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Research Update:

Radian Upgraded To 'BBB-' On Improved Financial Flexibility; Outlook Positive

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Overview

- We view Radian as having sufficient access to the capital markets, which enables it to improve its leverage and debt maturity profile, leading us to reassess its financial flexibility as adequate.
- We are raising our ratings on the Radian companies.
- The positive outlook reflects the potential for Radian to reduce leverage, address concentration risk, and further strengthen risk-adjusted capital.

Rating Action

On March 14, 2016, Standard & Poor's Ratings Services raised its financial strength and long-term issuer credit ratings on Radian Guaranty Inc. and Radian Mortgage Insurance Inc. to 'BBB-' from 'BB+', and raised its long-term issuer credit rating on Radian Group Inc. to 'BB-' from 'B+'. At the same time, we assigned our 'BB-' issue rating to the approximately $325 million senior notes issued by Radian Group Inc. The outlook is positive.

Rationale

The rating action on Radian Group and its subsidiaries is driven by our improved view of the company's financial flexibility. We view the company as having sufficient access to the capital markets to enable it to address concentration in its debt-maturity profile and implement its capital-management plan. Our updated view of adequate financial flexibility is also supported by the improving trend in financial leverage during the next few years, helped by strong earnings and capital build-up.

The ratings on the senior notes reflect those on Radian Group Inc. The company intends to use the net proceeds from this offer together with shares of its common stock to purchase some of its outstanding 2019 convertible notes and otherwise for working capital and other general corporate purposes, which may include repurchasing its common stock and redeeming or repurchasing other outstanding 2019 convertible notes and 2017 convertible notes. Prior to this debt issuance, the company repurchased 9.4 million shares to help facilitate its capital-management plan to redeem/repurchase 2019 convertible notes. With the issuance, the leverage will increase until company utilizes the proceeds to retire targeted maturities. However, based on market timing and conditions, there is some execution risk, especially with 2019 convertibles, in which case the leverage can remain somewhat elevated. We expect the financial leverage to be around 32% for 2016 and fixed-charge coverage to be around 6x.

Further supporting our ratings are the company's adequate competitive position and our expectation of upper adequate capitalization. Tightened post-crisis underwriting and strong credit quality are producing strong performance in more recent vintages, which along with declining losses from the legacy business is driving significant improvement in operating performance and helping improve capitalization. With the improvement in financial leverage, the drag from excess double leverage is also diminishing. The capitalization could further benefit from additional management actions, including external reinsurance support.

Outlook

The positive outlook reflects potential for continued improvement in Radian's relative financial risk profile, aided by further decline in leverage and reduced reliance on double leverage improving the quality of capital. We expect upper-adequate capitalization over the near-term. We expect Radian to maintain its competitive position, supported by ongoing compliance with Private Mortgage Insurers Eligibility Requirements, which should enable it to write new business and achieve operating performance in line with our expectations. 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.

Downside scenario

We can affirm the rating if the improvement in leverage is somewhat slower than our expectations. We can lower the ratings during the next two years if capitalization declines to lower-adequate as per our capital model and/or financial leverage/coverage ratio deteriorates. This could result from an earnings disruption that slows or impairs capital build-up--including deterioration in the economy--or increased capital requirements from higher-than-expected volumes of new business with an expanded risk profile, or from increased debt load. Further downside risk emanates from the potential for contingent liabilities that stretch Radian's resources materially.

Upside scenario

We could raise the ratings during the next six to 12 months if the company can successfully execute its capital-management plan including redeeming/repurchasing 2019 convertible note and other de-leveraging strategies to reduce leverage (around 28% by year-end) and improving the debt-maturity profile. Together with improvement in relative capitalization as a result of reduced drag from double leverage, earnings accretion and other capital-management initiatives such as external reinsurance can strengthen Radian's financial risk profile on a relative basis.

Ratings Score Snapshot

	To:	From:
Holding Company Rating	BB-/Positive/--	B+/Positive/--
Financial Strength Rating	BBB-/Positive/--	BB+/Positive/--
Anchor	bbb	bb+
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Lower Adequate	Less than Adequate
Capital & Earnings	Upper Adequate	Upper Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Less than Adequate
Modifiers	-1	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	-1	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

- Key Credit Factors For The Mortgage Insurance Industry, March 2, 2015
- Mortgage Insurer Capital Adequacy, March 2, 2015
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: 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 Group Inc.		
Counterparty Credit Rating		
Local Currency	BB-/Positive/--	B+/Positive/--
Senior Unsecured	BB-	B+
Radian Mortgage Insurance Inc.		
Radian Guaranty Inc.		
Counterparty Credit Rating		
Local Currency	BBB-/Positive/--	BB+/Positive/--
Financial Strength Rating		
Local Currency	BBB-/Positive/--	BB+/Positive/--

New Rating

Radian Group Inc.	
Senior Unsecured	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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