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Radian Group Inc. (RDN)

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MANAGEMENT DISCUSSION SECTION

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

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

John Damian

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

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

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

This morning you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Frank Hall, Chief Financial Officer. Also on hand for the Q&A portion of the call is Derek Brummer, President of Radian Mortgage.

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

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

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thanks, John, and good morning. Thank you all for joining us today and for your interest in Radian. Our team remains focused across our three areas of strategic value creation: growing the economic value and the future earnings of our mortgage insurance portfolio, growing our homegenius business, and managing our capital resources. I'm pleased to report another excellent quarter for Radian. Frank will discuss the details of our financial position shortly, but let me first share a few highlights.

We reported net income of $201 million or $1.15 per diluted share. Adjusted diluted net operating income was $1.36 per diluted share. Return on equity was 19.9%. For our Mortgage segment, we wrote $18.9 billion of NIW in the second quarter. For the new business we're writing today, we continue to see an overall strong credit risk profile supported by high-quality underwriting standards. Our second quarter NIW has a very high mix of purchase business, approximately 97%. And as I've said before, we typically deploy more capital at a purchase-driven market.

We expect the environment in 2022 to continue to provide opportunities to put our capital to work at attractive risk-adjusted returns. Our proprietary analytics and RADAR Rates platform, which utilizes artificial intelligence and machine learning, allows us to carefully select the risks we're taking based on sound analytical data, including the granular attributes of each loan and its relative value in the market. We believe this is an important differentiator for Radian in terms of optimizing economic value across the competitive marketplace.

Our primary insurance in force, which is the main driver of future earnings for our company, grew 7% year-over-year to more than $254 billion at June 30, 2022. Our monthly premium in force portfolio grew more than 12% year-over-year, while our single premium in force portfolio declined 15%. This large and valuable portfolio consists primarily of well-underwritten, high quality business from recent years, with strong embedded home price appreciation.

It is also worth noting that the increase in mortgage interest rates is driving higher persistency in our existing in force portfolio, which we expect to fuel continued portfolio growth. And as a further note, the increase in interest rates has also resulted in higher yields in our $5.9-billion investment portfolio.

In the second quarter, we continue to experience favorable prior period reserve development, which was largely driven by better-than-expected cure activity, and new notices of default in the quarter were the lowest we have seen in more than 20 years.

We were excited to announce in July the launch of our new mortgage conduit, Radian Mortgage Capital, or RMC, which was formed to provide residential mortgage lenders with an additional secondary market option for high quality loans and to provide mortgage investors with a trusted, high quality sponsor. We believe RMC is a natural extension of our strategy products that leverages our deep mortgage expertise, helping to broaden our market reach as an aggregator, manager, and distributor of residential mortgage credit risk.

For our homegenius segment, total revenues for the quarter were $32.3 million. Although lower than the second quarter of 2021, homegenius revenues year-to-date for 2022 are 12% higher than the same period last year. Frank will provide further details on our homegenius financial results. I want to take a moment to share a few homegenius business updates.

In the second quarter, we continue to see increased revenue and strong performance from our real estate services, specifically our single-family rental business and our valuation products and services. As expected, our centralized lender refinance title revenues compared to the first quarter of this year and the prior year were down due to the rapid decline in industrywide refinance volumes. Although we continue to add new customers based on our excellent service and strong value proposition, we expect overall market refinance volumes to remain low.

Despite the slowdown in our refinance title volumes, we are seeing growing interest in our home equity title products and services from some of the largest financial institutions as they ramp up their home equity lending business. We are also attracting new interest across our purchase title programs that leverage our award-winning and patent-pending titlegenius technology platform.

Although our purchase title volumes remain small, we are encouraged by the traction we are gaining with home buyers, real estate agents, lenders and investors. Specifically, we are attracting strategic interest from lenders at our unique, centralized purchase title platform to better control the home purchase closing process.

In terms of our real estate technology products, we are pleased with the customer response to our software as a service products for real estate agents, specifically geniusprice, our innovative property intelligence technology platform offered by our Red Bell Real Estate brokerage. Over the last several months, we have signed geniusprice contracts with real estate brokers, as well as marketing partnerships with large real estate franchise companies, including Berkshire Hathaway, Leading Real Estate Companies of the World, and most recently, RE/MAX. These relationships provide us with sponsored access to market and deliver our geniusprice SaaS solution to over 200,000 real estate agents across the country.

Turning now to our capital and liquidity. At June 30, Radian Group maintained a strong capital position with $1 billion of total holding company liquidity, and Radian Guaranty's available assets under PMIERs totaled approximately $5.2 billion, resulting in a cushion of $1.4 billion or 38%. A recent and important external validation of our financial and capital strength is the recent upgrade of Radian Group and Radian Guaranty by Moody's Investors Service. The upgrade reflects our improved capital adequacy through risk distribution, our improving profitability metrics, our strong market position, and our financial flexibility with strong liquidity. Frank will provide the details of our capital management actions, including our share repurchase program.

Turning to today's environment and housing market. Clearly, the macroeconomic environment has gone through a rapid change over the past two quarters with increased mortgage rates, a 40-year high rate of inflation, and an economic slowdown despite a strong job market and record-low unemployment rates across the country.

As you've heard me say before, our company is built to withstand economic cycles. This was most recently demonstrated as we effectively navigated a very challenging economic environment during the COVID-19 pandemic. Since the great financial crisis, our capital structure has been significantly strengthened through the implementation of the PMIERs capital framework and the programmatic distribution of risk into the capital reinsurance markets. And perhaps most important is the quality of the mortgage industry's loan manufacturing servicing processes is as strong as ever.

We also employ dynamic risk-based pricing focused on driving economic value, which enables us to calibrate our pricing to address the risks that we see in the macro environment. We have modestly increased our pricing to reflect today's environment and have recently seen some evidence of price increases among our mortgage insurance peers as well. Most importantly, we believe our strong capital and financial flexibility positions us well for the current economic environment.

In terms of the overall housing market, over the last couple of years during the COVID-19 pandemic, the real estate market experienced increased housing demand, driving a 40% gain in home prices. More recently, home affordability has been challenged as a result of higher home prices, combined with the rapid increase in mortgage rates and high inflation levels. Although we're beginning to see indications of a cooling housing market from the boom over the last few years, we believe this is a healthy shift and that the foundation for the overall market remains strong.

This is due to the positive dynamics in terms of high credit quality borrowers, low housing supply and continuing demand coming from first time homebuyers. Although we expect the rate of home price appreciation over the next few years to moderate, we believe the slowdown in HPA will lead to a more healthy and stable national housing market, which will continue to support purchase market growth in the years ahead. Based on the most recent origination projections for 2022, we now expect the private mortgage insurance market to be approximately $400 billion to $450 billion, which would represent a market that is smaller than originally expected but still represents the third largest MI volume year in history.

Finally, while we are extremely proud of the success over the years in ensuring the American dream of homeownership, we know we're in a unique position to do even more. That's why we launched an affordable homeownership initiative within Radian to further address access to affordable, sustainable and equitable homeownership with a particular focus on closing the homeownership gap for underserved communities by leveraging our expertise and local partnerships to help address homeownership barriers for people and communities of color.

Given this focus, we worked closely with the MBA to help identify Radian's hometown of Philadelphia as the next site for the MBA's CONVERGENCE Initiative, which is designed to help narrow the racial homeownership gap. We are one of three cornerstone partners that are looking forward to partnering with the MBA on this important initiative to make a real difference in the Philadelphia community.

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

J. Franklin Hall

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

Thank you, Rick, and good morning, everyone. To recap our financial results issued last evening, we reported GAAP net income of $201.2 million or $1.15 per diluted share for the second quarter of 2022 as compared to $1.01 per diluted share in the first quarter of 2022 and $0.80 per diluted share in the second quarter of 2021. Adjusted diluted net operating income was $1.36 per share in the second quarter of 2022 compared to $1.17 in the first quarter of 2022 and $0.75 per share in the second quarter of 2021.

I'll now turn to the key drivers of our revenue. Our new insurance written was $18.9 billion during the quarter compared to $18.7 billion in the first quarter of 2022 and $21.7 billion in the second quarter of 2021. New insurance written for purchase transactions was $18.4 billion, an increase of 10% year-over-year. Purchase volume accounted for 97% of our total new insurance written for the second quarter of 2022 compared to 77% in the second quarter of 2021.

Our reported quarterly annualized persistency rate increased to 79.8% this quarter compared to 66.3% a year ago. Primary insurance in force increased to $254.2 billion this quarter, showing growth of 7% year-over-year. We expect total insurance in force growth to end at approximately 7% for the full year of 2022 as well, given the expected persistency and recent origination forecast for the remainder of 2022. This is a slight reduction in our expected full-year annual growth for the in force portfolio, down from 10%.

Monthly premium insurance in force has grown 13% year-over-year and now represents 85% of our total portfolio, as shown on webcast slide 10. Total net premiums earned were $253.9 million in the second quarter of 2022, down slightly compared to $254.2 million in the first quarter of 2022 and $254.8 million in the second quarter of 2021.

Webcast slide 11 shows the trend in mortgage insurance in force portfolio premium yields over the past five quarters. Our direct in-force premium yield was 40 basis points this quarter compared to 39.6 basis points last quarter and 41.1 basis points in the second quarter of 2021. This experience is consistent with our expectations of an approximate 2-basis point decline in normalized direct in-force yield during the full year 2022, and our expectation remains unchanged.

Investment income increased 22.9% on a linked-quarter basis and 29.4% compared to the same quarter prior year. The rising interest rate environment contributed to an increase in investment income in the second quarter of 2022 and is expected to continue to be positive for the reinvestment rate of future cash flows. However, as in the prior quarter, this quarter, rising rates had a negative impact on period-end market values and increased unrealized losses on the investment portfolio, which negatively impacted our book value since these unrealized losses are primarily recorded directly to our stockholders' equity through accumulated other comprehensive income.

We do not expect to realize these losses as we have the ability and are likely to hold our investments to maturity, and the unrealized losses are expected to diminish as security values are expected to trend to par value the closer they get to maturity. Our ability to hold securities to maturity is another benefit of our strong operating cash flow and financial strength.

Our homegenius segment revenues were $32.3 million for the second quarter of 2022 compared to $33.9 million for the first quarter of 2022 and $33.5 million in the second quarter of 2021. Our reported homegenius pre-tax operating loss before allocated corporate operating expenses was $12 million for the second quarter of 2022 compared to $8.2 million for the first quarter of 2022 and $4.5 million for the second quarter of 2021.

Our reported homegenius adjusted gross profit for the second quarter of 2022 was $11.2 million compared to $12.1 million for the first quarter of 2022 and $11.7 million for the second quarter of 2021. A reconciliation of our homegenius non-GAAP measures to the comparable GAAP measures can be found on Exhibit G.

Moving now to our loss provision and credit quality, as noted on webcast slide 14, we had a benefit of $114.2 million in our mortgage provision for losses for the second quarter of 2022 compared to a benefit of $84.2 million in the first quarter of 2022 and a loss of $3.3 million in the second quarter of 2021. Also, as noted on webcast slide 14, the provision for losses for the second quarter of 2022 includes positive reserve development on prior defaults of $148.1 million.

This positive development was primarily driven by more favorable trends in cures than previously estimated, aided by forebearance programs as well as positive trends in home price appreciation, which resulted in a change to the assumptions related to prior-period defaults. While the strong home price appreciation experienced in recent years is also expected to benefit our current period new defaults, we maintained our prior-quarter assumptions for those defaults for the second quarter of 2022, including the default to claim rate assumption on new defaults at 8% as we continue to closely monitor the trends in cures and claims for our new default inventory, all within the context of the current economic landscape.

As of June 30, 2022, 96.8% of new defaults from the second quarter of 2020, the largest COVID related default quarter, has cured. These favorable trends for defaults were reported in 2020 were the primary catalyst for the positive reserve development reported this quarter. For additional context, based on the continued strong cure volume, we've reduced the default to claim rate assumption for the large population of defaults, first reported in the second quarter of 2020, to an ultimate rate of approximately 2.5% this quarter compared to 4% last quarter and our original assumption of 8.5% set in the second quarter of 2020.

Now turning to expenses, other operating expenses were $90.5 million in the second quarter of 2022, an increase compared to $89.5 million in the first quarter of 2022 and $86.5 million in the second quarter of 2021. The increase in other operating expenses as compared to the prior quarter and the same quarter prior year is primarily related to an increase in homegenius expenses as we continue to scale that business, as well as a decrease in ceding commissions. The decrease in ceding commissions is primarily associated with lower single premium acceleration. To aid in the analysis of our operating expenses, we have provided additional segment level detail on press release Exhibit E.

Now, moving to capital and available liquidity. Radian Guaranty's excess PMIERs available assets over minimum required assets was $1.4 billion as of the end of the second quarter, which represents a 38% PMIERs cushion. As of June 30, 2022, we have reduced Radian Guaranty's PMIERs minimum required asset requirement by $1.1 billion by distributing risk through both insurance-linked notes reinsurance and other third-party reinsurance arrangements, as noted on press release Exhibit K.

Consistent with our use of risk distribution strategies to effectively manage capital and proactively mitigate risk, in July 2022, Radian Guaranty agreed to terms on a quota share reinsurance arrangement with a panel of highly rated third-party reinsurance providers. Under this new agreement, we expect to cede 20% of the exposure on the policies issued between January 1, 2022 and June 30, 2023, subject to certain conditions, effective starting July 1, 2022.

On a pro forma basis, assuming the pending QSR had been in place as of June 30, 2022, our PMIERs cushion would have been approximately 43% and Radian Guaranty would have risk distribution covering approximately 76% of our risk in force.

For Radian Group, as of June 30, 2022, we maintained $773 million of available liquidity. Total liquidity, which includes the company's five-year $275-million credit facility, was just over $1 billion as of June 30, 2022. During the second quarter of 2022, we repurchased 9.1 million shares at an average share price of $20.25. Furthermore, in the month of July, we purchased an additional 4.8 million shares at an average price of $20.47. Year-to-date, we have purchased 14.8 million shares at an average share price of $20.49, which represents 8.4% of our 2022 beginning share count.

We have also continued to pay a dividend to common stockholders throughout the pandemic. During the second quarter of 2022, we returned approximately $36 million to shareholders through dividends. Year-to-date through July, we have returned over $373 million to shareholders through both share repurchase activity and dividends. In July, Radian Guaranty and Radian Group each received ratings upgrades from Moody's to A3 and Baa3, respectively, which now places Radian Group's unsecured debt rating in the investment grade category and is a significant milestone for the company.

Given the capital strength at Radian Guaranty and the financial flexibility provided by Radian Group, we believe that we remain well-positioned to support our businesses and deliver value to our shareholders. I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Frank. Before we open the call to your questions, I want to highlight that we are pleased with our results to remain focused across our three areas of strategic value creation, growing the economic value and future earnings of our mortgage insurance portfolio, growing our homegenius business, and managing our capital resources.

We believe our mortgage insurance team is well positioned to navigate the macroeconomic environment and continue to build the economic value of our insurance portfolio. We are pleased with how the credit performance of our portfolio continues to improve as we emerge from the pandemic environment. We are excited about the launch of Radian Mortgage Capital as a natural extension of our strategy and products that leverage our deep mortgage expertise, helping to broaden our market reach as an aggregator, manager and distributor of residential mortgage credit risk.

We remain excited about the future of homegenius based on the market response to our innovative products and services, and look forward to reporting on our progress in the coming quarters. We continue to strategically manage capital by maintaining strong holding company liquidity and PMIERs cushion, opportunistically repurchasing shares, and paying the highest yielding dividend in the industry to stockholders. And I want to thank our team for the great work they are doing each day, including supporting our customers, creating new innovative products, and managing our existing risk.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Mark DeVries with Barclays. Please proceed.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks. You're obviously in a pretty unique environment here with a lot of different crosscurrents that kind of impact the risk of the new insurance you're writing. Can you just talk a little bit more qualitatively about how you're thinking about the net impact of all those risks? It sounds like you're starting to price a little bit more for it and seeing it from competitors, but also discuss how you kind of manage the risk of if you're too conservative and too far out in front on how you kind of price for that risk that you could lose meaningful share.

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

A

I think – Mark, thank you for the question, and Derek and I will tag team this. Let me just step back and take a kind of a view of the macroeconomic environment that we're in, and Derek can add specific pricing comments. But I think the good thing about where the business is today is I do think we're built differently than we were in the past, you've heard me say that before and I think having just navigated the COVID-19 pandemic environment, I think, is a good indicator of the strength of the business.

And we all know since the great financial crisis that business models changed dramatically related to the PMIERs capital framework, risk-based pricing which gives us the ability to be very disciplined and selective about the risks that we underwrite, and also the programmatic distribution of risk through the capital reinsurance markets.

And I would say that we also have to look today at the quality of underwriting and servicing as being really very strong across the originator market. So clearly, this is a new and different environment where we're seeing a rapid increase in rates. We see 40-year high inflation. We see an economic slowdown. But we see combined – we see an overall good labor market, low unemployment, strong job market.

So, in terms of the rising interest rates for us, it's kind of important to put things in perspective because interest rates still are relatively low levels specifically for mortgage rates. When you look out over the history last 30, 40 years, we're still at very low levels that I think the hallmark is kind of adjusting to, right, which is probably ultimately a healthy thing.

But as you look at our business, there are some pluses and minuses. The pluses are obviously higher interest rates are driving improved persistency, which is a strong driver of future earnings; and obviously an increase in rates, it enables us to invest at higher rates on our investment portfolio, which is also a plus. The negative is we're watching for kind of how the recession, the inflation, and the potential impacts that has on future defaults and claim rates. But I think as we underwrite risk in the current period today, we're mindful of that.

And I just want to share a couple of comments on the housing market, too, because we've seen this housing market go through enormous change, 40% gain in the last few years during the pandemic. But we're starting to see that home affordability be challenged through higher home prices combined with these higher rates. So, there's some balancing occurring. And although there's a lot of talk about a cooling housing market, and we can definitely see it and we definitely see that that's – it's actually a good thing because we believe it's a healthy shift kind of in the foundation for kind of the future market. And it's being driven by some really positive – I would call positive tailwinds in the market that are high credit quality borrowers, low housing supply and continuing demand.

So, as we see kind of a reset occur in the housing market, it's a healthy shift to kind of moderate HPA kind of going forward and create a better purchase market for us. So, as we kind of step back and we think about it, we're managing through this environment by – to kind of get to your question by leveraging our proprietary analytics and our RADAR Rates platform to employ the dynamic risk-based pricing that we've been using for the last several years. It's actually, I think probably more relevant today than it's ever been, and it enables us to calibrate our pricing and to address risk. And Derek and his team are focused on all the unique attributes, whether those are loan attributes, geography attributes, just many different factors that go into that pricing decision.

And we've been able to modestly increase our pricing recently. We've seen others do the same. And I think from an overall macro market environment, I think we're well-positioned to manage through it, kind of leverage our tools, leverage the strength of our capital structure, and just be – we have to be mindful that this is a different environment than even the great financial crisis or the COVID environment. It has a lot of different features to it in terms of recession – potential for recession, inflation, higher interest rates. But I think where we're positioned today puts us, again, well-positioned to navigate through the cycle.

Derek, I don't know if you want to comment specifically about approaches to pricing.

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

A

No, I think you hit on the key points. The one thing I would add is just as we kind of think about pricing or positioning ourselves in the market, while the market's cooling a bit, you have to kind of keep it in perspective. It was coming off as a market where home price appreciation was going on a very rapid clip. We weren't pricing with the expectation prices will be going up at 20% a year or so. As you see it kind of cool back down, it should be kind of more, I'd say, in line with our long-term expectations in terms of where we're actually pricing the risk.

The second thing in terms of how we position ourselves and we've talked about this in past calls, as we think about our pricing, what we do is we do essentially reverse engineering our competitor's pricing. And so what we're looking at is market clearing levels. So, any time we make a pricing change and we do that, it's on a very granular level. We build out demand curves at a loan-by-loan basis. So, we have a good estimate when we change pricing and if we increase it exactly how much market share we would expect to lose on a segment-by-segment basis.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Great. And just one follow-up on that last comment from Derek. Does it feel like what you're seeing and what you're reverse engineering from competitors is kind of commensurate with the increase in risk that you perceive here or does it still feel like they're lagging?

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

A

I think – well, we've seen pretty stable pricing in Q2. I think we're seeing some evidence of price increases on a selective basis by competitors. We more in the aggregate moderately increase our pricing kind of at the end of Q2 or early Q3. Certain segments, certain geos up more than others. But in aggregate, just a modest increase. I would say – it's tough to say if we've seen that across the board to date, but I think we're seeing evidence that others are factoring in kind of a cooling housing market.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. And then, sorry, just one last on this topic. Is risk – uncertainty increases in your pricing, do you price for marginally higher expected returns to compensate for that kind of perceived increase in risk?

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

A

Well, the way we look at it, it's really baked in the expectations. So as you see in our economic projections, we do stochastic simulation. We don't price on a deterministic path. But when we look at that, we look at it being moderately more negative than it would have been six to nine months ago as a result to get back to our targeted returns and we have to charge a bit more to do that. So, it really kind of gets to the same place in a different way. All things being equal if we didn't change our pricing, our returns would be down, but we don't increase our returns to kind of solve it the other way.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Got it. Very helpful. Thank you.

Operator: One moment for our next question, please. Our next question comes from Doug Harter with Credit Suisse. Your line is open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. You mentioned that you have $1 billion at the holding company. Can you talk about the plans for additional capital return, kind of what is the right level of capital to be holding?

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

A

Sure, Doug. This is Frank. We are in a very fortunate position to have the excess or the significant capital at the holding company. And our historic capital actions, I think, have demonstrated our willingness to return capital to shareholders in a very, I think, prudent, measured and thoughtful way. And I would just expect and would guide you to the fact that we're – we will do that in the future as well. So, we make our capital decisions based upon what we see in a forward view as far as capital and cash flows and also make sure that we have sufficient capital to support the organic business, make sure that we've got adequate risk buffers where we need them.

We want to make sure that we have sufficient capital or resources for capital to support any potential inorganic growth opportunities, and then we evaluate what's the right method to return capital to shareholders. And so, historically, you've seen us be strong proponents and users of share repurchase programs. And this quarter, certainly, we have very high level of share repurchase activity going on. And year-to-date, we have repurchased $302 million worth of our shares at really a tremendous price, certainly, relative to our book value. Our average price year-to-date has been about 87% of the book value, so that's one method.

Our common dividends that we've paid and have continued to increase over time is another method to do that. I think as things normalize over time, what you'll typically see from mature financial services companies is managing to some sort of a payout ratio, and we haven't given any guidance on what that payout ratio might look like in the future. But if you look at really the unique position that Radian is in, especially as it relates to statutory capital, which we talked a little bit about last quarter, and the expectation for elevated levels of potential cash flow coming from the operating company to the parent company, I think we will be in a position to be able to evaluate those in that current context. And we just continue to leverage the methods that we've used historically primarily.

Operator: All right. I'm going to move to the next question. One moment, please. Our next question comes from Mihir Bhatia with Bank of America. Please go ahead.

Mihir Bhatia
Analyst, Bank of America

Q

Good morning. Thank you for taking my questions. I'm just trying to ask about the market overall. We're seeing in your NIW, I think, the 95-plus percent LTV loans have increased now, I think it's for the past three, four quarters. I'm just wondering, is that some of the risk selection you were talking about, Derek, or is that just how the market is evolving given affordability challenges?

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

A

Yeah, and kind of a few things. Predominantly, it's just a shift in the market towards one driven by purchase as opposed to refi. Some of it is affordability issues as rates have gone up and home price appreciation has been embedded in the market. And then some of it – although it's tough to say kind of exactly where the market's going to be in Q2, some of that can be driven by where we're seeing relative value in the market. But it kind of ebbs and flow. I think, even in June, I think the portion of our NIW concentrating greater than 95 was actually down. So, you'll see month-to-month movement, but no kind of big secular shifts from a risk selection perspective.

Mihir Bhatia
Analyst, Bank of America

Q

Thank you. And that on the reinsurance side, I was curious. Can you just talk maybe a little bit about the demand and pricing backdrop that you're seeing just for mortgage insurance on mortgage credit?

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

A

Yeah. So what we've seen is still solid demand and I think overall favorable pricing. And I think if you look at on the reinsurance industry side, I still think, a lot of the themes that Rick touched upon, they certainly see. You certainly – you see the market cooling a bit. You have to factor in what really kind of drove the rapid home price appreciation has been driven by an excess demand relative to supply. And if you step back and look at the long-term fundamentals, the market is still significantly undersupplied and you have very strong demographic tailwind.

And so – and you don't have any low stretching in terms of a credit or manufacturing. So, when you look it from a reinsurers perspective and you think about it on a macro basis, it's certainly a very solid business to be in, solid returns, solid underwriting, and really with a limited tail risk. And so, I think that filtered through in pretty strong demand and a very constructive reinsurance market.

Mihir Bhatia
Analyst, Bank of America

Q

Understood. Thank you. And just my last question just on Radian Mortgage Capital, the new business you launched. Will that sit within homegenius? Will that be separated to launch this business in this backdrop with that, like, is the idea a better cross-sell, like, what exactly is like I guess the strategic plan behind that business?

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

A

Yeah. Hi, Mihir. This is Rick. Thanks for the question. I think it's – first off, today, the expenses associated with Radian Mortgage Capital sit within our other segment. It is part of our Mortgage business which reports to Derek today and it is a critical component, an extension of our strategy, as you think about it. So just to kind of take your question, we – when you think about in this environment, today, we have a long-term view of the opportunity around this business, so we're not looking at it as an opportunistic situation through this cycle. We look at it from a long-term lens as an extension of our strategy to aggregate and manage and distribute US mortgage credit risk.

So we went – we formed it really to do – provide an additional secondary market outlet to our customers and really position as a player to be a trusted counterparty and sponsor to mortgage investors and securities investors. And we're focused on high-quality loans. So the thought is, is that it is – it's just simply an extension of our strategy based upon what we've heard from our customers who are looking for additional sources of liquidity.

And if you think about our business model today, across the MI business, we've built great capabilities from a credit risk management perspective, kind of from a pricing and analytical perspective, understanding the markets. We're very well equipped to distribute risk as Derek just talked about not only in the reinsurance markets but in the capital markets. We have great lender relationships across our MI business, and we really just see this as an extension of our products and services to that same market on both the – on the lender side and the investor side.

So, we see it as part of our long-term strategy. We see it as an opportunity to expand our presence in the mortgage market in terms of aggregating and managing and distributing mortgage credit risk. So, we're excited about it. It's – we're just at the very beginning. As you know, we just launched it in July after putting some work and effort into it previously. And so, we're in the market and we're going to remain very disciplined.

And I think it's safe to assume that as you think about this business, think about how we run our MI business, we're focused on economic value. We're focused on creating value for our shareholders. And we're going to bring that same discipline to pricing and managing risk that we've done across our MI business into the conduit and really look for opportunities where we see value not only for us but for customers, where we can create that differential value in the marketplace. So, we're excited about it.

It's early, and you'll hear more about it as we go.

Mihir Bhatia
Analyst, Bank of America

Q

Okay. Thank you.

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

A

Thank you.

Operator: Okay. One moment for our next question, please. Our next question comes from Bose George with KBW. Please go ahead.

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

Q

Hey, guys. Good morning. Actually, I wanted to go back to the discussion on capital return. It is just – as we model share buybacks going forward, how should we think about the level of your debt to capital now, the 26.4%?

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

Bose, this is Frank.

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

Hi, Frank.

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

Yeah, that's a good question. The – so just as a reminder, we have $97 million – about $97 million remaining on our current share repurchase authorization, which expires in the first quarter of 2024. Historically, we've operated, albeit this is probably a higher level than we've been historically, part of that has to do with the activity around the share repurchase. But also keep in mind that we were recently upgraded by Moody's.

So, that said, I think somewhere in the low-20s is practically a reasonable place for us to operate. And we'll evaluate each of our debt maturities. The closer we get to them, we're always evaluating opportunities to optimize our senior debt structure and our capital structure overall. But I would say that somewhere in the low to mid-20s is a comfortable level. It's not a hard number by any stretch, but it's certainly an area where we think we can operate effectively.

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

Okay. No, that makes sense. So, I guess the recent increase is – does that kind of reflect the opportunistic repurchases this quarter? Is that fair?

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

Yes, it is.

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

Okay. Great. Thanks. And then, just on the – switching to the mortgage conduit, is that going to be a non-agency conduit or – yeah. I'm just curious how that's structured.

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

Hi, Bose. This is Rick. Yeah. We're focused on non-agency opportunities. We're focused on high quality loans. So we're not going to go down the subprime path. I know we got asked that question. So, I want to make sure that we address that. And you can see us focused on non-agency kind of prime jumbo and some of the other kind of agency eligible products that are kind of going into the PLS market around high balance loans, second homes, investor loans, general category. So – but you're going to see us stay in the high quality mode, and it will be – with a focus on kind of the non-agent – loans that are flowing into the non-agency market.

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

Q

Okay. Great. Thanks. One more in there. In the – the mortgage technology space obviously has had a pretty big sell off. Is there anything to do there on the acquisition front that can complement homegenius?

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

A

It's a great question. So, John Damian and his team have a very broad lens of things that we see across the market, Bose. And we're – I think through all of the run up that we saw in fintech and proptech, we were – remained very disciplined around kind of the valuation levels we saw and our willingness to kind of transact. There's no shortage of opportunities across mortgage, fintech, proptech today.

So, I think we're always looking. Our business is not dependent upon making a particular acquisition in that, but we're always interested in things that can – that are accretive that can accelerate in a particular area. So, I would say we're watching and we explore things where they make sense for us. We're also very quick to kill. But as you point out, the market may provide some opportunities that are interesting, but again, our model is not dependent upon it. We're focused on kind of the organic growth of it. But we'll see, I do think that's a possibility.

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

Q

Okay. Great. Thanks a lot.

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

A

Thank you, Bose.

Operator: Thank you. One moment for our next question, please. All right, our last question comes from Geoffrey Dunn with Dowling. Please go ahead.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Thanks. Good morning. Frank, my memory is a little hazy here, but I think one of your peers indicated last quarter that at least one rating agency was encouraging MIs to operate below 15% leverage. Am I remembering that right into that – is that low 20s, more of a mid-term target with plans to go low over time? Or am I not recalling that correctly?

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

A

Well, as to whether or not one of our competitors said it, I'd have to rely on your memory there. I know we did not say it, but I would tell you, Geoff, and you know this very well, this business naturally de-levers fairly quickly over time. So, yes, your observation about sort of an interim target, I wouldn't necessarily call it a target, but you have seen us operate below 20% historically. And I would say that is certainly a possibility just as you look at the organic possibilities in the balance sheet and what the earnings trend looks like over time.

Also keep in mind too that we had a debt issuance – a senior debt issuance that was a response to COVID. So, that was purely defensive capital, so there's certainly an opportunity to reevaluate in that context at maturity. But good observation, Geoff, yeah.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

As we consider the potential for capital return, you put all these pieces together, at this point, would you agree that it seems maybe more likely that you would retire 2024 debt versus refinance? I know you'll evaluate it at that point, but is that a fair assumption at this point for us?

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

A

Yeah, to your earlier observation, we'll evaluate it at the time. I would tell you this that we don't feel that the debt-to-cap is any type of a restriction as it relates to any of our expected future capital plans. So – and, again, the last senior debt issuance was primarily defensive in nature.

So, I think we're in a good position to have a lot of optionality at that time, and we'll certainly take advantage or excuse me, we'll evaluate at that time and also, again, see what the market holds as far as other potentially lower cost of capital, potential future share repurchases, dividends, etcetera. So, they're all evaluated in sort of a comprehensive review.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. With respect to the new QSR, can you share the ceding commission and profit commission thresholds?

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

A

Yes. So the ceding commission, we'll receive a 20% ceding commission on ceded premiums earns and we'll also receive annual profit commission based on the performance of the loans subject to the agreement, provided the loss ratio on the subject loans is below 59%.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

59%, okay. And then my last question, when PMIERs came out and I think it was upon the review a couple of years after that, too, there were points made that it was – the GSEs were doing so based on their current economic assumptions in the marketplace. So I'm not sure, Frank, if this is to you or Derek or both, but how do you consider or think about the risk that as the economy potentially turns down, the GSEs decide to revise their economic position in the marketplace and trickle that into PMIERs? How – is that naturally managed for in the cushion that you maintain? Or is that something that you have to incrementally consider?

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

A

Derek, do you want to start?

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

A

Yeah, I'll start on that. So the cushion helps in terms of any changes to the PMIERs. I wouldn't look at the PMIERs as kind of a spot capital requirement insofar as the PMIERs were calibrated to the financial crisis. So, it's really a – kind of a repeat of the financial crisis.

And when you look at the changes in terms of underwriting quality, manufacturing quality, kind of government support in terms of the market when borrowers get into trouble from a delinquency perspective, all of those things point towards kind of even in a similar path, a macro path down better performance than what you would have seen in the financial crisis. So as a result, I wouldn't see them changing it and making it more punitive. I think it's a significant stress scenario that's kind of adequate at this point.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. Thank you.

Operator: Thank you. And with that, we end our Q&A session for today. I will turn the call back to Rick Thornberry for final remarks.

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

Thank you. And I appreciate – look, I appreciate everyone's interest in Radian and the thoughtful questions today. And we look forward to talking to as many of you as we can as you're interested over the coming weeks and months to address any further questions. Thank you again, and I want to thank our team for all the great work they're doing through another kind of challenging environment kind of across the economy. So, thank you to you all, and thank you to our team across the economy. So, thank you.

Operator: And with that, ladies and gentlemen, we conclude our conference call. Thank you for your participation, and you may now disconnect.