S&P Global
Ratings

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Radian Group Inc.

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Radian Group Inc.

Anchor	bbb+	+	Modifiers	0	=	SACP	bbb+

Business Risk	**Satisfactory**
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

Support	**0**
Group support	0
Government support	0

=

BBB+/Negative/--	**BB+/Negative/--**
Financial strength rating	**Holding company ICR**

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
One of the leading U.S. mortgage insurers with a diversified lender base and geographic footprint	Economic uncertainty and elevated unemployment leading to higher losses and potentially pressuring capitalization
Strong underwriting quality and pricing of post-financial crisis vintages	Potentially lower margins from decline in premium yield and increase in reinsurance costs
Satisfactory capitalization supported by earnings accrual and substantial reinsurance utilization	Commoditized business that is vulnerable to systemic risks, and exposed to structural changes in housing finance market

Economic uncertainty and the high unemployment rate will produce higher credit losses, although we expect underwriting earnings to remain positive. For year-to-date Sept. 30, 2020, the company's reported combined ratio was 74.2%, helped by the decline in delinquency rates from the peak of second-quarter 2020. The housing sector is being helped by massive stimulus and borrower forbearance relief, which is expected to improve the cure rate of delinquent loans. Considering the robust housing market supported by low interest rates, we expect the insured losses for Radian Group Inc. to be manageable. However, uncertainty remains due to the sluggish economic recovery.

We expect risk-adjusted capitalization to remain redundant at the 'BBB' stress level, albeit with a reduced cushion compared with year-end 2019 due to elevated risks. A higher proportion of nonperforming loans, lower premium yield, and higher reinsurance costs with potentially constrained reinsurance availability exert some downward pressure on our assessment of risk-adjusted capitalization. Radian has sufficient cushion and available resources to comply with government-sponsored enterprises' (GSEs') Private Mortgage Insurer Eligibility Requirements (PMIERs) even in the case of higher delinquencies. However, GSEs have allowed a lower capital charge for delinquent loans in forbearance due to COVID-19-related hardships.

Radian is one of the leading players, with a diverse lender base and U.S. geographic footprint. The company's market share has been in the range of 18%-20% in recent years, supported by a diverse lender base largely anchored by longstanding relationships with national lenders/banks. The company's effort to expand to associated business in the housing/mortgage markets has faced challenges and Radian continues to take remedial actions. However, the size of these associated businesses is relatively small compared with the mortgage insurance business, which is the primary driver of Radian's risk profile.

Outlook: Negative

The negative outlook reflects the impact economic and market uncertainty could have on the company's loss experience and risk-adjusted capitalization.

Downside scenario

S&P Global Ratings could lower its ratings during the next two quarters if the weakness in economic recovery causes significant losses due to higher-than-anticipated unemployment and associated loan defaults. This could become a capital event, which could ultimately weaken Radian's risk-adjusted capitalization relative to our ratings expectations, exacerbated by the potential constrained reinsurance capacity (including insurance linked notes [ILN]).

Upside scenario

S&P Global Ratings could affirm the ratings and revise the outlook to stable if:

- Losses are largely contained within Radian's earnings;
- Reinsurance structures and risk management perform as expected; and
- Risk-adjusted capitalization remains supportive of our current ratings.

Key Assumptions

- Real U.S. GDP growth of negative 4.0% in 2020, 3.9% in 2021, and 2.4% in 2022
- Real eurozone GDP growth of negative 7.4% in 2020, 6.1% in 2021, and 3.0% in 2022
- 10-year U.S. Treasury-note yield of 0.9% in 2020, 1.2% in 2021, and 1.7% in 2022
- U.S. core Consumer Price Index of 1.6% in 2020, 1.9% in 2021, and 1.9% in 2022
- Unemployment rate of 8.4% in 2020, declining to 6.7% and 5.7% in 2021 and 2022, respectively. Payroll employment increases to $149.9 million for 2021 from a low of $142.2 million in 2020 but remain below pre-COVID levels
- Sector's mortgage originations increase in 2020, supported by higher refinance activity, but decline in 2021-2022
- Persistency ratio declines to the mid-to-high 60% area for 2020 before increasing to about 80% by 2022
- Decline in net premium yields but partially offset by tighter underwriting on new originations, price increases, and

improved debt servicing ratios on refinanced loans

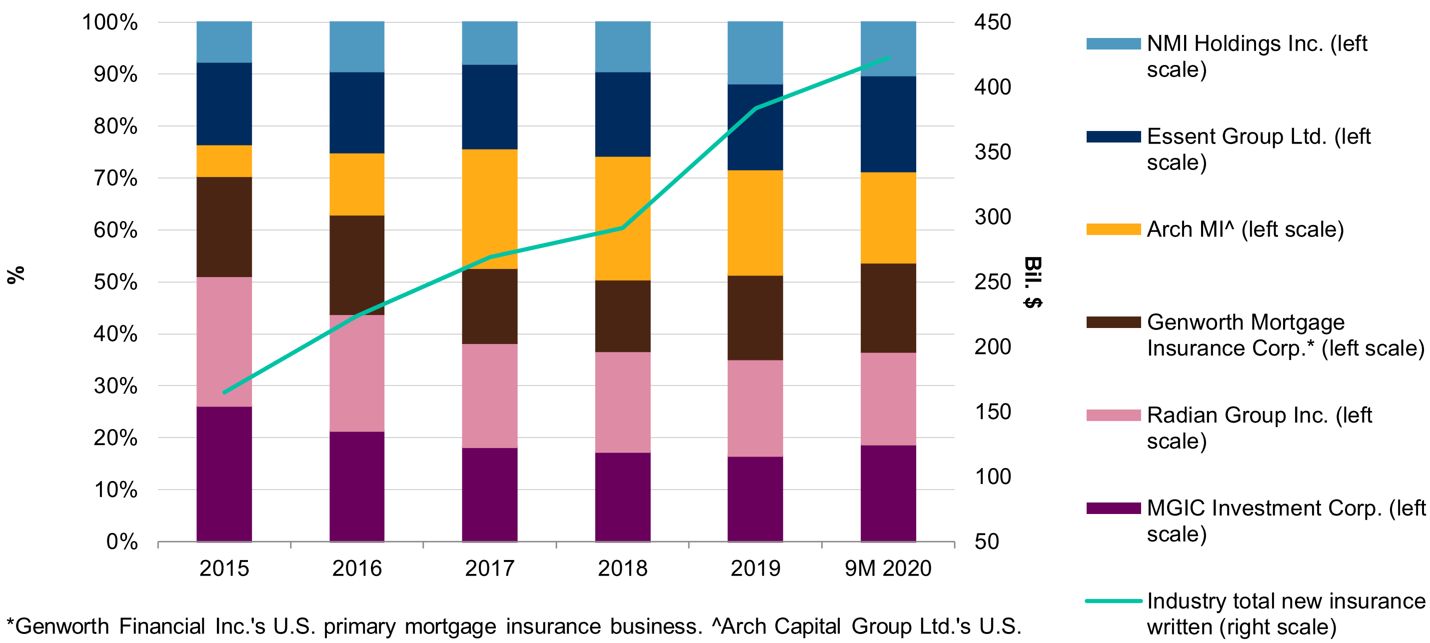
Radian Group Inc. -- Key Metrics

	--Year ended Dec. 31--							
(Mil. $)	**2022F**	**2021F**	**2020F**	**2019**	**2018**	**2017**	**2016**	**2015**
New insurance written (NIW)	**	**	**	71,327	56,547	53,905	50,530	41,411
Change in NIW (%)	Low teens decline	Low 20s decline	Low 30s growth	26.1	4.9	6.7	22.0	10.9
Insurance in force (IIF)	**	**	**	240,558	221,443	200,724	183,450	175,584
Change in IIF (%)	Low single-digit growth	Low single-digit growth	Low single-digit growth	8.6	10.3	9.4	4.5	2.3
MI net premium earned (NPE)	**	**	**	1,134	1,007	933	922	916
Change in NPE (%)	Low single-digit growth	Flat-to-low single-digit growth	Mid-to-high single-digit decline	12.7	7.9	1.2	0.6	8.4
MI combined ratio including corporate expenses (%)	40-45	55-60	65-70	33.8	34.3	39.3	44.9	45.6
Net income attributable to all shareholders*	550-575	400-425	325-350	672	606	121	308	287
Consolidated return on shareholders' equity (%)	Low double digits	High single digits	Mid-to-high single digits	17.8	18.7	4.1	11.5	12.5
S&P Global Ratings' risk-adjusted capital adequacy	Materially redundant at BBB	Materially redundant at BBB	Materially redundant at BBB	Slightly redundant at A	Materially redundant at BBB	**	**	**
Financial leverage including net present value of operating leases and pension deficits, and excluding FHLB borrowings (%)^	Around 25	Around 25	25-28	19.0	21.4	26.7	28.2	33.7
EBITDA fixed-charge coverage (x)	Greater than 5	Greater than 5	Greater than 5	14.1	13.0	8.9	7.2	6.2

F--Forecast. Forecast data reflect S&P Global Ratings' base-case scenario. MI -- Mortgage insurance; FHLB-- Federal Home Loan Bank. *Doesn't include investment gains/losses. ^Excludes FHLB borrowing. **Not disclosed.

Chart 1

U.S. Private Mortgage Insurers--Market Share (By New Insurance Written)



*Genworth Financial Inc.'s U.S. primary mortgage insurance business. ^Arch Capital Group Ltd.'s U.S. primary mortgage insurance business. M--Months. Source: Company public filings.

Business Risk Profile: Satisfactory

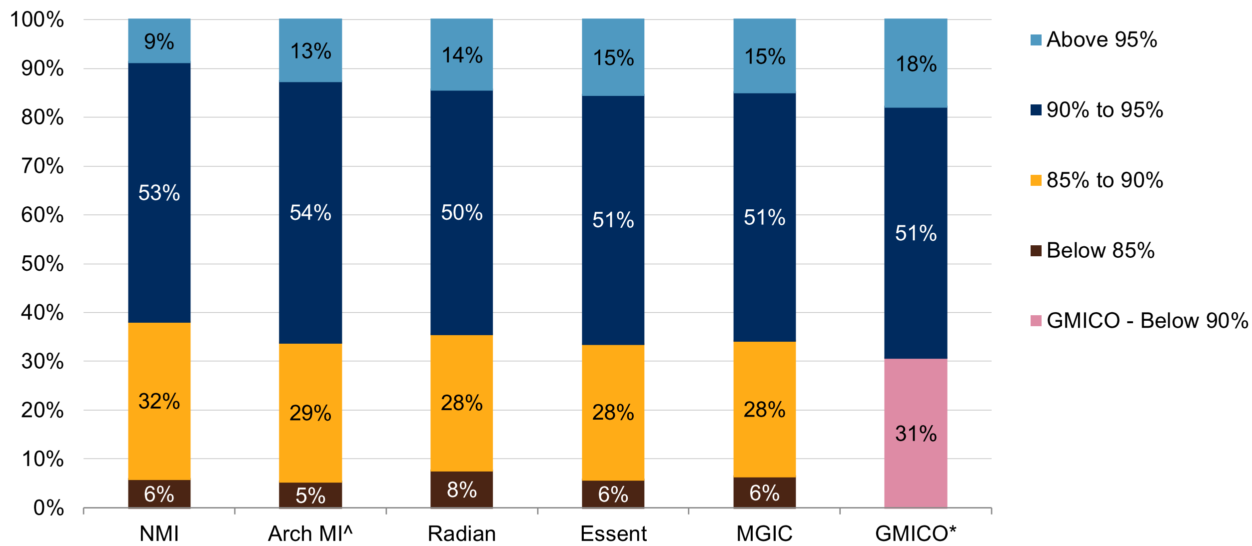
Radian is one of the leading players with a longstanding presence in the U.S. mortgage insurance sector and a national footprint across the U.S. Its business is supported by a diverse lender base largely anchored by longstanding relationships with national lenders/banks and credit unions. In addition, the portfolio credit quality is strong, which has fueled strong earnings in recent years. However, the commoditized monoline business, and systemic exposure to the economy and housing market constrain our view of the company's business profile. These risks are highlighted by the COVID-19-induced stresses this year, and the sector-wide pricing declines prior to the outbreak.

The company's effort to expand its earnings base through associated businesses in the housing/mortgage market (including appraisal services, title insurance, etc.) has not performed as initially expected. Radian has undertaken remedial actions and has pulled back from certain products and services to improve the segment performance, although it will be several years before we expect a meaningful contribution to the overall credit profile.

Mortgage portfolio credit quality is robust as a result of tightened underwriting after the 2007 financial crisis, and the company's effort to better manage its risk exposure and better pricing. A key development is the adoption of a dynamic pricing engine (RADAR), which enabled Radian to implement price increases and manage risk quickly in response to changing market conditions after the pandemic outbreak. In the past couple of years, Radian focused on shifting its mortgage insurance portfolio toward business with higher risk-adjusted returns. As a result, about 84% of its risk-in-force (as of third-quarter 2020) is through borrower-paid monthly business, which is higher than in prior years. In the single-premium business, Radian's strategy shifted to borrower-paid products from a risk-reward perspective as compared with lender-paid single-premium products.

Chart 2

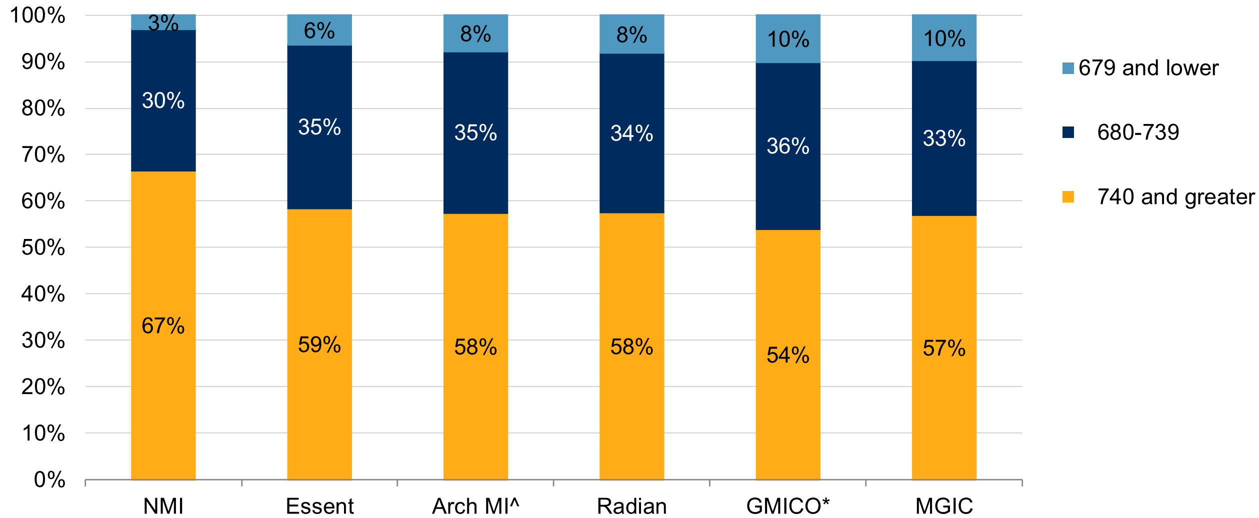
Mortgage Insurance Portfolio Risk In Force Distribution By Loan-To-Value
As of Sept. 30, 2020



*Genworth Mortgage Insurance Co (GMICO) LTV classification buckets differ slightly. The data is for "95.01% and above", "90.01% to 95.00%", and "90.00% and below". GMICO is Genworth Financial Inc.'s U.S. primary mortgage insurance business. ^Arch Capital Group Ltd.'s U.S. primary mortgage insurance business. Source: Company public filings.

Chart 3

Mortgage Insurance Portfolio Risk In Force Distribution By Credit Quality (FICO)
As of Sept. 30, 2020



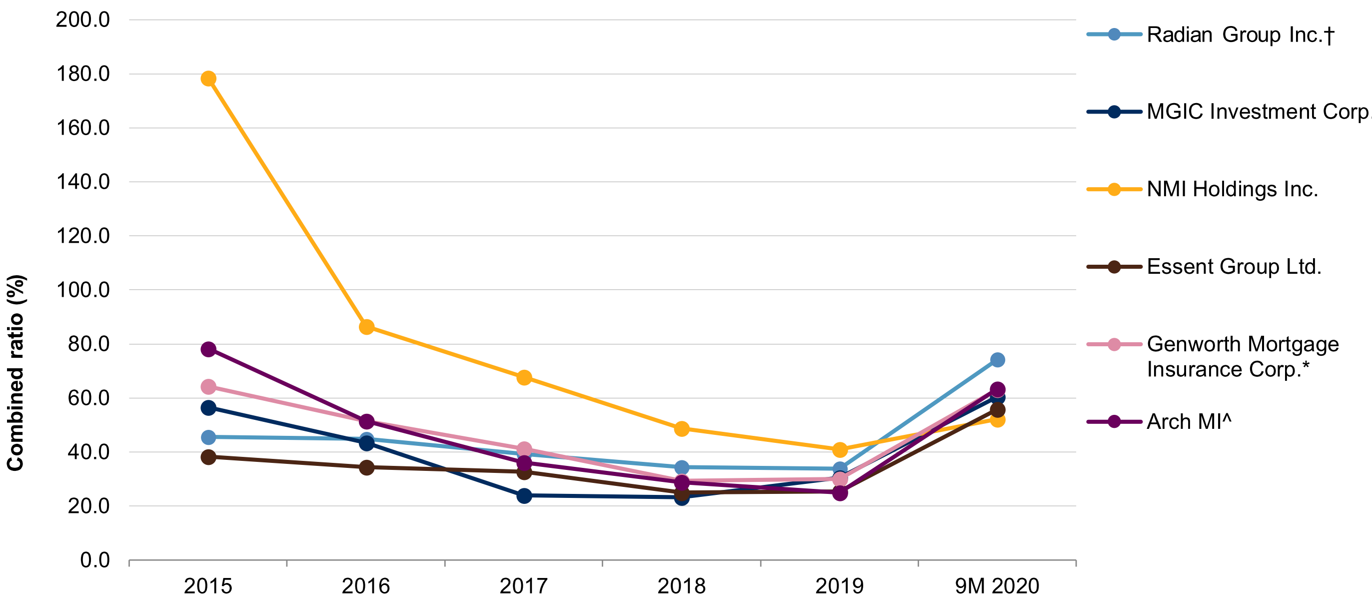
GMICO is Genworth Financial Inc.'s U.S. primary mortgage insurance business.

^Arch Capital Group Ltd.'s U.S. primary mortgage insurance business. Source: Company public filings.

The company's underwriting performance in the past five years (2015-2019) progressively improved due to strong performance of 2009 and later vintages that were underwritten to much higher credit quality despite pricing reductions of recent years. Furthermore, the performance was helped by burnout of pre-2009 vintages. In view of robust housing market activity and the high rate of refinancing, we expect new insurance written to be higher than that of the prior year, which will likely keep insurance-in-force close to where it was at the end of 2019 despite much lower persistency rates.

Chart 4

U.S. Private Mortgage Insurers--Underwriting Performance



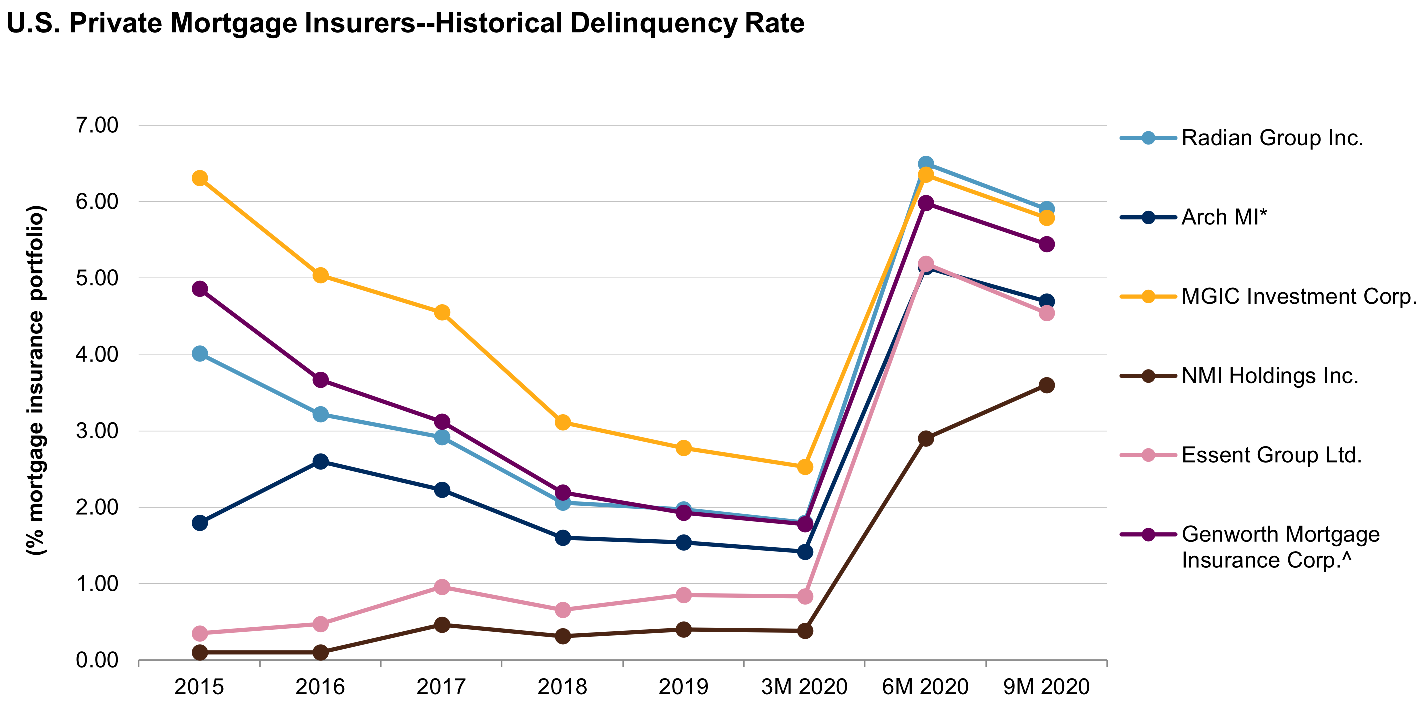
Note: Based on GAAP financials.

*Genworth Financial Inc.'s U.S. mortgage insurance business based on GAAP segment data.

^Arch Capital Group Ltd.'s mortgage insurance business based on GAAP segment data.

†Radian's mortgage insurance business. M--Months. Source: Company public filings and S&P Global Ratings.

Chart 5



^Genworth Financial Inc.'s U.S. primary mortgage insurance business.
*Arch Capital Group Ltd.'s U.S. mortgage insurance buisness.
M--Months. Source: Company public filings.

Financial Risk Profile: Satisfactory

We expect Radian's risk-adjusted capitalization, as measured by S&P Global Ratings capital model, to remain redundant at the 'BBB' stress level through 2022, albeit with a smaller cushion than at year-end 2019.

Radian's operating performance weakened in 2020 due to a spike in unemployment from COVID-19-induced economic stress, which led to a significant jump in delinquencies. The impact from elevated unemployment is being tempered by the massive stimulus and forbearance relief for borrowers, and housing market activity has been robust, supporting house price increases. As a result, the incurred losses recognized by Radian, similar to those of its peers, incorporate a higher level of cure activity than would be the case in a normalized economic stress environment. However, the claim rate assumption of 8.5% applied by Radian to delinquent loans (as of third-quarter 2020) is higher compared with 7.5% applied to the delinquent loans prior to the pandemic outbreak. So far, the number of delinquent loans outstanding has improved from its peak in June, with cure activity more than offsetting new notices of default in recent months. In addition, existing reinsurance covers provide a level of earnings and capital protection.

Due to high refinance activity spurred by low interest rates, a good proportion of loans from recent vintages would have come back with improved debt servicing costs, albeit with relatively lower premiums, compared with if the loan had remained on the books. Some of this dynamic is causing lower premium yields, which could add to the earnings margin pressure. Radian also has lingering exposures from pre-2009 vintages (about 6.6% of risk-in-force as of third-quarter 2020; 3.9% excluding Home Affordable Refinance Program loans), which are more vulnerable to economic stress. However, unlike in the Great Recession, overall portfolio credit quality is much stronger and the housing market is fairly valued, which along with recent price increases, should help manage the losses. In addition, purchase origination activity has been higher than anticipated, highlighting that housing demand remains robust.

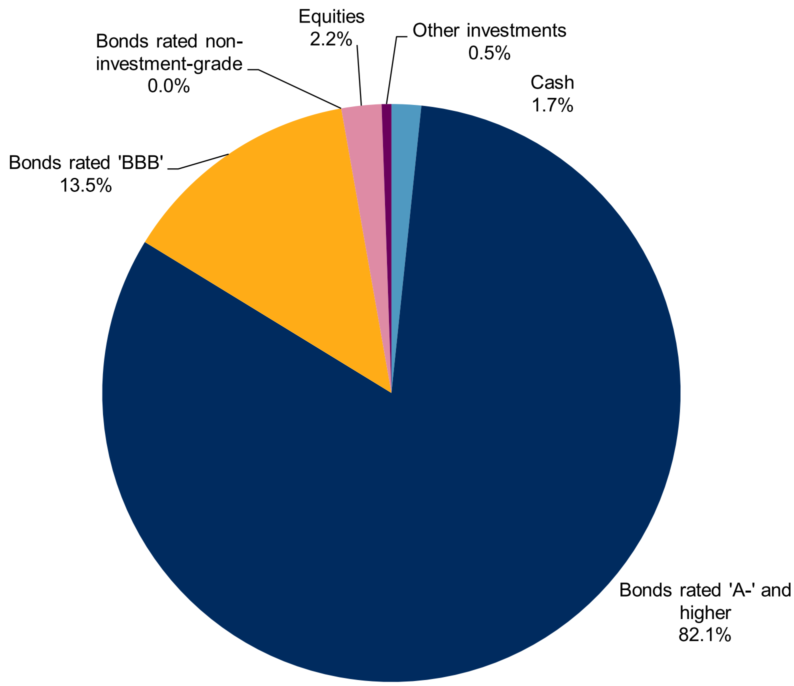
As a result, we expect that reported losses for 2020-2021 will likely be contained within earnings but key sensitivities remain regarding the transition period when payment forbearance subsides and the pace of economic recovery. Although we expect the economic recovery will continue and the unemployment rate will drop further, the recovery faces hurdles, with federal unemployment benefits expired, local government budgets stretched, and pace of job gains slowed. Furthermore, an increasing pandemic caseload across the U.S. and the potential restrictions it can place on businesses, along with the uncertainty on the next round of fiscal stimulus, tilts the risks to economic growth to the downside.

Under our capital model, we expect an elevated delinquency rate, increase in mortgage loan risk exposure, and potentially lower reinsurance benefit on past vintages (due to low persistency in recent vintages even though ILN limits are not amortizing) will increase net capital requirements in 2020 before subsiding. The reliance on reinsurance to manage capitalization has been increasing in recent years. Of the asset requirements as calculated under GSEs' PMIERs framework, about 26.8% was met by reinsurance/ILNs as of Sept. 30, 2020. In view of the current market environment, reinsurance availability has been somewhat constrained, costs are higher, and excess covers are attaching higher compared with those of previous transactions. However, Radian's recent ILN issuance and senior debt capital raise earlier in the year provide the company with flexibility to manage its capital and also meet compliance with GSEs' PMIERs. PMIERs currently provide capital relief for delinquent loans, the phase-out of which can be challenging depending on the delinquency inventory. As of Sept. 30, 2020, the cushion above PMIERs' minimum asset requirements was $970.3 million, or 28%. Accounting for recent ILN issuance, on a pro forma basis, the cushion increases to 42%.

Radian's investments are primarily composed of high credit quality fixed-income securities, balancing higher volatility inherent in the underwriting mortgage exposure. Due to debt issuance in May 2020, leverage increased to about 26% as of Sept. 30, 2020 from 20% (excluding Federal Home Loan Bank borrowings) as of March 31, 2020, reversing the trend to reduce leverage in recent years. We expect leverage will progressively decline due to earnings accrual and for fixed-charge coverage to remain above 5x for 2020-2022.

Chart 6

Radian Group Inc. -- Investment Portfolio Allocation At Year-End 2019



Note: On a GAAP basis. Source: Company reports.

Other Key Credit Considerations

Governance

Radian is a publicly listed company with an independent board providing management oversight. The company has focused on improving its portfolio credit quality and strengthening its market position, although its move to create supplemental businesses to diversify earnings has not come to fruition. Post the 2007-2008 financial crisis, Radian's appreciation for risk management increased, with the company focusing on developing a robust enterprise risk management framework with considerable progress made in risk controls, and pricing and underwriting models.

Liquidity

We view Radian's liquidity as exceptional owing to its high-quality investment portfolio and positive operating cash flow.

Group support

We view Radian Guaranty Inc., and its rated affiliate, Radian Reinsurance Inc., as core subsidiaries of Radian.

Holding company

Radian's dependence on dividends and payments under expense-sharing agreements from its insurance operating subsidiaries domiciled in the U.S., where structural subordination is higher, leads to a three-notch differential between our long-term operating company ratings and holding company ratings. Under expense-sharing agreements, Radian's operating subsidiaries pay their allocated share of the holding company's interest payments and other expenses.

Accounting Considerations

Radian files both U.S. generally accepted accounting principles (GAAP) and statutory financials. A mortgage insurer's loss reserve reflects management's expectation for paid losses on delinquent loans only, without any reserves set for mortgages that are currently performing. The assumptions for expected losses include, among other items, default-to-claims rate and recovery. Therefore, the reported losses can increase significantly during periods of high unemployment and declining housing prices.

Ratings Score Snapshot

Radian Group Inc.	
Business Risk Profile	**Satisfactory**
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk Profile	**Satisfactory**
Capital and earnings	Satisfactory
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	bbb+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	**BBB+/Negative**

IICRA--Insurance Industry and Country Risk Assessment. *Reflects Radian's market position as one of the leading players in the sector and strong underwriting quality.

Appendix

Radian Group Inc. -- Credit Metrics History		
(Mil. $)	**2019**	**2018**
MI gross premiums written	1,143	1,097
MI net premiums written	1,087	998
MI net premiums earned	1,145	1,014
Reinsurance utilization (%)	4.9	9.0

Radian Group Inc. -- Credit Metrics History (cont.)		
(Mil. $)	**2019**	**2018**
MI expense ratio including corporate expenses (%)	22.2	23.9
MI loss ratio (%)	11.6	10.4
MI combined ratio (%)	33.8	34.3
Shareholders' equity	4,049	3,489
Net income attributable to all shareholders	672	606
Return on average shareholders' equity (%)	17.8	18.7
EBIT	905	746
Return on revenue (%)	58.2	60.3
Financial leverage including net present value of operating leases treated as debt and tax-adjusted pension deficits (%)	21.2	25.4
Financial leverage including net present value of operating leases and pension deficits, and excluding FHLB borrowings (%)^	19.0	21.4
EBITDA fixed-charge coverage (x)	14.1	13.0
Invested assets including cash	5,755	5,260
Net investment yield (%)	3.1	3.1
Net investment yield including realized and unrealized investment gains/(losses) (%)	8.0	-

MI--Mortgage insurance segment. Reinsurance utilization is calculated as ceded premiums written divided by gross premiums written.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015
- 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

Related Research

- U.S. Private Mortgage Insurers Benefit From Massive Stimulus And A Strong Housing Market While Risks Remain, Nov. 10, 2020
- The U.S. Economy Reboots, With Obstacles Ahead, Sept. 24, 2020
- Radian Group Inc.'s Senior Unsecured Notes Rated 'BB+', May 12, 2020
- Outlooks On Five U.S. Private Mortgage Insurers Revised To Negative Due To Elevated Credit Risk From COVID-19, March 26, 2020

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	**Satisfactory**	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	**bbb+/bbb**	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 17, 2020)*

Radian Group Inc.	
Issuer Credit Rating	
Local Currency	BB+/Negative/--
Senior Unsecured	BB+
Related Entities	
Radian Guaranty Inc.	
Financial Strength Rating	
Local Currency	BBB+/Negative/--
Issuer Credit Rating	
Local Currency	BBB+/Negative/--
Radian Reinsurance Inc.	
Financial Strength Rating	
Local Currency	BBB+/Negative/--
Issuer Credit Rating	
Local Currency	BBB+/Negative/--
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.