RATING ACTION: Moody’s downgrades Radian Group’s senior debt to Caa1, places all ratings under review for possible downgrade.

Global Credit Research - 22 Nov 2011

New York, November 22, 2011 -- Moody's Investors Service has downgraded Radian Group's senior debt rating to Caa1, from B3, and placed it on review for possible further downgrade. In addition, the Ba3 insurance financial strength (IFS) ratings of Radian Guaranty Inc. and Radian Mortgage Assurance Inc. (RMA), and the Ba1 IFS rating of Radian Asset Assurance Inc, were placed on review for downgrade. The rating actions reflect continued stress in the mortgage insurance business and the resulting credit pressures on the group’s holding company and financial guaranty subsidiary.

RATINGS RATIONALE

Moody’s commented that the downgrade of Radian Group’s senior debt rating reflects Radian’s constrained holding company liquidity and the potential for additional contribution of holding company resources to support its mortgage insurance business. Radian Group currently has unrestricted cash and liquid investments of approximately $600 million. Since dividend payments from Radian Guaranty are unlikely for the foreseeable future given its regulatory capital position, Moody’s believes that the company may not be able to meet its senior debt obligations, $502 million senior debt and $312 million convertible senior debt (unrated), and that debt holders could face material losses.

The rating agency added that the review for downgrade of the IFS ratings of Radian Guaranty and RMA reflects the adverse effect of the continued stress in the mortgage market on the firm’s capital and liquidity position. New high quality production has only partially mitigated the effect of accumulating losses. Radian Guaranty’s regulatory capital is likely to continue to decline substantially in the fourth quarter due to the combination of operating losses from the mortgage insurance business and the likely statutory loss reserve on an ABS CDO in Radian Asset’s insured portfolio, said Moody’s.

Barring additional capital injection, Radian Guaranty could breach the regulatory risk to capital threshold of 25:1 in the fourth quarter. In last week’s 10 Q filing, the company mentioned that an earlier than expected ABS CDO shortfall could lead to a substantial statutory loss at Radian Asset. The company indicated that had this event occurred in the third quarter of 2011 (assuming a statutory impact of $109 million); Radian Guaranty’s risk to capital ratio would have been about 24.2:1 as of 30 September 30 2011.

The review for downgrade also reflects the firm’s weak credit profile and proximity to regulatory minimums could make them increasingly dependent on continued forbearance from the regulators and counterparties. The company is actively working with its state regulators to seek waivers. It is also preparing to use RMA, Radian Guaranty’s sister company that cross guarantees Radian Guaranty’s insurance policies, to supplement new business production in states where regulatory capital is an issue. However, RMA’s new business writing requires the GSEs’ approval.

Continued stress at Radian Guaranty may have adverse consequences for Radian Asset, the runoff financial guaranty subsidiary that provides support to the group’s core mortgage insurance business, added Moody’s. Radian Asset has been paying regular dividends to Radian Guaranty since 2008 and releasing redundant contingency reserves periodically to enhance its and Radian Guaranty’s statutory surplus. Radian Asset is also not immune to potential stress in its insured portfolio. While the performance of Radian Asset’s structured finance portfolio appears to have somewhat stabilized, its public finance portfolio has been negatively affected by the recent bankruptcy filing of Jefferson County and weakness in healthcare exposures. Radian Asset assumed about $227 million, mainly Jefferson County’s sewer bonds and it had about $5.6 billion exposure to healthcare and long-term care credits as of 30 September 2011.

As part of the review, Moody’s will assess Radian Guaranty’s business profile, capital and liquidity position in light of current market conditions and proximity to minimum regulatory capital requirements. The rating agency will also evaluate the effect of insured portfolio developments and credit linkage with its parent on Radian Asset’s credit profile.

LIST OF RATING ACTIONS

The following rating was downgraded and was placed on review for possible downgrade:

Radian Group Inc. -- senior unsecured debt to Caa1.

The following ratings were placed on review for possible downgrade:

Radian Guaranty Inc. -- insurance financial strength rating at Ba3;

Radian Mortgage Assurance Inc. -- insurance financial strength rating at Ba3;

Radian Asset Assurance Inc. -- insurance financial strength rating at Ba1.

The last rating action related to Radian was on 10 November 2010, when Moody’s upgraded Radian Group Inc’s senior debt rating from Caa1 to B3.

Radian Group Inc. is a US-based holding company that owns a mortgage insurance platform comprised of Radian Guaranty, Radian Insurance and Radian Mortgage Assurance, and financial guaranty insurance company Radian Asset. The group also has investments in other financial services entities. As of September 30, 2011, Radian Group had $7.25 billion in total assets and $1.29 billion in shareholder’s equity.

The principal methodology used in this rating was Global Mortgage published in February 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Helen Remeza
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Stanislas Rouyer
Senior Vice President
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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