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Radian Group Inc. (RDN)

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Mark Dwelle
Analyst, RBC Capital Markets LLC

...RBC Financials Conference, we have the first ever RBC Mortgage Insurance panel. So, you guys are part of history. This is the beginning of something great. And I'm looking forward to hearing what the group has to say.

I think, one of the things that I thought was kind of exciting when we're putting together this panel was, this is an RBC Financials Conference. So, a lot of you are going to be attending sessions involving banks and other types of financial institutions. They're all going to be talking about one world of the economy and the loans that they're generating and so forth. We have the opportunity today in this session to kind of provide a little bit of a cross-check on that, because you see the other end of the loan flow, the little bit further downstream flow.

So, going across the board, we have Tim Mattke from MGIC, he's the CFO there. Next to him is Tom Jeter with Arch Mortgage Insurance, also the CFO there. And then, to round out the panel, we have Frank Hall from Radian, also the CFO there. So, plenty of knowledge here today, and we're looking forward to your questions from the panel. And I'm going to let each of these guys take a couple of minutes to kind of talk about their company, talk about their business, give them a little bit of a soapbox to say what they want to say on their companies, we'll start there.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

Sure. I guess I'll start. Tim Mattke again with MGIC. We're in year 61. We had a big 60th year anniversary last year at MGIC, very proud of being there through a lot of ups and downs, hopefully more ups in the future. In general, I would just start off by saying we think we're in a really good environment right now. I think you'll hear it from everybody in the panel that it's a really good time for mortgage insurance. The credit fundamentals are great. I think the underwriting credit box is sort of where we like it right now. There's always things that you can tweak a little bit. But in general, it's a very good time for the industry. And having lived through the most recent financial crisis, I think we all have long memories about what happened during that and are very diligent about making sure that what the banks are doing and what they're underwriting and what the GSEs are willing to buy that's something that we feel comfortable ensuring. So, we learned a lot during the crisis. We like joke to a certain extent, we paid a lot to get a lot of data. We've got a lot of data from that, but I think we're a lot smarter for it as a company and as an industry, and again, I think the future is very bright where we're sitting here right now. So, thanks for inviting me.

Mark Dwelle

Analyst, RBC Capital Markets LLC

Sure thing. Happy to have you. Tom?

Thomas Harrison Jeter

Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

Yeah, thanks, [ph] Drew (00:02:32), and thanks for inviting me to the conference. Definitely a pleasure to be here. I'll just give you a little bit background about myself and then also just how Arch got into mortgage insurance, a little bit kind of dovetails with it.

I started at Arch in January of 2014 and that was when Arch bought CMG Mortgage Insurance Company from PMI and CUNA Mutual as a joint venture that was dedicated to just credit union business, selling mortgage insurance to credit unions. So, that's really how Arch got an entree into direct writing of mortgage insurance. And I joined at that time. They – Arch acquired not only CMG, but also the platform, PMI's platform and also brought up about 300 employees, of which I was one, and I became the CFO at that time.

And fast forward to year-end 2016, Arch, we thought, it was going great with the CMG asset and expanding not just credit unions but the bank space more broadly and acquired United Guaranty which was a subsidiary – MI subsidiary of AIG that closed at the end of 2016, and just immediately became the largest U.S. mortgage insurer in the U.S. without acquisitions. So, that was – they've been very – Arch was very happy with where the progress was, but just seemed like it made a lot of sense, a lot of synergies, immediate scale. As a result of that, I was just telling Tim, I moved from California to North Carolina. So, we've changed our headquarters there and some of the executive teams also moved. And that's working out pretty well.

Just in general, we're the only MI company that's really part of a larger well-diversified global multi-line insurance company. So, it's a little bit of a difference that definitely having lived through the credit crisis. I think it definitely gives us a different perspective on how we look at risk and willingness to kind of step back at times when we may not be exactly happy.

I agree with Tim's comments that overall, I think in general there's a few elements that we're not – that we're willing to step back from at this point. But certainly, in general, very optimistic about the fundamentals of mortgage insurance. So, I'll stop there.

Mark Dwelle

Analyst, RBC Capital Markets LLC

Great. Frank?

J. Franklin Hall

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

Great. Thanks, Mark. Frank Hall, Chief Financial Officer for Radian Group, headquartered in Philadelphia. Thanks for having us here today.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Home of the world champion. Philadelphia Eagles.

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

Home of the world champion, Philadelphia Eagles.

Mark Dwelle
Analyst, RBC Capital Markets LLC

I thought that's anytime somebody said Philadelphia. That's why I had to finish the sentence.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

That's – I think that's right.

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

I think, that's absolutely right. So, yeah, pleasure to be here today and pleasure to be talking about Radian in the context of mortgage insurance business. We are a diversified mortgage services company. We'll talk a little bit more about that later on. We've only been around for 40 years. So, you've got a few years on us, Tim. But for the 40 years, we have our largest high quality mortgage insurance portfolio with over $200 billion of insurance in force.

I do want to mention we have made some recent changes to our executive team, which I'm excited to talk about with the addition of Eric Ray who lead our Technology and Transaction Services; and the promotion of Derek Brummer to lead our Mortgage Insurance and Risk Services. Eric has over 30 years of industry-leading technology experience, and we're glad to have him on the Radian team.

And I would just echo some of what Tim and Tom have mentioned about just overall credit quality, and I think some of that certainly came through in our 2017 financial performance. We had a great 2017 adjusted pre-tax operating income up 14%. We're frequently cited as being a legacy player, but 92% of our risk in force is actually post 2008. We had a great year as far as capital management. One of the highlights being an RBC-led new $450 million seven-year senior debt...

[indiscernible] (00:06:24)

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

Yeah, that's right, that's right. I'm happy to give credit [indiscernible] (00:06:27). So, no. So, it was a very good transaction, and certainly very happy to see that's executed so well. We also increased our operating company PMIERs cushion to 14% at year-end. Restructured our Services business, which we'll talk about in a little bit. And probably one of the things I'm most excited about – and I joined Radian about three years ago from commercial banking, so it's good to see some old friends here today. But one of the things that Radian has done recently is to launch an enterprise sales team, which is a way for us to effectively present the products and services of Radian in such a way that it's – that it has more value to our clients more so than just the traditional mortgage insurance. So, happy to be here and thanks again.

Mark Dwelle

Analyst, RBC Capital Markets LLC

Okay. I guess, we'll move now to kind of the Q&A. And I'm going to exercise moderator's prerogative to ask the first couple, but definitely start thinking of your questions as we work around. What I'm going to do is, I'm going to ask a question, and I'm going to direct one of these guys to kind of hit the ball off the tee first, but then definitely the other two jump in to add on, pile on, differ, whatever, a good rousing discussion that always makes for the best show.

QUESTION AND ANSWER SECTION

Mark Dwelle

Analyst, RBC Capital Markets LLC

Q

So, I'm going to lead it off. I mean the question that I get a minimum of once a day, somebody will call in and they'll say, hey, I've been noticing these interest rates are kind of starting to rise, and like who hasn't? And so, what role does interest rate have on the MI business? At what point do mortgage rates become so high that it actually hurts you? Are we still in the sweet spot? Can you just talk about when you look at rising interest rates, what you think about what your worries are, what your opportunities are?

Timothy J. Mattke

Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

Yeah I guess I'll take a stab at that. I think in general, when we think about a rising rate environment as long as it's not big shocks to the system, a gently rising interest rate environment is generally good for our business model. You have less people who can refinance out, a lot of times when they refinance and they're looking at potentially dropping MI coverage.

So, our sweet spot, our view is slow home price appreciation, moderate, sort of slow increase in interest rate environment, because then the [ph] loan stay on (00:08:50) longer. We get a 4 or 5 times multiple as far as the persistency and how long we have a loan on the books, get the premium from that. The home price appreciation helps mitigate losses, and just the overall economy being strong and, I think, interest rates rising is somewhat a signal of the economy being strong as well.

So, when you think about the things that worry us, quite frankly, rising rate and interest environment is not something that worries us too much. We think it's a sign that the economy being strong and plays pretty well with the product. And then, you look back from historical standpoint and say where interest rates are right now and obviously pretty long-term historical, they're still relatively low. You still have to be worried about with people who are first time homebuyers who are main source. It looks high to them compared to what they have seen over the last couple of years, so you can't ignore that.

But again, in general, I think we feel very good even with interest rates rising a little bit. It could dampen the origination market. But again, our premium comes from an in-force book of business. So, if we get NIW, New Insurance Written, that's from a whole bunch of refi activity, and all we're doing is turning over our book of business to the extent we have also refi volume, MI normally plays very good in the purchase origination area that we feel that it's still good [ph] environments to be playing (00:09:58) and something that you shouldn't be overly concerned about.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Anybody who want to pile on, on that one?

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

Well, I'll just really briefly say, I mean, Tim definitely covered it. I would say also and we agree that some rising rate environment, I think, I've been wrong about the low point of interest rates for at least five years, but I've been experiencing it for 30 years. I think my first mortgage was in 1989 for 10.125% and I thought that was a good mortgage...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

10.125% in...

[indiscernible] (00:10:24)

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

Yeah. I was excited about that. So...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

And I had MI on it too.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

That's right. But certainly I think rising rates, as long as it continues to be affordable, will make a lot of sense. It has influenced the extension of the policy that Tim was talking about. It's influenced our decision to kind of back away from single premium product. We think that product is a bit of a discounted product to begin with. And by extending the duration, you just get that premium upfront. You never get any more by extending it several years potentially or longer. You could – your ROE on that product is just a challenge.

And so, we've given up at least 2 points of market share in 2017 on that product, as an example, just because of our views on interest rates.

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

A

Yeah. And I would just add some complementary points to the points just made, certainly as it relates to persistency. In every 1% increase that we see in persistency translates into about $2 billion of insurance remaining in-force each year, which represents about $10 million in annual premium revenue and about $7 million in net earnings. So, that's about $0.03 a share for us per year just as that persistency increases.

And then, the other point that I would make, because I know interest rates are typically cited in the context of affordability. And so, as it relates to affordability, on a 30-year mortgage of a $250,000 loan, a 50-basis-point increase in rates, increases the monthly payment by only about $70 per month or approximately 6%. And so, we believe there are broader macroeconomic trends that have a greater influence on home price affordability and the purchase decision than just interest rates alone.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

That point actually leads perfectly into my next question. Now, I'll let Tom take this one first. I mean, last year was obviously – you all said it in your opening remarks, last year was a pretty good year and at least in the early frames of 2018, it looks like it's shaping up to be another pretty strong year. What are the key macro variables that you're focused on?

What – if I'm an investor and I'm worried about the market starting to turn the wrong way, let alone turn the right way, but turn the wrong way, what would be the things that you'd be keying on? What would you be watching for? What are the early warning signs? What are the key variables that you use when you try to drive the bus?

Thomas Harrison Jeter A
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

Yeah. So, we look at a lot of different tools in a lot of different factors. One of the things that we've published quarterly, our economist, Ralph DeFranco, just in January published the Housing and Mortgage Market Review, we call it HaMMR. It's a real insightful piece that kind of delves into a lot of areas. One of the things we publish is the Arch Mortgage Insurance Index, which takes [indiscernible] (00:13:15) to the MSA level and predicts over the next two years what the probability of a decline in home prices are. And it takes a lot of fundamentals like housing price, houses that are for sale in that region, the unemployment rates, just a lot of the fundamentals within that specific region, and then projects out is that what's the likelihood of a decline in the next few years.

And right now, the vast majority of the MSAs in the country, about 400 or so, are showing a low probability of that happening and that's – it's been one of the best kind of scores that we've seen. There are some regions that are kind of oil dependent states, the oil attraction states, like Alaska, North Dakota, Wyoming that are a little bit more of a moderate probability that we could see 20% to 30% potential decline over the next two years. So, that's something we watch and we also look at something that is called fundamental value where you index the change in home prices back to changes in PCI, Per Capita Income, over a long period of time.

So, Per Capita Income rises, home prices rise. So, it's very much a relationship that is meaningful. And so, you could see going into the crisis that we had a significant bubble. The fundamentals were well out of whack, well above what was affordable from a PCI standpoint. And that corrected and we've been kind of slowly getting back to the average, the mean, if you would. And now, I think just in the last couple of quarters, we've actually gone to the fundamental price and maybe even slightly above. But on balance, that's a very good – that's good. I think, it is – there is some potential for declines, but I think back to our Risk Index score that we were talking about, it looks – we're pretty sanguine.

That said, we're also mindful of things like the tax reform change that was big. There are certain – the metro – New York Metro Area, California where I left a lot of friends and whatnot. But New Jersey and Connecticut, these areas will be impacted somewhat negatively because the mortgage deduction, the interest deduction is certainly changing and the property – the local – state and local taxes that you would be able to deduct are changing.

We're estimating that's going to have a negative drag on home prices in those regions by about 1%. So, if it was going to go up 2% next year, we think it's only going to go up 1% as a result. Now that's an estimate, but we do think there is some negatives there. But the vast majority of the country will be...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

It's a good way to think about it in a market that's been rising. That's what I hear all the time is, oh, these guys are going to be killed by this. But if the market was going to be plus, whatever, 4% or 5% nationally, I mean, if these guys are impacted, that might still only be a plus number, but maybe just a smaller...

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

It's little bit of a dampening effect...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Yeah.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

...which is not necessarily a bad thing. And, we are estimating about a 4% nationwide increase in 2018. I mean, it's about six-and-change in 2017. So, that's a very robust. If anything we'd like to see it kind of have a chance for the Per Capita Income to catch up to that, there is wage growth a little bit, but we want to have that back. We want both going up kind of at a measured pace.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

The other thing you brought up and I thought it was a great point was, just – for guys that had been around a long time, we remember when we used to always think about real estate as a regional market and a local market, it was only the financial crisis that made us all think about real estate as kind of a national problem with all the prices going up, all the prices going down in such a dramatic way. But it is a regional market, that's where the loans are made, that's still how it all operates. And looking at it on that granular basis, we might see something nationally that's a trend. But there'll be still plenty of markets that are humming, even though there might be a few that we want to call out as weaker spots.

Anyway, I just want to add on that. I mean, that was a pretty thorough response but...

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

It was, but maybe just to emphasize that final point, I think, sometimes, a point that is lost on people looking at the MI industry in particular is that the headline cities, if you will, San Francisco, as you think about the penetration of private mortgage insurance as it relates to what a qualifying mortgage is in that market with home values where they are, it's very small. So, I think it is a – it's a layered analysis that you have to do when you're studying an MI company in particular, because if you look at the MI penetration across the entire mortgage origination market, it is such a small subset, it's roughly 14%. So, it's important to understand to your point the details of the particular markets that you're looking at and the particular risk distribution that each company has across the country.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

Yeah. The only thing I'd add is, I think, it's looking at sort of – I agree with Tom, we look very closely at what's happening with home price appreciation versus income, and trying to make sure they're in line. There's going to be some areas that get a little bit out of whack. But I think the thing coming out of the last crisis is understanding also what's fueling that. And I think in a lot of those areas< it's because of good job [indiscernible] (00:18:07) things that are happening versus easy access to credit. And I think that's the thing that we also have to obviously watch as far as warning signs is.

As the credit boxes potentially expand, where does it expand, what doesn't seem right from a layering of risk standpoint, because you don't want to make – you don't want to set people up for failure as far as trying to get into homes, buying mortgage insurance, buying the first house and not being able to afford it because of some shock to their own sort of life situation.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

That actually leads us very neatly into the next – the last – the last question that I'll have and then we'll go to the floor. I mean, a lot of the people in the crowd are going to be meeting with bank managements and sit in presentations where the bank managers are going to say how great their credit quality is and all of that. And you guys have a very unique window on credit quality. You're effectively downstream users of their ability to underwrite correctly. So, I'll pose it first to Frank. I mean, what are you seeing in credit quality now? How do you see that compared to couple of years ago? How do you differentiate amongst the banks that are kind of delivering the same old great standards versus those that are starting to strike zone, starting to get a little bit wider? Maybe just talk about what you're seeing there.

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

A

Sure. So, certainly as it relates to the credit quality overall, as we said, it's a fantastic environment for mortgage credit. The qualifying mortgage rules certainly contribute to that. And even if you look at emerging trends and, for instance, 97% LTVs, the underlying FICOs for most of those is very strong. And when you compare it on a pre- and post-crisis basis, we're still talking about something less than 100% LTV with high FICOs, fully-documented. So, the underlying quality of the mortgage credit is so much higher than it has ever been.

That being said, there's still an opportunity for a portfolio to maybe get a little [ph] SKU (00:20:07) on certain risk attributes and you've heard Tim and Tom both mention the layering of risk and that's certainly something that we're mindful of as well.

So, at Radian, we have a lender segmentation analysis that we go through that looks at a multiple variables with the overall relationship returns or with the mix of production as what the manufacturing quality looks like. So, all of those attributes factor into our assessment of lender quality, if you will. And so, again, overall very good. But I think what you have seen and I think Tom made the point earlier about being disciplined, about taking on the risk that you want to take on. And so, you've seen many of the MI companies come out recently with a mandate saying that for high DTI, greater than 45% DTI loans with low FICOs.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

So, tell everybody what DTI.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.
A

Well, I'm sorry, debt-to-income...

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Yes, got it. Most of these guys probably get it, but it's probably like one guy and I wanted to help him out.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.
A

I told myself when I joined Radian, I would not adapt – adopt all of the acronyms, but here I am. So, but anyway, so greater than 45% debt-to-income ratio with a low FICO, with a high LTV, loan-to-value ratio. And Fair Isaac's – somebody can help me...

[indiscernible] (00:21:33)

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Everybody's got one.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.
A

I appreciate that. So, when you look at that layering of risk, several MI companies have said, this is a risk that we're not willing to take. What Radian has done that is slightly different is, we have applied it only to the single premium product, the lender paid single premium product. And the reason for that is, as Tom mentioned, the return attributes of that particular product are lower. And so, that lower pricing coupled with that layered risk is not suitable for our risk appetite. But I would say that is dealing with a very small subset of the production. Overall, the production continues to be very high quality and something that we are very pleased with. And again, the majority of our $200 billion insurance in-force portfolio represents that very high quality business and yeah.

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Tom?

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company
A

Yeah, I'll jump in. So, I agree with Jeff's (sic) [Frank's] (00:22:35) comments. Certainly, we were concerned a little – I mean, with a purchase market versus a refi market, refi markets tend to have lower LTVs, even higher FICOs. So, we are definitely in a purchase market. So, we're seeing that naturally. So, that's not concerning. You are seeing people those stretch for that initial home buying ability, that first time homebuyer and that's why you're seeing the 97s and above in some cases, and you're also seeing the DTIs of 45% and above. It's just those first time people just trying to get out of gate, become a home buyer.

And so, a little bit concerning there, we're – we approach layering our risk a little bit different on the front end. We have a multi-variant pricing engine called RateStar that we launched. UG actually had one – a similar engine.

Now, we have – we've kind of merged in, we have the one. And so, we like that because we're able to distinctly charge a much more granular level for the risk attributes that's coming through.

We are expecting some increase in risk attributes, the laying of risk. I mean, it's a natural progression. It's – things have been unbelievably good for a while now post-crisis. But I fully expect that credit box to widen, okay?

And as we go down that path and we're seeing a little bit of it now, I want to be able to charge more distinctly for that to have a higher price. That way, I'm not necessarily going to win it, somebody else might win it, but I don't have to use the [ph] blend (00:24:02) instrument of a credit overlay sometimes and go to my customer and say, no, we can't actually do that. I'd like to say more nuance, with a higher price, I'll take it. So, if I can price for it adequately, I'll take it.

Now, that said, I don't want the whole industry's greater than 45% DTI. So, we got to – we'll have to evaluate that as we go. But, I think, from our standpoint it's a very important way in which we approach risk management is to be able to price at a little bit more granular level than the rate card would present.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Tim, anything to add?

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

No, I sort of pile on to what they said. I think going back to the interest rates, I think the one thing that we watch for is, as interest rates go up a little bit, the refi volume drops down. I think you get originators who look for ways to replace that volume. And so, I think it's logical to think that they're going to look for expanding the credit box as a way to do that, and I think it's part of our industry responsibility to understand what risk is good and take it or not take it, price for appropriately. But I think, as Frank was saying earlier, the [ph] greater than (00:24:58) 45% DTI was a perfect example of where Fannie Mae open up sort of the ability to originate that. I think people want in pretty heavy into it at that point. And as an industry, I think we sort of took a step back and said, this just doesn't feel right.

The reality's performance on that in today's environment is going to look very similar to everything else, because everything is performing very well. But as the environment potentially gets any worse, there's going to be more variability around some of that risk layering. And so, I think it's important to keep an eye on where it could go and not just where it is right now.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

And at the end of the day, it's really all about underwriting, right? I mean, the banks are going to do their underwriting, that's their job, that's what they're supposed to be good at, most of the time they are. But then you guys come in on top of that, and by setting your boxes, by setting your standards, that's where – there's not necessarily bad loans, there's just bad prices for the loans that you are taking. I mean, that's really what it comes down to.

Let's go to the crowd. Who's got a question? Come on, somebody's got to have a question. This guy's got a question.

Q

[indiscernible] (00:26:04) A question about Genworth. What do you think, first of all, clearly lost share over the last year, what do you think the biggest points that your customers are saying as to why they might walk away from [indiscernible] (00:26:20) to use Genworth less? Is it their balance sheet risk or is it just [ph] they didn't (00:26:24) really know what's going on with the situation, they don't want to be involved with the mix-up? [ph] Can you try and (00:26:29) explained what the conversation with the customer is [indiscernible] (00:26:32)?

And then second, are there opportunities – are there further opportunities down the line, whether it's M&A, they clearly want to sell assets or further competitive [indiscernible] (00:26:49)?

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. This is a tricky jump ball here. So, if anybody wants to volunteer? The question, just to repeat for everybody, focused on Genworth, what their position in the market is, how you might opportunistically...

[indiscernible] (00:27:04)

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

I'll go first. Others can jump in. I'm happy to go for the first one. I won't be long, but I mean, just – I mean, the market hates uncertainty. There's a lot of uncertainty with that transaction, whether that will go through or not. They're an approved GSE mortgage insurance provider and that's really the difference-maker. That has been the biggest – I think, that the customers, I think, value more than anything right now or even through the crisis [indiscernible] (00:27:29). So, ratings haven't been a big differentiator certainly through the crisis. At some point, it will matter again maybe and maybe there'll be more of a differentiation on balance sheet strength and the lack of uncertainty.

But so far, I think, they've been able to maintain their share pretty reasonably, given the circumstances which I would expect given their GSE approval. If that were to come at risk, I think, all bets are off absolutely. But it is a struggle. I feel like I've been there because I have been there, in my PMI days, for different reasons obviously, but it's – the market definitely doesn't like uncertainty. But with that GSE approval, I think, they're going to be able to do business from a mortgage insurance standpoint.

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

A

Yeah. I would agree. And maybe just to take a small tangent from the question, PMI really has been, I think, a fantastic requirement for the industry and it did create that level playing field. And to Tom's point, that really is what's going to drive their ability to – from a technical standpoint to generate business.

Now, at the practical level as far as how each client is marketed to and how each sales force manages it, of course, elbows are sharp in the sales team, right? So, you're going to look for any edge you can create. We like to think that Radian has the best sales team, so we'd like to think that we we're going to grab share from everywhere. But as it relates to Genworth in particular, it's certainly a challenging situation with uncertainty, as Tom suggested.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Anybody else on the audience? Come on, this is an easy topic. There ought to be 100 questions out there. All right. Well, and I've got another. I'm going to come back to you, Tom. You mentioned your RateStar product, the multivariate pricing model, you guys kind of surely originally I think Arch, or maybe it was United, I don't remember the timeline exactly, but definitely, early pioneers in kind of putting that into the market. Let me just talk about how the banks respond to like, hey, we've got a new idea about how to do this thing and how the model works in general without spilling the trade secrets, just kind of what's involved there? How does that push the discussion forward?

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

Sure. So, United Guaranty was the initiator. They were the first to introduce that kind of multi-variant pricing engine, and that was in 2010, just post-crisis and I think they've kind of plowed the road for us – as far as getting that customer acceptance out there, because banks don't like new things.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Really? Did anybody come across [indiscernible] (00:30:23)?

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

I don't know why that is. System compliant – constraint is a big issue there but certainly, as people have evolved into being able to use mobile devices and technology to obtain quotes and things like that, it's kind of a lot easier and the barriers have certainly come down tremendously, I would say. We like it just because if you can price it – there such a thing as a bad loan that you can't price for. I would be a little contrary to like...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

That's fine.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

...limited doc loans for instance, I don't think I want to write an MI policy on those in my lifetime. But in general, the things like the higher DTIs and the higher – some of the other variants that aren't necessarily part of the traditional rate card, we think there's an opportunity to be able to price up for that and just on a more granular basis. So that – right now, we've lost certainly share because we've had a higher price I think in the fourth quarter, in particular the DTIs that are – the high DTIs are coming through in a bigger part of the origination channel right now.

And so, that kind of impacted the fourth quarter a little bit. We saw our price is higher. We lost share. It's not a perfectly elastic market. You don't always win with the lowest. You don't always lose with the highest price. There's a lot that goes into its sales efforts certainly and services that are being provided. I mean, it's a multi-dimensional relationship with customers but ultimately, for us, just having a little bit more, being able to price further risk more on a more granular basis we think is a good thing.

Rate card gives you a traditional number of possible prices. It's about [ph] 100 (00:32:04) or maybe a little bit less. Our rate engine is more like over a million and in distinct prices, and we think that's an advantage and it also allows us to shape our portfolio in areas that we want. So, we win the business we want and maybe lose a little bit more frequently that we don't. But again, if we're winning and we're getting price – and we're getting the right price for it, we're generally going to be happy with that so long as we're not kind of becoming too much of a good thing in certain areas that are higher risk than others.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Maybe I'll chase that point as one to just kind of expand the strike zone here a little bit for Radian and MGIC. So, I mean, I think, one of the things – I know when I was learning about the industry and I'm probably the most novice here, that's why I get to ask the questions, the thing that was kind of fascinating to me was kind of the whole relationship aspect of this.

I think people have this perception that it's like, oh, [ph] it's just the (00:32:57) price, and so these guys always win. These guys always lose. But it's – it's a much more robust relationship between yourself and the lenders. We'll go to Tim first and then over to Frank. Can you just talk about that a little bit kind of more holistically? I mean, the rate's obviously, one element of that discussion but obviously there's much more to it.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

Yeah. I think the rate, it's obviously going to be something that the bank considers. But I think in general, I think, the view is, as long as we're within a few basis points of everybody else, then it's about the customer service and the relationship. And all the organizations have sales teams and that's what it's about, sort of the everyday execution, whether it's underwriting, whether it's making sure that they get that loan underwritten that they want to make sure they can turn around and not lose it to the competitor, making sure from a claims process that goes smoothly. So, all those things I think are things that we look at, and that's what we try to sell to the originators.

So, price is one factor in it, but what our salespeople always say, if you – if we're in – if we're in range, then we're in an even playing field, we're out there competing and we feel very good about our customer sales team being out there and calling and selling the broader relationship. And quite frankly, that's generally an easy thing to do with a lot of banks because they view selling their relationship with their customers as something they do every day and so you talk about that broader relationship. We sort of view ourselves as someone who's been there, through thick and thin, been there in the long run, so you might have certain customers that might want to move away from you for a little bit, but they sort of come back.

I think – again, price is always going to be an issue, and they're going to want to try to make sure that they're not in a competitive environment against their own competitors. That's why it's important to them. But it really comes down to a broader relationship in understanding sort of that dynamic. It's a lot of things, even down to, they get comfortable with your systems, getting hooked up, what's your security around that. So, it's a much broader relationship and deeper relationship than just price for sure.

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

A

I couldn't agree more with that statement and I think it's what makes Radian unique among the MI players in particular because we have a broader array of products and services that we actually market to our lending clients and others.

So, I mentioned earlier that we have repositioned our sales force to be an enterprise sales force, and what that effectively means is that when we go meet with our clients, we're presenting more than just mortgage insurance in that discussion and we're having conversations about ways to help them with other risk management ideas with other settlement services such as title. Things that could be relevant throughout the lending or throughout the financial institutions organization. And so we think that, that creates a stickier relationship certainly, one that brings more values to the client, and we hope it will make people think of Radian first in that regard, because we're solving more than just one problem for them.

So absolutely the relationship is important and so, we're trying to lean into that with that broader set of services.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

So that sounds like a pretty good advertisement for doing more services businesses.

J. Franklin Hall A
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Thank you.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

What about you guys? Are you doing services, are you looking at services? Do you want to do more services?

Timothy J. Mattke A
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

We have historically – we haven't had sort of a separate brand. But we do contract underwriting services for certain lenders. We do a certain data, I guess, analysis to help some different lenders. It really depends upon the lender, what's the value.

I mean, for some of the bigger players, quite frankly, they've got it in-house, they've got what they need, especially when you get to sort of the smaller, mid-tier. Those types of things I think can matter. So historically, we've offered some of those services for those that makes a difference. So I think it's important to have that broader relationship in line, understand what the customer needs, what the customer wants. I think we've found it tough to really leverage it from a profitability standpoint in that area, but I think it does help with the broader relationship from selling mortgages.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

Definitely some differences in margins there. What about...

Thomas Harrison Jeter A
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

I mean we look at things – I mean, certainly, we offer contract underwriting for those customers that require it. I mean, we're in listening mode, what our customers want and require, if the competition – they really like something about another MI provider and they want us to provide it, we're going to consider that. But so far, we're not invested heavily in that side of it.

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

A

And we'll just point out one other differentiating point of that, when we talk about the relationships that we have. We're talking about more than just financial institutions as well, so we have about 1,500 mortgage insurance customers, we have 500 customers of our services business and thousands of relationships with realtors as well, so. So the opportunity for us is really to present things of higher value to all of those customers in a way that makes sense for them and creates value for our shareholders.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. I think there's a question over here.

Q

Radian earlier disclosed the vintage of your [indiscernible] (00:38:02) portfolio, you said 92% is post 2008?

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

A

Yes.

Q

Can I know what is Arch's [indiscernible] (00:38:06)?

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

It's a good question. I think we're like [ph] 12-ish or 11% (00:38:15). I get it. My binders are over with my colleague here, I can check with you, but it's one of the lowest in the industries. That's a non-legacy player. So we're very – I think we're closer – maybe just above the double digits perhaps, but it's a very small manageable legacy exposure.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

And we're slightly higher than them. So we'll be probably just under 20% as far as the legacy.

Q

Thanks.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Anything else from the crowd? I can't believe this crowd; this is a smart group and you missed the most obvious question so I'll go ahead and ask it. Let's talk about the GSEs, potential for reform, we've got the FHA running at – like a minute amount above their minimum capital requirements. What do you see in there? I mean, do – are you hearing opportunities for reform or is the FHA going to create some business opportunities for you? Tim, maybe take that one first.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

I mean, I think, specifically to FHA, I think there's a lot of rhetoric out there and I think we're hearing a lot of good things in general about focus on what the risks that FHA has taken and quite frankly, when we look at it, we think from DC's perspective, they have to think more holistically. There's always been times of period where they say, well, we want the GSEs to shrink. Well then, business just shifts over to FHA. We want FHA to shrink, well, business just shifts over to the GSEs.

So, I think that the good thing is, we're hearing people talk more generally about it and I think for the first time in a while, I think we have people who are willing to listen about FHA and what does that mean – what capital should they be holding? Should they be taking on risks that the private market is willing to entertain? I think us as an industry, we think there's certain pieces of what they service that we think that we could do, others could do.

And so you hear, I think, FHA talking a little bit more openly about maybe copying things that the GSEs have done as far as risk-sharing, being more open to those types of things, which is all good. I think it's tough when you have momentum and they've been doing what they've been doing, so it's always tough to sit back and have a conversation of what can you actually put in place. So, I don't think anything is going to change overnight, but I think it's good to have the discussion and have people willing to listen and have that dialogue.

And I think with some of the things that GSEs have done with the risk-sharing, I think it gives somewhat of a blueprint for FHA to think about it. And again, I think it's generally good to think about if we've got cap requirements for the private mortgage insurance industry, how does that pertain to FHA? Why are there differences? And why would you want to have a lower bar for FHA and have the tax payer more at risk, which is obviously something that's I think forefront on a lot of peoples' mind is trying to reduce the potential burden to the tax payer.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Yeah. We would all just assume not watch Fannie and Freddie and all the rest get taken over again. FHA was the – I mean, I guess it wasn't public like the other two were, but it may as well have been. I mean – I suppose it's – rather not see that again. What about the rest of you guys?

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

A

Let me jump in. Just go online. So, I would just say, I think they're doing a lot already. They have been putting – getting – being an aggregator of risk on the front end and then seeding it off to the private markets, to the capital markets. So, I think that's all really good and they're not getting a lot of credit for that – or maybe they're getting some credit, but – so they're definitely lessening the exposure; if things go bad, they've got a lot of safety nets that they're putting in place, putting other people's balance sheets to work through various structures, both capital markets transactions and also reinsurance transactions and we think that's all very positive.

I would just say there's a lot of inertia – inertia is the most powerful force in the universe that I've seen and so the status quo has it can be very appealing and they have done a lot to kind of limit the downside, if things were to go sideways again. And if they're sending money up to the treasury, that's going to make it even more politically challenging to turn that off. When the checks start going in the wrong direction, I think the political will come back.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

Which is what we just saw last month.

J. Franklin Hall A
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Well, because of the tax...

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

Sure, it was kind of a...

J. Franklin Hall A
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

It's sort of a phantom.

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

Yeah. It's kind of fake...

J. Franklin Hall A
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Yeah. It's a fake...

Mark Dwelle Q
Analyst, RBC Capital Markets LLC

Fake money. I think that's what it is ...

J. Franklin Hall A
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Right. That's right. But if you have that on a continuous basis, right, it was not just a one-time kind of fake money transaction, I think then you'll see the political will return.

Thomas Harrison Jeter A
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

Yeah. And I would just add to all of those points. What we're most mindful of and are confident that it will continue is that Washington appreciates the important role of permanent private capital in the system here, and private mortgage insurance really is the only proven and committed source of permanent private capital. And so, we would hope to see that that stays as part of the solution.

And back to Tim's point about FHA in particular, and I think the opportunity that exists from a growth perspective for private MI; roughly 16% of their business today is a high FICO above 720, right? And I think that that skewed production if you will, or volume that they're getting is still a remnant of the crisis where they were the only game in town. And so, I think as we continue to educate realtors and lenders and others about how, for their clients, there's going to be better execution with private mortgage insurance. It's possible that some of that 16% could come back our way where there really is better execution, better value for the borrower.

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Anybody? Anybody? All right. Then the other – I mean it kind of got raised in the course of that discussion and – just the whole role mortgage reinsurance, reinsuring the GSEs, there's kind of a whole world of, I'll say, recently created opportunity. I know Arch was one of the early pioneers in that and maybe you can talk about them. I'll let you start off first, Tom.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company
A

Sure. I mean certainly, reinsurance is becoming more and more prevalent within the mortgage origination space and certainly the GSEs have been a big part of that. They've started issuing those credit linked notes and then also reinsurance transactions that – so, approaching the capital markets to get cash collateral for losses and kind of seeding off – keeping the kind of expected losses and seeding off the unexpected. And we think that's a real positive sign and a good use of the balance sheets of others basically in the private capital.

And we're also seeing it in the MI industry, seeing almost everybody using a quota share reinsurance, which is really just a good way to deploy and kind of use somebody else's balance sheet. It really kind of a vertical slice, so whatever you're putting onboard, but I'm also interested and certainly one of the thing that Arch looks at is more of an aggregator of risk on the front end, using kind of refined tools like the RateStar pricing engine that I was referencing, but then also seeding off on the back end and not just through quota share, but more so on a more remote level or remote basis, kind of the unexpected loss.

It's one of the ways that we manage our tail exposures. There is volatility caused by significant cat events or significant declines in home prices, that unexpected loss scenario that we don't want to share with our shareholders. We want to go ahead and approach using various transactions. We've been issuing some Bellemeade transactions that are a kind of a cat bond, if you would, if you're familiar with that. So, you're just – you're attaching at a higher level of loss, not expected, but just an unusual event. And in that case, the bonds will absorb those losses, in essence. That's a very effective tool to remove the volatility from your income statement. And so, we use that as a risk management tool to help just to reduce the volatility, I would say.

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

I find that really interesting. My background is more P&C insurance oriented. And so, when you guys started doing some of that, coming out with a PML or probable maximum loss related to your MI book, I mean, that was a concept that as a P&C investor, that resonated with me a lot. It helped me put some sense around what I was seeing. I think as for some people who're maybe more MI and specialty finance banking kind of people, it's an interesting concept that I certainly myself I hope to see propagated more widely over time.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company
A

Yeah, I'll just add to that. PML is an interesting concept. That doesn't translate very well to mortgage insurance. We've changed it to a realistic disaster scenario which is a...

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.
A

Yeah, it's the same idea.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company
A

...fundamental decline in home prices of about 25%...

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Good clarification.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company
A

Exactly, yeah.

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Frank, you guys do some mortgage insurance as well; maybe talk about your strategy in that area.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.
A

Sure. So, the reinsurance that we utilize is product specific. So it's for a single premium product only and we do it for a couple of reasons. One, certainly it's a very efficient form of capital, low cost capital for us, but it also helps us manage the overall risk exposure to a particular product and it also helps us deal with, I would say, client-specific issues in so far as we've got a little bit of a shock absorber, if you will. If production gets – as far as the mix of production between monthly and single premium product ebbs and flows a little bit, it allows us to view it really from a longer term perspective. It certainly enhances the return of that particular product.

So, I think as you look at the single premium exposure, I know it has been a concern of many that study the industry. And in our portfolio, we have a 31% roughly gross single premium exposure, but on the net basis that's actually 19%, which is relatively low. And for our last quarter's production, our NIW was roughly 21% single premium product on a gross basis. It's 8% on a net basis. So we're very pleased with the relationships that we have with our reinsurance [ph] panels (00:48:27) and what it's done for us both strategically and from an overall financial statement and risk management perspective.

Mark Dwelle
Analyst, RBC Capital Markets LLC
Q

Tim, anything else to add on that?

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.
A

I think it's amazing how it's evolved. I remember going out, I think, in February 2012 and trying to get our first quota share reinsurance deal in place with – and going to Bermuda and...

Mark Dwelle
Analyst, RBC Capital Markets LLC Q

I think, Arch did it. Didn't they?

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp. A

No. No.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company A

Not that one.

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp. A

...and having meetings where you're doing MI 101; and trying to get people comfortable in the space again. But quite frankly, they saw a lot of what we saw as far as the originations and how good the credit box was and sort of a good tailwind coming; and were able to finally convince people to get onboard. And so, I think it's evolved, I think the capital markets, the Bellemeade transactions are great.

I know back in 2006, 2007, Radian and MGIC were doing similar cap-on-type transactions. So I think it's good to take off the tail risk. You don't know if it's always going to be there. I don't view that as [ph] sticky (00:49:26) as sort of the traditional reinsurance and I think the thing that we always have to be conscious of. I agree with what Frank said before; I think the dedicated capital sort of through the cycle that the MIs provide is critical. The reinsurers are very good partners and can be here and play through the cycle, but they're going to have periods where they are a little bit less interested in taking the risk and a little bit less interested in what the price is for and I think the same thing with the capital markets.

And so I think it's a great tool, especially right now, although all of us should utilize it. But I think we have to be cognizant that it's not always going to be there or at least at the same cost that it is right now.

Mark Dwelle
Analyst, RBC Capital Markets LLC Q

All right.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company A

I'll just add that's one of the elements that we like, that feedback loop. Because once it's not there, or once we get that feedback, and if we approach it on a kind of a periodic basis then that will be a sign to us that the kind of things are shifting. Just another perspective, so...

Mark Dwelle
Analyst, RBC Capital Markets LLC Q

No, it's definitely true. I know from my P&C background that if you lose that loop of somebody basically saying, hey you're doing a great job, yeah we'll be happy to reinsure you. It goes back to grade school when you get a report card, right? I mean, somebody says you're doing fine, then at least you have some reason to think you're doing fine.

Got time for about one more, unless there's another one from the crowd. I mean, the last one is really, I mean, it's kind of a – I hear this old saw all the time, mortgage insurance is great for 19 years and then for the next two years it's awful, and then it will be great for 19 years again. So, arguably we are – we could be as late as year seven or eight in that run if that is, in fact, an old chestnut that's true.

So I'll throw it open and we'll kind of go down the line. I mean, as appropriate, what have you learned, what's different this time, how will you avoid the next downturn, whatever that will – they all come in different shapes and sizes; how will this time be different for the MI industry since we have literally 60% of the market share of the industry right here?

Timothy J. Mattke
Chief Financial Officer & Executive Vice President, MGIC Investment Corp.

A

The next crisis will look different. I mean, I think you mentioned it earlier. I think previous to the last one, we all thought about regional recessions and then it became now it's a national home price – the next one is probably going to be something more regional-economy based. But the reality is, we've got a lot of good data out of the last, we've got tools, we've got models; I think we all feel smarter because of it. But it's not going to look exactly the same way. So it's not going to model the same way. So I think it really comes back down to the fundamentals of the underwriting, understanding the box that's out there, understanding where are the potential bubbles forming.

I think, what's different? I think QM has really regulated to certain extent, some of the credit quality of how origination is done and so I'm hopeful that that will elongate the cycle because of that because there's just less product to build up to sort of inflate prices, I'd say, unfairly, that [ph] get it sort of ahead of themselves (00:52:21).

So I think that's something that is a little bit different. That's not saying that there won't be lenders that will try to move that box a little bit and try to originate outside of it which, again, I think we have to stay true to our underwriting roots and make sure that we understand the risks that we're taking, because there will be something. I think it's about making sure that you cut off sort of that tail, make sure that it's not as bad as it was the last time; but we are an insurance company, so in certain periods we are going to face some losses. But I don't think any of us anticipate it being the way it was back in 2007 or 2008. A lot of lessons learned by us and I think everybody else involved in the whole process.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

Yeah. And I'm really encouraged by the MI industry really reaching out utilizing like reinsurance markets and getting another perspective. And others have seen kind of duplicate – some of the Bellemeade transactions, that's another feedback loop. These are all important data points to help kind of mind the fundamentals if you would and really not lose sight of the two-week dialogue. I think the MI industry was a little insular kind of in their own. They're only listening to themselves and not really listening to other third parties as much as maybe they should have.

And also just institutionalizing some of the knowledges and that we've learned with the data, with the tools that are being developed, I think that's happening and it's a very positive sign. I think it's also good – going out and getting reinsurance not when you necessarily need it, systematically...

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Right.

Thomas Harrison Jeter
Chief Financial Officer & Executive Vice President, Arch Mortgage Insurance Company

A

... [ph] pragmatically (00:53:39), that's how you do it. And then also just from an Arch perspective, we are part of a multiline, well-diversified company. Some of the reinsurance P&C, those areas right now are a little bit struggling in a softer market. MI is arguably in more of a hard market right now and so, we're kind of carrying the load. I expect that to shift over time as dynamic shift and being able to – we're a little more unique in that we can just step back and certainly be a much smaller part of the equation, and that's fine. And that's a little bit of a differentiator.

I think it's challenging if it's – if you're a standalone model. I think it's – no offense, I just think it is, it is challenging to have those conversations with shareholders that we're going to shrink – we're going to shrink, we don't like – and we're going to shrink significantly; and that's always a challenging equation. It can be done and not to say the [indiscernible] (00:54:30) not there, it's just a little bit more challenging.

Mark Dwelle
Analyst, RBC Capital Markets LLC

Q

Frank, the last word goes to you.

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

A

Well, thank you. So, I would echo some of those. QM certainly is, I would say, a very important component at making sure that we have the appropriate risk in our portfolio. So, if you think about it really as a filter, as long as our interests are aligned and as long as the duty to serve objective doesn't run counter to what we need to have from a risk discipline standpoint, I think we should be in good shape. And QM I think can continue to be a very important gating solution, if you will, to the health of the overall economy, the mortgage market and certainly the mortgage insurance industry as well. So it's very important in that respect.

Discipline, which I think we've talked about a little bit as far as the private mortgage insurers being willing to say no; not all NIW is good NIW from a risk standpoint. And so being disciplined and knowing when to say no is certainly very important.

Flexibility, we talked about some of the ways to distribute risk, and that's also a very important element. And the diversification; albeit, Tom, I think maybe talking about it in a different context than perhaps Radian, but I think just making sure that there is at least an effort to look for opportunities to derive shareholder value in ways other than just being a monoline mortgage insurer, and thinking about ways to do that. So, there's certainly a lot of lessons learned from the crisis, and I agree with Tim, the next recession won't look like the last one. But I think the risk discipline that all of us certainly are undertaking, hopefully, will position us better for the next one, whenever that might be.

Mark Dwelle
Analyst, RBC Capital Markets LLC

All right. Well, on that note, please join me in thanking Tim, Tom and Frank for participating today. And they're around, hopefully, some of you have signed up for one-on-one sessions with some of these guys and thanks very much.