MOODY'S
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Rating Action: Moody's affirms Radian Group's ratings (senior unsecured Baa3); outlook stable

27 March 2024

New York, March 27, 2024 – Moody's Ratings (Moody's) has affirmed the Baa3 senior unsecured debt rating of Radian Group Inc. (Radian) and the A3 insurance financial strength (IFS) rating of its principal operating subsidiary, Radian Guaranty Inc. (Radian Guaranty). Moody's also affirmed Radian's (P)Ba2 preferred shelf, (P)Baa3 senior unsecured shelf, (P)Ba1 senior subordinate shelf, (P)Ba1 subordinate shelf and (P)Ba2 preferred non-cumulative shelf. The outlook for the ratings of Radian and Radian Guaranty remains stable.

RATINGS RATIONALE

According to Moody's, Radian's Baa3 senior debt rating and the A3 IFS rating on Radian Guaranty reflects the company's strong position in the US mortgage insurance market, its diverse customer base, its comfortable cushion in its compliance with the GSEs' capital standards (PMIERs) and good financial flexibility due to 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. Additionally, Radian's higher adjusted financial leverage relative to its peers detracts from the firm's overall credit profile.

The US mortgage insurance sector has produced strong results over the past several years as strength in the US housing market and low levels of unemployment have provided supportive macroeconomic conditions for mortgage credit. Default rates have trended lower since the pandemic-related spike in 2020 and have now largely stabilized at levels consistent with strong underwriting profitability. Although housing affordability remains an issue due to the strong house price appreciation in recent years and high mortgage interest rates, portfolio mark-to-market LTV ratios in the 75% range are likely to keep the percentage of defaults rolling to claims relatively low. Insurers in the sector have reported strong net income returns on capital and very strong risk-adjusted capital adequacy metrics, with large capital cushions and strong holding company liquidity. The significant utilization of excess of loss reinsurance through insurance-linked notes and the traditional reinsurance market also bolsters the credit profiles of the US mortgage insurers. The comprehensive reinsurance programs in place throughout the sector dampen the potential for capital volatility that has historically impacted the mortgage insurance sector during adverse economic environments.

During 2023, Radian reported net income of approximately $603 million, reflecting strong underwriting results and gains in investment income due to higher book yields. Moody's notes that Radian recently issued $625 million in senior notes to finance the redemption of $525 million of senior notes due in 2025, resulting in Q4 2023 pro forma adjusted financial leverage of approximately 27.4%, which is high relative to its peers. Radian has stated it expects to repay, redeem or repurchase the $450 million of senior notes maturing in October 2024 without incurring additional debt, which would reduce the firm's financial leverage to the low 20% range, which is generally in line with Moody's expectations at the current rating level.

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

The following factors could result in an upgrade of the ratings: (1) adjusted financial leverage in the 15% to 20% range; (2) continued maintenance of a 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 ratings: (1) non-compliance with PMIERs; (2) decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period; (3) significant weakening of underwriting standards or pricing; and (4) adjusted financial leverage above 25%.

Radian Group Inc., through its subsidiaries, provides mortgage insurance and products and services to the real estate and mortgage finance industries. As of December 31, 2023, Radian had primary insurance-in-force of approximately $270 billion and shareholders' equity of approximately $4.4 billion.

The principal methodology used in these ratings was Mortgage Insurers published in March 2024 and available at https://ratings.moodys.com/rmc-documents/416493. 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

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