

27 APR 2022

Fitch Affirms Radian's Ratings; Outlook Stable

Fitch Ratings - Chicago - 27 Apr 2022: Fitch Ratings has affirmed Radian Guaranty Inc.'s 'A-' (Strong) Insurer Financial Strength (IFS) rating. In addition, Fitch has affirmed Radian Group Inc.'s Long-Term Issuer Default Rating (IDR) at 'BBB' and senior unsecured debt 'BBB-'. The Rating Outlook is Stable.

Radian Group's ratings reflect the company's moderate business profile as one of six active U.S. mortgage insurers (USMIs). The ratings also reflect the company's strong capitalization and favorable financial performance and earnings, although profitability was dampened in 2020 by the pandemic.

Key Rating Drivers

Moderate Company Profile: Radian Guaranty is the fourth largest of the six active USMIs based on new insurance written (NIW), with a 15.7% market share for 2021, and the third largest based on statutory capital of \$4.7 billion at YE 2021. Radian Guaranty is one of four legacy USMIs that wrote business prior to 2009. As a result, Radian Guaranty has residual exposure to mortgages written under the previous underwriting standards.

Strong Capitalization: Radian Guaranty's capital ratio improved in 2021 as its private mortgage insurer eligibility requirements (PMIERS) coverage rose to a very strong 162% at YE 2021 from a strong 140% at YE 2020. In February 2022, Radian Guaranty paid \$500 million in cash and marketable securities to Radian Group as an extraordinary distribution in the form of a return of paid-in capital. As a result, Radian Guaranty's statutory policyholders' surplus declined by \$500 million, reducing the PMIERS coverage ratio to 147%, which Fitch views as strong. Radian Group employs moderate financial leverage of 25.4% at YE 2021, in line with 25.9% at YE 2020.

Negative Unassigned Surplus: Although Radian Guaranty continues to report statutory profit in recent years, it reported negative unassigned surplus of \$562.8 million at Dec. 31 2021. Radian Guaranty will not be able to pay a dividend without regulatory approval until it has positive unassigned surplus. Fitch currently expects that Radian Guaranty will be able to begin releasing contingency reserves into surplus in 2024, which should improve its unassigned surplus position. Positively, the Radian operating companies are able to pay their proportionate share of interest to the holding company under a global cost allocation and services agreement.

Holding Company Liquidity: Radian Group maintains material liquidity at the holding company level, including \$604.9 million in cash and marketable securities at YE 2021, which increased to \$1.1 billion following the \$500 million return of capital to Radian Group. This level should be more than adequate to meet its cash needs, including for holding company expenses, interest on financial debt and stock repurchases.

Financial Performance Improves: Radian Guaranty's statutory combined ratio dropped to 38.6% in 2021 from 74.0% in 2020, as coronavirus-related delinquencies declined following increased incurred losses in 2020 from the pandemic, as unemployment rose and borrowers took advantage of forbearance programs. The percentage of loans in default on primary mortgage insurance declined to 2.91% at Dec. 31, 2021 from 5.25% at Dec. 31, 2020. This level is approaching the pre-pandemic 1.83% rate at March 31, 2020. In addition, favorable reserve development increased to 14.0 points in 2021 from 3.2 points in 2020.

RATING SENSITIVITIES

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

- A decline in company profile score to below 'bbb+';
- A decline in the PMIERs coverage ratio to below 123%, or an indication that holding company capital is not available to support the insurance entities;
- Stagnation or deterioration in statutory or cash coverage, especially if Radian Group's tax- and expense-sharing arrangement was revoked;
- Due to its monoline nature, any strongly negative event for the mortgage insurance industry that results in a lower IPOE score.

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

- An improvement in company profile score to 'a-';
- Consistently maintaining PMIERs coverage ratio above 150%, while maintaining the holding company capital buffer;
- An improvement in statutory or cash coverage;
- Due to its monoline nature, any strongly positive event for the mortgage insurance industry that results in a higher industry profile and operating environment (IPOE) score.

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	LT IDR BBB 	Affirmed	BBB 

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

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◉	

Applicable Criteria

[Insurance Rating Criteria \(pub.26 Nov 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Radian Group Inc. EU Endorsed, UK Endorsed

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