MOODY'S INVESTORS SERVICE

CREDIT OPINION
27 August 2021

Update

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RATINGS

Radian Group Inc.

Domicile	PHILADELPHIA, Pennsylvania, United States
Long Term Rating	Ba1
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

James Eck +1.212.553.4438
VP-Sr Credit Officer
james.eck@moodys.com

Sydney Kyne +1.212.553.4540
Associate Analyst
sydney.kyne@moodys.com

Bob Garofalo +1.212.553.4663
VP-Sr Credit Officer
bob.garofalo@moodys.com

Scott Robinson, CFA +1.212.553.3746
Associate Managing Director
scott.robinson@moodys.com

Radian Group Inc.

Strong holding company liquidity offsets higher financial leverage

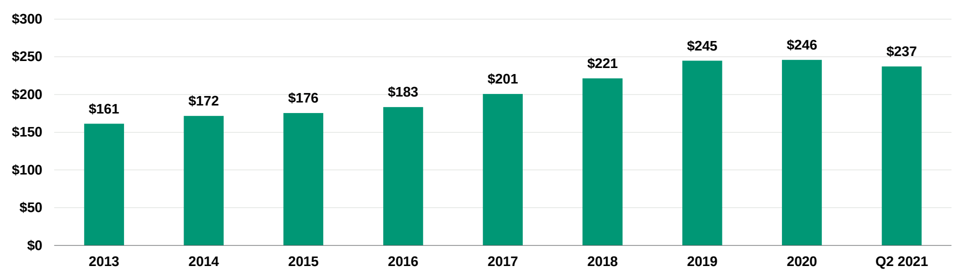
Summary

Our credit view of Radian Group Inc. (Radian Group – senior debt Ba1 stable) and its principal operating subsidiary Radian Guaranty Inc. (Radian Guaranty - insurance financial strength Baa1 stable), reflects its strong position in the US mortgage insurance market, its diverse customer base, comfortable cushion in its compliance with the GSEs' capital standards (PMIERs) and recent actions to extend its debt maturity profile and increase liquidity at the holding company. These strengths are tempered by uncertainties related to credit performance for delinquent mortgage loans currently in forbearance and the commodity-like nature of the mortgage insurance product

Moody's notes that the US housing market has been resilient in the face of elevated unemployment levels and the economic uncertainties arising from the coronavirus pandemic. Given the strong economic outlook for the next couple of years, Moody's believes home prices will continue to rise, though a continued rapid increase in US home prices could lead to affordability issues, which often serves as a precursor to higher volumes of lower credit quality mortgage loans.

Exhibit 1

Radian Group's US primary insurance in force has declined slightly on lower persistency rates (USD Bil.)



Source: Company reports, Moody's Investors Service

Credit strengths

- One of the market leaders in the US private mortgage insurance sector
- Diverse customer base of lenders mitigates some of the challenges in a commodity business
- High quality new business written enhances profitability and capital growth
- GSE's risk-based capital requirements (PMIERs) increases protection for beneficiaries and creditors
- Comprehensive reinsurance program mitigates tail risk in stress scenarios
- Strong holding company liquidity

Credit challenges

- Elevated level of delinquencies due to mortgage loan forbearance programs
- Lack of unrestricted dividend capacity (though does have an interest and expense sharing agreement)
- Mortgage insurance is largely a commodity business
- Sector's fortunes are greatly influenced by lenders, the GSEs, public policy decisions, and other uncontrollable variables, including competition from the FHA and VA

Outlook

The outlook for the ratings of Radian Group and its affiliates is stable. The US housing market has been resilient in the face of the global coronavirus pandemic and related economic disruption during the past year. Fiscal stimulus measures, government policy support through mortgage loan forbearance programs, low mortgage interest rates and demand for homes outstripping supply all served to insulate the US residential housing market from the broader economic downturn. However, key uncertainties remain for Radian Group and other mortgage insurers, including unresolved delinquencies that remain in forbearance, overheated housing markets in certain parts of the country which has led to declining housing affordability, as well as the potential return of more relaxed mortgage loan credit standards to broaden homeownership levels through mortgage affordability programs.

Factors that could lead to an upgrade

- Continued maintenance of comprehensive reinsurance program
- Adjusted financial leverage in the 20% range, or below
- Maintaining its top-tier market position in the US mortgage insurance market.

Factors that could lead to a downgrade

- Non-compliance with PMIERs
- Decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period
- Deterioration in the parent company's ability to meet its debt service requirements
- Significant weakening of underwriting standards or pricing
- Adjusted financial leverage above 25%

Key Indicators

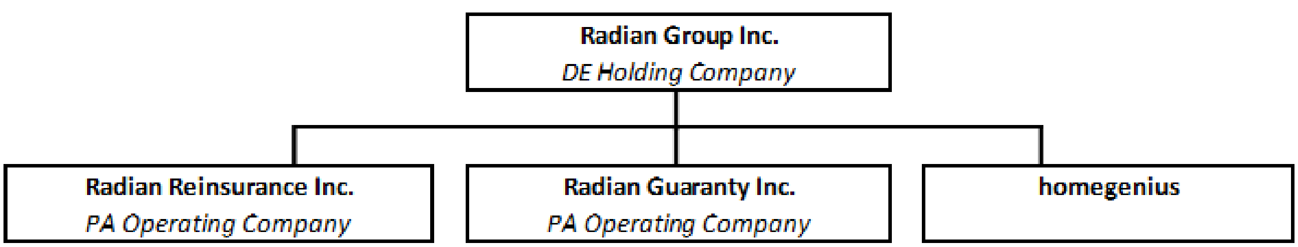
Exhibit 2
Radian Group Inc.

Radian Group Inc. [1][2]	2020	2019	2018	2017	2016
As Reported (US Dollar Millions)					
New Insurance Written (NIW)	105,024	71,327	56,547	53,905	50,530
Insurance in Force	246,144	240,558	221,443	200,724	183,450
Risk in Force (RIF)	60,937	61,235	57,053	51,627	47,706
Net Risk in Force	52,067	51,157	47,517	43,478	42,366
Net income (loss) attributable to common shareholders	394	672	606	121	308
Total Shareholders Equity	4,284	4,049	3,489	3,000	2,872
Regulatory Capital	4,304	4,109	3,633	3,491	2,997
PMIERs Sufficiency Ratio	140%	128%	119%	114%	105%
Moody's Adjusted Ratios					
Avg. NIW as % Total Industry NIW (2 yr. avg.)	11.4%	11.4%	11.0%	10.1%	9.3%
% Prime loan RIF	98.1%	98.0%	97.5%	96.7%	95.2%
Geographic Concentration	26.1%	27.4%	28.2%	27.5%	26.8%
Client Concentration	16.6%	12.9%	5.3%	6.6%	8.7%
Adjusted Risk to Capital	12.9x	13.4x	14.3x	13.9x	16.4x
Return on Average Capital (ROC)	7.3%	14.0%	13.9%	5.5%	8.0%
Combined Ratio (1 yr avg)	71.4%	40.5%	40.5%	45.8%	51.1%
Adjusted Financial Leverage	25.4%	18.9%	24.2%	26.5%	28.0%
Total Leverage	27.6%	21.1%	25.6%	26.5%	28.0%
Cash Flow Coverage	0.0x	0.0x	0.0x	0.0x	0.0x

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service

Profile

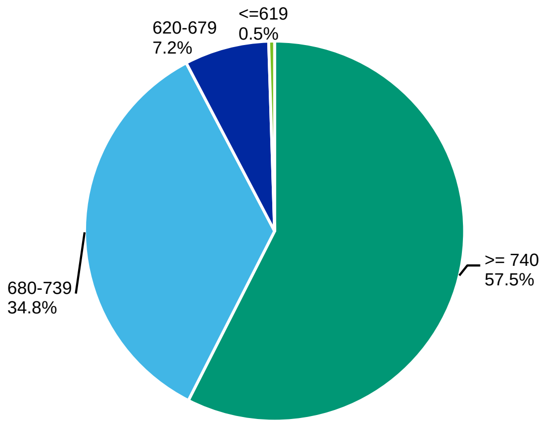
Exhibit 3
Simplified organizational structure



Source: Company reports, Moody's Investors Service

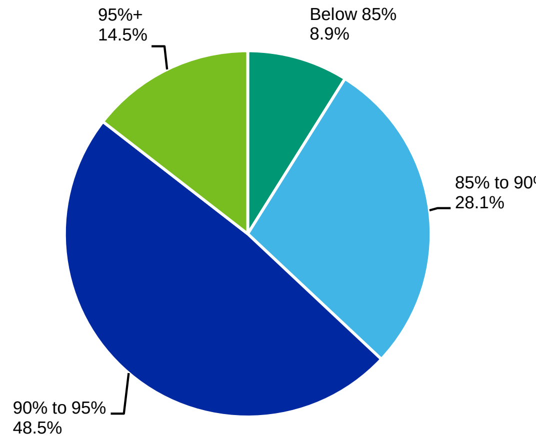
Radian Group is a leading provider of private mortgage insurance in the United States, primarily through Radian Guaranty. The company also provides risk management products and real estate services to financial institutions through its homegenius segment. At Q2 2021, Radian had approximately $237 billion of primary insurance in force and shareholders' equity of approximately $4.3 billion.

Exhibit 4
Primary risk in force by FICO score (Q2 2021)



Source: Company reports

Exhibit 5
Primary risk in force by LTV ratio (Q2 2021)



Source: Company reports

Detailed credit considerations

Moody's rates Radian Guaranty Baa1 for insurance financial strength, which is in line with the adjusted scorecard-indicated outcome produced by Moody's insurance financial strength rating scorecard.

Insurance financial strength rating

The key factors currently influencing the ratings and outlook are:

Market position: First tier market position and diverse customer base of lenders

Radian Guaranty's A score for market position reflects its strong market presence in the US mortgage insurance market. During 2020, Radian Group's private MI market share was approximately 17.5% (2019: 18.6%), which places Radian Guaranty in the first tier of US mortgage insurers. Radian Guaranty has a diverse customer base of lenders, including many small and regional lenders that are sometimes more flexible in their dealings with insurers than the larger banks and mortgage lenders.

Radian's homegenius segment offers a broad array of products and services to market participants across the real estate value chain. These include title, valuation, asset management and other real estate services offered primarily to mortgage lenders, mortgage and real estate investors, GSEs, real estate brokers and agents. Despite their current limited contribution to Radian's overall earnings, in Moody's opinion, these operations complement Radian's MI business and provide the firm with useful insights into current housing and real estate market conditions.

Housing market attributes: US housing market resilient in the face of economic disruption from coronavirus pandemic; affordability issues are beginning to surface as home prices move higher

We assign the same score (currently A on both an adjusted and unadjusted basis) for this rating factor to all of our rated US mortgage insurers. We note that the US housing market has been resilient in the face of elevated unemployment levels and the economic uncertainties arising from the coronavirus pandemic. Given the strong economic outlook for the next couple of years, we believe home prices will continue to rise, though we do have concerns that a continued rapid increase in US home prices could lead to affordability issues, which often serve as a precursor to higher volumes of lower credit quality mortgage loans.

I. Demand for mortgage insurance

The private mortgage insurance (PMI) industry is well established in the US with PMIs benefiting from the GSEs' requirement, under their federal charter, to use credit enhancement on mortgages with loan-to-value (LTV) ratios in excess of 80%. During 2020, the PMI industry's market share of insured mortgage loans was approximately 45%, down slightly from 46% during 2019. While pre-crisis PMI market share peaked at 77% during 2007, this business included higher risk loans that are no longer within the risk appetite of the PMIs.

Following the change of presidential administrations in early 2021, we don't expect major changes to the current US housing finance system, which is credit positive for the US PMIs, which benefit from the current status quo. Over the longer term, we continue to believe that the PMIs will face competition from other types of mortgage credit enhancement products that will require the PMIs to adapt and evolve over time.

The GSE capital standards under PMIERs require PMIs to hold significantly more capital relative to their risk-in-force than was the case under prior GSE capital requirements, or relative to capital levels required by state insurance regulators. The PMIERs financial requirements are stringent, but they provide a standardized risk-based approach to capital adequacy and position the PMIs as viable counterparties and providers of private capital to the US housing finance market. In aggregate, we consider the PMIERs to be credit positive for the PMI sector.

II. Generic loan attributes

Overall, we consider the US mortgage market to be healthy, due to continued strong mortgage underwriting standards, the partial recourse nature of mortgage lending and strong loan servicing practices. Since the financial crisis, US PMIs have been writing business almost exclusively in the prime, first-lien segment of the mortgage market. We expect underwriting standards to remain prudent, though they have historically loosened following periods of strong mortgage loan performance.

Insured mortgage loans in the US are typically long-term, fixed-rate products with partial recourse to the borrower. While residential mortgage loans in the US are secured by the underlying property, lenders generally have no recourse beyond the property itself. The mortgage insurers also insure a material amount of highest LTV loans, though their >95% LTV new production has greatly declined since 2009. Historically, exposure to the highest LTV loans has made mortgage insurers more vulnerable to housing market downturns.

III. Housing market conditions

The US housing market has been resilient in the face of the global coronavirus pandemic and related economic shutdowns during 2020, which resulted in a massive contraction of the US economy and a sharp spike in unemployment rates. Fiscal stimulus measures, government policy support through mortgage loan forbearance programs, low mortgage interest rates and demand for homes outstripping supply all served to insulate the US residential housing market from the broader economic downturn. However, key uncertainties remain for the PMIs, including unresolved delinquencies that remain in forbearance, overheated housing markets in certain parts of the country which has led to declining housing affordability, as well as the potential return of more relaxed mortgage loan credit standards to broaden homeownership levels through mortgage affordability programs.

Longer term, mortgage insurers will benefit from certain demographic factors, including the below-trend homeownership rate, particularly among Millennials, which has resulted in a build-up of potential homeowners and a pent-up demand for homes. The expected strong US economic conditions in 2021 and into 2022, with projected employment gains and low mortgage interest rates will provide support to the US housing market.

Capital adequacy: Capital adequacy benefits from substantial reinsurance protection

Radian Guaranty's risk-adjusted capital adequacy has improved over the past several years as the company's higher risk legacy exposures amortize. The company has made significant use of reinsurance to manage its capital requirements under the PMIERs, including five issuances of insurance-linked notes (ILNs) through its Eagle Re program totaling approximately $2.4 billion and has also sourced additional risk transfer protection through excess of loss and quota-share coverage in the traditional reinsurance market. Through these arrangements, Radian has reinsurance covering nearly all of its business written since 2017, providing significant capital resources to absorb losses during periods of elevated mortgage credit losses.

At Q2 2021, Radian Guaranty had PMIERs available assets of approximately $5.0 billion vs. PMIERs required assets of approximately $3.1 billion, resulting in a PMIERs sufficiency ratio of approximately 158%. The firm also maintains strong liquidity at the holding company, with cash and invested assets of approximately $923 million as of June 30, 2021. These funds could be downstreamed to Radian Guaranty to increase available assets at the operating company for PMIERs compliance purposes, if needed.

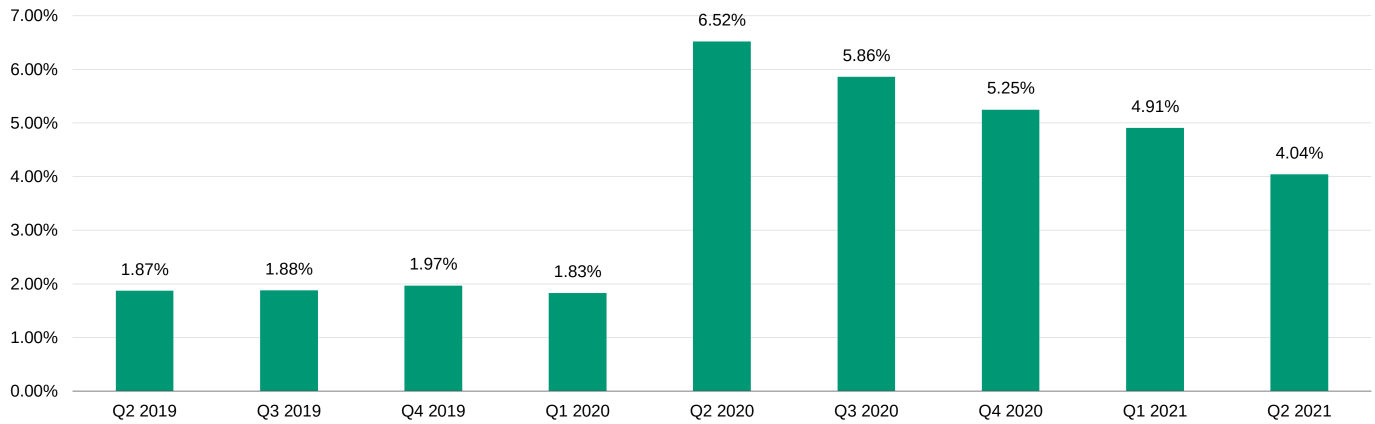
Profitability: Profitability metrics lag peers on impairment charges; improvement expected

During 2020, Radian Group reported GAAP net income of approximately $394 million (2019: $672 million). Results were adversely impacted by increased incurred losses resulting from the company's significant increase in mortgage loan defaults resulting from the economic downturn caused by the coronavirus pandemic. For the five years ended 2020, Radian Group's average net income return on capital was 9.6%, which is low relative to the peer group, as Radian Group has recorded significant goodwill impairments related to the company's former Real Estate Services segment in recent years.

During the first six months of 2021, Radian reported net income of approximately $281 million, up from $111 million in the prior year period due to lower incurred losses. Looking forward to the remainder of 2021 and into 2022, we expect the company's profitability to be good, with some uncertainty related to the ultimate resolution of the default population that is currently under forbearance.

Exhibit 6

Radian's delinquency rate is declining after coronavirus-related spike



Source: Company reports

At Q2 2021, Radian Guaranty's delinquent loan inventory was approximately 4.0% of outstanding loans, which is high relative to recent historical levels, but down from around 6.5% during Q2 2020 (Exhibit 6). We think the strong home price appreciation over the past several years will reduce the number of delinquent mortgage loans, including those in forbearance, that ultimately result in a foreclosure and mortgage insurance claims. We estimate that more than 90% of mortgage loans insured by the private mortgage insurers (PMIs) have greater than 10% equity in the property. As a result, we expect most delinquent loans insured by the PMIs to cure, either by exiting forbearance through various reinstatement or repayment options, or through the sale of the property and repayment of the mortgage loan.

Given the company's low profitability metrics relative to its peers, we have placed the adjusted factor score for profitability at Baa, lower than the unadjusted A factor score.

Financial flexibility: May 2020 debt raise reverses deleveraging trend, but liquidity is strong

Over the past several years, Radian Group has methodically improved its financial flexibility profile by reducing financial leverage and extending its debt maturities. However, following the outbreak of the coronavirus pandemic, Radian Group issued $525 million of 5-year senior notes in May 2020 to boost its capital and liquidity position. As of June 30, 2021, Radian Group's adjusted financial leverage ratio was approximately 25.2%, down from 25.4% at year-end 2020. We expect the firm to continue to reduce its adjusted financial leverage over time toward levels closer to 20%.

Radian Group's next debt maturity is in 2024, when $450 million of senior notes mature. Radian Guaranty and Radian Reinsurance are both members of the FHLB and use the borrowing facility to purchase additional investment securities. As of Q2 2021, there were approximately $154 million of FHLB advances outstanding. While Radian Group's financial leverage is elevated relative to the peer group, we believe the company's very strong holding company liquidity (more than 10x interest expense) serves as an offset to the higher financial leverage.

We raise the adjusted score for financial flexibility to Baa from the unadjusted score of Ba to account for the firm's tax, interest and expense sharing agreement which mitigates the lack of unrestricted dividend capacity.

Liquidity analysis

Radian Guaranty currently has no unrestricted dividend capacity due to its large negative unassigned surplus balance (Q1 2021: -$814 million). However, the firm is able to access funds at the operating company outside of ordinary dividends through a tax, interest and expense sharing agreement.

As of June 30, 2021, Radian Group had immediately available unrestricted cash and liquid investments of approximately $923 million and also had access to a $267.5 million revolving credit facility (currently undrawn).

During 2020, Radian's interest expense was $71 million. The company also paid $97 million in common shareholder dividends and repurchased $226 million of its common stock.

ESG considerations

Environmental risks

In line with our general view for the mortgage insurance sector, Radian has low exposure to environmental risks. While catastrophic events can cause a significant increase in mortgage loan delinquencies in affected areas post-event, the significant majority of these defaults typically cure within 6 to 12 months, as has been historically observed with past MI default activity following major hurricanes and floods. We note that US mortgage insurers are not responsible for physical damage to properties arising from catastrophes, as the contractual language in mortgage insurance master policies states that the mortgage insurer may deny a claim if physical damage to the property is the primary cause of the default on the mortgage loan. As a result, the owner of the mortgage loan (typically Fannie Mae or Freddie Mac) retains the risk of mortgage defaults resulting from uninsured or underinsured property losses arising from natural disasters.

Social risks

Mortgage Insurers have low overall exposure to social risks. Primary exposure is to the US housing sector that could be impacted by demographic and societal trends, mitigated by market diversification. These financial institutions are highly regulated and reliant on handling customer data and privacy properly. Human capital risks can be significant, primarily related to the recruitment and retention of key employees. Changes in regulatory rules and practices within a market, as well as, potential changes in regulation or taxation of its products could affect the benefits of mortgage insurance as a credit enhancement, or lead to a restructuring of segments of the industry. For example, in the US, the regulatory requirement for the government-sponsored entities (GSEs) to credit enhance loans with loan-to-value ratios (LTV) above a certain threshold is a key driver for mortgage insurance demand.

Governance

Like all other corporate credits, the credit profile of Radian is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be influenced by regulatory oversight and intervention. The company has strong risk management processes and internal financial controls that mitigate various governance risks. Under the oversight of the company's board of directors, the company's management team has a strong performance track record and maintains good relationships with regulators and investors. Radian Group's relatively simple organizational structure and focused business model ease these governance and risk management processes and procedures. Radian operates within a strong regulatory environment, being overseen by the Pennsylvania Insurance Department, which has substantial experience regulating mortgage insurers, as well as subject to operational and financial standards under the GSE's PMIERs.

Structural considerations

The spread between Radian Group's Ba1 senior unsecured debt rating and the Baa1 IFS rating of Radian Guaranty is three notches, which is consistent with Moody's typical notching practices for U.S. insurance holding company structures.

Rating methodology and scorecard factors

Exhibit 7

Radian Group Inc.

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position (20%)								A	A
- Avg. NIW as a % of Total Industry NIW				11.4%					
- Prime Loans (% of RIF)		98.1%							
- Client Concentration				16.6%					
- Geographic Concentration			26.1%						
Housing Market Attributes (25%)								A	A
- Demand for mortgage insurance			X						
- Generic loan attributes			X						
- Housing conditions			X						
Financial Profile								A	Baa
Capital Adequacy (30%)								A	Baa
- Adjusted Risk-to-Capital Ratio			12.9x						
Profitability (15%)								A	Baa
- Return on Capital – 5 yr. avg.			9.8%						
- Combined Ratio – 5 yr. avg.			49.9%						
Financial Flexibility (10%)								Ba	Baa
- Cash Flow Coverage – 5 yr. avg.						0.0x			
- Adjusted Financial Leverage				25.4%					
- Total Leverage				27.6%					
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	Baa1

[1] Information based on US GAAP financial statements as of Fiscal YE December 31. [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
RADIAN GROUP INC.	
Rating Outlook	STA
Senior Unsecured	Ba1

Source: Moody's Investors Service

Moody's related publications

Sector Research

- Mortgage Insurance - US: Refis slow but new insurance still grows in Q2; delinquencies in decline (August 2021)
- Mortgage Insurance - US: Refis drive growth in Q4; ultimate losses on delinquent loans still uncertain (March 2021)
- Mortgage Insurance - US: Mortgage insurers brace for higher delinquencies as unemployment rate spikes (June 2020)
- Mortgage Insurance - US: Mortgage ILNs protect earnings, capital as coronavirus-related delinquencies increase (June 2020)

Industry Outlook

- Mortgage Insurance - US: 2021 outlook stable as housing market remains resilient in the face of headwinds (November 2020)

Rating Methodology

- Mortgage Insurers Methodology (November 2019)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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