

May 8, 2009

Research Update:

**CMG Mortgage Insurance Co.
Ratings Lowered To 'A' From 'AA-';
Outlook Negative**

Primary Credit Analyst:

Andrew Dral, New York (1) 212-438-5677; andrew_dral@standardandpoors.com

Secondary Credit Analyst:

James Brender, New York (1) 212-438-3128; james_brender@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings List

Research Update:

CMG Mortgage Insurance Co. Ratings Lowered To 'A' From 'AA-'; Outlook Negative

Overview

- One of CMG Mortgage Insurance Co.'s parents--PMI Mortgage Insurance Co. (PMI MI), which handles some of its underwriting and administrative functions--was recently downgraded.
- We believe the downgrade of PMI MI could affect CMG MI's financial strength, along with rising defaults and claims paid, so we are lowering the rating on CMG MI to 'A' from 'AA-'.
- Although CMG MI's results are strong relative to peers', the negative outlook reflects the difficult conditions for CMG MI in the credit union U.S. mortgage insurance market.

Rating Action

On May 8, 2009, Standard & Poor's Ratings Services lowered its counterparty credit and financial strength ratings on CMG Mortgage Insurance Co. (CMG MI) to 'A' from 'AA-'. The outlook remains negative.

Rationale

CMG MI is a joint venture between PMI Mortgage Insurance Co. and CUNA Mutual Investment Corp (unrated). Both partners have a 50% ownership stake. The downgrade reflects Standard & Poor's view that the recent downgrade of PMI Mortgage Insurance Co. (PMI MIC), a co-owner of CMG MI, could significantly affect CMG MI's financial strength. We downgraded PMI MIC to 'BB-' from 'A-' on April 8, 2009.

Despite the downgrade, Standard & Poor's still looks favorably on CMG MI's dependence on PMI MIC's risk management, underwriting discipline, and technology. CMG MI has minimal counterparty credit risk to PMI MIC except for a capital-support agreement PMI MIC provided. CMG MI's stand-alone capital adequacy ratio of 99.6% as of Dec, 31, 2008, is substantially above the requirement for the current rating. CMG MI's capital adequacy ratio reflects the buildup of retained earnings because of strong operating performance, above an 'AA+' rating, partially offset by dividend payments to parents in 2006 and 2007.

The ratings on CMG MI are based on its leadership position within in its chosen niche, its effective use of operational support from parents, and the very strong credit quality of its credit union customers. Standard & Poor's noticed a weakening in CMG MI's operating performance in 2008. But even with the deterioration, CMG MI performed better than other private U.S. mortgage insurers, most of which had losses of hundreds of millions of dollars in 2008; the average loss ratio for 2008 was 248.6%. By contrast, CMG MI reported a statutory pretax earnings gain of \$12.5 million in 2008, with a loss ratio of

76.8%. Its net premiums earned for 2008 increased 18.6% from the prior year, offset by a 2.2x (117.1%) increase in the loss ratio. The rise in premiums stemmed from very strong persistency and growth in market share to 2.9% of primary new insurance written.

Offsetting these relative strengths are CMG MI's dependence on its parents for operational support and narrow focus. In addition, conditions in the mortgage insurance industry are deteriorating, and competition from other mortgage insurers is intensifying. Compared with the competition, CMG MI's loss and default ratios are very strong, yet compared with historical performance, results have suffered in this tough economic environment. CMG MI's primary default rate of 2.54% is far below the U.S. mortgage insurer median of 11.11%.

The economic environment for mortgage insurers in 2009 is significantly more difficult than in prior years, but a prolonged downturn should continue to have less of an impact on CMG MI than other mortgage insurers. The short-term prospects for the mortgage and housing markets are bleak, but CMG MI's portfolio of insured loans exhibits strong credit quality, and mortgages to credit union customers have had a lower foreclosure rate than mortgages other lending institutions had originated.

Outlook

The negative outlook on CMG MI reflects Standard & Poor's expectation that the economic environment for housing still hasn't hit bottom. The rating is based on the belief that both of CMG MI's owners will continue to view the joint venture as beneficial and devote resources to it. However, the recent downgrade of PMI MIC to speculative grade does question this belief. If either owner were to attempt to sell its stake or stop contributing operational support, Standard & Poor's would likely lower the rating again.

Assuming no changes in parental commitment, CMG MI will likely maintain its U.S. credit union industry-leading competitive position. Revenue should increase in 2009. The company faces the difficult task of turning down business to keep its loan portfolio pristine. The company also faces increasing competition in the credit union segment and an uptick in mortgage originations because of low interest rates, which have driven increased refinancing activity. These two factors work to CMG MI's advantage. First, persistency, which measures the retention of insured loans, should remain high (it was 85.4% as of Dec. 31, 2008). Second, credit unions should continue garnering a larger share of mortgage originations because they use deposits to fund most mortgages instead of relying on the securitization process or selling of loans. The weakening environment should affect CMG MI's loss ratio less than those of other mortgage insurers because of its good-quality book. The loss ratio will worsen in 2009. In addition, the company's defaults will increase, but the rate will remain far below the mortgage insurance industry median. Consequently, Standard & Poor's believes CMG MI will perform better than the other private mortgage insurers but will be challenged in 2009.

CMG MI has grown premiums about 3x faster than the industry aggregate over the past five years. Standard & Poor's expects CMG MI to continue increasing its market share--but at a slower rate. Loss reserves are dramatically increasing, putting pressure on 2009's loss ratio. Claims paid

will increase significantly but at a slower rate than loss reserves. Standard and Poor's expects that the company's combined ratio and risk-to-capital will continue expanding in 2009. The environment will be challenging, translating into weak profits and a probable loss in 2009.

CMG MI will suspend future dividends to help conserve capital. Even with loan losses in 2009, CMG MI's capitalization should remain strong, with the capital adequacy ratio remaining above the minimum required for an 'AA' rating.

Ratings List

Downgraded

	To	From
CMG Mortgage Insurance Co. Counterparty Credit Rating		
Local Currency	A/Negative/--	AA-/Negative/--
Financial Strength Rating		
Local Currency	A/Negative/--	AA-/Negative/--

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.