S&P Global
Ratings

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Radian Group Inc. And Subsidiaries

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Table Of Contents

Radian Group Inc. And Subsidiaries

Major Rating Factors

Strengths	Weaknesses
• Continued improvement in capital adequacy per our risk-based capital (RBC) model • One of the leading U.S. mortgage insurers	• Exposure to mortgage volume volatility due to the nature of its monoline business • Exposure to regulatory changes

Rationale

S&P Global Ratings' ratings on Radian Group Inc. and its operating subsidiaries (collectively, Radian) reflect the group's satisfactory business risk profile (BRP) and upper adequate financial risk profile (FRP). Radian has held its market position in the U.S. mortgage insurance (MI) sector in terms of premiums written at about 20% for many years, and we do not expect its position to change any time soon. Radian has consistently improved operating metrics while enhancing its business strategy to capitalize on market trends. Due to its underwriting strategy and the resulting improved underwriting results in recent years, Radian has enhanced its capital adequacy, which is redundant at the moderately strong level. Offsetting this is our view of a moderate risk position given the group's monoline business profile and potential for capital and earnings volatility due to correlation with the U.S. economy and real estate market.

Outlook: Stable

The stable outlook reflects our expectation that Radian will maintain its strong market positon, its business diversification initiatives will not draw the focus of management from its core mortgage business, and capitalization will remain at a moderately strong level. We believe Radian's compliance with Private Mortgage Insurer Eligibility Requirements should enable it to write new business and achieve operating metrics in line with our expectations. We also expect to see further improvement in balance-sheet strength and capitalization metrics in the next 18-24 months.

Downside scenario

We may lower our ratings if Radian's operating performance deteriorates below peers' or if its capital position falls to or below upper-adequate with little likelihood of improving. We could also lower our ratings if financial leverage/coverage metrics erode significantly, or if the company begins writing higher-risk business leading to risk layering that may hurt the longer-term profitability of its insured mortgage exposure.

Upside scenario

Though unlikely in the next two years, we could raise the ratings if we see a sustainable improvement in Radian's financial performance relative to peers' while it boosts capitalization.

Macroeconomic Assumptions

- Real U.S. GDP growth of about 2.9% in 2018 and 2.3% in 2019
- 10-year Treasury rate of about 2.9% in 2018 and 3.3% in 2019
- Core Consumer Price Index change 2.2% in 2018 and 2.1% in 2019
- Unemployment rate at 3.9% in 2018 and 3.6% in 2019
- S&P Case-Shiller 20-City Home Price Index up (year-over-year ended December 31) 6.2% in 2018 and 4.6% in 2019
- Residential mortgage originations of $1.6 trillion in 2018 and 2019 per the Mortgage Bankers Assn.

Key Metrics

	--Year ended Dec. 31--				
(Mil. $)	**2019***	**2018***	**2017**	**2016**	**2015**
Gross premiums written	1,100-1,250	1,000-1,150	1,033	1,000	1,009
Net combined ratio (%)	<45.0	<45.0	39.3	44.9	45.4
Return on revenue (%)	>35.0	>30.0	33.8	44.8	45.8
S&P Global Ratings' capital adequacy/redundancy	Moderately strong	Moderately strong	Moderately strong	Moderately strong	Upper adequate
Financial leverage (%)	<20	<20	26.7	28.4	34.2
Fixed-charge coverage (x)	>7.0	>7.0	8.8	7.1	6.1

*Forecast data reflect S&P Global Ratings' base-case assumptions.

Business Risk Profile: Satisfactory

We assess Radian's BRP as satisfactory, reflecting our view of its adequate competitive position based on strong presence within the MI sector with a diverse lender base, improved operating performance, and large geographic footprint. Our view of Radian's BRP is also influenced by our belief that the group faces intermediate industry and country risk.

Radian has a strong brand name supported by various long-standing relationships with key banks and credit unions, as well as consistently improving operating performance and margins. Radian has maintained its market share of premiums written while not sacrificing its underwriting standards. Offsetting this, however, is the insurer's focus on a monoline product offering, which remains commoditized and has a high level of sensitivity to competitor pricing actions and regulatory changes. The services business and newly acquired title business may offset this risk, but it will be years before either of these business are a meaningful contributors to revenue.

The product mix focuses on monthly premium business, accounting for more than 80% of total new primary insurance written in 2017; the other 20% comes from its single-premium products. Within the single-premium business, management's strategy is concentrates more on the purchaser-paid product since this line tends to have better risk-reward characteristics the lender-paid products.

Financial Risk Profile: Upper Adequate

We regard Radian's FRP as upper adequate, reflecting its moderately strong capital and earnings, moderate risk position, and adequate financial flexibility.

We view Radian's capitalization as moderately strong. It has improved in recent years as management has taken various steps in underwriting, capitalization, and risk mitigation. The quota-share reinsurance agreement executed in 2016 provides capital relief and partially mitigates the extension risk from singles business. A shift in singles business to borrow-paid from lender-paid coverage also improves the line's risk exposure. Radian's capital position continues to benefit from burn-off of legacy vintages and low losses from recent vintages.

Radian's operating performance has improved over the past five years (2013-2017) as measured by the combined ratio, which has averaged roughly 58% with a robust return on revenue of 33.8%. We do not expect any material changes in these ratios due to the group's disciplined approach to underwriting.

We view Radian's risk position as moderate based on its well-diversified conservative investment portfolio with a low proportion of high-risk assets. The fixed income investments have an average credit quality of 'AA'. Offsetting this is Radian's insurance risks being correlated with the overall macroeconomy.

We assess Radian's financial flexibility as adequate based on its ability to tap the capital and reinsurance markets and an improving trend in debt levels resulting from robust earnings. We expect it to remain opportunistic in accessing various forms of capital to enhance its capital adequacy.

Other Assessments

We view Radian's enterprise risk management (ERM) as adequate. Our view is supported by our neutral view of its risk management culture, overall risk controls, emerging risk management, risk models, and strategic risk management. In 2017, management strengthened its ERM governance structure and enhanced its ERM process. In the past year, Radian has made significant efforts to improve its ERM program by promoting a risk-focused culture throughout the businesses that stresses the importance of balancing risk-reward trade-offs when making business decisions. We believe management can identify and manage most key risk exposures, but any improvement in our view of ERM will depend on evidence of successful implementation of recent enhancements.

We view Radian's management and corporate practices as satisfactory. Management has executed on various initiatives to strengthen its position in the MI sector and boost financial strength, including diversifying revenue through its services and recently acquired title businesses, though we believe these lines will not be a significant source of revenue in the next couple of years. Management has been building up its MI risk tolerances, reducing leverage, updating the risk platform, and developing tools to better handle its risk-reward profile.

We view Radian's liquidity as exceptional stemming from its high-quality investment portfolio and positive operating cash flow for insurance operating subsidiaries.

Rating Score Snapshot

Holding company rating	BB+/Stable/-
Financial strength rating	BBB+/Stable
Anchor	bbb+
Business risk profile	Satisfactory
IICRA	Intermediate
Competitive position	Adequate
Financial risk profile	Upper adequate
Capital and earnings	Moderately strong
Risk position	Moderate
Financial flexibility	Adequate
Modifiers	0
ERM and management	0
Enterprise risk management	Adequate
Management and governance	Satisfactory
Holistic analysis	0
Liquidity	Exceptional
Support	0
Group support	0
Government support	0

IICRA--Insurance industry and country risk assessment. Note: Support does not consider ratings above sovereign criteria.

Related Criteria

- Criteria - Insurance - General: Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015
- Criteria - Insurance - General: Key Credit Factors For The Mortgage Insurance Industry, March 2, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of October 11, 2018)	
Radian Group Inc.	
Issuer Credit Rating	
Local Currency	BB+/Stable/--
Senior Unsecured	BB+
Related Entities	
Radian Guaranty Inc.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Radian Reinsurance Inc.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Domicile	Pennsylvania

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.