MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes rating actions on five US mortgage insurers, changes industry outlook to stable

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New York, January 28, 2016 -- Moody's Investors Service, ("Moody's") has taken rating actions on five US mortgage insurers. It has upgraded the insurance financial strength ratings of Mortgage Guaranty Insurance Corporation and Radian Guaranty Inc. by one notch to Baa3 with a stable outlook, and affirmed the insurance financial strength ratings of Essent Guaranty, Inc. (Baa2), Arch Mortgage Insurance Company (Baa1), and National Mortgage Insurance Corporation (Ba2), all with a stable outlook. A complete list of rating actions can be found near the end of this press release.

RATINGS RATIONALE

SECTOR RATIONALE

Moody's rating actions were prompted by the introduction of Fannie Mae and Freddie Mac's ("the GSEs") new Private Mortgage Insurer Eligibility Requirements ("PMIERS"), which came into effect on 31 December 2015. Among other rules, the PMIERS require US mortgage insurers to hold a minimum level of liquid assets based on the riskiness of the mortgages that they insure. Moody's believes that the PMIERS will improve protection for beneficiaries (GSEs and investors in insured mortgages) and debt holders of the US mortgage insurers. While official compliance will not be certified until March 2016, Moody's expects all of its rated US mortgage insurers to comply with the PMIERS as of the effective date.

As part of this action, Moody's has changed its industry outlook on the US mortgage insurance sector to stable from positive now that PMIERS compliance has been achieved on the effective date. Moreover, the shift from a positive to stable outlook reflects both cyclical and more persistent challenges that limit further positive pressure on this sector. Moody's expects more competition within the crowded mortgage insurance market in the next 12-18 months.

Moody's believes that the average rating in the US mortgage insurance sector should currently be in the Baa range, lower than that of other insurance sectors such as property-casualty and life insurance. In its 58-year modern history, the sector has made almost no money on a cumulative basis. "We believe that US mortgage insurers represent a very small part of the mortgage origination value chain and operate in a commodity business whose fortunes are greatly influenced by lenders, the GSEs, public policy decisions, and other uncontrollable variables," said Kevin Lee, an analyst for mortgage insurers. Moreover, Moody's believes that the sector is still fighting to restore its market credibility after the 2007-08 financial crisis.

Moody's also notes that mortgage insurance presents risk characteristics that have historically posed challenges to insurers. Unlike many other insurance lines, the law of large numbers does not readily apply to mortgage insurance because the exposures are less independent and are subject to serial correlation from one year to the next.

COMPANY RATIONALE

Radian Guaranty Inc. ("Radian Guaranty", upgrade to Baa3 stable (from Ba1 positive)): The one notch upgrade of Radian Guaranty reflects: (a) its compliance with the PMIERS, helped by its previous sale of Radian Asset Assurance, Inc., (b) its recent actions to spread out its debt maturity profile to alleviate pressures on holding company liquidity, and (c) its historical market leadership alongside United Guaranty and MGIC. That said, the parent's significant debt burden (~33% adjusted debt-to-capital as of 12/31/15) and an unresolved IRS tax dispute continue to weigh on Radian Guaranty's rating. The IRS dispute revolves around legacy real estate mortgage investment conduits ("REMICs").

Mortgage Guaranty Insurance Corporation ("MGIC", upgrade to Baa3 stable (from Ba1 positive)): The one notch upgrade of MGIC reflects: (a) its compliance with the PMIERS, (b) its improving holding company liquidity, and (c) its historical market leadership alongside United Guaranty and Radian. Similar to Radian Guaranty, MGIC's rating continues to be weighed down by its parent's significant debt burden (~36% adjusted debt-to-capital as of

12/31/15) and a similar IRS tax dispute. The parent has recently started to repurchase the 2017 senior convertible notes and estimates that it will have enough liquidity to repay the 2017 notes even if it doesn't refinance the securities or is unable to get a special dividend from its MGIC subsidiary.

Essent Guaranty, Inc. ("EGI", affirm Baa2 and change outlook to stable from positive): The affirmation of EGI's Baa2 financial strength is based on its lack of legacy exposures and its ability to gain traction as a newer entrant. EGI started writing business in 2010 and hence has no pre-2009 legacy exposures, facilitating compliance with the PMIERS (the PMIER risk charges are relatively high for pre-2009 vintage years). The change in outlook to stable from positive reflects Moody's current view of sector dynamics (resulting in the changing of Moody's industry outlook to stable from positive) and EGI's customer (lender) base, which is more concentrated than that of some insurers. While EGI has been able to gain traction in market share and diversify its customers, it still trails United Guaranty, Radian, and MGIC in these areas by a wide margin.

Arch Mortgage Insurance Company ("Arch MI", affirm Baa1 stable): The affirmation of Arch MI's Baa1 financial strength is based on good support from its corporate parent (Arch Capital Group Ltd.), including access to additional capital if needed. Arch MI was founded in January 2014 when Arch Capital Group acquired CMG Mortgage Insurance Company and certain assets from an insurer in regulatory receivership. Its PMIER compliance was facilitated by negligible legacy exposures. Arch MI benefits from a reinsurance agreement with an 'A1' rated property-casualty sister company. Its Baa1 rating is based on: (a) a Baa3 standalone credit assessment, and (b) two notches of uplift due to implicit and explicit support from its ultimate parent. Although Arch MI has a diverse customer base of credit unions, it currently has the lowest market share in the sector and has yet to achieve scale.

National Mortgage Insurance Corporation ("NMIC", affirm Ba2 stable): The affirmation of NMIC's Ba2 financial strength is based on its compliance with the PMIERS. Moody's rationale for the rating has not changed since the initial rating assignment in November 2015, and reflects the company's startup status, and its need for growth and additional capital to justify its cost structure and achieve critical scale. While Moody's believes additional funding and growth can be attained, it sees significant uncertainties related to both, in part due to NMIC's late entry into a crowded mortgage insurance market as the high-cost producer. Moreover, Moody's base case projections suggest that the company will not earn its cost of capital until 2018 or later.

Moody's added that Genworth Mortgage Insurance Corp. (Ba1, review up) and United Guaranty Residential Insurance Co. (Baa1, review down) were not part of the rating action.

WHAT COULD MOVE THE RATINGS UP OR DOWN

Moody's sees the sector as a highly competitive business in which companies' fortunes tend to move in lockstep. As such, an improvement in the sector's credibility with stakeholders, a better track record, or public policy decisions that work materially in favor of mortgage insurers could provide upward rating pressure on this sector. Conversely, public policy decisions that work against the sector or widespread price competition in an effort to purchase market share could provide downward rating pressure on this sector.

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

Radian Guaranty Inc.: The following factors could lead to an upgrade: (a) better alignment of the parent's debt maturity profile to Radian Guaranty's expected dividend capacity and/or reduction of debt at the parent; (b) comfortable compliance with PMIERS; (c) more clarity about the range of potential outcomes in the group's tax dispute with the IRS. The following factors could lead to a downgrade: (a) non-compliance with PMIERS; (b) deterioration in the parent company's ability to meet its debt service requirements; (c) 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.

MGIC: The following factors could lead to an upgrade: (a) noteholders convert their convertible notes to common shares; (b) better alignment of the parent's debt maturity profile to MGIC's expected dividend capacity and/or reduction of debt at the parent; (c) comfortable compliance with PMIERS; (d) more clarity about the range of potential outcomes in the group's tax dispute with the IRS. The following factors could lead to a downgrade: (a) non-compliance with PMIERS; (b) deterioration in the parent company's ability to meet its debt service requirements; (c) 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.

Essent Guaranty, Inc.: The following factors could lead to an upgrade: (a) stronger market presence and broader client base on par with market leaders; (b) improved scaling of expense base; (c) increased capitalization relative to exposures. The following factors could lead to a downgrade: (a) non-compliance with PMIERs; (b) significant weakening of underwriting standards or pricing; (c) debt-to-capital ratio above 20%.

Arch Mortgage Insurance Company: The following factors could lead to an upgrade: (a) ability to grow to scale and be on a clear trajectory towards a sub-70 combined ratio; (b) stronger capitalization, or a greater degree of support from Arch Capital or its affiliated entities. The following factors could lead to a downgrade: (a) failure to grow to scale; (b) termination of the reinsurance agreement with Arch Reinsurance Ltd.; (c) a downgrade of Arch Capital or lower implicit support from the group; (d) non-compliance with PMIERS.

National Mortgage Insurance Corp.: The following factors could lead to an upgrade: (a) improved likelihood of attaining scale relative to its cost structure; (b) success in accessing capital to fund growth (in addition to the existing $150 million term loan); (c) comfortable compliance with PMIERs going forward. The following factors could lead to a downgrade: (a) failure to grow and attain scale; (b) inability to access enough capital to fund required growth; (c) non-compliance with PMIERs; (d) significant discounting of prices to buy market share; (e) debt-to-capital ratio above 35%.

LIST OF AFFECTED RATINGS

The following ratings have been upgraded with a stable outlook:

Radian Guaranty Inc. -- upgraded financial strength to Baa3;

Radian Group Inc. -- upgraded senior unsecured debt to Ba3; provisional senior unsecured shelf to (P)Ba3; provisional senior subordinate shelf to (P)B1; provisional subordinate shelf to (P)B1; provisional preferred shares shelf to (P)B2; provisional preferred non-cumulative shares shelf to (P)B2.

Radian Mortgage Assurance Inc. -- upgraded financial strength to Baa3. Moody's will subsequently withdraw the credit rating for its own business reasons. Please refer to Moody's Investors Service's Withdrawal Policy, which can be found on our website, www.moodys.com.

Mortgage Guaranty Insurance Corporation -- upgraded financial strength to Baa3.

MGIC Indemnity Corporation -- upgraded financial strength to Baa3.

MGIC Investment Corporation -- upgraded junior subordinate debt to B1 (hyb).

The following ratings have been affirmed with a stable outlook:

Essent Guaranty, Inc. -- financial strength at Baa2.

Arch Mortgage Insurance Company -- financial strength at Baa1.

National Mortgage Insurance Corporation -- financial strength at Ba2.

NMI Holdings, Inc -- senior secured term loan at B2.

The principal methodology used in these ratings was Mortgage Insurers published in December 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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