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Research Update:

Radian Guaranty Inc. Upgraded To 'BBB' From 'BBB-' On Improving Financial Risk Profile; Outlook Stable

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Overview

- We expect Radian Group Inc.'s leverage to continue to reduce and risk-adjusted capitalization to further build up over the next few years, relatively strengthening our view of its financial risk profile prospectively.
- We are raising our ratings on Radian Group Inc. and its subsidiary Radian Guaranty Inc.
- The stable outlook reflects our expectation of the company's ability to maintain an adequate competitive position as one of the leading mortgage insurers in the U.S. and a lower-adequate financial risk profile.

Rating Action

On Sept. 28, 2016, S&P Global Ratings raised its financial strength and long-term issuer credit ratings on Radian Guaranty Inc. to 'BBB' from 'BBB-', and raised its long-term issuer credit rating on Radian Group Inc. (Radian) to 'BB' from 'BB-'. The outlook is stable. S&P Global Ratings also raised its ratings on senior unsecured notes issued by Radian Group Inc. to 'BB' from 'BB-'.

Rationale

The upgrade reflects the relative strengthening of Radian's financial risk profile, prospectively aided by a decline in leverage in part due to execution of a capital management plan, earnings accretion, and reduced reliance on double leverage improving the quality of capital over the next few years.

Execution of the quota share (QS) (and subsequent upstreaming of \$325 million of surplus notes from Radian Guaranty) and issuance of senior notes (due 2021) earlier this year provided sufficient resources for the company to progress on its capital management plan. The company purchased a significant amount of convertible notes due 2019 (and 2017) and paid down senior notes maturing 2017, thereby spreading out the debt maturity profile and easing up the liquidity pressure on the holding company. We expect Radian to further act on remaining convertibles as the opportunity arises and to target lower leverage levels over the near-to-medium term. We expect strong earnings from the mortgage insurance segment and progressive seasoning of legacy vintages to improve capitalization further at the upper-adequate stress level despite

expectations of increasing risk exposure, in part due to an anticipated increase in persistency and higher business volumes. In addition, the QS agreement on company's single premium risk exposure (which is higher than the industry average) somewhat mitigates our concerns related to the extension risk with that product.

Further supporting our ratings are the company's adequate competitive position, reflecting 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 mono-line nature of the business. 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, are driving significant improvement in operating performance, similar to its peers. We expect the earnings to remain robust despite expecting a slight margin compression in the new business due to pricing changes earlier this year. We expect the combined ratio (on a generally accepted accounting principles basis) to be in the range of 44%-49% for 2016-2017. Furthermore, we expect financial leverage to be around 30% for 2016 and less than 27% for 2017, and fixed charge coverage to be in the range of 6x-8x for 2016-2017.

Outlook

The stable outlook reflects our expectation of a supportive macroeconomic environment, sustainable upper-adequate capitalization, improved leverage position, and adequate competitive position supported by ongoing compliance with Private Mortgage Insurer Eligibility Requirements, which should enable Radian to write new business and achieve operating metrics in line with our expectations.

Upside scenario

We could raise the ratings during the next two years if capitalization improves to moderately strong, assuming successful execution of management's capital management plan results in leverage in line with or better than our expectations and provided the macroeconomic environment remains supportive.

Downside scenario

We could lower the ratings during the next two years if capitalization declines to lower-adequate or financial leverage/coverage ratios deteriorate significantly. This could result from an earnings disruption that slows or impairs capital build-up--including deterioration in the economy--or from 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 (including from an unresolved tax dispute) that stretch Radian's resources materially.

Ratings Score Snapshot

	To:	From:
Holding Company Rating	BB/Stable/--	BB-/Positive/--
Financial Strength Rating	BBB/Stable	BBB-/Positive
Anchor	bbb	bbb
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Lower Adequate	Lower Adequate
Capital & Earnings	Upper Adequate	Upper Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	-1
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	-1
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
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 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

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Radian Group Inc.		
Counterparty Credit Rating		
Local Currency	BB/Stable/--	BB-/Positive/--
Senior Unsecured	BB	BB-
Radian Guaranty Inc.		
Counterparty Credit Rating		
Local Currency	BBB/Stable/--	BBB-/Positive/--
Financial Strength Rating		
Local Currency	BBB/Stable/--	BBB-/Positive/--

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