S&P Global Ratings

RatingsDirect®

Radian Group Inc. And Its Operating Subsidiaries

Primary Credit Analyst:
David S Veno, Hightstown (1) 212-438-2108; david.veno@spg lobal.com

Secondary Contact:
Gary Martucci, New York (1) 212-438-7217; gary.martucci@spglobal.com

Table Of Contents

Radian Group Inc. And Its Operating Subsidiaries

Rationale

Business Risk Profile: Satisfactory
• Adequate competitive position due to monoline business, improved operating performance, diverse lender base, and diversified footprint in the U.S. • Intermediate industry and country risk assessment

Financial Risk Profile: Upper Adequate
• Moderately Strong capitalization and earnings • Moderate risk position arising from high susceptibility of monoline business to housing and macroeconomic cycles • Adequate financial flexibility reflecting access to capital markets and improved debt maturity profile

Other Factors
• Adequate assessment of enterprise risk management (ERM) and management and governance • Exceptional liquidity • Potential contingent liability due to ongoing dispute with the IRS

Factors Specific to the Holding Company
The ratings on the holding company, Radian Group Inc., reflect its structural subordination to its regulated insurance operating companies' obligations, its dependence on earnings from its subsidiaries, and adequate liquidity at the holding company to address its near-term obligations. We view the holding company as having sufficient resources to cover ongoing interest servicing and corporate expenses (which, for the most part, are covered by the operating companies).

Outlook: Stable

The stable outlook on Radian Group Inc. and its operating subsidiaries (collectively, Radian) reflects S&P Global Ratings' expectation of a supportive macroeconomic environment, sustainable moderately strong capitalization, and adequate competitive position. We base this on Radian's ongoing compliance with the private mortgage insurer eligibility requirements of government-supported entities (GSEs), such as Fannie Mae and Freddie Mac, which we believe will enable Radian to write new business and achieve operating metrics in line with our expectations.

Downside scenario

We could lower our ratings if Radian's operating performance drops below peers', its capital position falls below upper adequate, or financial leverage/coverage ratios deteriorate significantly. This could result from an earnings disruption that slows or impairs capital build-up--including a worsening macroeconomy--or increased capital requirements from higher-than-expected volumes of new business with an expanded risk profile. There's also downside risk from potential contingent liabilities (including from an unresolved tax dispute with the IRS) that could stretch Radian's resources.

Upside scenario

We could raise the ratings during the next two years if the company exhibits a sustainable material competitive advantage over peers and its capitalization improves to strong.

Base-Case Scenario

Macroeconomic Assumptions

- Real U.S. GDP growth of about 2.2% for 2017 and 2.3% for 2018
- 10-year U.S. Treasury yield of about 2.4% in 2017 and 2.7% in 2018
- Core Consumer Price Index (CPI) at 1.8% in 2017
- Neutral industry economic outlook for property/casualty (P/C) insurers with relatively inelastic demand

Company-Specific Assumptions

- New insurance written of $43 billion-$46 billion in 2017-2018
- Combined ratio of 44%-48% for the next two years
- Moderately strong capitalization for 2017-2018 supported by accreted earnings and reduced drag from legacy vintages offset by growth in risk exposure
- Financial leverage of less than 28% through 2018

Key Metrics

	--Year ended Dec. 31--				
	2018*	**2017***	**2016**	**2015**	**2014**
New insurance written (bil. $)	43-46	43-46	50.5	41.4	37.3
Combined ratio (%)	44-48	44-48	44.9	45.4	58.8
S&P Global Ratings capital adequacy	Moderately strong	Moderately strong	Moderately strong	Upper adequate	Lower adequate
Financial leverage (%)	>28	>28	28.4	34.2	38.8

*Forecast data reflect S&P Global Ratings' base-case assumptions.

Company Description

One of the major players in the U.S. private mortgage insurance sector (about 20% of the market), Radian Group, through its subsidiaries, provides mortgage insurance (its predominant business segment) and real estate products and services in the U.S. It also provides outsourced services, information-based analytics, and specialty consulting services related to mortgage loans and securities, as well as loan review and due diligence, monitoring of mortgage servicer and loan performance. For the first six months of 2017, the mortgage insurance segment contributed about 87% of the group's total operating revenues of $527 million and all of its operating earnings (the services segment saw negative earnings).

Business Risk Profile: Satisfactory

We view Radian's business risk profile as satisfactory due to its position as one of the leading mortgage insurers in the U.S., relatively diverse base of customers, improved operating performance, and national footprint--partially offset by the monoline nature of the business.

Insurance industry and country risk

We believe Radian faces intermediate industry and country risk since it operates predominantly in the U.S. Our view of the company's very low country risk stems from the good economic growth prospects, relatively effective and stable political institutions, sophisticated financial systems, and strong payment culture in the U.S. We believe Radian's mortgage operations are exposed to moderate industry risks primarily because of the inherent product risk, given its underlying exposure to the mortgage market and consequent susceptibility to earnings volatility due to the sector's correlation with the performance of the economy and the housing sector. Additional risk for the industry are structural aspects of the mortgage market, such as mortgage interest deductibility for tax purposes, lack of full recourse, and potential for reversion to increased risk-taking over time. Although there is much more regulation surrounding mortgages and lending standards, we believe there is uncertainty about the efficacy of such initiatives in the long term. The fragmented nature of the regulatory jurisdiction and lack of a unified regulator for banking and insurance that can more effectively deal with systemic risks and failures of a few mortgage insurance companies after the financial crisis further inform our view.

Table 1

Radian Group Inc. -- Industry And Country Risk		
Industry - sector	**Risk**	**Business mix (%)**
U.S. mortgage insurance	Intermediate	100

Competitive position

Radian's competitive position reflects its strong presence in the mortgage insurance sector with a diverse lender base, improved operating performance, and diverse geographic presence across the U.S., offset by the monoline nature of its business. We do not believe Radian has a significant and sustainable advantage over peers. The commoditized nature of the products, the sector's dependence on GSEs, and regulatory environment mean all market participants have similar capital requirements and product costs. Nevertheless, Radian has maintained a leading market share due to its well-established distribution relationships and technology platforms with geographically diversified national and regional banks.

We believe competitive pressures remain high in the sector as the legacy players' balance sheets have recovered and new players jostle for market share. Radian, similar to peers, revised its pricing structure in first-quarter 2016 to achieve uniform returns accounting for differentiated risk-based capital (RBC) requirements under private mortgage insurer eligibility requirements (PMIERs). Radian increased the rates for lender-paid business due to higher capital requirements. We believe there could be a slight net margin compression on new business.

We view Radian's single-premium business, especially lender-paid business, as having lower earnings potential than equivalent monthly premium businesses with higher premium revenue volatility and more susceptibility to mispricing due to uncertainties in refinancing activities. But Radian reduced its participation in certain discounted products and obtained quota-share reinsurance (QSR) in 2016 that cedes a portion of its singles business (20% cede of business originated between first-quarter 2012 and first-quarter 2103, and 35% thereafter until Dec. 31, 2017), thereby reducing its net exposure to the product. This somewhat mitigates our concerns and also provides the company with some flexibility in managing its exposure.

Radian is an approved insurer with the GSEs and is in compliance with PMIERs capital requirements (an asset-based test), which supports its ability to write business. Substantially all of the insured business is placed with the GSEs; so maintaining its approved status is critical to Radian's ability to operate in the market. We expect the company to continue to be in compliance with capital levels by managing them slightly higher than required.

Management intends to broaden the business by participating in the credit risk transfer (CRT) programs managed by the GSEs through Radian Reinsurance Inc. This expansion will be relatively modest since Radian Re's core business will remain the delivery of reinsurance to Radian Guaranty Inc. As of Dec. 31, 2016, CRT business represented 0.4% of risk in force and 0.2% of net premiums written in 2016. We expect this to grow given the GSE mandate to transfer credit risk to private markets. The group expects Radian Re's risk in force, however, to remain principally a cession from Radian Guaranty Inc.

Table 2

Radian Group Inc. -- Competitive Position					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written (GPW)	1,000	767	982	1,032	804
Change in GPW (%)	(0.93)	5.03	(4.87)	28.41	7.98
Net premiums written	734	735	925	951	806
Reinsurance utilization (%)	26.6	4.1	5.8	7.9	14.6
New insurance written	50,530	32,312	37,349	47,255	37,061

Note: 2013 and later data reflect sale of Radian Asset (discontinued operations).

Financial Risk Profile: Upper Adequate

We regard Radian's financial risk profile as upper adequate due to moderately strong capital and earnings, a moderate risk position, and adequate financial flexibility.

Capital and earnings

We view Radian's capitalization as moderately strong as of year-end 2016 and expect capitalization to be maintained at that level. Capitalization has strengthened through the build-up of retained earnings and lower growth in new policies versus growth in capital. The QSR it executed in 2016 provides some capital relief and partially mitigates the extension risk from the single-premium business. Our view of capitalization is also affected by the quality of capital arising from elevated levels of double leverage. We expect continued accumulation of earnings, lower leverage, and a progressive roll-off of legacy vintages to further strengthen RBC. We expect Radian's operating performance to continue to benefit from burn-off of legacy vintages and low losses from recent vintages. Increased persistency can result in single-premium business exposure being on the books longer than expected and can compress risk-adjusted margins. But this is partially offset by the monthly premium business, which can produce higher premiums.

Table 3

Radian Group Inc. -- Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Shareholders' equity reported	2,872	2,497	2,097	940	736
Change in shareholders' equity (%)	15.03	19.07	123.18	27.61	(37.72)
Total reported capital	3,942	3,716	3,364	1,870	1,509
Change in total capital (reported) (%)	6.1	10.5	79.9	23.9	(32.3)
MI: Statutory policyholders' surplus including contingency reserves*	2,972	2,829	1,934	1,481	989
MI: Risk to capital (x)*	13.69	14.69	20.30	24.00	29.90

*Government-sponsored entities' reports. Note: 2013 and later data reflect sale of Radian Asset (discontinued operations). MI--Mortgage insurance.

Table 4

Radian Group Inc. -- Earnings Statistics

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	1,208	1,158	993	856	859
Net premiums earned	922	916	845	781	702
MI: Net expense ratio (%)	22.7	23.7	29.6	36.6	26.6
MI: Net loss ratio (%)	22.2	21.7	29.2	72.0	131.2
MI: Net combined ratio (%)	44.9	45.4	58.8	108.6	157.8
Insurance in force	183,450	175,584	171,810	161,240	140,363
Risk in force	46,741	44,627	43,239	40,017	34,372
Persistency (%)	76.7	78.8	83.4	81.1	81.8

Note: 2013 and later data reflect sale of Radian Asset (discontinued operations). Figures are GAAP unless otherwise specified. MI--Mortgage insurance.

Risk position

Radian's risk position is moderate based on capital and earnings volatility associated with insured mortgage losses that the macroeconomic cycle can exacerbate. The group's consolidated investment portfolio is well diversified with a low proportion of high-risk assets. The fixed-income investments are of high quality with average credit quality of 'AA' as of year-end 2016 and with no noninvestment-grade holdings.

Table 5

Radian Group Inc. -- Risk Position

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total invested assets	4,524	4,359	3,674	3,407	5,208
Net investment income	113	82	66	68	114
Net investment yield (%)	2.55	2.03	1.85	1.58	2.07
Portfolio composition (% invested assets)					
Cash and short-term investments	17.76	26.08	36.62	28.80	16.00
Bonds	82.19	71.57	57.11	64.55	76.45
Equity investments	0.03	2.30	5.87	6.00	5.10
Other investments	0.02	0.05	0.40	0.65	2.45

Note: 2013 and later data reflect sale of Radian Asset (discontinued operations).

Financial flexibility

We assess Radian's financial flexibility as adequate, reflecting adequate access to capital markets, improving debt levels, and robust earnings supporting debt servicing. Although the company has raised capital successfully, and we believe it should be able to access the markets, debt levels remain elevated. It has been proactive in purchasing its convertibles notes and paying down various senior notes with near-term maturities, spreading out the debt maturity profile and easing up liquidity pressure on the holding company. The improved debt maturity aligns better with potential dividends from its operating subsidiaries.

Other Assessments

Enterprise risk management

We view Radian's ERM as adequate reflecting our neutral view of its risk management culture, overall risk controls, emerging risk management, risk models, and strategic risk management. The company has made significant efforts to improve its ERM by promoting a risk-focused culture throughout the group that stresses the importance of balancing risk-reward trade-offs when making business decisions. As part of these improvements, Radian has expanded its analytical capabilities, processes, and systems to identify, assess, and manage risks proactively. It has also been enhancing its economic capital model in the past few years to help obtain risk-adjusted metrics for greater insight into pricing and to develop risk thresholds. These metrics are captured in its risk reporting and shared with senior management and the board to discuss key risks and mitigation strategies. We expect Radian to continue improving its risk models, which should help further develop its risk tolerances.

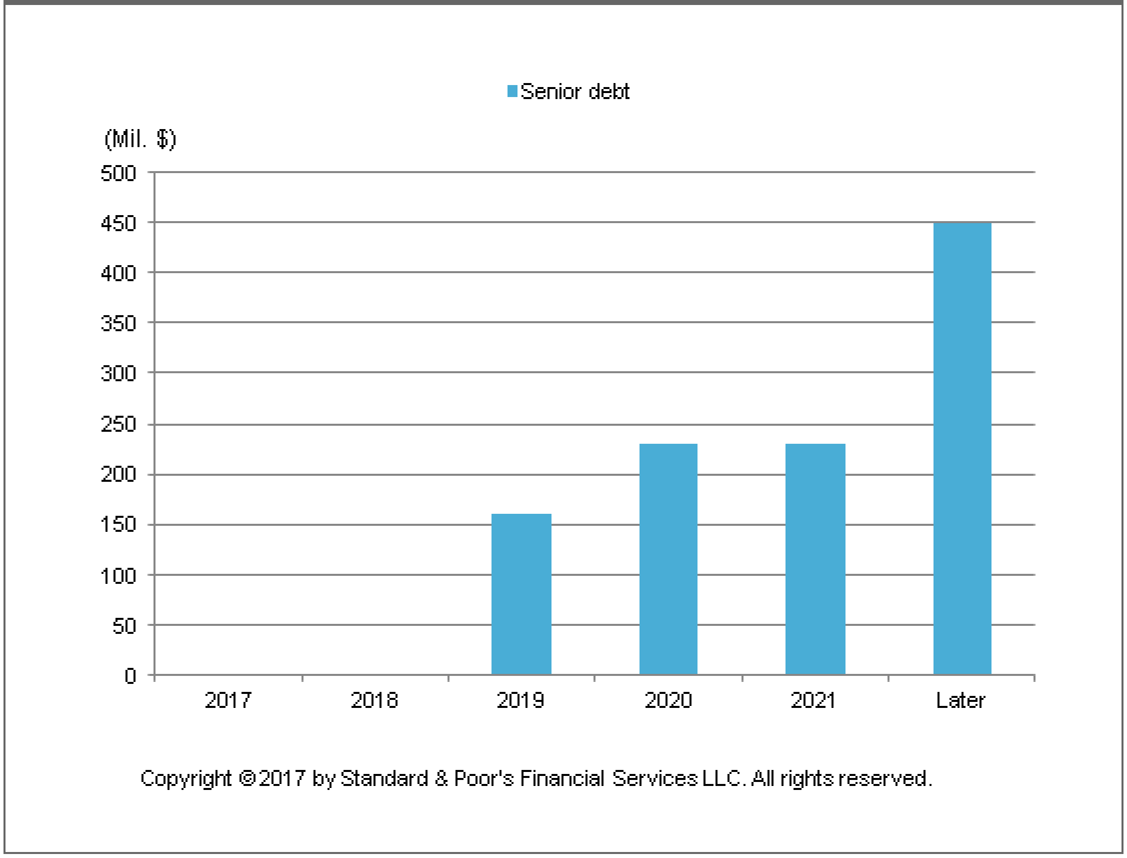
Management and Governance

We view Radian's management and corporate strategy as satisfactory. Management has implemented various initiatives to strengthen its position in the sector and improve financial strength, including reducing debt leverage and executing on external reinsurance agreements. Radian has been building up its risk tolerances, managing leverage down, updating its risk platform, and developing tools to better manage its risk-reward profile. The company is diversifying into ancillary operations, expanding its real estate product and services segment as shown by via its acquisition of Clayton Holdings LLC in 2014. Although Radian reported an aftertax, noncash impairment charge related to its services segment in second-quarter 2017, management believes this segment provides benefits such as market intelligence and diversification. We believe this segment is currently below scale, doesn't contribute to the group's earnings, and has limited diversification benefits.

Liquidity

We view Radian's liquidity as exceptional, resulting its high-quality investment portfolio and positive operating cash flow for insurance operating subsidiaries combined. Also supporting the company's liquidity is a recently place bank credit facility. Somewhat offsetting this strength is elevated levels of outstanding claim reserves on the book from legacy vintages.

Radian Group Inc. -- Debt Maturity Profile



Accounting Considerations

We view Radian's accounting policies as generally consistent with industry standards and neutral to our ratings. The company files both U.S. generally accepted accounting principles (GAAP) and statutory financials with its respective regulators. We use GAAP segment reporting, U.S. regulatory statutory filings, and other information provided by Radian in our analysis. Radian's convertible senior debt maturing 2017 and 2019 on its balance sheet is net of debt discount, reflecting the equity component due to the embedded conversion option. This amount is amortized as a component of interest expense, which we take into account in our projected leverage.

Related Criteria

- Criteria - Insurance - General: Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015
- Criteria - Insurance - General: Key Credit Factors For The Mortgage Insurance Industry, March 2, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers,

Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of October 18, 2017)	
Radian Group Inc.	
Counterparty Credit Rating	
Local Currency	BB+/Stable/--
Senior Unsecured	BB+
Related Entities	
Radian Guaranty Inc.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Radian Reinsurance Inc.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Domicile	Pennsylvania

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.