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MIC.TO - Q2 2018 Genworth MI Canada Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2018 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2018 Second Quarter Earnings Conference Call. (Operator Instructions) I would now like to remind everyone that this call is being recorded today.

And I would now like to turn the call over to Jonathan Pinto, Vice President, Investor Relations. Mr. Pinto, you may proceed.

Jonathan A. Pinto - *Genworth MI Canada Inc. - VP of IR*

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's Second Quarter 2018 Earnings Call. Leading today's call are Stuart Levings, our President and Chief Executive Officer; and Philip Mayers, our Chief Financial Officer. We will start with our prepared remarks, followed by an open question-and-answer session.

Our news release, including our management's discussion and analysis, the financial statements and financial supplement were released last night and are posted on our website at www.genworth.ca. A link to our live webcast and the slides for today's discussion are also posted on our website. A replay of this call will be available via the other number noted in the press release and will also be available on our website following today's presentation. The call will be available online for approximately 45 days following today.

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make which are forward-looking. We advise you to read the cautionary note regarding these forward-looking statements. As well, some of the financial metrics presented on this call today are non-IFRS measures and as such, do not have a standardized meaning and are unlikely to be comparable to similar measures by other companies.

I would now like to turn the call over to Stuart to begin his remarks. Stuart?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Thanks, Jon. Good morning, and thanks for joining our call. We continue to see strong operating results this year with another low loss ratio of 14% for the quarter. Our results were favorably impacted by the generally supportive macroeconomic environment while housing markets continued to normalize in line with our expectations.

For the quarter, we delivered net operating income of $117 million, down 1% over the prior quarter. This generated an operating return on equity of 12% and diluted operating earnings per share of $1.31, consistent with the prior quarter. Once again, these results reflect ongoing momentum from our premiums earned, together with a strong combined ratio as our losses and claims continued to normalize.

Premiums written totaled $172 million, up $2 million or 1% over the prior year period. This result reflects a relatively consistent level of new insurance written for both transactional and portfolio insurance. That said, transactional premiums written were up 3% over the prior year period, driven by an 8% higher average premium rate from the March 2017 increase. This increase was partly offset by moderately lower portfolio insurance premiums due to a lower average premium rate, reflecting a shift in the new originations mix towards lower loan-to-value mortgages.

We ended the quarter with an MCT ratio of 170%, 13 points above our internal target and above our desired operating range of 160% to 165%. We continue to generate excess capital as our older, larger books mature and the business generates strong earnings. Our capital priorities remain focused on supporting our core business volumes and ordinary dividends, along with opportunistic redeployment of available excess capital. Our book value at $44.40 per share continues to grow, up 7% over the prior year period.

As previously discussed, housing market activity has been soft year-to-date since the introduction of the B-20 stress test requirement, along with 2 increases in the overnight rate from the Bank of Canada. While our first quarter commitment volumes were down 9% over the prior year, we saw a pickup in activity during the spring market, ending the quarter in line with the same period in the prior year. This reflects the stabilizing trends we are seeing in many markets across the country as buyers adjust to the new requirements and confidence improves.

We expect this trend to continue during the second half of the year. However, first-time homebuyer affordability remains constrained. And therefore, we expect the high loan-to-value market size to be flat to modestly smaller than the prior year. That said, we continue to see positive momentum on market share with an estimated year-to-date transactional mortgage market share of 33%.

As a result, we expect full year total premiums written to be in line with the prior year versus modestly higher as initially expected at the beginning of the year. Longer term, we continue to believe the fundamentals supporting first-time homebuyers remain strong, supported by economic stability and the robust Canadian immigration strategy.

Consistent with the prior quarter, our loss ratio continues to normalize from the low level we experienced in the prior year. For now, the economy remains very supportive with unemployment rates at near-record lows. And while the housing markets in major urban centers are clearly normalizing, as evidenced by reduced sales volumes, prices have not adjusted evenly across all price categories. Prices in the higher-end single detached segment, especially properties over $1 million, have seen downward pressure.

However, due to constraints on affordability, driven by the B-20 guideline changes and rising rates, demand has shifted down the price curve and remains strong in the lower-priced segment of the housing market. As a result, this trend has been positive for our loss performance. We expect this trend to continue through the second half of the year, which should bode well for our loss ratio over this period.

At the same time, the B-20 stress test has been negative for some markets that were recovering from an economic downturn, such as Alberta, where we saw some new delinquency pressure during the quarter. Phil will provide more details on this trend during his prepared remarks. As a result of the ongoing strength in the major markets of Ontario and British Columbia, along with our 14% year-to-date loss ratio, we are revising our full year loss ratio estimated range downwards to 10% to 20%.

While we continue to monitor NAFTA negotiations and other trade-related risks, any potential disruption to employment is unlikely to impact our current year loss ratio due to the lag factor in delinquency development. We remain very pleased with the quality we see in our new insurance written, along with strong credit scores and stable average home prices. Furthermore, stacked risk factors remain low and well within our risk tolerance.

With that, I'll turn it over to Phil for a deeper look at our financial results.

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

Thanks, Stuart, and good morning. Our second quarter net operating income of $117 million and loss ratio of 14% reflects the continuation of favorable business trends, namely solid business execution, a supportive macroeconomic environment and disciplined risk management.

Against this backdrop, we reported strong underwriting results. Premiums earned were flat sequentially at $171 million and were up by $3 million year-over-year. This predominantly reflects the seasoning of our recent books of the business.

During the quarter, losses on claims were modestly higher sequentially by $3 million at $25 million. The loss ratio of 14% was relatively consistent quarter-over-quarter, reflecting economic strength in most regions. By way of a reminder, the unusually low loss ratio of 3% in the second quarter of 2017 was primarily due to the favorable reserve development related to an improved economy in Québec and to a lesser extent, Alberta. This quarter's favorable development of $5 million is within the typical expected range.

New delinquencies, net of cures, were relatively flat sequentially at 360 loans as modest decreases in the Atlantic and Prairie regions were largely offset by an increase in Alberta. In total, the number of outstanding delinquencies declined year-over-year by 4%, led by significant decreases in Québec, Alberta and the Pacific region.

Expenses of $33 million were generally consistent with the prior quarter and the resulting expense ratio of 19% remains in line with management's expected range of 18% to 20%. Operating investment income was approximately $51 million, including $5 million of realized income from our interest rate hedging program. In total, this was largely unchanged sequentially but increased by $7 million year-over-year.

Overall, fully diluted operating EPS was flat quarter-over-quarter at $1.31, including the modest accretion from the share buyback executed in the first quarter. We're pleased with these quarterly financial results and the resulting operating return equity of 12% and the 7% year-over-year increase in book value per share to $44.40.

Turning to underwriting performance. We continued to deliver strong underwriting income in the second quarter with a combined ratio of 33%. Consistent with the recent trend, we continue to expect premiums earned to be flat to modestly higher for the full year after growing by 6% in 2017.

Over the past 5 quarters, loss ratios have ranged from an unusual low of 3% a year ago to 14% this past quarter. Based on the strong portfolio quality, favorable economic condition and the actual loss performance in the first half of the year and expectations for the remainder of 2018, we have revised our full year estimated loss ratio range to 10% to 20%, as Stuart noted. As a result, we expect the trend of strong underwriting performance to continue for the remainder of the year.

On the investments front, our $6.4 billion portfolio has an estimated pretax equivalent book yield of 3.2%. The combination of expected growth of 2% to 3% in average invested assets and a rising rate environment should lead to a modest increase in interest and dividend income for the full year. Rising rates should also be positive in terms of the contribution to operating investment income from our interest rate hedging program.

As floating rates have trended higher after the recent Bank of Canada rate increase, $3.5 billion portfolio of fixed-for-floating interest rate swaps should contribute approximately $20 million to $22 million of realized income for the full year. In total, we expect moderately higher operating investment income in 2018 as compared to the prior year.

Our capital position continues to be strong with our Minimum Capital Test ratio at 170%, 5 points above the top end of our operating range of 160% to 165%. As noted in previous quarters, the MCT ratio will likely remain above this targeted operating range in the short term. This is because we continue to benefit from transitional regulatory capital relief from legacy portfolio insurance and extended amortization mortgages.

With respect to the capital framework, OSFI is currently evaluating certain refinements for implementation in 2019. We expect further clarity on this in the near term. That being the case, we still expect that the transitional capital benefits should run off in the first half of 2019. As a result, the company should have more flexibility in 2019 to pursue an efficient capital structure, including operating closer to our targeted MCT operating range.

In summary, we continue to remain focused on striking the right balance between capital strength, flexibility and efficiency. Given the flexibility provided by our holding company cash and liquid investments of $133 million and our $200 million undrawn credit facility, we may choose to opportunistically redeploy a modest amount of capital in the second half of this year. In closing, we are pleased with our recent operating performance and the second quarter results confirm that our business model remains sound.

I'll now turn the call back to Stuart to conclude our prepared remarks. Stuart?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Thanks, Phil. Overall, we continue to view the fundamentals of our business as very sound. We're well capitalized with an appropriately priced product, originating high-quality new business. We remain optimistic about the pipeline of new first-time homebuyers based on the generally positive view millennials have on homeownership and Canada's continued emphasis on a robust immigration policy. Our strategy remains focused on improving our customer experience through ongoing investment in technology and process improvement to drive prudent growth while maintaining disciplined risk management practices.

Thanks for listening. That concludes our prepared remarks. I will now turn the call back to the operator to commence the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll first hear from Graham Ryding of TD Securities.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Maybe I'll just start on the delinquency side. The number of new delinquencies looks fairly stable. But year-over-year, the number of cures was down a fair bit. Just wondering if there's any color on what exactly happened in Q2 '17 versus Q2 '18 for that change.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, Graham, it's really a function of what we see in the housing market. So if you recall, Q2 2017 was probably the peak, especially in Ontario, very, very robust market activity, which obviously helps in terms of cures. So when you get into the slowdown we've seen this year, naturally you would expect to see fewer cures as a result of that.

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

And if I might add to that, I think the other factor, Graham, is we saw material improvements in the Québec economy. And we saw unusually high number of cures in Québec coming off the winter season last year. And we view that more as a one-time adjustment, particularly in the Québec economy and in our book in Québec.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Okay. So with the Ontario, BC markets showing some lower levels of activity this year, is it reasonable to expect the delinquency rates there could tick up?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Well, I think it's part of the messaging we've been having for a little while now around normalizing of losses. And yes, we sort of pointed to the fact that when you look at those markets, you've had almost no losses for the last little while. So the expectation will be that as markets normalize, you do see an increase over time in the number of new delqs as well as a return to more normal loss levels in those markets. That's really where the basis of our normalizing losses narrative comes from. At the same time, you'll note that new delqs, even in Ontario, were actually down. In fact, they were down everywhere, other than in Alberta and BC, which was really an anomaly in terms of the small number there. But ultimately, they're still performing very well across the country. So this normalizing trend has yet to really show up in any real strength. And we think that's basically because the economy remains very strong and supportive. And as I mentioned in my remarks, the housing market in our space has remained pretty strong as well.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Okay, great. B-20, I noticed you revised your sort of language around your expectation around the impact to the market of B-20. Is that just a reflection of now that we're sort of halfway through the year or more than that, you sort of have a better visibility on the impact? Or is there anything else in there that caused you to revise your sort of language around the impact on B-20?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

No, I think certainly it's the fact that we have seen more months of experience now with B-20 in the market. And certainly, the impact on the resale volumes has been quite stark, especially earlier in the year. That has started to recover now as we noted. However, I think the reference to the high ratio space, as you know, obviously B-20 doesn't impact insured borrowers directly. But what's really happened is there's been an impact on affordability for first-time homebuyers because as a result of B-20, a number of buyers are being forced down the price curve because they can no longer afford to buy the same house they would have before. That's obviously put more pressure on our space or the typical first-time homebuyer space, which has meant that affordability has remained constrained, not to mention that base rates have gone up roughly 35 basis points since the beginning of the year as well. So all of that contributes to more pressure on first-time homebuyers in terms of being able to get into the market, which is why we see a bit more of an impact than we maybe expected initially on the size of the high LTV market.

Operator

Next, we'll hear from Tom MacKinnon of BMO Capital.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Two questions. One, Stuart, you talked about market in terms of premiums written being in line with prior year. And I can understand some of the reasons that you just gave for that, but -- and then going forward, the growth would really be due to market share gains, I assume then. And you're currently at 33%. So help us understand how we should be growing some of the transactional business next year, given that commentary. Should it be up like a low single digits?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, Tom, I think that's the idea is that we are focused on growing market share, as you note. And certainly, that market share growth that we've seen so far this year has helped to offset a little bit of the market size reduction. And our goal, as you know, is roughly 1 point or 2 of share a year. We're very focused on that and very invested in improving our process and technology to help drive that. And we would expect to continue to see that over the next couple of years. In addition to that, we had called this year to be roughly flat from a high ratio market size point of view, as I noted, turned out to be slightly smaller. But we're going to be probably looking at next year being again roughly flat, perhaps even slightly up to this year, given that there will be no additional interventions or changes in regulations as far as we know. And secondly is the fact that buyers do adjust over time to regulatory change and the fact that wage growth remains strong. There's still very good demographics, still very strong desires among millennials to own a home. And immigration is a big driver of new household formation. So ultimately, we do see some very modest upward potential in the market size over the next couple of years. On top of that, as you know, market share growth definitely in our focus. And that will drive some single-digit top line growth next year and beyond.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Yes, okay. So 1 point -- if we had markets overall flat, but you had 1 point of share gain in market share, is that probably low -- is that in the area of maybe about 3% to growth in transactional?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

If you assume a flat market size, that's probably about right, Tom.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Okay, that's great. And the second question, more for Phil, I think you said you may choose to opportunistically redeploy capital in the second half of this year. So you haven't -- you were buying back stock in the first quarter, didn't do any in the second quarter. I can understand you're waiting for some refinements with respect to the OSFI formula or the OSFI test. You do have the capacity. I assume that this OSFI test stuff isn't going to be a surprise. So maybe you can talk a little bit about -- put more color on your comments with respect to redeploying capital in the second half of this year.

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

Yes. Well, I think, Tom, I mean, our basis is really, first and foremost, fully understand the impact of any refinements to the capital model in 2019 and how that might impact our sources and uses of capital. I would say that once we have good clarity on that, that would then allow us to sort of plan our capital with certainty. And that might include using some of our home and company cash in excess of our target. Our target is $100 million. We're at $133 million today. But we certainly need to fully understand the impact in capital as it rolls into 2019 under the refined capital framework. So I think that once we have clarity with that, we'll sit back and then our focus will turn to capital efficiency. With our MCT at 170%, we are higher than our desired operating range. However, we may be constrained in being able to reduce that in the short term. But certainly, we can certainly take actions with our home and company cash. And we'll look at the opportunities that exist for us. And we'll look at our needs for capital. And we will decide accordingly.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

And how will you rank -- how do you rank your opportunities in terms of...

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

Well, I think the opportunities are our ordinary dividend. We typically increase our ordinary dividend in the fourth quarter. We'll consider that and what that will mean. And then we sort of look at where the stock is trading. We do a holistic assessment and we assess our return on capital and the various forms of returns, the two most obviously being a share buyback or a special dividend. And we'll evaluate those accordingly based on the circumstances as they exist at the time.

Operator

Next, we'll hear from Geoff Kwan of RBC Capital Markets.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

My first question is when we take a look at the number of policies that you've got outstanding, obviously given everything that's going on in the market, we are seeing declines at various rates between the high and the low LTV book. Have you guys have a view as to when those year-over-year comps, the trends start to stabilize and eventually start to see some growth? Or is it kind of go this way, given the current regulatory and kind of governmental landscape?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, Geoff, I think obviously, there's been a lot of shifting forces on our mix of high LTV and low LTV over the last couple of years. You see the run rate now of our low LTV business fairly stable in that $1-ish billion a quarter. And absent any further changes, there aren't really any other reasons why that would start to shift materially differently. So I think you've got to start to see more of a stable mix pattern between these 2 businesses or products of ours over the next couple of years with, as we noted earlier in our comments, probably an expectation of some growth on the high LTV transactional volumes. The outstanding count is really going to start to eventually stabilize as you start to see more and more years of writing this kind of level of business. Don't forget, we wrote some pretty significant books in the last number of years that just aren't really going to be replaced at this point, given the reality of our market these days. That, in turn, will also cause us to see a situation of excess capital over the next couple of years, which to Phil's points on the previous question, are going to be looking for us to drive some more capital efficiency through the various options that are available to us. But ultimately, outstanding is going to continue to decline as our older books run off and then stabilize. And I think you'll see the mix between high and low LTV stabilize as well.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And maybe if we can add on to that because I think some of the research that's been out there, and I'm not quite sure if you've had the same experience, I think for people, if you see them, they took a 25-year [am] mortgage, the time to actually pay off that mortgage, I think, sometimes is usually somewhere around 17 years, give or take. And just wondering if that has been the experience that you have had? And if there's any differences that you notice between high loan-to-value borrowers paying off at a different rate relative to the low LTV book.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, for sure, low LTV mortgages are typically going to pay off faster. These are mortgages where you typically see more prepayment activity going on. But that said, our duration on even a high ratio mortgage tends to be more in that 5- to 7-year range. And the reason being, these are often first-time buyers buying their first home, who are looking to sell and move up to a bigger home in time. So they may do so, insure it again if they port their insurance or un-insure it if they've got enough equity. So we definitely see a lot shorter-duration than 17 years, which would be the full payment of a 25-year [am]. But very, very few buyers will do that on their first home. So duration-wise, it tends to be shorter than that and even shorter on low LTV business.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And if I can just ask one last question, when I'm thinking about the delinquency rate because of some of the dynamics we've just been talking about, should we think then -- all else equal, if we see the housing market doesn't change from where it is right now because of these mix dynamics going on, the delinquency rate is probably going to gradually increase? Or is there some other factors that we need to think about?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, I mean, that would be part of the normalization that we were talking about. You would naturally see a little bit of an upward migration on delqs. But in addition to that, to some extent, from the mix perspective, although I would suggest that really won't add a lot more of upward pressure, I think the bigger driver will be the normalization of losses that we've been talking about.

Operator

(Operator Instructions) We'll next hear from Paul Holden of CIBC.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So continuing with that normalization theme, I want to ask you a question on how you think about income replacement, i.e., maintaining or trying to grow earnings in the context of a normalization in the loss ratio. And tied into that, how you might be able to allocate excess capital you're generating today to again maintain and/or actually grow EPS.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes. So Paul, I mean, I think it comes down to those factors we were talking about. You've got an expectation in our minds of some modest market share growth over the next couple of years, 1 point or 2 a year, some modest market size expansion over the next couple of years, which both will contribute to top line and eventually into earnings. But in addition to that, to your point, we also definitely see upward potential on both EPS and ROEs as we continue to drive towards a more efficient capital base. So that has been something we've been pursuing, as you know, for some time. And given all the regulatory changes, we've had to be very thoughtful about our progression towards that. But with the new capital framework in place, inclusive of any refinements, ultimately our goal is always to get back to that 160% to 165% MCT range over time. And in getting there, we should see by virtue some of the capital methods of redeployment, a more accretive EPS and obviously some ROE improvements as well.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And does M&A or potential M&A still fit into the picture at all?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Absolutely. There's always going to be a lens on potential M&A. Our thoughts on this there revolves around the strategic fit. And we are very thoughtful about making sure that if we were to go into a new line of business, that it is an absolute slam dunk in terms of the strategic fit as opposed to just being a financial owner of some other form of business. So it is a very thoughtful process we go through. But you won't see us necessary jump in at M&A opportunities just to deploy capital. We are going to be very thoughtful about that approach.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And final question, is there any updates on the possible involvement -- evolvement of risk-based pricing for MI in Canada?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Yes, we remain of the view that ultimately a more granular pricing structure is probably appropriate for this market, in that I mean using credit scores in addition to loan-to-values. That is how the capital is based today. However, as to when the market moves towards that pricing, it's somewhat to be determined. I think there is definitely some thoughtfulness around what impact would that have in terms of who would now be eligible or not eligible to get mortgage insurance. And of course, there's been so much change in our industry over the last little while that I think people are looking for stability for some time. So I would say it's something that I think will happen inevitably, timing to be determined.

Operator

Graham Ryding of TD Securities.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

I just want to follow up, the yield on your portfolio insurance has come off the last couple of quarters. I think it is sort of the nature of loan-to-value that you're underwriting there. Do you expect this to sort of be the new run rate? Or is there something sort of somewhat lumpier random about business mix from quarter-to-quarter?

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

I think, Graham, the business mix that we're seeing today is really a reflection of where the price point is under the new capital framework and where is the appetite from lenders in terms of cost effectiveness of portfolio insurance relative to their other funding options. So I think absent a material change in the capital framework, we're going to see a similar average premium rate going forward because we're finding that from a lender's perspective, loan-to-values below 75% LTV is where the sweet spot is for portfolio insurance and not so much 80% LTVs. So we would say that this is kind of the new norm, absent any material change to the capital framework.

Operator

Next, we'll hear from Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Is it fair, guys, to still look at OSFI modifications and the potential for risk-based pricing model, is it still fair to look at this as whatever benefits we may get off of that, they'll be neutralized by some other aspect or some other change within the framework? Or would you say your view has shifted more positively around OSFI requirements, given the conversation of deploying capital later this year?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

I would say that ultimately the changes should be modest in our view and our expectation. And the shift around pricing thoughts are really just about maintaining our pricing target ROEs. So I would put that as neutral potentially. I think what is apparent is the acceleration perhaps of those transitional benefits that we've talked about for some time in our analysis, looking at the first half of next year really freeing up that capital, that excess capital for redeployment and then thinking about how do we drive towards a more capital-efficient structure.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Okay, fair enough. And then with respect to the interest rate swap agreement, and I apologize if I missed this, but with the shift right now in where CDOR is, I mean, we put up a $4.8 million in interest rate swap income. What do you expect that to sort of look like as a run rate in Q3 based on where we are today?

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

In my prepared remarks, I noted that we expect the full year to be somewhere in the $20 million to $22 million mark. We're $8 million at the halfway mark. So we're expecting that to increase modestly as we go through the quarter. And it all depends on where CDOR is, when the 90-day reset happens. So we are optimistic that it's going to be an increase. If the run rate was $5 million in the first half -- in the second quarter, we expect that run rate to be $6 million to $7 million through the remainder of the year. And that's all dependent on rates.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Right, fair enough. And last one for me just around the capital deployment, we're talking about holdingco cash target of $100 million. So $33 million of excess there plus whatever earnings we're going to generate over the next quarter -- in the next couple of quarters. Is it safe to say that's the -- all else equal, that's what we should expect to see in terms of capital deployment either in early '19 or later this year and...

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

I would say that -- yes, go ahead, Jaeme.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Yes, sorry, and I was going to say how does tapping the credit line factor into capital deployment with respect to shareholder capital return?

Philip Mayers - *Genworth MI Canada Inc. - Senior VP & CFO*

Yes, we don't necessarily see tapping the credit facility to return capital. We see the credit facility as giving us flexibility for unexpected. And we do have a 2020 debt maturity. And certainly, we want to make sure that we have ample sources of funding for that debt maturity to renew that debt. When we think about any capital redeployment in the short term, it's really related to our holding company cash. And as you rightly noted, there should be some additional build in home and company cash as we have the quarterly dividends flowing from the operating company each quarter, $60 million. And then we obviously service our debt and pay our ordinary dividends out of that $60 million. So certainly, that will be the key source of capital. Until such time that we're past the transitional benefits in the first half of 2019, at that point in time, certainly we'll be looking to move to a more efficient capital structure in the insurance company. And that should create opportunities to redeploy capital from the holding company.

Operator

And it appears there are no further questions at this time. Mr. Levings, I'll turn the conference back over to you for any additional or closing comments.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO & Director*

Thank you very much, and thanks to all for joining us again today. We appreciate your time. And this concludes our second quarter 2018 earnings call.

Operator

Once again, that does conclude today's conference. Thank you all for your participation. You may now disconnect.
