

Rating Action: Moody's upgrades Radian Guaranty to Ba2; positive outlook

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New York, May 07, 2014 -- Moody's Investors Service has upgraded the insurance financial strength (IFS) ratings of Radian Guaranty Inc. (Radian Guaranty) and Radian Mortgage Assurance Inc. (RMA) to Ba2 from Ba3. In addition, Moody's has upgraded the senior debt rating of Radian Group Inc. to B3 from Caa1. The outlook for Radian, Radian Guaranty and RMA remains positive.

RATINGS RATIONALE -- RADIAN GROUP INC.

Moody's said that the upgrade of Radian's senior debt rating to B3, from Caa1, reflects the improving credit profile of Radian Guaranty, its flagship operating subsidiary. The B3 senior debt rating reflects the meaningful debt burden relative to its liquidity and the fact that dividends from Radian Guaranty are unlikely for the foreseeable future, given its still weak regulatory capital position.

In addition, Moody's believes that significant uncertainty exists about the level of capital required under the upcoming, revised GSE capital criteria. A requirement for Radian to make a higher than expected capital contribution to Radian Guaranty could place strain on Radian's holding company resources. As of March 31, 2014 Radian has remaining unrestricted cash and liquid investments of approximately \$615 million at the holding company. This is before taking into consideration any additional capital contributions to Radian Guaranty, or the expected proceeds from the planned issuance of common stock and senior unsecured notes. Radian intends to use the expected proceeds to fund the pending purchase of Clayton Holdings LLC, to fund early the redemption of the 5.375% Senior Notes due in 2015 and for working capital.

On May 6, 2014, Radian announced the acquisition of Clayton Holdings LLC, a provider of outsourcing services to the mortgage industry. The purchase consideration of \$305 million, payable in cash, will be financed through public issuances of debt and equity. Moody's believes that the acquisition provides a good opportunity for Radian to expand its franchise beyond its core mortgage insurance business, while remaining within its field of expertise. However, Moody's also noted that the contribution of capital, albeit newly raised, to non-core operations, while Radian's ability to meet the capital requirements under the new GSE eligibility criteria remain unknown, presents a distinct risk.

RATINGS RATIONALE -- RADIAN GUARANTY AND RMA

The upgrade of the IFS ratings of Radian Guaranty and RMA to Ba2, from Ba3, reflects: (i) significant improvement in operating profits generated by the mortgage insurance business; (ii) stabilization of, and increased visibility into losses on the legacy mortgage insurance portfolio; (iii) continued improvement in U.S. housing fundamentals; and (iv) their consolidated financial resources, including a consideration for the ownership of Radian Asset, in excess of Moody's base case losses.

RATING OUTLOOKS - RADIAN, RADIAN GUARANTY AND RMA

The positive rating outlooks reflect: (i) the potential for further improvements in profitability and related internal capital generation; (ii) continued improvement in visibility about legacy mortgage insurance losses; (iii) the firm's high quality new business production; and (iv) the steadily improving housing finance environment.

Moody's cited the following factors that could lead to a further upgrade of Radian's ratings and/or an upgrade of the ratings of Radian Guaranty and RMA: (i) greater certainty about Radian Guaranty's ability to comply with expected, revised GSE capital requirements; (ii) improving housing market outlook resulting in substantially lower downside risk for insured mortgage losses; (iii) injection of additional capital that meaningfully improves its capital adequacy; or (iv) better than expected loss developments in its financial guaranty or mortgage insurance portfolios.

Moody's cited the following factors that could lead to a rating downgrade for these companies: (i) greater than anticipated adverse loss developments in the financial guaranty and/or mortgage insurance portfolios resulting in less resources available at the insurance companies; (ii) capital deficiency relative to its Ba rating threshold that remains uncorrected; or (iii) meaningful deterioration in housing finance fundamentals.

LIST OF RATING ACTIONS

The following ratings have been upgraded with a positive outlook:

Radian Group Inc. -- senior unsecured debt to B3, from Caa1.

Radian Guaranty Inc. -- insurance financial strength rating to Ba2, from Ba3;

Radian Mortgage Assurance Inc. -- insurance financial strength rating to Ba2, from Ba3.

Radian Group Inc. is a US-based holding company that owns a mortgage insurance platform comprised of Radian Guaranty, Radian Insurance and Radian Mortgage Assurance, and financial guaranty insurance company Radian Asset (Ba1 IFS rating, negative outlook). The group also has investments in other financial services entities. As of March 31, 2014, Radian Group had \$5.5 billion in total assets and \$1.1 billion in shareholder's equity.

The principal methodology used in this rating was Moody's Global Methodology for Rating Mortgage Insurers published in December 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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