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Radian Group Inc. (RDN)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the First 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, John Damian, Senior Vice President, Investor Relations and Corporate Development. Please go ahead.

John Damian

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

Thank you and welcome to Radian's first 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 investor section of our website at www.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 risk 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'd like to turn the call over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Good afternoon and thank you all for joining us today. I am pleased to share that we had a strong start to the year, which resulted in excellent operating results for Radian in the first quarter. These results demonstrate the embedded economic value of our high quality and growing mortgage insurance portfolio. The strength and quality of our investment portfolio continued effective management of our capital position. And our ongoing strategic focus on managing operating expenses.

I will start by sharing a few financial and business highlights. We increased book value per share by 12% year-over-year, generating net income of $152 million and delivering a return on equity of approximately 14%. We grew revenues by 3% year-over-year to $319 million during the quarter. Our primary mortgage insurance in force, which is the main driver of future earnings for our company, grew 4% year-over-year, and reached an all-time high of $271 billion.

We continue to leverage our proprietary analytics and RADAR Rates platform to identify and capture economic value in the market, which resulted in $11.5 billion of high quality new insurance written in the first quarter. We continue to see very positive credit performance in our mortgage insurance portfolio with a 2.1% default rate at March 31, a decline from a default rate of 2.2% in the prior quarter.

Radian Guaranty, our primary operating subsidiary, paid its fifth consecutive quarterly ordinary dividend of $100 million to Radian Group, our holding company, during the first quarter. Our overall capital and liquidity positions remain strong with our available holding company liquidity increasing to approximately $1.1 billion, and our PMIERs cushion for Radian Guaranty was $2.3 billion.

As previously announced, we successfully completed a $625 million senior notes offering and redeemed $525 million of our senior notes due March 2025 during the quarter. This was part of a series of transactions aimed at reducing our holding company leverage to below 20% by year end. Sumita will walk through this in a few minutes.

I also want to highlight that our mortgage conduit business is building momentum in the market with a growing list of customers selling us loans. As a strategic extension of our successful model for aggregating, managing, and distributing mortgage credit risk, we are distributing loans to a growing number of institutional investors, and evaluating the opportunity to develop a mortgage backed securitization program in the near future.

Sumita will cover the rationale for the changes to our segment reporting with respect to our title, real estate services, and real estate technology businesses that were previously aggregated reported as our homegenius segment. These businesses continue to be impacted by the headwinds in the mortgage and real estate market environment, and we have been highly focused on aligning the expenses to reflect the market opportunity we see for each business.

As I've mentioned on previous calls, we do think about and assess these three businesses separately. Our real estate services business, including single-family rental, due diligence, REO management, and valuations has remained profitable and maintains a leading market position. Our title business, which has undergone meaningful expense reductions to align to the current environment, maintains a solid market position, and continues to add new customers. We believe this business is well positioned to benefit from an improved mortgage market.

Our real estate technology business branded homegenius is a real estate platform-as-a-service model. The platform utilizes our proprietary homegenius IQ, which combines data and analytics with computer vision and AI-powered tools to help consumers make smarter homebuying owning and selling decisions. This technology business has been most impacted by the mortgage and real estate market conditions, and as such, we're taking actions in the second quarter to significantly restructure our expense run rate related to this business. We expect to provide an update on the actions we are taking and the impact on our expenses during our second quarter call.

Turning now to the housing market. Recent industry forecast projected total mortgage origination market for 2024 of approximately $1.8 trillion, which would represent an increase of 15% compared to 2023. This is lower than the outlook at the start of the year. Based on the updates related to the expected decline of mortgage interest rates this year, which is now projected to be less and come later than originally forecasted.

Based on the origination forecast, we estimate that the private mortgage issuance market will be approximately $300 billion in 2024, consistent with the prior year. I believe it's worth noting the positive impact that we expect from the continuing higher interest rate environment in terms of increasing our investment portfolio returns, and maintaining strong persistency, benefiting our insurance in force.

Additionally, despite higher interest rates and impacts on affordability, the housing market remains supply constrained, which we expect will keep overall home values stable to slightly positive from an HPA perspective. It is also important to note here that most borrowers in our insured portfolio have significant embedded equity in their homes, which helps to mitigate the risk of loss by decreasing both the frequency and severity of paid claims, which positively impact our default and cure trends. In fact, we estimate that as of the first quarter, 89% of our insurance in force policies had at least 10% embedded equity and 80% of our defaulted loans had at least 20% embedded equity. Overall, our outlook for the mortgage insurance business remains positive.

As you've heard me say before, our business model is proven and our company is built to withstand economic cycles. This has been 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, on both sides of the aisle, and that we are well-positioned to fulfill our 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 afternoon to you all. We started the year with another strong quarter of operating results producing net income in the first quarter of 2024 of $152 million or $0.98 per diluted share compared to $0.91 per diluted share in the fourth quarter of 2023. Adjusted diluted net operating income per share was slightly higher than the GAAP metric at $1.03 for the first quarter compared to $0.96 for the previous quarter. We generated a 14% annualized return on equity in the first quarter, which helped to grow our book value per share 12% year-over-year to $29.30. This book value per share growth is in addition to our regular stockholder dividends, which were $37 million during the quarter, reflecting our previously announced increased quarterly dividend of $24.50 per share. We also repurchased $50 million of our shares during the first quarter, demonstrating our commitment to returning excess capital and enhancing value for our stockholders.

Turning now to the detailed drivers of our results. Our revenues continue to be strong in the first quarter of 2024. We generated $319 million of total revenues during the quarter, a 3% year-over-year increase.

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 grew 4% year-over-year to an all time high of $271 billion as of the end of the first quarter, generating $234 million in net premiums earned in the quarter. Contributing to the growth of our insurance in force was $11.5 billion of new insurance written in the first quarter of 2024, compared to $10.6 billion written during the fourth quarter of 2023.

While higher interest rates continue to provide a headwind for new originations, it has also significantly benefited the persistency rate of our existing insurance in force, which remained high at 84% in the first quarter based on the trailing 12 months compared to 82% a year ago. We provide more detail on our persistency trends on slide 10.

We expect our persistency rate to remain strong given current mortgage rates and the overall economic outlook. As of the end of the first quarter, 85% of our insurance in force had a mortgage rate of 6.5% or less. Given current mortgage interest rates, which meaningfully exceed these levels, along with the expectation that rates will stay higher for longer, these policies are less likely to cancel due to refinancing in the near term.

As shown on slide 12, the in force premium yield for our mortgage insurance portfolio remained stable in the quarter, as expected, at 38.2 basis points. With strong persistency rates and the current positive industry pricing environment, we expect our in force portfolio premium yield to remain stable for the remainder of the year as well. The benefits we are experiencing in this higher interest rate environment from high persistency rates and investment income, which I'll discuss next, helped demonstrate the durability of our mortgage insurance business model in varied interest rate environments.

Our net investment income grew 18% year-over-year to $69 million in the first quarter. The rise in our net investment income has been driven by increases over the past year in both the size and the average yield of our investment portfolio. As we continue to reinvest cash flows in the higher rate environment, we expect our average investment portfolio yield and quarterly net investment income to increase further throughout 2024 further illustrating the benefits of our higher rate environment to our financial results.

Our unrealized net loss on investments reflected in stockholders' equity was $362 million at quarter end. We expect that our strong liquidity and cash flow position will provide us with the ability to hold these securities to recovery of the unrealized losses, which would equate to $2.39 that is expected to accrete back into our book value per share over time.

I will now move on to our provision for losses. Credit trends continue to be extremely positive. Once again, in the first quarter of 2024, our defaults continued 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. 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.

On slide 16, we provide trends for our primary default inventory. Our primary default inventory declined by approximately 1000 loans during the first quarter to approximately 21,000 loans at quarter end as cures outpaced new defaults representing a portfolio default rate of 2.1% at March 31, 2024, a decline from 2.2% in the prior quarter. I would like to highlight a new disclosure that we have included on slide 17, which details the progression of cumulative cures for each quarterly new default cohort over the past several years.

As shown on that slide, our cure trends have been very consistent, and positive in recent periods with approximately 90% of defaults curing within four quarters, and 97% curing within eight quarters meaningfully exceeding our initial expectations. And during the first quarter of 2024, we had the highest quarterly cure rate in more than 20 years, as measured by the number of cures in a quarter compared to the beginning default inventory.

The number of new defaults reported to us by servicers was approximately 11,800 in the first quarter of 2024, a decline of 6% from the previous quarter. We continue to maintain our default to claim roll rate assumption for new defaults at 8%, which, combined with the slightly lower claims severity assumption, resulted in $54 million of loss provision for new defaults reported during the quarter.

Positive reserve development on prior period defaults of $61 million more than offset this provision for new defaults due to the favorable cure trends just discussed, as well as the benefit from lower claims severity. As a result, we recognized a net benefit of $7 million in our mortgage insurance provision for losses in the first quarter.

I will now discuss a segment reporting change related to homegenius. Whereas previously we had aggregated our title, real estate services, and real estate technology businesses as a separate reportable segment named homegenius. Effective this quarter, we are including the results of these businesses in our all other category. This change reflects the way we manage and evaluate these businesses individually, and incorporate materiality considerations consistent with current accounting guidance. It also aligns with the presentation of our mortgage conduit business, which we also report in all other along with holding company investment income.

As a result of our ongoing expense savings efforts, our combined consolidated cost of services and other operating expenses were $92 million in the first quarter of 2024, a year-over-year decrease of $2 million or 2% compared to the first quarter of 2023. While we continue to actively manage our operating expenses and seek opportunities for additional efficiencies, it is important to note that these expenses can fluctuate from quarter-to-quarter due to changes in items such as variable incentive compensation. And similar to prior years, we do expect expenses to be elevated in the second quarter of 2024, due primarily to the timing of our annual share based incentive grants.

Moving to our capital, available liquidity, and related strategic actions. The financial position of our primary operating subsidiary, Radian Guaranty, remains strong. Radian Guaranty's excess PMIERs available assets over minimum required assets remained stable during the first quarter at $2.3 billion. That PMIERs cushion was after taking into account an additional $100 million ordinary dividend paid by Radian Guaranty to Radian Group in the first quarter, its fifth consecutive quarterly dividend of $100 million.

As we have noted previously, Radian Guaranty's ordinary dividend capacity is driven by its statutory unassigned funds balance each period. We've added a new schedule to slide 21 to show the drivers of unassigned funds in more detail. This schedule highlights the role of contingency reserve releases in supporting our quarterly dividends as they help offset new reserves we establish each quarter.

Now that Radian Guaranty is releasing these reserves in material amounts, we expect the size of the quarterly ordinary dividend payments to increase beginning in the second quarter. This is consistent with our previously provided expectation for Radian Guaranty to pay $400 million to $500 million of ordinary dividend to Radian Group during 2024.

During the first quarter of 2024, we completed the first steps to address upcoming debt maturities, which extended the term of our senior notes outstanding. With our plan to pay down the 2024 senior notes later this year, Radian will have no senior notes debt due until 2027, lowering leverage, interest expense, and overall debt outstanding by year end.

We issued $625 million of unsecured senior notes at an attractive coupon of 6.2% in a well-received investment grade debt offering during the quarter, and used a portion of the proceeds to fully redeem $525 million of our higher coupon 6.625% senior notes that had been scheduled to mature in March 2025. We intend to use the balance of the funds raised along with available holding company liquidity to pay off our $450 million of senior notes that matured in October of 2024.

We expect to reduce our holding company debt to capital ratio to below 20% following the retirement of the senior notes later this year. Additionally, we repurchased 1.8 million shares during the first quarter at a total cost of $50 million. As of the end of the first quarter, our current share repurchase authorization had $117 million remaining and expires in January 2025. As demonstrated by this past quarter's repurchase activity, and our track record in recent years, we believe that share repurchases provide an attractive option to deploy our excess capital.

As a result of the net impact of these first quarter activities, our available holding company liquidity increased to approximately $1.1 billion at the end of the first 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 first quarter continue to reflect the resiliency of our company in varied interest rate environments, as well as the strength and flexibility of our capital and liquidity positions. We expect the consistent 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. I would like to recognize and thank our dedicated and experienced team 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.

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

Q

Hey, good afternoon. I first wanted to ask about capital return. You noted, obviously your leverage is going to be below 20% by the end of the year. Could we see a ramp up in buybacks in 2025 just given the leverage, capital levels, et cetera?

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

A

Yeah. Thanks, Bose, for the question. As I mentioned in my prepared remarks, in the first quarter, you saw us buy back $50 million of shares. We continue to buy back shares. So as we look at the remaining quarters of this year as well as 2025, which you asked about, we do intend to continue buying back our shares. We do believe that our shares continue to trade below their intrinsic value. I also mentioned that our current purchase authority is $117 million as of March 31st. And as you know, we have demonstrated a track record of managing capital, and we've returned about $1.9 billion in the last five years, and we will continue to do so.

I think one other important factor to keep in mind, and I think I mentioned that in my prepared remarks, is if you look at Radian Guaranty and the amount of dividend capacity we have in Radian Guaranty, it continues to be really strong. So as those dividends are paid back out to holding company, we will continue to return the capital back to shareholders through both dividends as well as share repurchases.

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

Q

Okay. Yeah, that makes sense. I guess the question was also a little more just on the cadence, because it does look like your flexibility and the capital levels are going to improve quite meaningfully or put you in a position to, kind of, ramp that up. And when I look at your dividend plus the current buybacks, it's still say $350 million a year versus your earnings, which are obviously much higher than that. So, yes, I think there's room for it to, kind of, ramp up as a result.

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

A

Yeah. I think there is room for it to ramp up. We've not given specific guidance on a number yet, Bose. I think, as we go forward, the during the rest of the quarters in the year, and we have more visibility into Radian Guaranty and Radian Guaranty's performance, we may take a look at that and give you more specific guidance, but at this point, I think we've not given a specific guidance on how much we intend to repurchase. Obviously, if you look at our historic track record, we are repurchasing about $50 million each quarter, and we are paying dividends. As you know, we paid the highest dividends in the sector, and our dividend yield is the highest amongst all the MI peers.

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

Okay.

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

Yeah, just – I would just add – I would to Sumita's comments. Thanks, Bose, for the questions, really just to emphasize the fact, as you did, Sumita, our track record really speaks for itself in terms of being willing to kind of jump in and return capital to shareholders through both dividends and share buybacks. We always talk backwards, never forward. But I think, we feel the capital strength of our business every day is a real important part of the return profile of our business going forward. And so we'll continue to keep you updated, Bose.

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

Okay, great. Thanks a lot.

Operator: Thank you. One moment for our next question. And our next question comes from Terry Ma of Barclays. Your line is open.

Terry Ma
Analyst, Barclays Capital, Inc.
Q

Hi, thanks. Good afternoon. So, your default rate remains pretty low. I'm just curious, as your book seasons, is there a range we should expect that default rate to migrate to you? And then secondly, do you expect your cure trends, that you saw on page or slide 17 of your deck to change materially as that default rate migrates up?

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

Hey, Terry, it's Derek. In terms of the default rate, it's hard to estimate exactly where it ends up. It depends upon the seasoning of the origination vintages and the overall macroeconomic environment. That being said, and kind of the range we're in, I could see it ticking up a bit, kind of remaining sub 3%. So if we continue with the current macroeconomic conditions, I would see it kind of being secularly below where it was pre pandemic levels. In terms of cure rate, I think, it's been pretty consistent that you look at the cure rate. I think we have a chart on one of our slides showing that that cure rate, if you look at them on a year-over-year basis, has been pretty consistent. So in the first quarter, 34%, I think the previous year was 33%. So again, assuming similar macroeconomic conditions, I would expect that cure rate to continue to be pretty strong. The trend we've seen over the last several years.

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

Yeah. And I think the slide that Rick was referencing, is slide 17 and the numbers, if you look at the first column with the zero quarter column, if you just track that from top to bottom, it gives you a good sense of how consistent that trend has been. So to what Derek just mentioned, it was 35% in Q1, 34% in Q1 of 2023, 33% in Q1 of 2022, and 28% in Q1 of 2021. So really good trend with increasing cure rates if you look at it on a seasonal basis.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. So then on your reserve policy, so the claims frequency and severity has obviously come in better than what you've reserved for. I'm just curious, what's it going to take for you to maybe get a little less conservative in your reserve assumptions going forward?

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

A

Yeah, I think it's a good question. I think our reserve assumptions are our best estimate as of today. We obviously want to make sure that we retain a level of, I would say, prudence as we think about projections, and how we think about reserving. I think the way we do it today, we've been pretty consistent over the last few quarters. So we take our new defaults. We apply a default to claim roll rate, which we have kept at 8% for the last few quarters.

In terms of our average severity, I think the assumption we make, it comes to about $63,000, that's our assumption for the first quarter. And then we apply a haircut of about 5% related to rescissions and denials. So again, I think we are trying to take a through the cycle view as we think about how to reserve and that's how our reserving policy is set. And so there is, I would say, an element of prudence as we think about performance through the cycle.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

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

Doug Harter
Analyst, UBS Securities LLC

Q

Thanks. As you guys think about, kind of, your excess capital position, how are you thinking about other ways to potentially deploy it into the business, whether that's repurchasing some other reinsurance or are there other uses that you would be considering.

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

A

Maybe Sumita and I can tag team this. Thanks, Doug. This is Rick. We, again, I'll just speak to our track record of being fairly diligent. Strong fiduciary is around managing capital and taking advantage of opportunities that present themselves, either through freeing kind of trapped capital in our operating businesses, looking at ways of restructure to, again, liberate capital. We've done things around different, our ILN's this past year. We've bought shares back. We have the highest dividend rate. So I think as we think forward, there's a whole waterfall of options that we think through and try to be really good stewards of capital as we manage through, as Sumita said, thinking through kind of a through the cycle view.

But I think you're going to continue to see us as – I should also mention, as Sumita mentioned in her remarks, we do plan to use some of our Holdco liquidity to pay down the 2024 that are due October 1, I think is the date. So we've got a really thoughtful approach as we go forward. The good challenge that we have is we do have considerable excess capital that's freeing up from Radian Guaranty up to Holdco. And I think that's going to continue to provide us opportunities to think about how we further deploy that to the benefit of our shareholders. So I think I would just speak to our track record. We never talk forward about kind of our actions for a whole lot of good reasons.

But I think our plan is thoughtful. Our approach has proven to be thoughtful and we're going to continue to find ways to optimize our returns for shareholders.

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

A

Yeah, and I think the only other thing I would add, I just want to make sure I answer your question related to reinsurance, Doug, and let us know if this is what you were getting to. So as you can see, our PMIERs excess available assets was $2.28 billion as of the first quarter. And the increase in that excess really happened in the fourth quarter of last year when we executed a couple of reinsurance transactions. And if you remember, we mentioned that we like the deals we were getting at that point in time and we went ahead and executed those transactions.

Having said that, the PMIERs excess is not our constraint that really guides how much capital we can free up from Radian Guaranty to Radian Group. And just to give you some additional disclosure on that, we did add, I would say a footnote on slide 21 to make sure that we're explaining that a little bit more clearly. So if you look at what is our constraint in terms of how much capital we can get out of Radian Guaranty. It's really our unassigned funds and that's driven by the performance of Radian Guaranty, both on a statutory net income basis, but also the contingency reserve releases that that we are now seeing in Radian Guaranty.

So if you think about our constraint from a capital perspective, it is really unassigned funds and not the excess PMIERs assets that we have which is driven much more by how much reinsurance you do. So I just wanted to make sure that I highlight that for you that it is really driven much more by our unassigned funds in Radian Guaranty.

Doug Harter
Analyst, UBS Securities LLC

Q

I appreciate that answer. And just a follow-up, is there a minimum unassigned funds number you need to hold or, just how do we think about the ability to, kind of, back to an earlier question about using most of your net income, just to think about that.

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

A

Yeah. I mean, we could sweep all of it. So it's really zero million. So, as long as it's positive, we can sweep all of it from Radian Guaranty to Radian Group. And as you can see, I mean, this is still a pretty new development for us. Like Q1 was really the first time when we are starting to see this trend of contingency reserve releases. You see the $108 million this quarter versus about $5 million for the previous four quarters. So I think as long as it is positive, we are able to sweep that up to Radian Group.

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

A

Yeah. And I think the important point about that is, is that it rebuilds every quarter right through earnings contingency reserve releases. So it's not a – it's not a fixed number that we're capped out. It's – as you can tell from the chart that Sumita is referring to, that's one quarter's build, but that quarter builds, each quarter we had earnings, and contingency reserve releases. So we're in a really long positive cycle relative to free cash flow, capital flow from Radian Guaranty up to Radian Group.

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

Yeah.

Doug Harter
Analyst, UBS Securities LLC Q

I appreciate the answer. Thank you.

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

Thank you.

Operator: Thank you. One moment for our next question. And our next question comes from Mihir Bhatia of Bank of America. Your line is open.

Nathaniel Richam-Odoi
Analyst, BofA Securities, Inc. Q

Hi, this is Nate Richam on for Mihir. My first question was on homegenius. I know it's being deemphasized from an accounting perspective, but just curious, I think about it on like an operational perspective and I know the current environment isn't that supportive, but will it still be like a focus of growth? And is it something that you'll think you will reinvest as the rate environment gets a little better?

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

Yeah. First off, thank you for the question. Let me just kind of walk you through because I think it's just good to add to kind of the understanding of what our plans are for these three businesses. So as I've talked in the past about the group formerly referred to as homegenius, the segment was comprised of three businesses, one of which was title, one was real estate services, which is our SFR due diligence business, REO and valuations business. And the third was our homegenius technology platform business. And they're all at different stages of development and maturity. So the segment decision really, as Sumita walked through was a decision in terms of kind of presentation and kind of assessing those businesses in that context.

But for each of the businesses, the title business has gone through a meaningful expense reductions during the cycle, very challenging cycle as you know. But it maintains a really solid market condition – market position and has been adding customers along the way, really expanding the base of the customers significantly and getting great feedback from the customers we do business with. So we think that that business is positioned for growth as the market improves, to your point.

Our real estate services business is a business that has remained profitable through the cycle, not as profitable, less profitable, but still profitable. It's a business where we have a tremendous market position, a leading market position across those products. And we continue to see as the market evolves and improve opportunities for that to grow. And then related, so those two businesses will really operate under the Radian brand as we go forward.

The third business, our real estate technology business, which is really the homegenius brand. As we go forward, that business which leverages really, kind of, all of our innovative data and analytics, and computer vision, and AI, we call it homegenius IQ, is – has probably been most impacted by the market conditions as any startup that's trying to find its way into market adoption. I think some of the factors around mortgage lenders and specifically real estate – realtors and brokers, with all the litigation and changes going on, that market's been challenged.

And so what we've done is we've taken the team. The team has done exceptional work. We believe it's highly unique, based upon my own independent kind of feedback I've gotten from other market experts. But we're going to – we've taken the position that we had to begin to significantly reduce expenses around our investment in that business. And part of that was to also alter our market focus from our go-to-market as to where we focus. So today we're focused on continuing to invest in the platform, albeit at a lower level, team, highly qualified team, highly focused team, very appreciative of their efforts. But we've also turned our market focus towards really identifying partners for that business, and we will, as we go forward will report on two things kind of our progress along that business from a, as we explore different partnership opportunities, but also around kind of the impact of our expense savings as we go forward.

So those businesses, to your point about market conditions is, I think, appropriate and we think each one of them has a different path, and we've focused each of the teams on the opportunity we see for each one of them across what we believe to be the proper expense base.

Nathaniel Richam-Odoi
Analyst, BofA Securities, Inc.

Q

Awesome. That's super helpful. And then switching gears a little bit, you guys pointed out earlier that cure activity has been like pretty strong. I'm just curious if anything has like structurally changed in terms of borrower behavior or how services are dealing with these defaults. And just trying to get better understanding of like how the use of like modifications or remediation programs are being used to lead to either more cures or longer time to foreclosure.

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

A

Yeah, this is Derek. It's been pretty consistent with the trend, so I think it's a few things that's driving it. One, the employment market remains strong, so reemployment rates are high, importantly, embedded equity. So if you look at the default inventory, the new defaults that are coming into the portfolio continue to have a lot of embedded equity. And then the change really that happened post-financial crisis and even post COVID pandemic are all the programs put in place to help servicers. To make sure that their ability to pay, if they have embedded equity, to make sure they have sufficient time to recover, which is very important for us since we don't pay claim until there's kind of that transfer of title.

So I don't think there's been any shift in terms of what we've seen very consistent in terms of, I think, the nature of the defaults, the transition of the defaults through the inventory and that's what we're looking at. So as you kind of think about cure rates, what you're really looking for in terms of trends are the complexion, the type of new defaults that are coming in. We haven't seen a significant change there or the amount of embedded equity and then the macroeconomic environment. And on all of those dimensions, it's remained remarkably stable over the last several years.

Nathaniel Richam-Odoi
Analyst, BofA Securities, Inc.

Q

Okay, awesome. That's all from me. Thank you.

Operator: Thank you. One moment for our next question. And our next question comes from Soham Bhonsle of BTIG. Your line is open.

Soham Bhonsle
Analyst, BTIG LLC

Q

Hey, guys, Soham Bhonsle here from BTIG. Hope you're all doing well. Maybe first one on ROE, looks like the last few quarters you've been putting up, call it 14% to 16%. Can you maybe just talk about the sustainability of that ROE over the next year or so? And how should we think about sort of upside downside ranges going forward?

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

A

Yeah, thanks for the question, Soham. So, I think, if you look at our current quarter, as we mentioned, I think our adjusted net ROE – net operating ROE was 14.5% for the quarter. Last year, we posted a 15% ROE. So we think that these are really healthy returns that we continue to generate on our business. Now, when we look forward, I would say that our loss ratios currently are really low. And in fact, negative. And we think that going forward, as we again think about through the cycle performance, we don't plan or expect that the loss ratios will continue to remain where they are today. And we do expect loss ratios to begin to return to more normalized levels.

Now obviously, when that happens that would flow through into ROE, but as of now, I think over the last few quarters, we have continued to continue to generate the 14% to 16% ROE that you're seeing in our business.

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

A

One other point just to highlight, too, is that the other side of that numerator denominator question is all the excess capital that we hold both within Radian Group and Radian Guaranty. And as Sumita went through earlier, and I guess my comments as well, $1.1 billion of liquidity at Holdco plus $2.3 billion of excess PMIERs play through the what's a little walk through the example of how the capital flows from Radian Guaranty up to Radian Group. But today part of that ROE is also being reduced by a significant amount of excess capital embedded within the business. And so we'll continue to explore that side of the equation as well. So as there's, kind of, some gives and takes right now, but I think, we don't ever like to give forward estimates on ROE. But I think if you look at both parts of that, you'll kind of get a sense for what the normalized ROE is for this business through the cycle.

Soham Bhonsle
Analyst, BTIG LLC

Q

Yeah, no, that's a good point. And then second one on services, it looks like the gross margin has sort of stabilized in the mid-20s here over the past quarter or two. Did you, so, I guess, two questions there. Do you view that as sort of a sustainable run rate as we go through the year? And then maybe can you just talk about where margin normalizes when once you sort of restructure the segment here?

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

A

Actually, I'm trying to reference the numbers that you're speaking to. When you say margins, can you just kind of...

Soham Bhonsle
Analyst, BTIG LLC

Q

Gross margin on the business? So services revenue minus direct cost of services...

[indiscernible] (00:43:58).

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

A

I got you. I got you. Okay.

Soham Bhonsle
Analyst, BTIG LLC

Q

Yeah.

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

A

Look, I think, again, I would just say, and Sumita, feel free to add to this. I'd say we're – at this point, we're not going to give any, kind of, forward guidance relative to these businesses. I do think at the end of the second quarter, and I know you all will hold us to this, which I appreciate, is we will give some more insight into some of the changes that we're making across those businesses. I would say as – that we are during the second quarter, I would say as we think about these businesses going forward, our objective is to continue to improve the trajectory of those businesses from a growth and a contribution point of view.

And some of the changes that we're making here in the second quarter, along with all the changes that we've made through the cycle to kind of rebalance to the opportunity, I think we'll have more an opportunity to update in the second quarter and be a little bit more precise.

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

A

Yeah. And I think as you saw, our operating expenses in the first quarter, they came down by about 13% on a quarter-over-quarter basis. And last year, if you remember, we had taken out about $77 million of expenses between cost of services and other operating expenses. I think at this point we've not given, again, a specific guidance on further expense reductions. I think the 2023 numbers, I think if you look at our current expense base, that's what I would use from a modeling perspective. But as Rick mentioned, as we take more actions and have anything specific to report on, we will give you more guidance on that specific metric.

Soham Bhonsle
Analyst, BTIG LLC

Q

Sorry, Sumita. That comment in regards to the cost of services cost or the OpEx overall, the $82.6...

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

A

I think it's -- I think it's overall. Yeah. So I – when I look at the guidance we've given you last year we had said that we'll take out about $60 million to $80 million out and that was overall both on OpEx as well as cost of services. And we took out $77 million, so pretty much at the high end of that range. So I would say it's overall, I think you look at it on a combined basis and I think we'll continue to give you more disclosure on that as we go forward.

Soham Bhonsle
Analyst, BTIG LLC

Q

Okay. Understood. Thank you.

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

A

You bet.

Operator: Thank you. 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 for joining us today for the call. And hopefully, we were able to answer the questions that were most important to you. And we appreciate your interest in Radian. We look forward to talking to many of you all in the coming days, weeks, months, and we'll be back together here on our after our second quarter's completed. Thank you again for joining us today and have a great day. Appreciate it.

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