MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes rating actions on six US mortgage insurance groups

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New York, August 17, 2017 -- Moody's Investors Service, ("Moody's") has taken rating actions on six US mortgage insurance groups. As part of the action, Moody's upgraded the insurance financial strength (IFS) ratings of Essent Guaranty, Inc. to Baa1 from Baa2; the IFS rating of Mortgage Guaranty Insurance Corp. to Baa2 from Baa3; and the IFS ratings of the US mortgage insurance subsidiaries of Arch Capital Group, Ltd. (Arch Capital - senior Baa1/stable), including United Guaranty Residential Insurance Co., Arch Mortgage Insurance Company and Arch Mortgage Guaranty Company, to A3 from Baa1. The outlook for these insurers is stable. Moody's also affirmed the Baa3 IFS rating of Radian Guaranty Inc., the Ba1 IFS rating of Genworth Mortgage Insurance Corporation, and the Ba1 IFS rating of National Mortgage Insurance Corporation. Moody's changed the outlook on these insurers to positive from stable. A complete list of rating actions can be found below.

RATINGS RATIONALE

SECTOR RATIONALE

According to Moody's, the rating actions were taken as a result of broad-based improvements in these firms' capital adequacy, profitability and resilience to stress scenarios. Moody's notes that the credit profiles of US mortgage insurers have benefited from the January 2016 implementation of Fannie Mae and Freddie Mac's Private Mortgage Insurance Eligibility Requirements (PMIERs), which we view as a credit positive for the sector. In our opinion, the PMIERs requirements have strengthened capital adequacy of the mortgage insurers and promoted transparent risk-based pricing among firms operating in the sector. In addition, the recent development of a large and robust market for the reinsurance of mortgage credit risk has improved the ability of mortgage insurers to manage capital and risk.

Moody's expects the US mortgage insurance sector to exhibit strong profitability over the near to medium term due to macroeconomic conditions that remain supportive of strong US housing market fundamentals. These trends, which include steady (albeit moderate) economic growth, continued job growth and low unemployment rates, continue to be favorable for mortgage credit and the private mortgage insurers.

COMPANY RATIONALES

Arch Mortgage Group

The one notch IFS rating upgrades of United Guaranty Residential Insurance Co. (UGRIC) and Arch Mortgage Insurance Company (AMI) to A3 from Baa1 reflects Arch's leading position in the US mortgage insurance market with an approximate 25% market share, its strong core earnings power and the group's enhanced market presence and capabilities as a key operating unit within the larger Arch Capital Group. In Moody's opinion, the Arch mortgage insurance platform has robust underwriting and risk management capabilities. The ratings of UGRIC and AMI benefit from implicit and explicit support from Arch Capital and Arch Reinsurance Ltd. (Arch Re Bermuda -- IFS rating A2/stable).

The upgrade of the IFS rating of Arch Mortgage Guaranty Company (AMG) to A3 from Baa1 reflects the alignment of AMG's rating with the ratings of UGRIC and AMI. While AMG benefits from extensive reinsurance support from Arch Re Bermuda and Arch Reinsurance Company (IFS rating A2/stable), the company has modest stand-alone capital resources, and, as a non-GSE focused mortgage insurer, narrower business prospects relative to its US mortgage insurance affiliates.

Essent Guaranty

The one notch IFS rating upgrade of Essent Guaranty, Inc. (Essent) to Baa1 from Baa2 reflects sustained improvements in the firm's business profile and financial metrics. These include the company's strong market presence with an approximate 15% share of the US private mortgage insurance market, its improved client diversification and its increased equity capitalization due both to organic growth and a recent $200 million equity offering. Essent's increased scale has also improved its expense ratio by more than 10 percentage points over the past several years, resulting in improved current and prospective profitability.

Moody's notes that Essent's insured portfolio consists almost entirely of high quality prime mortgages without any pre-financial crisis legacy exposures. Parent company Essent Group Ltd. (not rated) also owns Bermuda-based Essent Reinsurance Ltd. (Essent Re -- not rated). Essent Re assumes 25% of Essent's premiums and losses through a quota-share reinsurance arrangement entered into in July 2014 on prospective GSE eligible new insurance written and also directly reinsures Fannie Mae and Freddie Mac through back-end risk-sharing transactions.

Genworth Mortgage Insurance

The positive outlook on Genworth Mortgage Insurance Corporation's (GMICO) Ba1 IFS rating reflects the company's improved business profile and financial metrics. This includes the company's good market presence with approximately a 14% share of the US private mortgage insurance market, its strong client diversification and its improved profitability amid favorable US housing market fundamentals, and its compliance with PMIERs against the weak credit profile of its corporate parent, Genworth Financial Inc. (GNW; unrated), the ultimate holding company of Genworth Holdings, Inc. (Ba3 senior debt, review for downgrade). Moody's notes that meaningful separation exists between GNW's life and mortgage insurance businesses, which mitigates the impact of GNW's weak financial flexibility on GMICO's overall credit profile.

The positive outlook reflects Moody's expectation of continued improvement of GMICO's stand-alone credit profile as evidenced by increased market share at attractive pricing levels, continued strong earnings and solid capital adequacy reflected in its PMIERs cushion.

MGIC

The one notch IFS rating upgrade of Mortgage Guaranty Insurance Corp. (MGIC) and MGIC Indemnity Corporation (MIC) to Baa2 from Baa3 reflects their improving business and financial profiles as pre-crisis legacy exposures amortize and are replaced by high quality new business. MGIC's market presence remains strong with an approximate 18% share of the US private mortgage insurance market and strong client diversification, as well as its improving profitability metrics and its improved PMIERs capital cushion. These strengths are offset by the company's lack of unrestricted dividend capacity and an unresolved tax dispute with the IRS.

Moody's also upgraded the senior debt rating of MGIC Investment Corporation (MTG) to Ba2 from Ba3 reflecting the significant reduction in total leverage to below 25% following the repayment of outstanding debt and growth in the firm's equity capitalization and improved debt maturity profile.

National Mortgage Insurance

The positive outlook on National Mortgage Insurance Corporation's (NMIC) Ba1 IFS rating reflects the progress made by the company in scaling its mortgage insurance platform and improving its business and financial profile over the past couple of years. NMIC is now profitable and we expect continued improvement in its profitability metrics going forward as the company increases its mortgage insurance in force and premium base. During 1H2017, NMIC's share of the private mortgage insurance market was approximately 7%. While NMIC has turned the corner on profitability, we believe it will still be several years before the company is able to fund its growth organically. Consequently, NMIC and its parent company NMI Holdings, Inc. (NMIH -- senior secured term loan B1/positive) will require additional capital over the next several years, both to fund portfolio growth and to refinance the NMIH term loan which matures in November 2019. While NMIC is currently unable to upstream ordinary dividends to NMIH, we note that NMIC's regulator has approved a tax and expense sharing arrangement allowing NMIH to receive cash from its insurance subsidiaries to make principal and interest payments on its term loan and to pay certain corporate taxes and expenses. The last rating action on NMIC occurred earlier this year when Moody's upgraded NMIC's IFS rating to Ba1 from Ba2 in March 2017.

Radian Group

The positive outlook on Radian Guaranty Inc's. (Radian Guaranty) Baa3 IFS rating reflects its improving overall credit profile as pre-crisis legacy exposures amortize and are replaced by high quality new mortgage insurance business. Radian Guaranty remains in the top tier of US mortgage insurers with an approximate 20% share of the US private mortgage insurance market. Radian Guaranty's strong client diversification and improving profitability metrics also support the rating. These strengths are tempered by the firm's lack of unrestricted dividend capacity, sizable debt maturities at parent holding company Radian Group Inc. (senior Ba3/positive) within the next few years and an unresolved tax dispute with the IRS.

RATING DRIVERS

In Moody's view, the fortunes of the companies operating in the US mortgage insurance sector tend to move in lockstep. As such, an improvement in the sector's credit fundamentals or the implementation of public policy decisions that work materially in favor of mortgage insurers could provide upward rating pressure on the sector. Conversely, public policy decisions that work against the sector or widespread price competition among firms could place downward rating pressure on the sector.

In addition, the following rating drivers apply to individual companies:

Arch Mortgage Group

While the ratings of UGRIC and AMI are unlikely to be upgraded further over the near term, the following factors could positively influence their credit profiles: (1) stronger explicit and implicit support from Arch Capital or its core affiliated operating subsidiaries; (2) continued leadership position in the US mortgage insurance sector; (3) evidence that new insurance written continues to have strong credit quality; and (4) maintaining comfortable compliance with the PMIERs.

Conversely, the following factors could lead to a downgrade of the ratings: (1) a downgrade of Arch Re Bermuda or termination of the reinsurance support provided by Arch Re Bermuda; (2) non-compliance with PMIERs; (3) a decline in shareholders' equity by more than 10% over a rolling twelve month period; and (4) significant weakening of underwriting standards or pricing.

AMG's IFS rating is expected to remain closely linked to that of UGRIC and AMI going forward. Consequently, an upgrade or downgrade of these affiliates is likely to result in an upgrade or downgrade of AMG.

Essent Guaranty

While Essent's ratings are unlikely to be upgraded further over the near term, the following factors could positively influence the company's credit profile: (1) continued development of its US mortgage insurance platform; (2) maintaining a high quality insured portfolio; and (3) maintaining comfortable compliance with PMIERs.

Conversely, the following factors could lead to a downgrade of Essent's rating: (1) non-compliance with PMIERs; (2) a decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; (3) significant weakening of underwriting standards or pricing; and (4) adjusted financial leverage greater than 20%.

Genworth Mortgage Insurance

The following factors could lead to an upgrade of GMICO's rating: (1) improvement in GNW's financial flexibility, including a clear path to managing the debt maturities in 2018 and 2020/2021; and (2) continued improvement of GMICO's stand-alone credit profile as evidenced by increased market share at attractive pricing levels, continued strong earnings and strong capital adequacy reflected in its PMIERs cushion.

Conversely, the following factors could lead to a return to a stable outlook or a downgrade of the GMICO's rating: (1) GNW does not complete its acquisition with COH and the associated actions to address its high debt leverage at Holdings; (2) a further weakening of GNW's financial flexibility that would result in a material decline in GMICO's capitalization by more than 10% over a rolling twelve month period; (3) significant weakening of underwriting standards or pricing; and (4) non-compliance with the GSE PMIERs.

MGIC

While MGIC's ratings are unlikely to be upgraded further over the near term, the following factors could positively influence the company's credit profile: (1) better alignment of MTG's debt maturity profile to MGIC's expected dividend capacity and/or reduction of debt at MTG; (2) comfortable compliance with PMIERS; (3) more clarity about the range of potential outcomes in the groups tax dispute with the IRS.

Alternatively, the following factors could lead to a downgrade: (1) non-compliance with PMIERs; (2) deterioration in the company's underwriting ability leading to a material reduction in operating performance; (3) an adverse outcome on the IRS tax dispute that is significantly beyond the amount that has already been placed on deposit or held in reserves; (4) total leverage consistently greater than 30%; and (5) a material decline in MTG's capitalization (including share repurchases) by more than 10% over a rolling twelve month period.

National Mortgage Insurance

The following factors could lead to an upgrade of NMIC's ratings: (1) improved laddering of debt maturities; (2) continued development of NMIC's US mortgage insurance platform; (3) success in accessing capital to fund growth; and (4) maintaining comfortable compliance with PMIERs.

Conversely, the following factors could lead to a return to a stable outlook or a downgrade of the group's ratings: (1) non-compliance with PMIERs; (2) a decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; (3) the inability to significantly improve its profitability metrics; (4) failure to access sufficient capital to fund growth and refinance debt; and/or (5) debt-to-capital ratio above 35%.

Radian Group

The following factors could lead to an upgrade of Radian's ratings: (1) better alignment of the parent's debt maturity profile to Radian Guaranty's expected future dividend capacity; (2) adjusted financial leverage in the 20% range; and (3) sustained PMIERs compliance with an increasing capital adequacy buffer.

Conversely, the following factors could lead to a return to a stable outlook or a downgrade of the Radian's ratings: (1) non-compliance with PMIERs; (2) a decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; (3) deterioration in the parent company's ability to meet its debt service requirements; and (4) an adverse outcome on the IRS tax dispute that is significantly beyond the amount that has already been placed on deposit or held in reserves.

The following ratings have been upgraded:

Arch Mortgage Insurance Company -- insurance financial strength to A3 from Baa1;

Arch Mortgage Guaranty Company - insurance financial strength to A3 from Baa1;

Essent Guaranty, Inc. - insurance financial strength to Baa1 from Baa2;

Mortgage Guaranty Insurance Corp. -- insurance financial strength to Baa2 from Baa3;

MGIC Indemnity Corporation -- insurance financial strength to Baa2 from Baa3;

MGIC Investment Corporation -- senior unsecured debt to Ba2 from Ba3, provisional senior unsecured shelf to (P)Ba2 from (P)Ba3, junior subordinated debt to Ba3 (hyb) from B1 (hyb), provisional subordinate shelf to (P)Ba3 from (P)B1 and provisional preferred shelf to (P)B1 from (P) B2;

United Guaranty Residential Insurance Co. - insurance financial strength to A3 from Baa1.

The following ratings have been affirmed:

Genworth Mortgage Insurance Corporation -- insurance financial strength at Ba1;

National Mortgage Insurance Corporation -- insurance financial strength at Ba1;

NMI Holdings, Inc. -- senior secured term loan at B1;

Radian Guaranty Inc. -- insurance financial strength at Baa3;

Radian Group Inc. -- senior unsecured debt at Ba3;

Outlook Actions:

..Issuer: Arch Mortgage Insurance Company

..Issuer: Arch Mortgage Guaranty Company

..Issuer: United Guaranty Residential Insurance Co.

....Outlook, to Stable from Positive

..Issuer: Essent Guaranty, Inc.

..Issuer: Mortgage Guaranty Insurance Corp.

..Issuer: MGIC Indemnity Corporation

..Issuer: MGIC Investment Corporation

....Outlook, Remains Stable

..Issuer: Genworth Mortgage Insurance Corporation

..Issuer: National Mortgage Insurance Corporation

..Issuer: NMI Holdings, Inc.

..Issuer: Radian Guaranty Inc.

..Issuer: Radian Group Inc.

....Outlook, to Positive from Stable

The principal methodology used in these ratings was Mortgage Insurers published in April 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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