

03 MAY 2021

Fitch Affirms Radian's Ratings, Outlook Revised to Stable

Fitch Ratings - Chicago - 03 May 2021: Fitch Ratings has affirmed the 'A-' Insurer Financial Strength (IFS) rating of Radian Guaranty Inc. Fitch also affirmed the 'BBB' Long-Term Issuer Default Rating (IDR) of Radian Group Inc. and the 'BBB-' rating of Radian Group's senior unsecured debt. The Rating Outlook has been revised to Stable from Negative.

Key Rating Drivers

The revision of the Rating Outlook to Stable reflects Fitch's expectations that any additional effect of the coronavirus pandemic on Radian Guaranty's balance sheet and financial performance over the next one to two years will not be significant.

Pandemic Effects: The pandemic drove a significant increase in the number of mortgage delinquencies in 2020, substantially all due to borrowers in forbearance programs under the CARES Act. In recognition of the increase in delinquencies, Radian Group increased its 2020 provision for losses by \$353.1 million to \$485.1 million, compared with \$132.0 million in 2019. As a result, Radian Group's reported net income fell to \$393.6 million in 2020 from \$672.3 million in 2019. The increase in delinquencies also put downward pressure on Radian Guaranty's Private Mortgage Insurer Eligibility Requirements (PMIERS) coverage ratio. Radian Guaranty must maintain a minimum PMIERS coverage ratio to continue to write new business.

Radian Group took a number of actions to respond to the rise in delinquent loans. To bolster capital, the company raised approximately \$525 million through a senior debt offering and temporarily suspended its stock repurchase program. Radian Guaranty secured additional reinsurance protection through the traditional reinsurance market and via the sale of mortgage insurance-linked notes. These actions resulted in an improvement in the PMIERS coverage ratio to 140% at YE20 from 128% at YE19.

Positively, the delinquent loan count peaked in June 2020 and has declined every month since then. Nonetheless, delinquencies remain at elevated levels. Additionally, home price appreciation has been strong during the pandemic. Rising home prices reduce the probability that delinquent loans will be foreclosed and potentially reduces the severity of the loss if a loan does move into foreclosure. Offsetting these positives is the unprecedented nature of the pandemic and the nationwide forbearance program. Although mortgage insurers have experience reserving for losses on loans in forbearance, it is possible that actual coronavirus-related losses may differ from prior experience.

Legacy Mortgage Insurer: Radian Guaranty is one of four legacy U.S. mortgage insurers (USMIs) that wrote business prior to the 2007-2009 recession. As a result, Radian Guaranty has residual exposure to mortgages written under the previous underwriting standards. With 17.5% in market share and \$3.9 billion of statutory capital at YE20, it is the fourth largest of the six active USMIs based on new insurance written and the second largest based on statutory capital. Fitch considers Radian Guaranty's business profile ranking to be favorable.

Risk-Adjusted Capital: Radian Guaranty's reported risk-adjusted capital, based on the PMIERS coverage ratio, is consistent with the rating level. Additionally, Radian Group maintains a capital buffer at the holding company level. Fitch believes the Radian Group's capital buffer is sufficient to cover the holding company's expense obligations (including interest on debt) and can contribute capital to Radian Guaranty, if needed.

Although Radian Guaranty has generated a statutory profit over the past several years, at YE20 it reported negative unassigned surplus of \$859.5 million. Radian Guaranty will not be able to pay a dividend to Radian Group without regulatory approval until it has a positive unassigned surplus. The current expectation is that Radian Guaranty will likely not be in a positive unassigned surplus position until it is able to begin releasing contingency reserves, probably in 2024.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Due to its monoline nature, any strongly negative event for the mortgage insurance industry could weaken the industry and result in a lower industry profile and operating environment score. This could include levels of new defaults, incurred losses, paid claims and cure rates that deviate significantly from historical rates.

--A decline in capital strength, such as a decline in the reported PMIERS coverage ratio below Fitch's 'bbb+' benchmark, or an indication that holding company capital is not available to support the insurance entities, could result in a lower rating.

--Stagnation or deterioration in statutory or cash coverage, especially if Radian Group's tax- and expense-sharing arrangement was revoked, could result in a lower rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An increase in capital strength, as measured by the PMIERS coverage ratio, could result in a higher rating. This could occur if the reported PMIERS coverage ratio at the operating company increased and the holding company capital buffer was maintained.

--Due to its monoline nature, any strongly positive event for the mortgage insurance industry could accelerate the recovery of the industry and result in a higher industry profile and operating environment score. This could improve the business profile ranking for Radian Guaranty, which could lead to a higher rating.

--An improvement in statutory or cash coverage could result in a higher rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Radian Guaranty Inc.	Ins Fin Str	A- 	Affirmed	A- 
Radian Group Inc.	LT IDR	BBB 	Affirmed	BBB 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured	LT	BBB-	Affirmed
			BBB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Insurance Rating Criteria \(pub.15 Apr 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Radian Group Inc. EU Endorsed, UK Endorsed

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