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Research Update:

Radian Guaranty Inc. Ratings Raised To 'BB+' From 'BB' On Improving Capitalization; Outlook Is Positive

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Overview

- Radian Guaranty Inc.'s earnings and, consequently, its capital strength are improving.
- Compliance with Private Mortgage Insurer Eligibility Requirements will help the company maintain its competitive position.
- The macro environment is supportive of a continued recovery in the mortgage and housing sector.
- We are raising our financial strength ratings on Radian Guaranty Inc. and its rated subsidiaries to 'BB+' from 'BB'.
- The positive outlook reflects the potential for relative strengthening of the company's capitalization and reduction in financial leverage.

Rating Action

On Dec. 11, 2015, Standard & Poor's Ratings Services raised its financial strength and long-term counterparty credit ratings on Radian Guaranty Inc., Radian Mortgage Assurance Inc., and Radian Mortgage Insurance Inc. to 'BB+' from 'BB'. Standard & Poor's also raised its long-term counterparty credit rating on Radian Group Inc. to 'B+' from 'B'. Standard & Poor's then withdrew its rating on Radian Mortgage Assurance Inc. The outlook is positive.

Rationale

The company's capitalization continues to strengthen and we expect its prospective capitalization to be upper-adequate over the next two years. As a result of improving capitalization due to earnings accumulation and the company's plan to downstream about $320 million, we expect the mortgage insurance operations to be in compliance with the Private Mortgage Insurer Eligibility Requirements (PMIERs), which should help assuage market concerns and support the company's competitive position. Although there is increased competition, we view the overall macro factors as supportive of a continued recovery in the mortgage and housing sector; we expect GDP to grow with continuing gains in employment; for consumer spending to increase, including on house purchases; and for housing starts to pick up. Because of all these factors, our view of Radian's credit risk profile has improved.

The upgrade on the holding company is linked to the upgrade on the underlying insurance operations. We view the holding company as having sufficient resources to cover the ongoing interest servicing and corporate expenses (which, for the most part, are covered by the operating companies) and can potentially stretch to cover 2017 maturity. However, Radian would be constrained to repay its 2019 maturities unless they could be refinanced, and potential for contingent liability exists due to the company's ongoing dispute with the IRS. Although we continue to view the company's financial flexibility as constrained due to high leverage and material intangible assets on the balance sheet, we do not expect significant challenges for Radian to access debt markets to refinance its financial obligations, considering the ongoing recovery in its mortgage insurance operations.

In the base-case scenario, Standard & Poor's expects the company to maintain a market share in the range of 19%-20% over the next two years, with new insurance written of about $42 billion for 2015 and in the range of $38.5 billion-$39.5 billion for 2016, reflecting a lower level of refinance volumes and lower participation in the single premium business; and the loss ratio to be in the range of 23%-24% and 24%-27% for 2015 and 2016, respectively. We expect the performance to benefit from declines in new notices of delinquencies, higher cure activity and low losses from recent vintages, and for increased persistency to somewhat affect net premiums earned. We further expect financial leverage to be about 35% for 2015 and decline to 31%-33% for 2016. From a macro perspective, we project GDP growth of 2.5% and 2.8% for 2015 and 2016, respectively; 10-year benchmark rate of 2.2% and 2.4%, respectively; and a change in the home price index (Case-Shiller 20-City index) of 4.0% and 4.9%, respectively.

The ratings on Radian Mortgage Assurance Inc. were withdrawn at the company's request.

Outlook

The positive outlook reflects the potential for relative strengthening of the company's capitalization and reduction in financial leverage. We expect Radian to maintain its existing competitive position, supported by ongoing compliance with PMIERs, which should enable it to write new business and achieve operating performance in line with our expectations as stated above.

Upside scenario

We could raise the ratings over the next six-12 months if we get further comfort regarding the relative strength of the company's capitalization at the upper-adequate stress level from ongoing earnings accumulations and/or other management initiatives. This is in spite of an expected increase in exposure as a result of new business volumes and an anticipated increase in persistency partially offset by a decline in legacy exposure, assuming the macroeconomic environment remains supportive and financial leverage declines in line with our expectations.

Downside scenario

We could lower the ratings over the next 12 months if we view capitalization to be materially below upper-adequate. This could result from an earnings disruption that causes capital build-up to slow down or be impaired including deterioration in the economy, or increased capital requirements resulting from higher-than-expected volumes of new business with an expanded risk profile, or from an increase in financial leverage. Further downside risk emanates from the potential for contingent liabilities that stretches Radian's resources materially or if the company faces challenges in accessing capital markets.

Ratings Score Snapshot

	To:	From:
Holding Company Rating	B+/Positive/--	B/Positive/--
Financial Strength Rating	BB+/Positive	BB/Positive
Anchor	bb+	bb
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Less than Adequate	Weak
Capital & Earnings	Upper Adequate	Lower Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Less than Adequate	Less than Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Mortgage Insurance Industry, March 2, 2015
- Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate,

Insurance, And Sovereign Issuers, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Upgraded		
	To	From
Radian Guaranty Inc.		
Radian Mortgage Insurance Inc.		
Radian Mortgage Assurance Inc.		
Counterparty Credit Rating		
Local Currency	BB+/Positive/--	BB/Positive/--
Financial Strength Rating		
Local Currency	BB+/Positive/--	BB/Positive/--
Radian Group Inc.		
Counterparty Credit Rating		
Local Currency	B+/Positive/--	B/Positive/--
Senior Unsecured	B+	B
Ratings Withdrawn	To	From
Radian Mortgage Assurance Inc.		
Counterparty Credit Rating		
Local Currency	N.R.	BB+/Positive/--
Financial Strength Rating		
Local Currency	N.R.	BB+/Positive/--

N.R.—Not rated.

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