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Radian Group Inc. (RDN)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Fourth 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 that 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, Capital Management and Investor Relations, Radian Group Inc.

Thank you, and welcome to Radian's fourth quarter and year-end 2024 conference call. Our press release, which contains Radian's financial results for the quarter and full year, 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.

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Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release and the risk factors included in our 2023 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.

Good morning, and thank you all for joining us today. I'm pleased to report another excellent quarter and year 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.

Turning to a few highlights for 2024, we increased book value per share by 9% year-over-year, generating net income of $604 million and delivering a return on equity of 13.4%. During the year, we returned $376 million of capital to stockholders through share repurchases and dividends. Our primary mortgage insurance in force, which is the main driver of future earnings for our company, reached an all-time high of $275 billion.

We continued our focus on managing operational efficiency and significantly reducing our recurring expense structure. For 2025, we are positioned to achieve our targeted reduction in run rate operating expenses. Sumita will provide more details on our expense management progress.

Radian Guaranty paid a total of $675 million in ordinary dividends to Radian Group during the year, meaningfully exceeding our initial guidance of $400 million to $500 million at the start of the year. Our overall capital and liquidity positions remains strong with a PMIERs cushion for Radian Guaranty of $2.2 billion and available holding company liquidity of $885 million at the end of 2024.

We are pleased that our strong financial position and capital flexibility allow us to deliver excellent financial results, focus on growing our business and help our customers transform risk into 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. While the private mortgage insurance market has been relatively flat over the past two years at approximately $300 billion, based on industry forecasts, we expect a slightly larger market in 2025.

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 income and supporting strong persistency benefiting our insurance in force. Overall, our outlook for the housing market and our Mortgage Insurance business remains positive.

Finally, as we work with the new administration, we continue to be encouraged by the bipartisan support on Capitol Hill for our industry as the only source of permanent private capital in front of US taxpayers consistently underwriting mortgage credit risk through the market cycles. The private mortgage insurance industry is well-

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positioned to continue promoting affordable, sustainable homeownership through economic cycles, which we believe is well understood and highly regarded by the FHFA, the GSEs and legislators.

As you've heard me say before, our Mortgage Insurance business model has been significantly strengthened by the PMIERs capital framework, dynamic risk-based pricing and the distribution of risk, allowing our industry to continuously serve an important role in the housing finance system.

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 fourth quarter results, which reflect another strong quarter of performance, producing net income of $148 million or $0.98 per diluted share. For the full year, we earned net income of $604 million or $3.92 diluted earnings per share. Adjusted diluted net operating income per share was higher than the GAAP metric at $1.09 for the fourth quarter and $4.11 for the full year.

We generated a return on equity of 13.4% and grew book value per share 9% year-over-year to $31.33. This book value per share growth is in addition to our regular stockholder dividends, which totaled $152 million during 2024, reflecting our quarterly dividend of $0.245 per share. We also repurchased $75 million of shares during the fourth quarter for a total of $224 million in share repurchase for the full year.

Turning now to the detailed drivers of our results. Our revenues continued to be strong in the fourth quarter. We generated $316 million of total revenues during the quarter and $1.3 billion of total revenues for the full year, a 4% increase compared to our full year revenue in 2023.

Slides 11 through 13 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 grew 2% year-over-year to an all-time high of $275 billion as of the end of 2024. We generated $235 million in net premiums earned in the quarter and $939 million for the full year, a 3% increase from prior year. Contributing to the growth of our insurance in force was $52 billion of new insurance written for 2024, including $13.2 billion of NIW in the fourth quarter, an increase of 24% compared to the fourth quarter of 2023.

The persistency rate of our existing insurance in force also remained high at 83.6% in the fourth quarter, based on the trailing 12 months compared to 84% a year ago. As of the end of the fourth quarter, more than two-thirds 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 13, the in force premium yield for our mortgage insurance portfolio remained stable throughout 2024 as expected, ending at 38 basis points. And we expect the in force premium yield to remain generally stable for the upcoming year as well.

As shown on slide 14, our investment portfolio of $6.5 billion consists of well-diversified, highly-rated securities and other high-quality assets. We generated net investment income of $71 million in the fourth quarter. The decrease in net investment income from prior quarter was driven by the use of $450 million in cash at the end of

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Q3 to redeem our senior notes and reduce our financial leverage. As a result, both investment income and interest expense declined by approximately $7 million quarter-over-quarter.

Net investment income of $71 million includes $8 million of income in the fourth quarter related to mortgage loans held for sale within Radian Mortgage Capital. Excluding mortgage loans held for sale, net investment income grew 6% year-over-year to $270 million in 2024. We have continued to reinvest cash flows in the current rate environment, benefiting our investment portfolio yield, which was 3.9% in the fourth quarter.

Our unrealized net loss on investments reflected in stockholders' equity was $350 million at the end of 2024 compared to $331 million at the end of 2023. 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 $2.37 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. Throughout 2024, our defaults continued to cure at rates greater than our previous expectations, resulting in releases of prior period reserves that have offset reserves established for new defaults. As shown on slide 17, our ending default inventory for 2024 increased from prior year to approximately 24,000 loans, resulting in a portfolio default rate of 2.44% compared to 2.20% at year-end 2023.

The number of new defaults reported to us by servicers increased slightly in the fourth quarter to approximately 14,000 compared to 13,700 reported in the third quarter. This increase in new defaults reflects normal seasonal trends and the expected continued seasoning of our large insurance in force portfolio.

In addition, there were approximately 1,700 new defaults reported in areas associated with Hurricane Helene and Milton in the fourth quarter, an increase of approximately 600 compared to the number of new defaults reported in the third quarter for the same areas. Excluding those hurricane-impacted areas, new defaults declined by 3% in the fourth quarter compared to prior quarter.

In addition, the total number of cures in the fourth quarter grew 5% compared to the third quarter. 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.

Although the primary mortgage insurance we write protects the insured parties from a portion of losses resulting from related mortgage insurance claims, it generally does not provide protection against property loss or physical damage, including damage caused by hurricanes or other severe weather events or natural disasters.

New defaults continue to contain significant embedded equity, which has been a key driver of recent favorable credit trends. Our loss ratio was 0% this quarter and remained low throughout 2024. We recorded a net benefit of $2.2 million in our mortgage insurance provision for losses for the full year. The incurred loss for new defaults this quarter was $56 million, which was fully offset by positive reserve development on prior period defaults of the same amount, as shown on slide 19.

As shown on slide 18, 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 fourth quarter exhibited typical seasonal trends and compare favorably to similar periods from prior years.

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We reduced the initial default to claim roll rate assumptions for new defaults in the fourth quarter to 7.5% compared to the 8% assumption that we maintained in prior quarters. The default to claim rate reduction reflects continued strong cure trends as well as our historical experience with defaults related to hurricanes and other natural disasters, which accounted for a portion of the new defaults reported in the fourth quarter and have historically cured at higher rates. We will continue to evaluate our assumption for initial defaults to claim roll rates in future quarters as circumstances evolve.

Moving to our other business lines. Total revenues in our All Other categories were $34 million in the fourth quarter and $148 million for the full year, a 23% increase compared to the prior year. The adjusted pre-tax operating loss for All Other was $6 million in the fourth quarter, in line with the same period in 2023.

Turning to our other expenses. For the fourth quarter, our other operating expenses totaled $88 million, an increase compared to $86 million recognized in the third quarter. Fourth quarter operating expenses included $13 million related to impairments to our internal-use software, of which $9 million was primarily related to our homegenius business as we have continued to restructure that business, and $4 million of lease-related assets related to the rightsizing of our overall office footprint for the post-COVID work environment. Other than these impairments, the remaining operating expenses totaled $75 million for the quarter, in line with our prior guidance and an 8% reduction year-over-year. For the full year, other operating expenses totaled $348 million, in line with 2023.

Not including impairments, we have reduced our full year 2024 combined cost of services and other operating expenses by approximately $85 million or 19% from our 2022 levels. For 2025, as previously communicated, we are positioned to achieve the reduction in run rate operating expenses that we began to implement last year. As compared to our 2023 expenses, these reductions are expected to reduce operating expenses in 2025 by $20 million to $25 million.

Moving to our capital, available liquidity and related strategic actions. Radian Guaranty's financial position remains strong. At the beginning of 2024, we provided guidance that we expected to pay $400 million to $500 million from Radian Guaranty to our holding company. We are pleased that for 2024, we exceeded that guidance and paid $675 million in ordinary dividends to Radian Group, including $190 million in the fourth quarter, while maintaining a stable PMIERs cushion of $2.2 billion. As highlighted on slide 22, dividends paid from Radian Guaranty to Radian Group will continue to be driven by unassigned funds and the ongoing statutory earnings within Radian Guaranty.

Moving to our holding company, Radian Group. For the year, we repurchased 7 million shares of our common stock at a total cost of $224 million for an average price paid of $31.80. In the fourth quarter, we repurchased $75 million of our common stock and paid a quarterly dividend of $36 million for a total of $111 million of capital returned in the quarter. In 2024, we have returned $376 million in the form of share repurchases and dividends to shareholders.

As of year-end 2024, we had $543 million remaining on our current share repurchase authorization, which expires June 30, 2026. 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. Our available holding company liquidity was $885 million at the end of 2024. We also have an undrawn credit facility with borrowing capacity of $275 million, providing us with significant financial flexibility.

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And finally, reflecting on our outstanding financial performance and strong capital position, we received a ratings upgrade from Fitch in January to an A financial strength rating for Radian Guaranty and BBB credit rating for Radian Group, both with a stable outlook.

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 take a moment to address a recent leadership announcement at Radian. After 23 years of distinguished leadership at Radian, Derek Brummer, President of our Mortgage Insurance business, will be retiring in July of this year. Derek has been a key member of our executive team and we are extremely grateful for his countless contributions over the years.

Sumita Pandit, who you all know as our Chief Financial Officer, will assume the expanded role of President and Chief Financial Officer for Radian, when Derek retires. In her two years at Radian, Sumita has proven to be a passionate and experienced leader with a strong understanding of our business. Together with our highly experienced and talented Mortgage Insurance team, Derek and Sumita will work on a seamless transition over the coming months.

Our results for 2024 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.

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 your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Terry Ma of Barclays. Your line is open.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Hey. Thank you. Good morning. Maybe just starting with credit. The default rate ex estimated hurricane impact in the fourth quarter was actually quite good. Pretty much flat Q-over-Q and just up modestly year-over-year. I'm just curious, what your outlook for kind of credit and the default rate is in 2025. Do you kind of still expect that as some of the larger vintages season that would kind of more bias the default rate kind of meaningfully higher going forward?

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

A

Hi. This is Derek. I think in terms of default rate, in terms of those vintages moving through, what you'd expect to see is kind of typical, I think, seasonal impact. So we would expect to see kind of positive seasonal impact in Q1 and Q2. We're probably, I think, getting perhaps near the peak in terms of those vintages moving through. And so I would expect the default rate, unless something changes in the macroeconomic environment, to see that sub-3%. So you could see that move up, but I wouldn't see a significant move up, barring some dislocation in the economy.

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

A

And I would just also highlight that excluding the hurricane areas, new defaults declined by about 3% quarter-over-quarter. And I think we mentioned that in our prepared remarks.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Yeah. Got it. That's helpful. And I may have missed it, but any more color or detail you can give on kind of the cure activity within the quarter, kind of what vintages that came from? Thank you.

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

A

In terms of that cure activity, I mean, in terms of whether you're looking at accident or origination vintages, I think it's probably kind of recent accident vintages where we've probably seen the most cures. But really, whether you look at it in terms of the different missed payment buckets, pending claims, all of the cure rates have been pretty strong across the board.

Operator: Thank you. And our next question comes from Doug Harter of UBS. Your line is open.

Doug Harter
Analyst, UBS Securities LLC

Q

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Thanks. Just hoping to get a little more detail on the assumed claim rate in the quarter. Did I hear you correctly that, kind of ex the impact of the hurricanes that you still – that you took down the assumed claim rate a little bit?

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

A

Yeah. Thanks for the question, Doug. I think the 7.5% that we applied was the roll rate to all new defaults. We did not actually split our reserving process this quarter, just given the fact that we did not see the new defaults in the hurricane areas to really have a material impact on our reserves. So the 7.5% roll rate that you see is applied to all our defaults. And as we go forward, we will continue to monitor that, but that's a blended amount and is not separated.

Doug Harter
Analyst, UBS Securities LLC

Q

I appreciate the clarification there. And then wondering, if you're seeing any kind of change in the vintage or the characteristics of the loans that enter default. Anything that we can read into that.

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

A

This is Derek. No, we're not seeing any material changes. The other thing, which has held up well, is just the embedded equity in terms of new defaults. So when we – that's something we track closely. So when we look at the embedded equity in terms of new default coming in the default portfolio, pretty similar to the embedded equity in the default portfolio. And then, when we look at credit characteristics, no significant changes.

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

A

And when you look at the cure rate analysis that we provide on slides 17, did I get that right?

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

A

Slide 18.

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

A

Slide 18, sorry, you see that consistency and actually continues to be very, very strong in terms of kind of each vintage migrating through from a cure point of view. So, to Derek's point, things are remaining fairly consistent, but looking very positive.

Doug Harter
Analyst, UBS Securities LLC

Q

Great. Thank you all for the answer.

Operator: Thank you. Our next question comes from Bose George of KBW. Your line is open.

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

Q

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Hey, everyone, good morning. And Sumita, congratulations on your new role, and Derek, good luck in your retirement. Actually, the first question I have is just on leverage. Your leverage obviously came down quite a bit with the debt redemption. When you think about uses of capital, do you think leverage stays here or do you feel like it needs to trend down further, or do you want to take it down further?

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

A

Thanks, Bose, and thank you for your kind remarks. We will, of course, miss Derek a lot, and we are working towards that transition.

On your question on leverage, I think that what we have stated in the past is that our decision to bring down leverage was really to use some of our excess liquidity in our holding company. We did not do it with a ratings trigger. So it was not a condition precedent to maintain our improved ratings.

At this stage, we think we are good at where we are from a leverage perspective. And as you know, our business does organically delever. So if you look at our projections, that number does come down over the next few quarters and years. But again, we have not set that as a target. That's a comfortable spot for us today. And again, it goes back to the fact that this year we paid down net debt by about $350 million. We also returned about $376 million in share repurchases and dividends to our shareholders. So it was really a broader capital plan that we were working towards.

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

Q

Okay. Great. Thanks. And then actually, just to follow up on that. In terms of capital return, Rick commented about looking at the contingency reserve release. Is that kind of a good way to think about it? I guess, you guys have $466 million being released this year. Should that roughly tie to the total capital return divi plus buybacks?

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

A

Again, I don't think we have given an indication of how much we would really return as capital to shareholders as a direct percentage of what's coming out of RGI. If you look at our trajectory in terms of how we have managed capital, we have been very disciplined. Last year, we paid back $376 million. If you look at the amount that came from RGI to Group, it was, again, a really, really healthy number of $675 million.

I think going forward, we expect that we will continue to take out dividends from RGI. On slide 22, we give you the workings of how we think about that dividend capacity. It is really driven by the unassigned funds balance number, which as of Q4 was $223 million.

I think we also highlight on that slide that if you look at how much we can pay as maximum amount of dividends from RGI to Group without Pennsylvania approval, it could be as high as $795 million. Again, like a very, very strong position. We will continue to manage that capital effectively from RGI to Group and then, of course, returning that capital back to our shareholders.

We've typically stayed away from a percentage amount or a clear target of how much of that RGI capital that we are dividending up we will give back to shareholders, but you can see it from our track record and the consistency with which we've continued to do that every quarter.

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

Okay. Great. That's helpful. 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

Yeah. Good morning. Rick, you touched on this a little bit, just the new administration, it seemed like they're going to appreciate the private MI industry, which I think we saw that last time. But any updated thoughts there? And then just same thing goes for GSE reform, how you think any of those might impact just the private MI market?

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

Yeah. Scott, thanks for the question. Certainly, an active dialogue all around this particular topic. So I appreciate the question. I think as we kind of look at the path forward, we've existed in this market through multiple administrations, actually, even before and after the financial crisis through a number of different cycles. I think as we look today and we think about kind of our relationship and importance in the housing finance system, that really hasn't changed from the role we play and the importance that we play towards creating responsible, sustainable, affordable housing kind of solutions.

As it relates to GSE reform, I do think it's going to continue to get dialogue. I think given all the other issues that Congress has to deal with, specifically related to the tax law change or tax law expiration this year, it's unlikely that Congress is going to advance comprehensive housing finance legislation. That would be our view. I think certainly not in the near term. There's a tremendous amount of complexity involved, and there's potential financial and housing impacts that all have to be thought through.

It is possible, and maybe a more likely path, that FHFA, kind of like the previous Trump administration, kind of works towards some form of administrative recap and release from conservatorship without legislation, which would not change the charter requirements for MI. I think that's an important thing to remember. But both paths have impediments, right, and significant hurdles to overcome and complexity.

So I think the dialogue is going to be out there. And certainly, we look forward to working with the new administration to secure the future of housing finance in a responsible and sustainable way. I think we're well positioned to continue to be a central partner of the GSEs. We support low down payment financing, which aligns well with FHFA's overall core mission for ensuring safety and soundness of the GSE.

So I think as I said in my prepared remarks, I think the private MI industry is really well supported by both sides of the aisle. When you think about the Republicans, private capital in front of the taxpayers is a really important issue. We're the only source of permanent private capital that sits in front of the taxpayers, along mortgage credit taken on by the US.

From a Democrat's side, providing access and affordability opportunities for people on low down payment loans, and housing is a key issue. I happen to think it's one of the great catalysts of our economy that we need to address. But I think we're focused on helping to address the key challenge for first-time homebuyers and low to moderate income borrowers, and helping them think through how to attain the dream of homeownership with lower down payment.

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So I think we're well positioned. I think we have great relationships kind of throughout the whole kind of decision framework and we look forward to working with the new administration to kind of help pursue continuing to find ways to make this kind of a better housing market.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Great. That's really helpful detail. And then just switching gears, just on homegenius. You talked about restructuring that. There was an impairment there in the quarter. Do you feel like most of the restructuring is done and you – kind of feel like you're happy with where it is now? And the other is just related to the – it's homegenius and other, but do you expect to see any improvement in margins for 2025? I'm assuming some of the expense reductions would probably help that segment, but anything on either one of those.

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

A

Yeah. Scott, thanks for that question. I think the answer to your question is exactly as you kind of discussed, which is we've been working this year really with the team to kind of get it positioned, as we described, I think, back in -earlier this year, I think probably in May. And I think the businesses that comprise All Other are really four different things. One is our conduit business, which we have continued to grow and continue to expand. As you know, we did two securitizations last year and expect to be a regular issuer this year.

Our real estate services business remain a profitable contributor throughout the cycle, including last year. And our title business really kind of going to reset back to a point where we look for that business to kind of maintain its path towards profitability, but significantly – significant reduction in terms of any kind of financial impact.

And then our homegenius platform, which is our real estate, tech and brokerage platform, as I mentioned earlier this year – earlier last year, I should say, sorry, we've been in – having discussions kind of evaluating strategic options and partnerships for that business. And we continue to work towards that goal after having really significantly reduced the expenses.

So I think as we roll into 2025, we do expect to see those – that All Other continue to improve and make progress as we go into the year.

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

A

Yeah. And maybe if I can just add a couple of other quick thoughts on that. So if you just think about the amount of, I would say, changes that we've made, just to give you some context, in 2023, our head count used to be 1,400 FTEs. Today, we are closer to about 1,000 FTEs or a 30% reduction. We've had to make some pretty, I would say, difficult and hard decisions over the last few quarters.

I think on an enterprise-wide basis, I think I did mention in my prepared remarks that we've taken out about 19% of our expenses down from the 2022 levels if you look at OpEx plus cost of sales. And I think that we will continue to be on that path. And I think that on an enterprise-wide basis, we are very focused on making sure that we continue to take out expenses as needed.

I think from an FTE perspective, we feel we are rightsized at this point. I think we are looking for expense savings in our vendors, in our outside services and very focused on making sure that we continue to work towards our

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expense targets. I think for next year – in Q4, I think our OpEx number was about $75 million. I think what we've guided...

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

Excluding the...

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

Excluding the impairment, that's right. Excluding the impairments that we walked you through. I think that for the next few quarters, an $80 million run rate number, because I think there's some variation between the quarters, I think an $80 million run rate number for OpEx is a good estimate. But again, like, we are very focused on making sure that we are taking expenses out of our overall enterprise.

Scott Heleniak
Analyst, RBC Capital Markets LLC
Q

Got it. Perfect. Appreciate all the answers.

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

Thank you.

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

Good afternoon. Thank you – or morning, and thank you for taking my questions. Firstly, wanted to just echo the congratulations on the new role for you, Sumita, and wishing you well in retirement. Derek, thanks for all the help over the years. But in terms of my questions, my first question, just want to clarify, Sumita, did you say the portfolio yield was 3.9%? Is that the new money yield or just the total portfolio yield?

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

Yeah. First of all, thanks a lot, Mihir, for your kind remarks. Yes. That was 3.9% for our overall portfolio yield. I think our new money rate is somewhere in the 4.75% to 5.25% level.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Okay.

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

And that's been relatively at that level for the last few quarters.

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Mihir Bhatia
Analyst, BofA Securities, Inc.

That makes sense. And then the – I think you mentioned for the NIW outlook, a little higher in 2025. You also are enjoying high persistency. So maybe putting those together, what are you planning for from an insurance in force growth perspective? Are we looking at mid-single? Could it get to high single digits in 2025?

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

Yeah. I think we historically – as much as I'd like to give you that answer, historically, we've not provided that forward guidance, Mihir. But I think the one great thing about this business is the combination of a solid purchase market going into next year. And I wouldn't say we expect large increases year-over-year. I think they're fairly modest and moderate increases in the mortgage market and depending upon rates a little bit, but the purchase market, I think, is fairly predictable.

I think for us, the combination of continuing relatively high persistency, along with a strong purchase market, is really good for us to build overall economic value in our portfolio. And Derek and the MI team have done a really good job of being highly selective about the economic value we originate through that portfolio, which we think kind of embeds value going forward from an earnings point of view.

So we feel very good the way the market is kind of evolving. Persistency, it's well balanced today. And that's where we're positioned.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Got it. Maybe on that point about just the quality of originations. One of the questions we hear from investors a lot is, well, the mortgage origination standards weakened in 2023 versus what you had in 2021. And I guess my question for you is like, I mean, understand there's some mix shift between – you just had more purchase originations and things like that. But if you were to compare, like, like-for-like policies or like-for-like originations in 2023 versus, call it, 2021 or 2022, are you seeing any deterioration in credit standards in your data and in early portfolio performance? Thank you.

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

Yeah. This is Derek. And no, we haven't. And if you look at credit quality, I think the 2023 book relative to 2022 was just higher quality when you look at different credit dimensions, whether it's credit score, LTV.

The other thing is just from a performance perspective, I think early on, we've seen the 2023 origination vintage outperformed 2022. You'd expect some of that 2022 had, I think, a quarter of negative home price appreciation and then also was just a little bit from a – riskier from a risk characteristic perspective. But I think that when you look at those vintages, when you look at the credit characteristics, I think they've all played out pretty similarly and very positive, and really kind of exceeding expectations in terms of where we were kind of pricing them.

Mihir Bhatia
Analyst, BofA Securities, Inc.

And is that just because of home price appreciation or has – is there something else you think also driving that, like, even you're not even seeing delinquencies?

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

A

No, I think home price appreciation is a part of it. I think just generally solid employment picture, quality underwriting, right, so manufacturing quality is very good and then just the nature of their credit characteristics, high-quality borrowers. So I think it's a combination of things. So I think you put all of those together, and those have been pretty steady for a number of years now. So we've seen that. Really haven't seen any deterioration with respect to any of those characteristics.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Got it. And then just switching to Radian Mortgage Capital for a second. Any color on just the issuance cadence, what you're looking to do there in 2025? Is there a like lot of opportunity to scale that up? How are you thinking about that business for 2025?

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

A

Yeah, Mihir, thanks for the question. So we've not provided any forward guidance on kind of our issuance pace, but I will say that we continue to focus on growing that business. We've had great receptivity from our customers. It's one of the great finds that we've had in terms of the receptivity of our mortgage insurance customers who actually want to be part of our conduit customer base. It's actually worked very well.

And so our focus this year is on growing that business and increasing the regularity of our issuance from a securitization point of view, but we also sell loans to private investors, the GSEs. But from a securitization point of view, we would expect to kind of increase our pace. But more to come on that as we kind of get into the year and continue to kind of grow that business. But overall, I would say, from a demand perspective and a receptivity and feedback perspective, have been very positive and we're really just focused on scaling that business in a safe and sound way from a risk perspective and kind of addressing the needs we're hearing from customers.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

And just one last follow-up for me on that topic, actually. When does that business become material, right, to Radian overall? Like, when do we start seeing a little bit more disclosures around that business?

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

A

Really an excellent question. And I can't – like, that's a hard question for me to answer on.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Are we talking three years, five years, like medium term, short term?

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

A

Yeah. I would say this is a medium term kind of answer is the way I would do it, given the choices you gave me. But I would say we don't want to provide specific guidance on timing, but I do think it's kind of a medium-term kind of opportunity for it to have measurable impact.

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Mihir Bhatia
Analyst, BofA Securities, Inc.

Okay. Thank you. Thank you for taking my questions.

Operator: Thank you.

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

Yeah. Thank you.

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

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

Well, thank you, all, for joining us today. 2024 was another excellent year for Radian where we grew our insurance in force and book value, returned $376 million in capital to stockholders and reduced our debt, as Sumita said, by $350 million and the resulting lower leverage. We look forward to the opportunities in 2025 in terms of the market opportunities and the value of our portfolio. And we continue to have a positive outlook on the housing market and for our business as well, as we continue to kind of help people responsibly achieve the dream of homeownership.

Thank you for your questions. And we look forward to seeing everybody soon as we find opportunities to meet either virtually or in person. Take care. That's all we got.

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

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