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Research Update:

Radian Group Inc. Upgraded to 'BB+', Core Operating Subsidiaries Upgraded to 'BBB+'; Outlook Stable

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Overview

- Radian's capital position has strengthened to the moderately strong level due to improved underwriting and favorable seasoning of legacy vintage mortgages.
- We are raising our ratings on Radian Group Inc. and its core subsidiaries.
- The stable outlook reflects our expectation that the company will maintain an adequate competitive position and a moderately strong level of capitalization.

Rating Action

On Sept. 11, 2017, S&P Global Ratings raised its long-term counterparty credit rating on Radian Group Inc. to 'BB+' from 'BB' and our financial strength ratings on its core operating subsidiaries (collectively Radian) to 'BBB+' from 'BBB'. The outlook is stable.

Rationale

The upgrade reflects the strengthening of Radian's capital adequacy to moderately strong, as measured by our risk-based capital model. This improvement is the result of the company's growth in strong-credit-quality, new premium writings that generate low notices of delinquency, and favorable seasoning of legacy vintage mortgages. The company's capital-adequacy metric benefits from the quota-share reinsurance agreement entered into in 2016 on its single-premium risk exposure, which somewhat mitigates our concerns related to the extension risk with that product. We expect strong earnings and progressive seasoning of legacy vintages to maintain capitalization at the moderately strong stress level, notwithstanding expectations of increasing risk exposure, in part due to an anticipated increase in persistency and higher business volumes. We also expect the services business to require less capital support and have less of a negative effect on capital as a result of management's recent decision to restructure this business.

Further supporting our ratings are the company's adequate competitive position as one of the leading mortgage insurers in the U.S., relatively diverse base of customers, improved operating performance, and national footprint--partially offset by the monoline nature of the business. Sound underwriting is producing strong credit quality and performance in more-recent

vintages, which along with declining losses from the legacy business, is driving significant improvement in operating performance. We expect earnings to remain robust despite a slight margin compression in the new business due to pricing competition.

We have revised our assessment of Radian's liquidity score to exceptional from strong. The change in the metric is due to lower expectation of claims as a result of the general improvement of the quality of risk insured.

Outlook

The stable outlook reflects our expectation of a supportive macroeconomic environment, sustainable moderately strong capitalization, and adequate competitive position. Our expectations are based on ongoing compliance with Private Mortgage Insurer Eligibility Requirements, all of which should enable Radian to write new business and achieve operating metrics in line with our expectations.

Downside scenario

We may lower our ratings if Radian's operating performance deteriorates to a level below peers', if its capital position falls below upper-adequate, or financial leverage/coverage ratios deteriorate significantly. This could result from an earnings disruption that slows or impairs capital build-up--including deterioration in the economy--or from increased capital requirements from higher-than-expected volumes of new business with an expanded risk profile. Further downside risk emanates from the potential for contingent liabilities (including from an unresolved tax dispute) that stretch Radian's resources materially.

Upside scenario

We could raise the ratings during the next two years if the company exhibits a sustainable material competitive advantage over peers and its capitalization improves to strong.

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

Ratings List

Upgraded

	To	From
Radian Group Inc. Counterparty Credit Rating Local Currency	BB+/Stable/--	BB/Stable/--
Radian Guaranty Inc. Radian Reinsurance Inc. Counterparty Credit Rating Local Currency	BBB+/Stable/--	BBB/Stable/--
Financial Strength Rating Local Currency	BBB+/Stable/--	BBB/Stable/--
Radian Group Inc. Senior Unsecured	BB+	BB

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