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Radian Group Inc. (RDN)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Third Quarter 2024 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 today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Dan Kobell, Head of Investor Relations and Capital Management. Please go ahead.

Daniel Kobell
Executive Vice President-Finance, Radian Group Inc.

Thank you and welcome to Radian's Third Quarter 2024 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 radian.com. This press release includes certain non-GAAP measures that may be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, and adjusted net operating return on equity. A complete description of all of our non-GAAP measures may be found in press release Exhibit F and reconciliations of these measures to the most comparable GAAP measures may be found in press release Exhibit G.

These exhibits are on the Investors section of our website. Today, you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Sumita Pandit, Chief Financial Officer. Also on hand for the Q&A portion of the call is Derek Brummer, President of Radian Mortgage Insurance. 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 2024 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now, I would like to turn the call over to Rick.

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

Thanks, Dan, and thank you all for joining us today. Last evening, we reported another quarter of excellent financial results for Radian. Our results continue to reflect the economic value of our high-quality mortgage insurance portfolio, the strength and quality of our investment portfolio, our strong capital and liquidity positions, and our ongoing strategic focus on managing expenses.

For the quarter, we increased book value per share by 18% year-over-year to $31.37. We grew revenues to $334 million during the quarter, generating net income of $152 million. Our annualized return on equity in the third quarter was 13.2%, and our adjusted net operating return on equity was 13.7%, which reflects our strong financial results, including positive credit performance. We continue to leverage our proprietary analytics and RADAR Rates platform to identify and capture economic value in the mortgage insurance market, which resulted in $13.5 billion of high-quality new insurance written in the third quarter.

Our primary mortgage insurance in force, which is the main driver of future earnings for our company, grew to $275 billion. We continue to focus on managing operational efficiency and expenses, which resulted in a decrease in other operating expenses in the third quarter. Our primary operating subsidiary, Radian Guaranty, paid a quarterly dividend to Radian Group in the amount of $185 million in the third quarter for a total of $485 million paid year-to-date. At the end of the quarter, we paid off $450 million of our senior debt, reducing our leverage ratio to 18.5%.

Our overall capital and liquidity positions remain strong, with a PMIERs cushion for Radian Guaranty of $2.1 billion, and our available holding company liquidity was $844 million at the end of the third quarter after paying off the debt. We are pleased that our strong financial position and capital flexibility allow us to deliver excellent financial results, grow our business, and help our customers transform risk and opportunity while also returning value to our stockholders.

In terms of the housing and mortgage market, the supply of existing homes remains constrained, which we expect will continue to provide support for home values from an HPA perspective. And based on the originations thus far in the forecast for the remainder of 2024, we continue to estimate that the private mortgage insurance market will be approximately $300 billion this year, consistent with 2023. Looking ahead, based on current market projections for 2025, we expect the MI market to be approximately 10% larger in 2025 than in 2024.

I believe it's also worth noting the continuing positive impact that we are experiencing from the current interest rate environment in terms of increasing our investment portfolio returns and maintaining strong persistency benefiting our insurance in force. Overall, our outlook for the housing market and our mortgage insurance business remains positive. I also want to highlight that Radian continues to be a catalyst for homeownership in the market, leveraging decades of experience and relationships.

Most recently, our mortgage conduit business, Radian Mortgage Capital, is focused on providing secondary market liquidity to our lender customers and sponsoring mortgage credit to investors. We believe this business is a natural extension of our business model and have been encouraged by the customer interest in the business. Sumita, will now cover the details of our financial and capital positions.

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

Thank you, Rick, and good morning to you all. I'm pleased to provide additional details about our third quarter results, which reflect another strong quarter of performance, producing net income of $152 million or $0.99 per diluted share in line with the prior quarter. Adjusted diluted net operating income per share was slightly higher than the GAAP metric at $1.03 for the third quarter compared to $0.99 for the previous quarter. Annualized return on equity in the third quarter was 13.2%. Adjusted net operating return on equity was 13.7%, an increase from the second quarter.

Book value per share grew to $31.37, an increase of 18% year-over-year. This book-value-per-share growth is in addition to our regular stockholder dividends, which were $37 million during the quarter, reflecting our quarterly dividend of $24.50 per share. We also repurchased $49 million of shares during the third quarter.

Turning now to the detailed drivers of our results. Our revenues continue to be strong in the third quarter. We generated $334 million of total revenues during the quarter, an increase compared to $321 million in the second quarter and $313 million in the third quarter of last year.

Slides 10 through 12 in our presentation include details on our mortgage insurance in force portfolio, as well as other key factors impacting our net premiums earned. Our primary mortgage insurance in force continue to grow, reaching $275 billion as of the end of the third quarter and generating $235 million in net premiums earned in the quarter. Contributing to the growth of our insurance in force was $13.5 billion of new insurance written in the third quarter of 2024, compared to $13.9 billion written in the prior quarter.

The persistency rate of our existing insurance in force also remained high at 84.4% in the third quarter, based on the trailing 12-months compared to 83.6% a year ago. As of the end of the third quarter, 70% of our insurance in force had a mortgage rate of 6% or less. Given current mortgage interest rates, these policies are less likely to cancel due to refinancing in the near-term, and we therefore continue to expect our persistency rate to remain strong.

As shown on slide 12, the in force premium yield for our mortgage insurance portfolio remained stable in the quarter at 38.2 basis points. With strong persistency rates and the current industry pricing environment, we expect our in force portfolio premium yield to continue to remain stable. As shown on slide 13, our investment portfolio of $6.6 billion consist of well-diversified, highly rated securities. Our portfolio has continued to increase over the past year in both size and average yield, generating a net investment income of $78 million in the third quarter.

This includes $8 million of income in the third quarter related to mortgage loans held for sale within Radian Mortgage Capital. Excluding that impact, net investment income grew 7% year-over-year. We have continued to reinvest cash flows in the current rate environment, benefiting our investment portfolio yield, which was 4.3% in the third quarter. Our unrealized net loss on investments reflected in stockholders' equity was $233 million at quarter end, an improvement of $144 million from the prior quarter driven primarily by a decline in market interest rates.

We continue to expect that our strong liquidity and cash flow position will provide us with the ability to hold these securities to recovery of the remaining unrealized losses which would equate to $1.56 that is expected to accrete back into our book value per share over time. I will now move on to our provision for losses and related credit trends which continue to be positive with continued strong cure activity and very low claim levels.

On slide 16, we provide trends for our primary default inventory. Total default increased to approximately 22,000 loans at quarter end, resulting in a portfolio default rate of 2.25% compared to 2.04% in the previous quarter. As expected, the number of new defaults reported to us by services increased in the third quarter to approximately 13,700 from 11,100 reported in the second quarter. This increase in new defaults, which impacts our mortgage insurance results, reflects normal seasonal trends and the expected continued seasoning of our large insurance in-force portfolio. Our new defaults also continue to contain significant embedded home equity with approximately 76% of new defaults this quarter having at least 20% equity using an index-based approach.

This equity profile, which has been a key driver of recent favorable credit trends, is largely unchanged from prior quarters. Looking ahead, we expect the impact of Hurricanes Milton and Helene to impact the number of new defaults reported in the fourth quarter. Within the third quarter, we estimated approximately 200 incremental new defaults were reported in FEMA-designated areas impacted by Hurricane Beryl.

Historically, defaults associated with storms and other natural disasters have cured at higher rates. This past performance is also recognized within PMIERs which provides for a lower capital requirement for defaulted loans in FEMA-designated areas. Our loss ratio remained low this quarter with a net expense of $6 million in our mortgage insurance provision for losses in the third quarter compared to a net benefit of $2 million reported in the second quarter. We continue to maintain our default to claim roll rate assumption for new defaults at 8% which resulted in $57 million of loss provision for new defaults reported during the quarter.

Positive reserve development on prior period defaults of $51 million mostly offset this provision for new defaults. Our defaults continue to cure at rates greater than our previous expectations, resulting in releases of prior period results that in recent years have significantly offset reserves established for new defaults.

As shown on slide 17, our cure trends have been very consistent and positive in recent periods with approximately 90% of defaults curing within four quarters and 96% curing within eight quarters, meaningfully exceeding our initial expectations.

Cure rates in the third quarter exhibited typical seasonal trends and compare favorably to similar periods from past years. As noted above, our favorable loss experience continues to be driven primarily by the significant embedded homeowner equity resulting from the strong home price appreciation experienced in recent years. Using an index-based approach, approximately 78% of our total default inventory has estimated embedded home equity of 20% or more.

Moving to our other business lines. Total revenues in our all other category, which include investments held at Radian Group as well as revenues from other lines of business, were $40 million in the third quarter, in line with the second quarter. The adjusted pre-tax operating loss for all other was $5 million in the third quarter compared to a $6 million operating loss in the second quarter. Within our all other category, Radian Mortgage Capital closed its inaugural private label prime jumbo securitization transaction during the third quarter. This securitization involves the issuance of $349 million of certificates collateralized by residential mortgage loans of which we retain certificates valued at $6 million.

These certificates were issued by a newly created securitization trust which is considered to be a variable interest entity or VIE. As a result of the economic exposure that we retained and the corresponding rights that our retained interest have, we are considered the primary beneficiary of the VIE. And in accordance with accounting guidance, Radian will consolidate the VIE in our financial statements. Therefore, you will see new line items this quarter reflecting the VIEs assets, liabilities and results on our financial statements. It is important to note that Radian's economic exposure is limited to our retained certificates with a net impact from this exposure including changes in fair value reflected in the line item, income loss on consolidated VIEs and our income statement each period.

Now, turning to our other expenses. For the third quarter, our other operating expenses totaled $86 million, a decrease compared to $92 million recognized in the second quarter. The lower expenses in this quarter were consistent with our expectations and reflect the benefit from our expense savings actions to date. This decrease was partially offset by a $10 million non-operating impairment on internal use software recognized in the quarter. As noted previously, we expect a significant reduction in our other operating expenses on a full year basis in comparison to 2023 with an estimated run rate reduction of $20 million to $25 million beginning in 2025.

Moving to our capital, available liquidity and related strategic actions. Radian Guaranty's financial position remains strong. We paid a $185 million ordinary dividend to Radian Group in the third quarter while maintaining a stable PMIERs cushion of $2.1 billion. As highlighted on slide 21, Radian Guaranty had $191 million of unassigned funds at the end of the third quarter, providing the capacity to distribute approximately $190 million of additional funds to Radian Group in the fourth quarter. As a reminder, we had provided guidance at the beginning of the year that we expect Radian Guaranty to pay $400 million to $500 million of dividend for the full year 2025. We are pleased that we are in a position to meaningfully exceed this guidance with $485 million of dividends already paid year-to-date and other $190 million expected to be paid in the fourth quarter.

Moving to our holding company, Radian Group. In September, we executed on the planned redemption of our 2024 senior notes in the amount of $450 million which reduced our holding company debt to capital ratio to 18.5%. This action is expected to reduce our ongoing interest expense by approximately $20 million annually, and Radian has no senior debt maturities due until 2027. Within the quarter, we repurchased 1.5 million shares of our common stock at a total cost of $49 million for an average price of $33.61 per share and returned $37 million in shareholder dividends for a total of $86 million of capital returned in the quarter.

We have $618 million remaining on our current share repurchase authorization, which expires on June 30, 2026. Over the past four quarters, we've returned approximately $360 million in the form of share repurchases and dividends to shareholders. As demonstrated by this past quarter's repurchase activity and our track record in recent years, we believe that share repurchase provides an attractive option to deploy our excess capital. Following the redemption of our 2024 senior notes, our available holding company, liquidity was $844 million at the end of the third quarter. We also have an undrawn credit facility with borrowing capacity of $275 million, providing us with significant financial flexibility.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Sumita. Before we open the call to your questions, I want to highlight that our results for the third quarter continue to reflect the balance and resiliency of our company, as well as the strength and flexibility of our capital and liquidity positions. We expect the earnings and cash flows generated from our large in-force mortgage insurance and investment portfolios to allow us to continue operating from a position of strength and delivering value to our customers, policyholders and stockholders. We increased book value per share by 18% year-over-year. We returned $86 million of capital to stockholders during the third quarter at approximately $360 million over the past 12 months in the form of share repurchases and dividends. As you've heard me say before, our business model is well-established and proven, significantly strengthened by the PMIERs capital framework, dynamic risk-based pricing and the distribution of risk into the capital and reinsurance markets.

We believe this is recognized on Capitol Hill and we are well-positioned to fulfill our important role in the housing finance system. And finally, I want to recognize and thank our dedicated and experienced team at Radian for the outstanding work they do every day.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Bose George of KBW. Your line is open.

Alexander Bond
Analyst, Keefe, Bruyette & Woods, Inc. Q

Hey. Good morning, everyone. This is actually Alex Bond on for Bose. Maybe just starting with Radian Mortgage Capital, would you be able to give a little more color there relating to maybe what you expect, the cadence of issuance will be there moving forward?

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

Yeah. Thanks for the question. This is Rick. Yeah. I don't think we will give any kind of forward guidance on that. But I think as – we did our first deal in the third quarter. We actually did our second deal in the fourth quarter just recently. We expect to be a regular issuer in the market as the business scales. And so we would expect next year to be a continuing issuer. We haven't really given forward guidance, but I think you'll continue to see that the frequency and regularity of issuance into the market to be driven by as we scale the business going forward.

Alexander Bond
Analyst, Keefe, Bruyette & Woods, Inc. Q

Okay. Great. Thanks for that. And then maybe just one more relating to the $10 million software impairment in the quarter, was that related to the mortgage services or the other segment? And then maybe just to go a little deeper there, would you be able to give any color relating to some of the strategic actions you're taking in that segment in terms of the footprint there?

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

Yeah. Thanks for the question. I think, yeah, the $10 million impairment that we took was on some software that we felt we needed to impair given the current use of the software and it was related to businesses that sit in our all other category. And we think that it's a onetime item. I think in terms of like for our all other business, we've given some more disclosure on what our expected revenues are going to be. I think for the last two quarters, we've been at about $40 million. We do expect that some of our investment income in all other may come down as we've repaid our debt and, therefore, $450 million of liquidity has gone out from our holding company. So we expect that all other number to come down a little bit by about $5 million, but $35 million to $40 million of revenue is still a good estimate for all other. And that captures all of our businesses in the all other business segment.

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

Yeah. This is Rick also. I think in the context of like a strategic update on those businesses, I think, you also asked about, that particular category includes our conduit business, our title business, our real estate services business and then our hg tech platform as well as the interest income kind of the investment portfolio of Radian Group. So it's got a number of things in there. The conduit business, as I said, we continue to kind of focus on scaling that business. The results are not really material today to the overall business. The title business is we navigated a difficult cycle over the last few years. I think the title business is well-positioned with kind of a growing customer list and look forward to kind of continuing to see the prospects for that as we go forward and momentum.

Our real estate services business, which is our SFR, REO and valuation business, has been profitable, little bit less profitable through the cycle but continues to be a market leader across its different categories of products and services. And we continue to expect to see a profitable contribution from that business. And then the last one, which is our homegenius kind of our real estate tech platform, as I've mentioned in previous quarters, we've significantly reduced the expense run rate of that business, and the team is really continuing to make great progress around the data, the analytics and computer vision and AI tools that are embedded within that platform. And we're having an active dialogue with partners across a variety of different interested parties. And as we have more to update, we'll update on that. But that's really kind of the update across that particular all other category.

Alexander Bond
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks for the color there and appreciate you taking the questions.

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

A

Yeah. Our pleasure.

Operator: Thank you. Our next question comes from Mihir Bhatia of Bank of America. Your line is open.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my questions. I wanted to ask just first about the pricing backdrop. Obviously, appreciate that the in-force yield was steady and your comments about that's your expectation from here. Should we take from that that the pricing environment remains quite stable? Or is that more a function of your individual pricing? Like, I'm trying to understand what's going on in the market just from a competitive dynamics perspective, maybe even away from you all, but just any comments on that, just competitive environment and pricing in the market.

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

A

Hi, Mihir. This is Derek. In terms of the pricing environment overall, I think it's been pretty consistent really for probably the last year and a half to two years. And so as I would characterize, the pricing environment continues to be rational and disciplined. We do see some movements here and there kind of around the edges in terms of pricing from quarter-to-quarter and you see that reflected kind of in market share movements when you look at kind of the top line. But overall, I would say the pricing environment continues to be stable, an environment that we like because it allows us to leverage our analytics to really pick our spots and find value in the market. So we really find value kind of across the risk spectrum and that's been pretty consistent for quite some time.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Thank you. And then turning to defaults and really cures more than defaults. For many quarters now, you'll have had very elevated cure rates and been releasing significant number of reserves. And I guess the question I have is when does that become like part of your history where you start actually lowering the claim rate and taking less reserves upfront? Or is the thought process that it's better to be conservative, take the reserves upfront and then just release from the cure?

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

A

Yeah. I think it's a good question. And I would say that when we think about our reserve assumptions, we always try to be prudent and we always try to look at it through the cycle. So clearly, like the claim rates we see today, they are very low and we are, obviously, focused on making sure that the accounting assumptions we make are longer term and through the cycle. So I think that's the reason why we've kept our 8% default to claim rate unchanged even though, as you rightly pointed out, our actual claim experience is very, very benign. So we don't see that environment to necessarily change our accounting assumptions and we would like to continue to be prudent.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Can I ask, when was the last time you all hit 8% claim rate? Like any vintage that has hit that?

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

A

No, none of our current vintages and I would say it's been a while.

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

A

Yeah. I think probably the answer to that would be sometime prior to COVID. I don't remember the exact timeline but, if you remember back, I got here in 2017. We were actually coming down off the great financial crisis from a default to claim assumption. And so I think to your point, Mihir, it's one of those things, as Sumita said, we're really looking forward versus like at a point in time and then we monitor that default portfolio performance. And as you look at our schedule and the materials that we provide, we call it the triangle schedule. You can see how consistent that cure rate has been for a period of time.

But I would say pre-COVID, we were coming down off the great financial crisis. And so as we look at kind of the modeled losses going forward, we try to anticipate that in the reserve because, remember, we reserve when loans go two times delinquent in default. The other thing I would just highlight, which is just more good news is when we price, when Derek and the team price, we price through an anticipated kind of loss assumption kind of going forward. And so all the business that we've been writing that is going through that default cycle is far outperforming our pricing which is resulting in greater than expected returns on the business we wrote in previous periods.

And so when that turns, going back to Sumita comment, we try to have it through the cycle view and we'll continue to try to think through sustainable trends that could influence that. We do, however, believe that the housing cycle today remains generally positive with the supply/demand imbalance and that's giving consumers more opportunities to solve their own default and retain their equity. So, we're going to continue to monitor it closely. But it's been an extremely favorable trend that all we can do is continue to evaluate, monitor as we go forward from an accounting point of view.

Mihir Bhatia
Analyst, BofA Securities, Inc. Q

Got it. No, and I appreciate that and particularly the slide 17 disclosure, and really that's what we were looking at. And just as you mentioned, we just see really consistent cure activity and that kind of...

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

Yeah.

Mihir Bhatia
Analyst, BofA Securities, Inc. Q

...almost...

Mihir Bhatia
Analyst, BofA Securities, Inc. Q

...I hear what you're saying. Thank you.

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

Yeah, Mihir, if you look out four quarters, I mean, it's...

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

90%.

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

...yeah, so it's very consistent and then continues to improve. So, we appreciate the question because it's something we internally are highly focused on and have pretty robust discussions each quarter as we go through and think through it. So – but thank you for the question.

Mihir Bhatia
Analyst, BofA Securities, Inc. Q

Thank you.

Operator: Thank you. Our next question comes from Scott Heleniak of RBC Capital Markets. Your line is open.

Scott Heleniak
Analyst, RBC Capital Markets LLC Q

Yeah, thanks. Good morning. Just wondering if you could expand on the comment, Rick, you made, you expect the private insurance, mortgage insurance market to grow at 10%. Can you talk about some of the drivers you expect there? It sounds like you're pretty positive on that for 2025 and how you expect Radian to participate in that in terms of NIW growth as that happens.

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

A

Yeah. Again, thank you for the question. But I think we are – when you look at the current industry forecast and we look across the GSEs and the MBA and other sources that we kind of look to, you can see there's an implied growth in the purchase market. A little bit of refinances which may or may not materialize depending upon interest rates. But we continue to see growth in the purchase market. MI is going to have a strong participation in that growth. And so, that really is what drives the comments I made in my prepared comments is really just looking at industry forecast.

Now, those can have some degree of volatility as we go through the year, either plus or minus, depending upon where interest rates. But I think we're largely fueled by a purchase market growth. And we know, historically, that market has been kind of slowed by the lack of inventory and the lack of churn in the existing homes and kind of a from a new home sales perspective even, we'd like to see faster growth there. But I think as we look to next year, that purchase market continues to expand would be our view, and mortgage insurance is going to participate in that growth as well.

But the other part of your question about how we participate in it, I think our mortgage insurance team, Derek and the team, in that market, as Derek explained in one of the earlier questions, we have the opportunity to leverage our data and analytics, our proprietary tools, our RADAR Rates to really select the risk profile and the risk return and the driving economic value across that selection to really pick and choose across that universe of purchase volume. So, I think we're well-positioned to kind of target the economic value alongside that growth. And I think, as we've said before, we're not really focused on market share. We tend to kind of range in and out. We're focused on really optimizing the selection of economic value across our tools, across the broader market. So, I think we're well-positioned for that and like to see that growth materialize.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Okay. That's helpful detail. And just on the persistency, that ticked up a little bit sequentially, others have kind of seen flattish persistency or even down a little bit. And just wondering if you could comment as to whether you think you can see further improvement there. It's obviously closer to peak levels, but you have a lot of customers that have a lot of embedded home equity in there. So, just curious what your thoughts are on persistency.

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

A

Yeah, I think on a 12-month basis, I would say our persistency has been in and around that 84% level. So, I do think that what you're seeing as a small uptick is more fluctuations in the quarterly measure. We don't expect persistency to go up as such. We think that we are pretty much at stable levels. Now, it is possible that we see some pockets of refinance activity as rates decline, and in which case, we will see an impact in our persistency. But I would just remind you that 70% of our in force book is still – has been written at less than 6% note rates. So, we expect persistency to more or less remain high in the low-80s and feel pretty good about it.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Okay, great. And then just the last question was just on use of excess capital. Now, it sounds like buybacks is number one use, but you talk about dividends either just increases in regular dividends, special dividends, reinvestments in the business, M&A or anything else like that. It sounds like your debt is – the debt to cap has been at the lowest level it's been in probably ever or at least a long time. But just any thoughts on the excess capital and uses over the next 12 months?

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

A

Yeah, I'll start and, Rick, jump in with other thoughts on some of the strategic uses. I would say, as you pointed out, like we've been pretty consistent about our capital return. This quarter, we returned about $87 million, last one year $360 million, last three years $1.2 billion, last five years $1.9 billion. So, I think you'll see that we have been consistently returning capital back to shareholders and we are also the highest-yielding dividend stock in the industry. I would say, from a forward view, I think in our prepared remarks we mentioned that we use some of our excess holdco liquidity to pay down our debt and brought down our leverage ratio to 18.5%. We've built that $844 million liquidity back up to about $1 billion pretty quickly by year end, just given our expectation of dividends from Radian Guaranty to group.

So, I think that we will continue to buy back shares. We believe that we are still reasonably undervalued. I think $1.50 is just in our AOCI. And if you just think about in our last Investor Day, we'd given some estimates of our expectation of future discounted earnings from our existing book that was about $13.50 a share. So, we still think that we are trading reasonably below our intrinsic value and we'll continue to buy back shares, and we have the liquidity to do that. Rick, do you want to comment on some of our M&A initiatives?

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

A

Yeah. Well, I think for us, obviously, we're going to invest in our businesses that are kind of in organic growth phases, continue to invest in our mortgage insurance business where we see opportunity. So, those are kind of one form of strategic capital. You mentioned M&A. We obviously get a lot of looks at a lot of different M&A opportunities. We haven't done one for a while because we haven't really seen the value. But I would say, like a normal capital allocation waterfall, Sumita and I and our team, we go through, we prioritize return of capital to shareholders and being very disciplined and focused on that, and then thinking about how we invest either organically or inorganically to improve returns and long-term value for shareholders.

So, I think we have a pretty disciplined track record of how we manage capital. The good news is, today, we're in a situation where we have significant holdco liquidity. As Sumita said, we just paid off our debt and we're going to still have near – somewhere in that billion-dollar category at year end, tremendous PMIERs excess capital, I think $2.1 billion at the end of the third quarter. So, we got a lot of flexibility around our franchise to think about allocating capital effectively to improve returns for shareholders. So, we always talk in hindsight, so not much more to talk about there, but the best forward view is what we've done in the past, I think sometimes it's trying to remain very disciplined and thoughtful on behalf of our shareholders.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for all the detail.

Operator: Thank you. I'm showing no further questions. I'd like to turn it back to Rick Thornberry for closing remarks.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Yeah. Well, I appreciate everybody joining us today. It's been an eventful week. I know we're probably all exhausted from watching all the political activities over the last several months and it coming to a conclusion. But I appreciate your interest in Radian and look forward to crossing paths in the near future and continuing to answer your questions and share our insights about our business. So, thank you very much and have a very happy holiday season should we not cross paths before then. Take care.

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