

**Rating Action: Moody's upgrades Radian Group's ratings (IFS to A3); outlook stable**

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21 July 2022

New York, July 21, 2022 – Moody's Investors Service ("Moody's") has upgraded the insurance financial strength (IFS) rating of Radian Guaranty, Inc (Radian) to A3 from Baa1. In the same rating action, Moody's also upgraded the senior unsecured debt rating of Radian Group, Inc. (Radian Group) to Baa3 from Ba1. The outlook for the ratings is stable.

**RATINGS RATIONALE**

The overall credit profile of the US mortgage insurance sector has shown continued improvement since the initial spike in delinquent mortgages due to the economic shutdowns from the coronavirus pandemic in Q2 2020. Strong house price appreciation and improving unemployment rates have provided a supportive macroeconomic environment for mortgage credit, and default rates among the mortgage insurers' portfolios have trended steadily lower over the past couple of years as delinquent loans in forbearance have cured. Firms in the sector have also reported strong net income returns on capital and very strong risk-adjusted capital adequacy metrics. The significant utilization of excess of loss reinsurance through insurance-linked notes (ILNs) and the traditional reinsurance market also bolsters the credit profiles of the US mortgage insurers. The \$14.3 billion of current reinsurance limit available among firms in the sector dampens the potential for earnings and capital volatility that has historically impacted the mortgage insurance sector during adverse economic environments.

The upgrade of Radian's ratings also reflects the firm's improved risk-adjusted capital adequacy resulting from the increased utilization of reinsurance, as well as its improving profitability metrics. During 2021, Radian Group reported net income of \$601 million and a combined ratio of 27.2%. We expect Radian's profitability to remain strong during the remainder of 2022 and into 2023 as increasing persistency rates and higher interest rates boost revenues even as mortgage loan origination volumes are expected to trend lower.

Radian's ratings also reflect the group's strong position in the US mortgage insurance market, its diverse customer base, comfortable cushion in its compliance with the GSEs' capital standards (PMIERs) and good financial flexibility due to its strong liquidity at the holding company. These strengths are tempered by the commodity-like nature of the mortgage insurance product and the fact that the MI sector's fortunes are greatly influenced by lenders, the GSEs, public policy decisions, and other uncontrollable variables, including competition from government-sponsored mortgage insurers.

Since November 2018, Radian has transferred nearly \$3 billion of risk to the capital markets through 6 Eagle Re ILN transactions, and has also sourced additional risk transfer protection through excess of loss and quota-share coverage in the traditional reinsurance market. Through these arrangements, Radian has reinsurance covering nearly all of its business written between January 2017 and mid-2021, providing more than \$2.2 billion of current excess of loss reinsurance coverage to absorb losses during periods of elevated mortgage credit losses.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

The following factors could lead to an upgrade of the group's ratings: 1) adjusted financial leverage in the 15% to 20% range; 2) continued maintenance of comprehensive reinsurance program; 3) sustained maintenance of PMIERS sufficiency ratio at 170%, or above; and 4) improved profitability in the homegenius segment.

Conversely, the following factors could lead to a downgrade of the group's ratings: 1) Non-compliance with PMIERS; 2) a decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; and 3) adjusted financial leverage above 25%.

## RATING LIST

The following ratings have been upgraded:

Radian Guaranty, Inc. – Insurance financial strength to A3 from Baa1;

Radian Group, Inc. – Senior unsecured debt to Baa3 from Ba1, senior unsecured shelf to (P)Baa3 from (P)Ba1, senior subordinate shelf to (P)Ba1 from (P)Ba2, subordinate shelf to (P)Ba1 from (P)Ba2, preferred shelf to (P)Ba2 from (P)Ba3, and preferred non-cumulative shelf to (P)Ba2 from (P)Ba3;

Outlook actions:

Radian Guaranty, Inc. and Radian Group, Inc. – Outlooks Remain Stable.

Radian Group Inc., through its subsidiaries, provides mortgage insurance and products and services to the real estate and mortgage finance industries. As of March 31, 2022, Radian had primary insurance-in-force of approximately \$249 billion and shareholders' equity of approximately \$4.1 billion.

The principal methodology used in these ratings was Mortgage Insurers Methodology published in November 2019 and available at <https://ratings.moodys.com/api/rmc-documents/65531>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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