worth noting that over the last five years, we've returned $1.75 billion back to shareholders of which I think $1.5 billion has been in the form of share buybacks, the rest being in dividends.

I think, I have my numbers right, Rob. I think those are correct. So I think, look, in the first quarter, we executed our plan around returning $50 million to shareholders in the form of dividends and share buybacks. We raised our quarterly dividend by about 12.5% to $0.225 per quarter. We were able to successfully begin the first ordinary dividend payment from Radian Guaranty to Radian Group since the beginning of the financial crisis $100 million and has continue to state our guidance for the remainder year another $200 million to $300 million. So total of $300 million to $400 million will come up from Radian Guaranty over the course of this year.

So all in all, I think we're managing capital very very well. We don't talk forward about capital plans. But I think, just to give you some thoughts about how we manage capital internally, really hasn't changed. We think about

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organic investment and growth opportunities. We think about an adequate risk buffer from a HoldCo and obviously PMIERs cushion within our operating company.

We consider strategic opportunities as uses of capital. And obviously, our debt to total capital is, we feel very appropriate and manageable as we sit here today. And then, obviously, we've been very, very thoughtful and conscious and aggressive on returning capital back to shareholders. So I think, today our plan that we have in place for share buybacks, as we've always said is a value-based plan utilizing a preset 10b5 grid that we operate on.

But I want to – I do want to kind of highlight for you that we take a very deliberate and measured approach as we balance excess capital return with an uncertain economy. I think, we can't underestimate kind of the need to really be thoughtful about the economy that exist and how we manage through it. I think in many ways from a position of strength and maybe also potentially take advantage of opportunities in the market to deploy excess capital to grow our revenues and profits.

So I think, we're trying to take the most prudent approach for shareholders given kind of all these factors. Even though we don't talk forward, I think, our past kind of speaks for how disciplined of stewards of capital we are on behalf of our shareholders and we're going to continue to act and behave accordingly.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC Q

Great. Appreciate it. Thank you.

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

Thank you.

Operator: Our next question comes from Eric Hagen with BTIG.

Eric Hagen
Analyst, BTIG LLC Q

Hey, thanks. Good afternoon. I think maybe just one follow-up here. Can you talk about the nature of the modifications in the loans that are occurring? Like are there principal modifications, interest rate modifications, and even what the cures look like for the early stage delinquencies versus the middle or later stage? And even how sustainable you see those cures being really across the board right now? Thanks.

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

Yeah. Sure. Hey, Eric. This is Derek. So in terms of the activities, I mean, in terms of the modifications, most of them are curing organically. You still have forbearance programs. A lot of them are going through kind of payment deferrals where they take the missed payments and tack it on at the end. As Rick alluded to, a lot of programs that are very borrower-friendly that we expect to continue.

The other thing I would say, looking at the characteristics, kind of, across the board, cure activity is strong kind of across the board, looking at early payment defaults and later stages. One thing to keep in mind, Rob alluded to April cure trends outpacing new defaults. The other thing I'd point out is, the new defaults are coming in with substantial embedded equity, which also is the case for outstanding defaults.

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So if you look at our new defaults in Q1, they were coming in about 90%, a little more than 90% were coming in with 10% equity at least. So that kind of gives you an indication from a performance perspective and coupling that with home prices starting to firm up. So after some decreases kind of in Q4, you have home prices kind of stabilizing and starting to increase. So from a trend perspective, we feel pretty positive.

Eric Hagen
Analyst, BTIG LLC

Q

That's helpful. Thank you very much. One more maybe, I mean, how does the structure of the origination market drive the way you think about the business? We're talking about, you know, banks potentially tightening the credit box, a lot of noise with regional banks here, maybe some more shift to the non-banks, MSRs getting sold, all sorts of things in this market. Does this have any bearing on the way that you think about growth rates in the industry, even the way that you price for new risk?

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

A

Maybe I'll take the first part of that. Derek can talk about the pricing side of it, because I think it's a great question. I think, we're all watching the way the market develops. And I would say your insights into the shifting aspects of the business are really spot on in terms of how the banks are reacting to some of their liquidity and kind of capital preparedness.

For us, look, I think, the largest part of the mortgage market today is really driven by the supply demand imbalance in the housing market, right? We're not in an environment where refinances are going to accelerate given the level of rates today versus where they've been previously. We're in a purchase market. So the purchase markets are going to – are really going to define kind of the mortgage market and ultimately the MI market, which were obviously very heavily influenced by first-time home buyers, people's ability to put down less than 20% on a home and our ability to support them into that pursuit.

So I think for us, we're watching the shifting players and kind of some of the consolidation going on in the industry and kind of how banks are starting to adjust their presence in the marketplace. To-date, that has largely been related to portfolio-type loans, which we don't have a great participation in from a mortgage insurance point of view. The GSE-type volume still remains center to their focus. But I think the good news is, we've got 1,200 or 1,300 customers we do business with every day. And so, as volume shifts, we're really working with those customers today where that volume comes. But I think, volumes are going to be driven by the supply demand imbalance in the market, a shortage of affordable housing across the country. And then, Derek, you just comment on pricing?

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

A

Yeah. Some of what's happening on the origination side isn't a driver when we kind of look at the competitive dynamics in the MI industry and how we're pricing. I think overall, the way I would characterize that environment is being positive in the sense that it's rational and disciplined at this point. We'll also continue to be in an increasing cycle. So from our perspective, that's a good place for us to be and really allows us to take our strategic focus, which is on generating long-term economic value and really focus on identifying and writing the portion of the MI market that has the highest potential projected returns, right. So using our analytics, very granular risk-based pricing, regional economic forecasting to have the ability and kind of a positive and stable market is really favorable for us to deploy capital at this point.

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Eric Hagen
Analyst, BTIG LLC

That's really insightful, guys. Thank you very much.

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

Thank you.

Operator: That concludes today's question and answer session. 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. Yeah. I want to thank – I want to first thank our team for the great job they're doing every day through continuing interesting times with the mortgage and real estate world. So a great big thank you to the group.

I want to thank all of you for participating today and I want to highlight again for you, we look forward to seeing you in New York at the New York Stock Exchange on June 20 for our Investor Day and hope that many of you can join us. We'll have lots of fun things to talk about. And I look forward to seeing you there. Most of all, take care. And, yeah, we'll look forward to talking to you, hopefully, all in the near-term as we get a chance to talk more about our results for the quarter. So take care and thank you.

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

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