Research Update:

Radian Group Inc. 'BB+' Rating And Core Subsidiaries 'BBB+' Ratings Affirmed; Outlook Remains Stable

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Overview

- Radian Group Inc. is a leading player in the U.S. mortgage insurance sector, which is generating favorable underwriting returns.
- Offsetting this strength is the monoline nature of the company's business, which is a commoditized product sensitive to pricing, and overall macroeconomic conditions.
- We are affirming our ratings on Radian Group and its subsidiaries (collectively, Radian), including our 'BBB+' financial strength ratings on its core subsidiaries.
- The stable outlook reflects the company's favorable operating environment, robust operating earnings, and risk-adjusted capitalization that is in line with our expectations.

Rating Action

On Sept. 30, 2019, S&P Global Ratings affirmed its 'BB+' long-term issuer credit rating on Radian Group Inc. (NYSE: RDN) and its 'BBB+' long-term insurer financial strength and issuer credit ratings on its core subsidiaries. The outlook is stable.

Outlook

The stable outlook reflects our view that Radian will continue to be one of the leading players in the sector and will maintain a prudent pricing and financial policy stance. We expect robust earnings will continue, which along with company's reinsurance strategy, should support the current level of capitalization that is redundant at the 'BBB' confidence level.

Upside scenario

We could raise our ratings over the next two years if:

- Risk-adjusted capitalization strengthens to a level that is materially redundant at the 'A' confidence level on a sustained basis;
- The company further demonstrates strong risk controls and pricing discipline, while generating strong underwriting results supportive of sustainable low double-digit return on equity; and
- Economic and housing fundamentals are supportive.

Downside scenario

We could lower the ratings over the next two years if Radian's underwriting discipline weakens and portfolio credit quality deteriorates, which may hurt the longer-term profitability of its insured mortgage exposure and strength of its capitalization.

Rationale

Radian has a strong longstanding presence within the U.S. mortgage insurance sector, an improved operating performance, and a national footprint across the U.S. It has a diverse lender base largely anchored by longstanding relationships with national lenders/banks and credit unions. About 80% of its business is through borrower paid monthly business, which is higher than in prior years as the company actively looked to shift new business into higher return business and to manage the extension risk of the single-premium business, including use of reinsurance and mortgage insurance linked notes. Within the single-premium business, Radian's strategy shifted to borrower-paid products from a risk-reward perspective as compared to the lender-paid single-premium products. The company's balance sheet, in our view, has fully recovered from the financial crisis, and the remaining legacy exposure will continue to burn out over the next few years. The company's effort to expand its earnings base through associated services within the housing/mortgage market (including appraisal services, title insurance, etc.) has not performed as initially expected. We do not expect any meaningful contribution from this business over the next two years; therefore, the mortgage insurance earnings remain paramount. As with Radian's peers, the commoditized and monoline nature of the business and systemic exposure to the housing/mortgage market constrain our view of its business profile.

The underlying trends are still favorable for the mortgage insurers, supported by the expanding economy (albeit at a slower rate), low unemployment rate, historically low interest rates, and robust housing markets with growing demand from first-time buyers that are facing tightening affordability. Underwriting standards are still strong, and while pricing has come off its peak from a few years ago, it is still healthy. In our view, the introduction of the black-box pricing platform by all players in the sector (including Radian's RADAR Rates) could put further pressure on pricing, especially in light of a slight expansion of the credit box. However, if well executed, such a pricing approach provides good means to shape portfolio risk and manage risk aggregations. Despite the recent decline in pricing, we believe the pricing is adequate for double-digit returns, especially in view of increasing reinsurance utilization.

Under our base case, we anticipate growth in earned premiums, a combined ratio of 35%-45% for 2019-2021 with progressive increases in the loss ratio as recent vintages reach their peak loss, and slightly higher loss expectations for upcoming originations, partially offset by burn-out of pre-crisis legacy vintages. We also expect the drag from services revenue to decline and earnings to improve in 2020-2021. The accrual of mortgage insurance earnings along with increasing use of reinsurance (including insurance linked notes) should support the company's risk-adjusted capitalization that is materially redundant at the 'BBB' confidence level through 2021 including potential share buybacks. We also expect financial leverage to decline to about 20% and fixed-charge coverage to remain higher than 8x.

Post financial crisis, Radian's appreciation for risk management has increased, with the company focusing on developing robust enterprise risk management (ERM) framework over the past couple of years with considerable progress in risk controls, and pricing and underwriting models. We expect the ERM function will continue to evolve over the next few years. The strong credit quality mortgage portfolio that will continue to experience declines in exposure to legacy pre-crisis vintages, along with sufficient capital redundancy, should help the company withstand a moderate stress scenario, in our view.

We view Radian Guaranty Inc., and its rated affiliate, Radian Reinsurance Inc., as core subsidiaries of Radian.

Ratings Score Snapshot

Business Risk Profile	**Satisfactory**
Competitive position	Satisfactory
IICRA*	Intermediate
Financial Risk Profile	**Satisfactory**
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Anchor§	bbb+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	**BBB+**

*Insurance Industry And Country Risk Assessment. §Reflects the sector's profitability, strong underwriting credit quality, and Radian's market position as one of the leading players in the sector.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed	
Radian Group Inc.	
Issuer Credit Rating	
Local Currency	BB+/Stable/--
Senior Unsecured	BB+
Radian Guaranty Inc.	
Radian Reinsurance Inc.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Financial Strength Rating	
Local Currency	BBB+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.