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Radian Group Inc. (RDN)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Radian's Fourth Quarter 2017 Earnings Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, instructions will be given at that time. [Operator Instructions] And as a reminder you conference is being recorded.

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

Emily Riley

Senior Vice President-Corporate Communications & Investor Relations, Radian Group Inc.

Thank you, and welcome to Radian's fourth quarter and year-end 2017 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, including adjusted pre-tax operating income, adjusted diluted net operating income per share, tangible book value per share, and services-adjusted EBITDA. A complete description of these measures and their reconciliation to GAAP may be found in press release Exhibits F and G and on the Investors section of our website.

Unfortunately, due to a death in the family, our Chief Financial Officer, Frank Hall is temporarily out-of-the-office and not able to participate in today's call. We expect Frank to be back in the office next week and we wish him and his family the best.

This morning you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Cathy Jackson, Corporate Controller. Also on hand for the Q&A portion of the call is Derek Brummer, Executive Vice President and Chief Risk Officer.

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

For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release and the risk factors included in our 2016 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, Emily, and good morning. I would like to thank each of you for joining us today and for your interest in Radian. I'm very pleased to report another quarter and year of excellent operating results for Radian.

During my first year with the company, we have worked to position Radian to become an even stronger more diversified company and a more value business partner. The combination of our market leading Mortgage Insurance and Mortgage and Real Estate Services businesses, our newly restructured enterprise sales team and my talented colleagues across the company positioned us very well to drive our success and deliver even greater shareholder value in 2018 and beyond.

Before I turn the call over to Cathy to review the details of our financial results, let me provide a few important highlights. Purchase loans accounted for 88% of NIW in the fourth quarter compared to 91% in the third quarter and 73% a year ago. Although overall industry refinance activity ticked up slightly in the fourth quarter, purchase loan activity accounted for approximately two-thirds of the overall mortgage market. And in 2018, purchase loan volume is expected to increase in both absolute dollar volume and percentage mix, as refinance volumes are expected to decline.

Since private mortgage insurance is 3 times to 5 times more likely to be used in a purchase transaction than in a refinance, this is a positive market trend for us and our industry. Importantly, this lower level of refinancing is combined with our success in writing new mortgage insurance business drove a 9% increase in our mortgage insurance business drove a 9% increase in our mortgage insurance in force portfolio year-over-year. Our greater than $200 billion mortgage insurance portfolio, which is one of the largest in our industry is a primary driver of future earnings for our company. We wrote 7% more mortgage insurance business in 2017 than we did in 2016, and with nearly $54 billion in NIW, we've broken all time company record for the largest annual amount of new flow business from Radian's 40-year history.

We continued to be focused on growing our MI franchise in writing new high quality business that produces strong returns. Given our projections based on industry forecasts, including a decline in the overall mortgage origination market, we expect to write new MI business in 2018 in the range of $50 billion. This would be in line with the record-breaking levels of NIW we've achieved over the past two years.

We continue to see strong participation in the market from first-time homebuyers, which helps drive demand for our products. Given the fact that first-time homebuyers typically seek low down payment options, our industry is also seeing corresponding increase and higher LTV loans. We remain diligent in actively monitoring any changes in the risk and return profile of NIW, with the greatest focus on any layering of risk.

Overall, we continue to benefit from positive credit trends in 2017. Webcast slide 11 includes a breakdown of our total mortgage insurance portfolio, which illustrates this positive credit environment and its impact on our company. Today, 92% of our primary mortgage insurance risk in force including HARP loans, consists a business written after 2008 and it is important to highlight that the performing loans in the remaining pre-2009 portfolio also including HARP loans, approximately 60% had never been in default. This is a notable statistic, given the vintage characteristics and the seasoning of the portfolio.

I would like to point out that we approached the management of our insurance and force portfolio from a portfolio manager perspective, where we are focused on growing long-term economic value of portfolio in line with our overall targets for risk adjusted returns on capital. As I said in our November Investor Day, all NIW is not created equal. We remain committed to growing long-term value and are purely focused on volume and market share.

Our goal is to generate a balanced portfolio of mortgage insurance policies that in aggregate produce strong, through the cycle, risk adjusted returns on required capital. In terms of our Mortgage and Real Estate Services business, as you know, we've been focused on restructuring and repositioning the segment for sustained profitability by focusing on the core products and services that we believe have the higher growth potential, produce more predictable and recurring fee-based revenues and better aligned with customer needs.

As I said at Investor Day, leveraging our diversified mortgage and real estate products and services that grow earnings and shareholder value is a key aspect of our strategic blueprint. Over the last several months, I'm proud to say that our team has made great strides towards achieving this goal of positioning the business to deliver a stronger and more relevant set of products to our customers. As a result of our continuing efforts, we remain comfortable with our previous guidance related to our financial targets for this business of an annual run rate beginning in the second half of 2018 of $150 million to $175 million with a 10% to 15% services adjusted EBITDA margin.

The other major strategic shift we made in the second half of 2017 was to better align our sales organization into a highly focused enterprise sales team. During the last earnings call, I explained the strategic rationale behind the repositioning of our sales and marketing efforts that focus on this integrated enterprise sales structure. Now that the team is in place, we are leveraging through our sales activity, the core set of high value products and services that we offer across the entire mortgage value chain, rather than selling individual products from each of our companies.

We have a market leading mortgage insurance franchise, combined with a core set of mortgage and real estate products and services, that include credit risk management, title and settlement services, real estate valuation, mortgage and real estate transaction diligence and REO asset management, and more than 1,500 active and value customer relationships across the enterprise. We have a great opportunity to become increasingly relevant to our customers, as a value business partner by delivering this broad set of high-value products.

We believe that our existing relationships combined with the unique set of diversified products and services continues to provide us with competitive differentiation, as compared to bottom line mortgage insurers. We continue to pursue opportunities to improve our capital position, increase liquidity, enhance our return on capital, increase our financial flexibility and proactively manage our mix of mortgage insurance business. Cathy will go over the actions we took in 2017 in greater detail. So let me provide a few highlights.

We entered into a new quota share reinsurance program and increased the session on our existing program. Both programs are focused exclusively on single premium business. These programs help improve our PMIERs financial position in a cost effective and efficient manner and are expected to generate meaningful value for our shareholders. We also improved our overall capital structure by eliminating the remaining convertible senior notes, extending the maturity profile of our existing debt, and reducing our debt to capital ratio.

We entered into unsecured revolving $225 million three-year credit facility providing us with access to additional holding company liquidity and added flexibility. And we issued $100 million intercompany surplus note, illustrating our financial strength of Radian Group to increase the PMIERs cushion at Radian Guaranty. These actions further demonstrate our company's financial strength and flexibility, and further position Radian Group for return to investment grade ratings in the future.

Now turning to operating expenses. As you've heard me say before, creating the right balance between managing expenses across the enterprise and investing in growth and quality execution is strategically important in order to create competitive differentiation, increase profitability and improve shareholder returns. Aside from the restructuring of our services business, we are making investments across our business to improve our operational effectiveness and we are reviewing and challenging every dollar we spend. We are aligning our team's incentives towards improving our operating leverage and changing culturally how we think about managing our expenses.

Turning to the regulatory and legislative environment. Active dialog on housing finance reform continues and we are encouraged by the consistent support on Capitol Hill for the important role of private capital. The private mortgage insurance industry is the only committed source of permanent private capital that continue to underwrite and support credit risk through the market cycles. There has been significant discussion among the Senate House, FHFA and Treasury about various options for GSE reform, including the Treasury Secretary's recent comments that housing finance reform is a top priority for the administration.

Given the full legislative agenda, it is difficult to predict, whether any meaningful action will occur this year. However, we are actively involved both as a company and through our industry trade groups to ensure that policymakers fully understand the critical role that private mortgage insurance plays in the future of housing finance.

Regarding PMIERs, Cathy will cover the details of our cushion and financial position as well as our outlook for proposed changes to PMIERs that we received in December. Since joining the company, I've been pleased that Radian's financial flexibility provides us with the ability to continually work to improve returns for shareholders. Importantly, I'm also pleased with our strong financial position that allows us to serve the housing market, support our customers with products and services they need and to help create sustainable homeownership opportunities for more families.

Now, I would like to turn the call over to Cathy for details of our financial position.

Catherine Mary Jackson

Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

Thank you, Rick and good morning everyone. To recap our financial results reported earlier this morning, we've reported GAAP net income of $6.8 million or $0.03 per diluted share for the fourth quarter of 2017, and full year net income of $121.1 million or $0.55 per diluted share. As a result of reduction in the corporate tax rate from 35% to 21% due to the enactment of the Tax Cuts and Jobs Act in December, these results included a non-cash charge of $102.6 million as an increase to our income tax provision. This $0.47 per diluted share charge resulted from the re-measurement of certain of our deferred tax assets and liabilities to reflect the lower enacted tax rate. The charge does not affect our cash flows nor is part of our adjusted operating income.

Importantly, we expect our annualized effective tax rate in 2018 excluding any potential discrete items to be approximately equal to the new statutory rate of 21%. Adjusted diluted net operating income per share for the fourth quarter of 2017 was $0.51, an increase of 24% year-over-year and for the full year was $1.82, an increase of 17% year-over-year.

I'll now move on to describe in detail some of the key operating elements of our performance. I'll start with the key drivers of our revenue. New insurance written was $14.4 billion during the quarter compared to $15.1 billion last quarter, a 5% decrease which is consistent with expected seasonal patterns and a 4% increase over the $13.9 billion written in the fourth quarter of 2016. The new business we are writing today continues to consist of loans that are expected to produce excellent risk adjusted returns. Primary insurance in force increased to $200.7 billion at the end of the quarter, a 9% increase over the same period last year.

Persistency trends remain positive and our 12-month persistency rate increased in the fourth quarter to 81.1% from 80% in the third quarter of 2017. Both of these rates were slightly negatively impacted by policy cancellations that were not related to normal cancellation activities such as commutation activity, including the termination of the company's Commutation Agreement with Freddie Mac in the third quarter and increased cancellations identified by our ongoing servicer monitoring process for single-premium policies in the fourth quarter.

Our direct in-force portfolio yield decreased slightly to 48.1 basis points this quarter compared to 48.4 basis points last quarter. The in-force portfolio yield which excludes the impact of accelerated premiums associated with single-premium cancellations has declined over the past four quarters, consistent with our previous guidance of a gradual decrease due to the natural run-off of higher priced vintages. As we noted last quarter, the timing and magnitude of this decline will depend on several factors, including the mix of new business we write, current market pricing and the recent increase in higher LTV production which is reflective of the industry trends, Rick mentioned earlier.

Net premium yields, which include the impact of single-premium policy cancellations and ceded premiums under our reinsurance arrangements are presented on webcast slide 14, which shows the components of our net premium yields over the most recent five quarters.

Single-premium cancellations resulted in $21.1 million of direct earned premiums this quarter, compared to $15.4 million in the prior quarter. The increase in the fourth quarter due to single-premium cancellations is primarily attributable to cancellations identified by our ongoing servicer monitoring process for single-premium policies no longer in-force.

As a result, both our direct and net portfolio yields this quarter increased slightly compared to last quarter. Net premiums earned increased to $245.2 million in the fourth quarter of 2017 from $236.7 million in the third quarter of 2017. This increase was primarily due to the growth in our insurance in force portfolio. Total services revenue for our Mortgage and Real Estate Services segment was relatively flat at approximately $41 million for both the fourth and third quarters of 2017 and was $53 million in the fourth quarter of last year.

The cost of services however did decline during the fourth quarter of 2017 related both to our restructuring actions, as well as an improvement in margin due to the mix of business. Our services adjusted EBITDA margin for the fourth quarter of 2017 was approximately 9% and included restructuring charges of $1.4 million. As Rick mentioned, we continued to expect the services adjusted EBITDA margin be in the 10% to 15% range by the second half of this year.

Moving now to our loss provision and credit quality. As noted on slide 17 during the fourth quarter of 2017, we had positive development of $20.1 million on prior period defaults. This positive development was driven primarily by a reduction in claim rates on existing defaults based on the observed increase in cure rates on these defaults. The positive development was partially offset by a small increase in new defaults during the quarter consistent with typical seasonal trends. While we also observed a significant increase in new defaults in FEMA Designated Areas associated with Hurricanes Harvey and Irma, we expect most of these to cure within next 6 months to 12 months, so we assigned a materially lower estimated claim rate to these new defaults. And therefore, these incremental defaults did not have a significant impact on our loss provision.

Note that as expected, we observed a significant increase in cures of hurricane related defaults in the month of December. Please see webcast slide 19 for further details on our default activity in FEMA Designated Areas. It's important to note that our total primary risk in-force consists of only 8% of business originated before 2009, and that those vintages are contributing positively to earnings as you can see on slide 15.

We segregate our new defaults between our legacy and post legacy defaults on slide 19. As our post legacy vintages reach peak default years, which are typically in years four to six, we are seeing an expected increase in default activity, though at very low rates. It is also important to note that the increase in the percentage of post legacy primary defaults during the fourth quarter was mainly attributable to the temporary impact of hurricane related defaults.

Given the continued improvement in cure rates, we reduced our estimated claim rate on new defaults that are not in FEMA Designated Areas, from 10.5% to 10% in the fourth quarter. We continue to believe that if observed trends continue, claim rates could fall below 10%, although the timing and magnitude are difficult to predict.

Overall, the performance of our portfolio remains strong with positive trends continuing, further evidence of both the strong credit profile of business written after 2008, which is now 92% of our primary MI risk in force, including HARP loans, as well as greater predictability around the legacy portfolio.

Now moving to expenses. Other operating expenses were $66 million in the fourth quarter of 2017 compared to $64.2 in the third quarter of 2017 and $62.4 million in the fourth quarter of 2016. Our GAAP other operating expenses were in line with our previous guidance of between $62 million and $66 million each quarter. As for future expense expectations, we expected the benefits of the recent restructuring of our services business will more than offset normal inflationary increases and investments we intend to make to help strengthen and grow our diverse businesses.

We further expect that our total operating expense for 2018 would not exceed our 2017 expenses, and that we will achieve positive operating leverage, such that our revenues will grow at a faster rate than expenses.

Details regarding notable variable items impacting revenues, operating expenses and restructuring and other exit costs may be found in Exhibit D. With respect to restructuring costs, you will note that our restructuring charges are split into two categories. Approximately $1.4 million of the total $5.2 million restructuring charges in the fourth quarter were included in adjusted pre-tax operating income, due to the cash nature of the items. While $3.9 million of expense related primarily to the non-cash loss of the sale of our EuroRisk business was not part of operating income.

With respect to capital activities during the quarter, as Rick mentioned, we took actions in the fourth quarter in order to effectively manage our capital position in a cost efficient manner, improve our return on capital, proactively manage the retained mix of single premium business in the MI portfolio, as well as strengthen Radian Guaranty's financial position under PMIERs.

Consistent with these objective, during the fourth quarter, we took three actions. First, we amended the 2016 single premium quota share reinsurance transaction and agreed with our reinsurance providers to increase the cessions business from 35% to 65% for single premium policies in 2015 through 2017 vintages. This increased cession provided incremental PMIERs benefit as of December 31, 2017. After consideration of the increased cession, the percentage of our retained single premium NIW was 8% in the fourth quarter of 2017.

Second, we entered into a new single premium quota reinsurance arrangement with 65% cession on single premium policies with effective dates in 2018 and 2019. Both of these reinsurance arrangements have been approved by the GSEs.

Finally, Radian Group transferred $100 million of cash and marketable securities to Radian Guaranty in exchange for a surplus note. The surplus note has 0% interest and a stated maturity of December 31, 2027. The note does have an early redemption provision and can be redeemed at any time upon 30 days prior notice, subject to the approval of the Pennsylvania Insurance Department. Remaining available liquidity of our holding company after issuance of the surplus note was $229 million.

Our $225 million unsecured revolving credit facility provides Radian Group with additional liquidity and enables us to manage our cash position more efficiently. As we've previously disclosed, Radian Group has longstanding expense sharing arrangements with its insurance subsidiaries. And as a result, our parent company liquidity benefits each quarter from payments from our regulated subsidiaries related to operating and interest expense reimbursements. Those payments were $100.7 million and $91.2 million for the 12 months ended December 31, 2017 and 2016 respectively.

Under PMIERs, Radian Guaranty had available assets of $3.7 billion and our minimum required assets were $3.2 billion at the end of the fourth quarter of 2017. The excess available assets over minimum required assets of approximately $450 million, represents a 14% PMIERs cushion. Note that the increase in hurricane related defaults as of December 31, 2017, which are expected to be temporary, does result in an increase in minimum required assets under PMIERs, and as of December 31, 2017, our minimum required assets included approximately $100 million of incremental impact that we expect to reverse over the next 6 months to 12 months as the [ph] defaults cure (00:24:30).

In December, Radian received a summary of proposed changes to PMIERs that are being recommended to the Federal Housing Finance Agency by the GSEs. Based on this initial summary, which remains subject to comments by the private mortgage insurance industry, we expect to be able to fully comply with the proposed PMIERs financial requirements and maintain in excess of available assets over minimum required assets as of the expected effective date in late 2018 without a need to take further actions to do so.

This expectation is based on our projections for positive operating results in 2018, a strong capital position and the benefits associated with our reinsurance program, but it is not dependent on the existing surplus note.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Cathy. Before we open the call to your questions, let me remind you that we had another year of strong operating results with year-over-year growth of 17% for adjusted diluted net operating income per share, 4% for book value per share and 12% for tangible book value per share. We wrote $54 billion in new mortgage insurance business in 2017, which represented record volume written on a flow basis for Radian. Mortgage insurance in force increased 9% year-over-year, which is the primary driver of future earnings.

We remain committed to our services business as part of our strategic blueprint for the future [ph] and that made (00:25:58) progress and repositioning in the segment for sustained growth and profitability. Our new enterprise sales team is positioned to successfully sell our core set of products and services in 2018 across our entire customer base. And we improved our capital position debt maturity profile, and financial flexibility in 2017, including increasing our PMIERs excess to $450 million or 14% of minimum required assets, as of December 31, 2017.

Now operator, we'd like to open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is from Mark DeVries from Barclays. Please go ahead.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Thanks. I was hoping to get your thoughts on capital actions, you might look to take in 2018. And how if at all you think that could be impacted by how PMIER shakes out?

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

Yeah. Hi, Mark. This is Rick. I think as we – as we look at our capital planning going forward, I always think of it in terms of sources and uses and really our primary focus is to return holding company back to an investment grade level and in the primary driver that is going to be reducing leverage at the holding company level. So I think when you really think about how we're thinking about capital today, it is about reducing leverage.

Obviously, we're focused on continuing to extend our maturities in terms of our current debt structure. And today, we have a share buyback program that's in place, that's a value base and you can see from the past where appropriate we've been, we've been willing to kind of leverage that buyback program.

But I think, really primarily by reducing leverage towards an investment grade position, we ended the year at about 25% – a little over 25% leverage, and I think we want to get closer to 20%. And then, as it relates PMIERs, obviously, we kind of gave an update on that couple of weeks ago, but we'll see how that evolves through the course of the year to kind of position our capital between entities, we really don't see a need to do anything beyond where we sit today that comply with PMIERs at the – PMIERs [indiscernible] (00:28:50) year even excluding the surplus note. So I think we have to see how that all shakes out. That's got to be part of our consideration, let's say, our primary focus is around reducing our leverage.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay. Got it. And the rating agencies indicated that's mainly just an issue of leverage. It sounds like your target is 20%, that the cap is at kind of where you need to get, to get to an IG rating?

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

I think it's – there are – there are kind of – the exact standards are never that precise. But I think when we go across all the different aspects of our business, that's probably the one factor that we're working towards improving.

I think, quite frankly, we are performing and operating at the level necessary from, I would say, from an investment grade perspective. But I think the leverage factor is the one thing where we probably see, internally, that we both want to improve, and we think that will enhance our opportunity return to investment grade.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay, great. And then just one more. I think Cathy you indicated you guys believe you can still get to – claims on your new notices is below 10%, can you give us some perspective on historically where – how low that's gotten, give us a sense of where that might potentially bottom out?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.
A

Yeah I think historically, it wouldn't go below 8% or 9%. So I think that, if you just look at the historic trends, that would be kind of the floor on the claim rate, obviously we'll continue to monitor where things go in 2018 and adjust our rates accordingly.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay. Thanks.

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

Thank you.

Operator: Thank you. Our next – I'm sorry. The next question is from Douglas Harter from Credit Suisse. Please go ahead.

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

Thanks. Can you talk about the trend you expect to see in persistency rates, and how that might impact the premium yield as we go through 2018?

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

So maybe, Cathy and I'll tag team this one a little bit. In terms of persistency, obviously we see a – we have seen and we expect to see kind of a moderately increasing interest rate environment. I don't think we see dramatic increases in interest rates. And I think for that reason, and I think just over a normal period of time, we would expect persistency to still kind of fall into the low to mid-80s range, and we – I think that we've demonstrated that through 2017 and then we saw a little tick-up in refinances in the fourth quarter and we saw it come down just a little bit.

So I think, our expectation is kind of low to mid-80s is a normal curve. And that really is, it's driven by more than just interest rates, it's driven by a number of other factors in terms of home price appreciation and people's ability to – product profiles, where people can refinance and take out cash and all other non-interest rate driven incentives for people to refinance. So we look at persistency as being more or less kind of that low to mid-80s is our target.

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.
A

And with that expectation on persistency, I think we expect that the impact associated with the impacting yields and premiums associated with a single premium policy cancellations will continue to remain somewhat muted like they've been in the past few quarters.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. And then sorry, if I missed it, but did you guys give an expectation for what the effective tax rate would be in 2018?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Yes, we did. Approximately 21% on the statutory rate that is the general expectation.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Thank you.

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

A

Thank you.

Operator: Thank you. And the next question is from Bose George from KBW. Please go ahead.

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

Q

Hey, good morning. Actually the first one is on insurance in force growth. It's over a 9%. I remember a couple of quarters ago you guys kind of talked generally about mid-single digit growth expectations. Curious if – what's been better, is it industry growth or you going more some combination of the two, and then just thoughts on sustainability of that growth rate?

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

A

Yeah. Hi Bose, this is Rick. So yeah, we're pleased with the growth. I mean, our portfolio of over $200 billion in-force, I think, we're very proud of, it's very high quality. And I think the vast majority of that book is obviously post-2008. So I think the 9% growth, we think based on current – just why was it 9% in 2017, I think part of it is, we did do more business than we – I guess expected throughout the year. I think we continue to see very strong activity and we expected throughout the year to kind of end around $50 billion, we did in excess of that.

I think overall, we expect based upon the trends that we see today, our expectations for growth in our – new NIW, slightly higher persistency. We expect the portfolio to grow similarly in 2018. I think as I said a minute ago, we think normalized persistency is kind of low to mid-80s, and I think our thoughts around that are unchanged from what we've said before. So, we would expect growth all things being equal and thinking about what we see today in terms of our own expectations for volume and persistency to be similar to this past year.

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

Q

Okay, great. That's helpful, thanks. And then, actually just switching to credit, the post-crisis books are all seem to be peaking kind of in the mid-single digits or a little higher. Just absent some changes in the macro environment, could you see portfolio, the newer portfolio is kind of stabilizing at a single-digit loss ratio?

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

Yeah, yeah. This is Derek. I think the ones that have had sufficient development, so looking at kind of five years, four or five years out, I think, we would be then settling into the single digits unless there is a significant change in kind of the macroeconomic environment. You probably need a few years of development to have certainty around kind of making a projection like that. But for instance, the 10 through 12 books certainly I feel safe saying that.

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

Q

Okay, great. Rich (sic) [Rick] (00:35:37), and just one more for me. Last week, the California Insurance Commissioner made some comments about P&C pricing in light of tax reform. Do you think state regulators will – could say anything about MI pricing? Do they generally defer to FHFA or on regulatory issues or just any thoughts there would be great.

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

A

We've, we've not, I think we did see the news on -from the State of California on the P&C issue. We've not received any kind of inquiry or guidance, and I think generally, I think there's number of different players and factors, but probably, if I were to comment, probably come from the regulator, the insurance regulator as opposed to I think FHFA, but hard to say we've not gotten any input or any kind of inbound calls or guidance or inquiry at all. So I think at this point, there's no news or information or report.

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

Q

Okay, great. Thanks a lot.

Operator: Thank you. Our next question is from Randy Binner from Riley FBR. Please go ahead.

Randy Binner
Analyst, B. Riley FBR

Q

Hey, good morning. Thank you. I wanted to just ask a question about PMIERs 2.0 and if any color you can give us on, what categories are changing there and kind of characterize the conversation you're having with FHFA?

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

A

Yeah. So thank you for the question, Randy. I think – look, we – in our press release that we did a couple of weeks ago, we pretty much said everything that we could say at this point subject to all the NDA. I think we feel good about our ability to comply with it over the course of the timeline. We expect this to be a very constructive and collaborative process between the industry and the GSEs and the FHFA. As we go through this, I think the process will kind of play out and we're still kind of at the beginning of this, I think would be a fair assumption.

But I think for us we look at it and I think we – as we said we feel comfortable with our ability to comply, but as it relates to specifics we can't really discuss or disclose anything about that.

Randy Binner
Analyst, B. Riley FBR

Q

That's fine. Understood. I just want to actually ask another kind of question on credit. And we view residential mortgage credit as being good, and obviously that's in the numbers. But can you characterize a little bit kind of your process around credit and what you're seeing out there in different MSAs meaning, are you seeing different areas that are frothy at all, that you're downgrading, or is it generally stable, are there more weak areas now than a year ago?

Just trying to get some color on kind of how you see the overall credit environment, and if you're having more downgrades and upgrades in the way you look at the MSAs in your book?

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

Sure. This is Derek. I think from a credit perspective it's important to keep in mind the loan manufacturing quality continues to be very strong in terms of what's coming through kind of the production channels.

In terms of looking at it kind of from a home price perspective, and we commented about this in the past, it's obviously, we've seen home prices outstrip wage growth, and I think you do see certain markets, where you probably see them as a bit overvalued kind of looking at long-term fundamentals, but you have to look at what's driving that. And what's driving that in kind of the environment today is really one in terms of supply. You have a lot of pent-up demand, what you're not seeing, which is that will concern where you have more of a higher probability of having a drop is you're not seeing kind of riskier or kind of bleeding edge credit, where you have riskier products that's kind of artificially stimulating demand. You're also not seeing a lot of speculation in the market, that's what you're going to be particularly concerned about.

So, when we kind of look at those markets, kind of the most I would say probable scenario and you're starting to see some of this, as you're seeing a pickup in supply and for instance new housing stock. So that should hopefully over time kind of adjust the rate of appreciation you see in the market. So that's I think the way we view it right now from a kind of a macro perspective.

Randy Binner
Analyst, B. Riley FBR

Q

That's great. Thanks a lot.

Operator: Thank you. Our next question is from Chris Gamaitoni from Compass Point. Please go ahead.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Hi. Could you give us a sense of where you see kind of your investment yield and your portfolio going? I think it was up roughly 30 basis points this year and obviously, the short end is moving up faster than long end is. So I'm trying to look forward on how high that could go and how fast the book rolls over?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Sure. Yeah. I don't know if I can provide you with guidance on the exact portfolio yield, but what you're seeing, we've repositioned the portfolio such that we've shortened the duration and positioned it more to benefit from a rising interest rate environment somewhat. So that's where you see the small increase in investment income, recognizing that that environment will persist for the near future. So, that was the reason for the uptick in the investment income.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Okay. And do you have a sense of kind of what the – let's say the cash on investment balance growth will look like going forward from your forecast of improving profitability, and then we're hitting kind of the tail end of the claims paid issue?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Yeah. I think if you look at our positive operating cash flow for 2017, probably similar trends if you just kind of trend out the portfolio growth, as well as the claims coming down like you mentioned.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Okay. And I just want to ask a question on NIW. I think did I hear correct the guidance was like $50 billion?

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

A

Yes, that's – we expect to do in the range of $50 billion, consistent with the kind of last two years of record-breaking volumes.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Does that include like some market share losses?

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

A

It's from a – it's hard to know what the market is right from a year-over-year perspective, given that we're going to see a fairly significant decline in the overall origination market. So I think all – I think the industry is still trying to determine, we're going to see a slight increase to purchases, right, relative year-over-year with a significant decline in refinancing.

So I think the answer to that question is still what will be the market for next year from a mortgage insurance point of view. I think we would, we're certainly in a position to benefit from any growth in that market to the extent that the growth is around products and at risk return levels that meet our characteristics.

But I think – so you got – two parts of it is. One – one part is the answer that we look at internally, and I think we'll have to see how the market develops and there's a number of variables of play around how – whether the market will expand or kind of stay the same year-over-year. So, what kind of – we're expecting similar kind of year-over-year market, but we'll see how that goes and I think we're in a great position to benefit through any expansion in the market.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Yeah, I guess what I am getting at, if I just take your 2017 results and increased purchase by the same rate, the [ph] NBA has purchased increasing in refi declining at the same rate NBA (00:43:25), that gets me closer to [ph] 55 (00:43:28). So that's – it's just a big delta relative to seeing a decline versus kind of macro expectations in your [ph] order rate to (00:43:35) purchase?

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

A

I think the reason we – we said, would be kind of $50 billion. In that range, we're – obviously there's volatility and potential for that to be kind of plus or minus. So I think here we're February 1, we're trying to provide some level of guidance as we go into the New Year. And I think, we're also – I want to emphasize the point that truthfully and maybe in the last five years, market share mattered.

As we go forward, we're very, very focused. We take our jobs as portfolio managers to grow value as opposed to just grow volume. And so having said that, we're well positioned to execute against volume and growth in our business, but we're going to do that in a way that grows the long-term economic value of our portfolio.

And I think, again, to the extent the market expands, we're well-positioned to do that. We won't do it just for the sake of showing, volume, we want to do it at the right economic returns and grow the value of our portfolio as a portfolio manager. I think that's a way we create long-term sustainable value for our shareholders. So I'm new to this game for the last 10 months, but I think market share, as we see some level, we come [ph] out of the (00:45:02) last five years of the perfect credit cycle and we go into the next cycle as I said at Investor Day, which will continue to require good discipline and make sure that we as an industry are making the right choices to put homeowners in sustainable positions of homeownership.

I think we too will be very disciplined about where we see value and how we participate in the markets, and probably just as important what customers we do business with and what customers we don't do business with. So taking a very – Derek and his team and our collective team very disciplined approach around how we approach the market from a long-term value creation perspective as opposed to just doing volume.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Okay, sounds great. Thank you so much.

Operator: Thank you. Our next question is from Sean Dargan from Wells Fargo. Please go ahead.

Sean Dargan
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. I'd like to revisit the question about any impact to pricing from tax reform. So, it sounds like the regulators haven't reached out to you, but across, I guess all financial services, the question is, is pricing going to come down because you don't have to charge as much to achieve the same after tax ROE. So, I guess where I'm going with this is, are you and the industry going to hold out for 20% assumed ROE or do you expect competitive pressures to lead to price cuts?

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

A

Yeah. Thank you, Sean. Great question. So I think, look here's the way – I think couple of things are on tax reform. The good thing is on January 1 or December 20 whatever day you want to look at our $200 billion insurance in-force portfolio essentially got revalued right, because those earnings that we did – based on the origination of those policies on got reprised 14% lower tax rate going forward, right, from an earnings point of view. So that's the good news from earnings and contribution going forward to our business.

As it relates to new pricing, look, today we would expect, I think as your math indicated that the adjustment in tax rates result in 300 basis points or 400 basis points of increased returns from a pricing perspective.

And so from that, I think there are a number of factors that are going to kind of play into that, and one of them is to see how PMIERs 2.0 plays out, so as an industry. The second thing is you got to remember that some of the industry participants already benefited from lower tax rates based on their offshore activities. So, what we did is we really closed the competitive gap between us and them.

So yes, even though we can say that potentially their effective tax rate is still slightly lower than our onshore 21%, the gap is significantly close. So that pricing, that differential that was there before was already in place for other competitors, and I think that gap has been closed between us and them.

So, there is a number of factors, what we can say today is how much of that will be kind of taken away through competition. Our objective as a portfolio manager, and Derek and the team and myself, we work through this almost on a daily basis. We're going to do it in the best interest of our shareholders to build value, and I think, as we go forward we'll continue to evaluate our choices around risk attributes and pricing based upon what's in the best interest of our shareholders from a economic value and how do we optimize the value we create in our portfolio.

So today, I wouldn't say there's an instant mark-to-market because there are other real factors that control pricing. And so if you just take PMIERs 2.0 and the tax differential that was in place before that's less today, I think we have an industry that's probably not rushing to do things. So I'd say – I'd just try to give you as much information about what's in the market and how we should think about it. I hope that's helpful.

Sean Dargan
Analyst, Wells Fargo Securities LLC

Q

Yeah, it is. Thanks. And then I have a follow-up on tax reform as it applies to capital. I'm just wondering if the write down of the DTA or if there's any change in factors in the numerator and denominator would impact statutory capital. And also, I just want to make sure that the DTA was not considered in available asset for PMIERs' purposes?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Yes. So the DTA is not considered in available asset for PMIERs' purposes. And then the statutory impact of tax reform will be much less, because there are a lot of more restrictions with respect to admitted deferred tax assets for purposes of statutory reporting.

Sean Dargan
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Thank you.

Operator: Thank you. Our next question is from the line of Geoffrey Dunn from Dowling & Partners. Please go ahead.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Thanks. Good morning. Cathy, you mentioned that commutations affected the cancellation rate this quarter. Do you know what that rate was excluding commutations?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Actually, the commutations weren't significant this quarter. They did have an impact. The commutation impact was more significant for the third quarter, the Freddie Commutation Agreement. But for this quarter essentially, the impact resulted from a result of an ongoing process we have with respect to looking at persistency rates by servicer and trying to make sure that all of the cancellations on the singles are being reported to us on a timely basis. And so essentially, the entire increase, most of the increase in our single-premium cancellation that you saw this quarter was a result of that process and dialog with the servicers and reconciliation of our insurance in force and the cancellations on single-premium policies.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

So, effectively a catch up, which also I would assume accounts for the jump and refunded premium?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

That's right.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. And then I wanted to get a better understanding of expenses. I mean, the guidance for no increase year-over-year, I would hope that would not go up. The tech initiative you've been calling out for nearly three years now, is that something that goes down in the next couple of years or is that just the run rate maintenance expense that really isn't a call out anymore?

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

A

Yeah. Hi Geoff, this is Rick. So I think – I'll come back to the technology in a second. Overall expenses, I think we – as we said we're holding kind of our guidance as year-over-year, no change from a other operating expense category. And I think that's reflective of continuing to make investments in the right growth initiatives, but at the same time, taking a very aggressive position about just expenses across the business. And so I think, it also reflects kind of making the adjustments we did from a restructuring on the services point of view. And again, as

Cathy said, we're looking at positive operating leverage in terms of growing revenues and kind of holding expenses tight.

So I think you got that and understand it, I think as it relates to the technology initiatives, there is really some level of expense we make along the way and then there is – that will be ongoing kind of amortization or depreciation of any kind of software costs as we go forward, and I'll think we provided any specific guidance around that, but those primarily relate to our mortgage insurance modernization project, which we're hopefully getting close to the end of that cycle, but they'll still be ongoing expenses associated with that from as we amortize some of the capitalized costs associated with that project.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

So does that remain a – I guess, I'm trying to figure out, you spent over $30 million on this, does that $30 million go down to zero and the amortization cost is in the core line? Or is this just a broken out ongoing $12 million a year expense that should not face down?

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

A

I think we'll continue – we'll evaluate those as we go forward as to whether there's value and breaking that out separately. I think to this point calling it out has been to just identify for analysts and investors to make sure we're kind of indicating where we're spending on some of these items. I do think there'll be a normal recurring part as we kind of complete the final phases of this project. I think the other part of it is – that's we do make – we're making investments in technology across our business. And I think that's an ongoing part of the cost structure. So we'll evaluate the appropriateness of breaking it out separately or not as we go forward, and I'll leave that up to our fine accountants' capabilities of Frank and Cathy.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Thanks.

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

A

Thank you.

Operator: Thank you. Our next question is from Mihir Bhatia from Bank of America. Please go ahead.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Hi, and thank you for taking my questions. Just had – most of my questions have been answered, but just a few quick clarifying questions. If we could start with credit, just wanted to ask about the 2017 vintage on, I think slide 16 of your presentation, the increase in this first year, I guess losses, is a little bit higher, it started off at 5%, some of the others are getting to 5% three years out – later. So I just wanted to ask is that a function of just – you're writing a little bit more higher – is that a credit function just you're writing more higher LTV loans and things like that or is it just too early to tell on that one?

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

This is Derek. Yeah. When you kind of look at those developments, the one thing I'd caution is, movements like that in terms of 100 basis points to 200 basis points is very small and you can have some volatility with respect to that and we've seen that in the past. So depending upon how fast you're earning premium and again that'll affect that ratio. And in particular on the 2017 book, it really is an effect of kind of the hurricane defaults that came into the portfolio, so that was really the driver. And again, we talked about that, overall, it wouldn't have a material impact but we're talking about such smaller numbers here that when you distribute that, it had more of an outsized impact on the 2017 vintage. So that's what you're really seeing there. So if you kind of adjust for that, it's not driven by kind of a change in credit.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you. That's all for – one other question on credit. Just looking at the average reserve per default, I think was around 20,000 adjusted for the hurricanes is what you all disclosed. That's down a little bit year-over-year whereas the average claims paid has been increasing a little bit. And can you gives us – just talk, is there like a natural ratio that normalized ratio, if you will, that should be there or like, I guess what's driving some of those differences in the movement of those two?

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

Sure. This is Derek. So now I don't have a ratio I can give you, but when you look at that, what's happening with the reserves, why those are coming down, that's really a function of the distribution of the defaults and the default inventory. So when you have new defaults come in...

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Right.

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

...you have lower reserves against it, so that's really more of a function of the distribution. You have defaulted or missed two to three payments. So more of the portfolios moving there. In terms of claims paid, it can be the inverse, because you might be paying claims for defaults that have been in default for a number of years. And so you might see those kind of as a default inventories as you clear those out faster from a claim perspective, you might see that come in. And as the reserves kind of [indiscernible] (00:57:24) within the portfolio, we can see them kind of move towards each other, but I don't have a ratio offhand that I can give you, but that's the driver of those two things.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. No, that's helpful. Thank you. And then just switching really quickly to just premium. The single-premium policy you wrote, is there – do you expect without having impact on premium yields going forward, like a bigger impact than you all have been previously saying or is there something else?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

It will have an impact, but it won't be material.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. Okay. And then, just on – just last question on OpEx. If we can go back to that, so you all are guiding to I guess OpEx being flat or not increasing and that's from the $267 million, right, that you showed this quarter, just levels at?

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

A

That's correct. Yes, the other operating expenses.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. So that includes, that call out that I guess, we've just spent a little bit of time on last question, right. So the $267 million includes most of the stuff in the call out already?

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

A

Yeah. Yeah, yeah, it does. Yes, it does.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you. That's all my questions for now.

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

A

Yeah, those are embedded in there.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

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

A

Thank you.

Operator: Thank you. Our next question is from Mackenzie Aron from Zelman & Associates. Please go ahead.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Thanks. Good morning. I'll keep it quick. Just with the net premium yield, just to clarify, are you still expecting this a similar year-over-year pressure that we saw in 2017 or should that start to stabilize as the book gets and then to the position noted to now with more of the high LTV loans?

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

I think that the high LTV loans are helping to stabilize that premium yield decline, but there still could be some kind of fundamental decline that we had, had alluded to earlier had got it too, I guess, with respect to an expectation of 1 basis points to 3 basis points, but that's been a little bit muted given the high LTV volume.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Okay. And then Rick, on the Clayton, I mean, the commentary around introducing the products under one product, I mean, one company, at the Investor Day, you had talked about a potential branding change, is that something that's still on the table?

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

A

Hi, Mackenzie. How are you?

Mackenzie Aron
Analyst, Zelman & Associates

Q

Good.

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

A

So, yes. It's a – look, I think we are – as part of our really building one company, we are – everything is, is being evaluated today from not only our sales organization, how we align our internal groups up, to better face our customers across the board, and across the various products and as part of that, branding is certainly part of the consideration and how we leverage a single brand across the marketplace most effectively. And so, it's definitely part of our consideration and part of our evaluation and I suspect, as we go through the year, we'll have more to talk about on that.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Okay, great. Looking forward to it. Thanks.

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

A

Thank you.

Operator: Thank you. And our final question is from Jack Micenko from SIG. Please go ahead.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Good morning. The servicer review, is that – was this quarter – do you consider this quarter clean up or is this something that's going to continue for a while as you go through and try to figure out the singles that are still outstanding.

Catherine Mary Jackson
Chief Accounting Officer, Senior Vice President & Controller, Radian Group Inc.

A

Yeah, it is an ongoing process, and it's been part of our process for a while now, it's just that this quarter, the adjustment happened to be a little bit larger than it normally is that we called it out.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay, okay. And then the move to higher LTV has been pretty well telegraphed for the industry, but looking at the NIW numbers, it does look like you've moved – you're doing more in the sort of sub-680 and less than the sort of plus 745 FICOs. I guess part one of that question is, is that intentional or is that what the market is giving you? And then two, how come that migration isn't either providing some stability to premium yield or potentially leading to maybe an increase down the road?

Derek V. Brummer
Executive Vice President and Chief Risk Officer, Radian Group Inc.

A

[ph] Hi, Jack. (01:01:52) This is Derek. I would say in terms of the movement from a FICO or credit score perspective, it's been pretty minor, I would say. So looking at kind of that volume below 680, and I think that's pretty consistent with the market. So I don't think there has been all that much movement kind of from a credit store perspective in terms of really from a credit perspective, where you see the pickup is the greater than 95% LTVs. And I think as Cathy alluded to, I think that is providing some stability and offset from a premium yield perspective. But we're not seeing that really from a credit score perspective, because if you kind of look at that percentage of the sub 680 FICO that's really been in that, I would say, kind of [ph] 6s (01:02:34) for some time now, picked up maybe marginally from [ph] 2016 to 2017 (01:02:38), but again pretty small portion.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Okay. And then just one last one for you, Rick. Listening to the commentary over the call in the Q&A, is the right takeaway for us under your leadership that Radian may not be competing as much on market share going forward as there are returns?

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

A

So I'll answer it from a sales perspective. We want every NIW policy that fits our targets. So we're – we want to be as aggressive and well-positioned in the marketplace to make sure we drive growth in our portfolio and create economic value. So I wouldn't take the market share focus away in terms of being in the market and wanting to take as much as we can of the business we want to do. And I think probably everybody would say that, right. So I think – but we do need to remain disciplined and not chase volume for volumes sake.

So our sales team is as talented as any in the marketplace, I'd put them up against anyone. They're all – they are very, very focused on taking market share from competitors based upon our products and pricing and risk return profile. So we – it's just market share is different kind of – it's not market share for just the sake of volume. The market share that fits our profile, which – look, most 99% of the business fits our profile today, so it's not like this was a dramatic change and that we're pulling back. But we're going to make sure we're – remain disciplined and thoughtful about who we do business with that produces high quality volume that we can partner with.

So I would not take any of the heat off of us to make sure that we're doing as much business as we can that fits our profile. So how we put that in the context of market share focus, I want to make sure that we're growing, we're optimizing the growth of our insurance in force portfolio both in terms of size and return.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Appreciate that context. Thanks.

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

A

Yeah, thank you.

Operator: Thank you, and please conclude with any closing remarks.

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

Thank you. Thank you all for joining us today and for your interest in Radian. We look forward to speaking to you in the next quarter. I want to give Cathy, a special thanks for pinch-hitting for Frank today. I thought she did a fantastic job.

And we're sitting in Philadelphia here today, so I hope I don't offend any Patriot fans, but we want to say good luck to our Philadelphia Eagles here on Sunday and hopefully, it'll be a great game and there will be a big parade here but we'll see. But anyway, thank you again, and we'll talk to you all soon.

Operator: Thank you. And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.