

FITCH AFFIRMS CMG MORTGAGE INSURANCE COMPANY

Fitch Ratings-New York-06 August 2010: Fitch Ratings has affirmed CMG Mortgage Insurance Company's (CMG) Insurer Financial Strength (IFS) rating at 'BBB'. The Rating Outlook remains Negative.

CMG's investment grade rating reflects the fundamental balance sheet strength and better credit performance of the company's insured portfolio as compared to those of its peers. CMG's niche credit union core market provided the company with better underwritten mortgages during the housing boom, which resulted in significantly lower rates of delinquencies and losses.

Delinquencies show preliminary signs of stabilization and the company appears well capitalized to meet any obligations arising from its legacy portfolio. Delinquencies were 5.51% and 5.35% at June 30, 2010 and March 31, 2010, respectively. However, recent delinquency stabilization may reflect seasonal factors (individual tax refund receipts applied to mortgage payments) and the effect of various government housing stabilization initiatives (homebuyer tax credits, treasury purchases of GSE securities), which have now expired.

Recent delinquency stabilization may also reflect the positive impact of modifications, which have begun to show lower re-default rates, but which could re-default at higher rates when interest rates reset. Most modifications are patterned after the Home Affordable Modification Program, with the primary modification in the form of interest rate reductions for a period of up to five years. In addition, re-defaults could increase in the event of increasing unemployment or if continued negative equity encourages borrowers to selectively re-default. Loss levels in CMG's legacy book remain at elevated levels in relation to historical performance. Weakness in the U.S. housing market and economic conditions in general will continue to put pressure on loss and profitability metrics for the foreseeable future. As such, several quarters of sustained improvement in delinquencies would be a precursor to assignment of a Stable Outlook.

While new business is of historically high quality, lower mortgage originations and a slightly lower market share within CMG's credit union market niche will limit the company's ability to grow. Growth will also be constrained by a joint-venture risk-to-capital call trigger, which the company is managing to remain below.

The near-term risk of a runoff of CMG's 50% owner PMI Mortgage Insurance Co. (PMI) and any potential consequent operational interruptions has subsided, given the recent capital raise at PMI's parent company. However, continued difficulties in the housing and mortgage markets may place additional capital pressures on all mortgage insurers.

The Negative Outlook reflects continued uncertainty with respect to the mortgage insurance industry in general. In the case of CMG, a further downgrade could result should delinquencies continue to increase beyond their current levels.

Fitch has affirmed the following rating. The Rating Outlook remains Negative:

CMG Mortgage Insurance Company
--IFS at 'BBB'.

This rating action reflects the application of Fitch's current criteria which is available on Fitch's website at 'www.fitchratings.com' and specifically includes:

- 'Insurance Rating Methodology' (Dec. 29, 2009)
- 'Master Global Financial Institutions Criteria' (Dec. 29, 2009)

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Additional information is available at www.fitchratings.com.

Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493126

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