

### Research Update:

## CMG Mortgage Insurance Co. Ratings Lowered To 'BBB' From 'BBB+'; Outlook Negative

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## Overview

- CMG Mortgage Insurance Co.'s delinquencies and losses, which historically have been lower than peers', were elevated through December 2009 because of macroeconomic conditions.
- As a result, we have lowered the counterparty credit and financial strength ratings on the company to 'BBB' from 'BBB+'.
- The outlook is negative because we expect the company's higher levels of losses and delinquencies to persist at least through 2010.

## Rating Action

On Feb. 17, 2010, Standard & Poor's Ratings Services lowered its counterparty credit and financial strength ratings on CMG Mortgage Insurance Co. (CMG MI) to 'BBB' from 'BBB+'. At the same time, Standard & Poor's removed these ratings from CreditWatch, where they were placed on Oct. 27, 2009, with negative implications. The outlook is negative.

## Rationale

Because CMG MI's book of business is of relatively high quality, CMG MI has typically reported stronger results than the mortgage insurance sector overall. For example, CMG MI remained profitable in 2008, while the remainder of the sector incurred outsized operating losses. Nevertheless, the recession and housing-cycle downturn have hurt CMG MI as well, resulting in a loss ratio of approximately 135% as of the third quarter of 2009 and pretax operating losses of \$25 million for the same period (after reversing the net impact of contingency reserve bookings).

Delinquencies and losses incurred increased substantially throughout 2009, a trend we believe will continue into 2010. This is indicative of our belief that macroeconomic conditions such as high unemployment have resulted in a more significant transition of delinquencies into CMG MI's lower-risk portfolio. We believe these will result in ongoing high levels of delinquencies and incurred losses that will exceed our prior expectations for operating losses in 2010, reducing the likelihood of a return to profitability in 2011.

## Outlook

The outlook on CMG MI is negative, largely reflecting the potential for delinquencies and losses to exceed our revised forecast because of uncertainties in the macroeconomic environment and the pace of the economic recovery.

Our expectations are that delinquencies will continue at an elevated level throughout 2010, with a full-year default rate exceeding 5%, resulting in a loss ratio exceeding 120%. If the U.S. economy were to experience a significant setback, with unemployment increasing beyond Standard & Poor's expectations of a peak above 10% in June 2010, delinquencies and resulting losses could increase at an even greater rate than we expect. If this were to happen, CMG MI's return to profitability could be significantly delayed, and CMG MI could experience further downgrades.

## Related Research

- Interactive Ratings Methodology, April 22, 2009.

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
CMG Mortgage Insurance Co.		
Counterparty Credit Rating		
Local Currency	BBB/Negative/--	BBB+/Watch Neg/--
Financial Strength Rating		
Local Currency	BBB/Negative/--	BBB+/Watch Neg/--

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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