

**Rating Action: Moody's upgrades Radian Group's ratings (IFS to Baa1); outlook stable**

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17 October 2019

New York, October 17, 2019 – Moody's Investors Service ("Moody's") has upgraded the insurance financial strength (IFS) rating of Radian Guaranty, Inc (Radian) to Baa1 from Baa2. In the same rating action, Moody's also upgraded the senior unsecured debt rating of Radian Group, Inc. (Radian Group) to Ba1 from Ba2. The outlook for the ratings is stable.

**RATINGS RATIONALE**

The US mortgage insurance sector has reported broad-based improvements to its credit profile over the past several years with strong net income and improved capital adequacy bolstered by organic capital growth and the increased utilization of excess of loss reinsurance through insurance-linked notes (ILNs) issued to investors as well as traditional reinsurance coverage. With more than \$8.4 billion of ILNs sponsored by US mortgage insurers since mid-2015, Moody's expects that this significant source of off-balance sheet risk transfer capacity will dampen the earnings and capital volatility that have historically impacted the sector during adverse economic environments, allowing mortgage insurers with comprehensive reinsurance coverage to maintain an adequate capital cushion to the GSEs' Private Mortgage Insurer Eligibility Requirements (PMIERs) in the case of an economic downturn.

The upgrade of Radian's ratings also reflects the firm's reduced financial leverage and the extension of its debt maturity profile. Pro forma for the redemption of approximately \$97 million of senior notes due in 2020/2021, Radian Group's adjusted financial leverage was approximately 20.2% at Q2 2019. The company's profitability has also improved in recent years as its pre-2009 vintage legacy business amortizes and is replaced by well-priced, high quality new business. Radian's profitability is expected to remain strong due to favorable US housing market and economic fundamentals that continue to be supportive of mortgage credit, including continued (albeit slowing) economic growth, rising home prices and a strong US labor market with low unemployment rates. Through the first six months of 2019, Radian Group reported net income of \$338 million and a loss ratio of 12.2%.

Radian's Baa1 IFS rating and the Ba1 senior debt rating on Radian Group reflect the group's strong position in the US mortgage insurance market, its diverse customer base, its comfortable cushion in its compliance with the PMIERs capital standards and recent actions to reduce its adjusted financial leverage, extend its debt maturity profile and increase liquidity at the holding company. These strengths are tempered by the commodity-like nature of the mortgage insurance product, Radian's lack of unrestricted dividend capacity, and the potential for price competition in the US mortgage insurance market.

Since November 2018, Radian has transferred nearly \$1 billion of risk to the capital markets through two Eagle Re ILN transactions, 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 during 2017 and 2018, providing significant capital resources to absorb losses during periods of elevated mortgage credit losses. However, assuming Radian systematically uses ILNs to reinsure new business going

forward, it will take time for Radian to have comprehensive reinsurance coverage on the substantial majority of its risk in force.

## RATING DRIVERS

The following factors could lead to an upgrade of Radian's ratings: (1) More comprehensive reinsurance coverage on its entire insured portfolio; (2) adjusted financial leverage in the 15% range; (3) maintaining a strong capital adequacy cushion relative to the PMIERS requirements; and (4) maintaining its top-tier market position in the US mortgage insurance market.

Conversely, the following factors could lead to a downgrade of the group's ratings: (1) Non-compliance with PMIERS; (2) Decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; (3) Deterioration in the parent company's ability to meet its debt service requirements; and (4) Adjusted financial leverage above 25%.

The following ratings have been upgraded:

Radian Guaranty, Inc. – insurance financial strength to Baa1 from Baa2; and

Radian Group, Inc. – Senior unsecured debt to Ba1 from Ba2, senior unsecured shelf to (P)Ba1 from (P)Ba2, senior subordinate shelf to (P)Ba2 from (P)Ba3, subordinate shelf to (P)Ba2 from (P)Ba3, preferred shelf to (P)Ba3 from (P)B1, and preferred non-cumulative shelf to (P)Ba3 from (P)B1.

Outlook actions:

..Issuer: Radian Guaranty, Inc.

..Issuer: Radian Group, Inc.

....Outlook, Remains Stable

Radian Group Inc., through its subsidiaries, provides mortgage insurance and products and services to the real estate and mortgage finance industries. As of June 30, 2019, Radian had primary insurance-in-force of approximately \$231 billion and shareholders' equity of approximately \$3.8 billion.

The principal methodology used in these ratings was Mortgage Insurers published in May 2018. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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