

## **FITCH AFFIRMS CMG MORTGAGE INSURANCE COMPANY'S IFS RATING AT 'BBB'; OUTLOOK NEGATIVE**

Fitch Ratings-New York-26 July 2011: Fitch Ratings has affirmed CMG Mortgage Insurance Company's (CMG) Insurer Financial Strength (IFS) rating at 'BBB'. The Rating Outlook is Negative.

CMG's investment grade rating reflects the stronger relative capital levels and less deterioration in the credit performance of the company's insured portfolio as compared to those of its peers. CMG's niche credit union core market has provided the company with better underwritten mortgages during the housing boom, which resulted in lower rates of delinquencies and losses. As of March 31, 2011, CMG's total capital resources represented over 150% of its delinquent risk-in-force, the highest ratio among the six active U.S. mortgage insurers. At 19.8:1, the company's consolidated risk-to-capital ratio is among the lowest among its peers and is below the 25.0:1 level mandated by some state regulators.

Delinquencies, at 5.60% and 5.88% as of March 31, 2011 and Dec. 31, 2010, respectively, continue to show signs of stabilization. As is the case with most mortgage insurers, CMG's new notices of default appear to have peaked in 2010 and are likely to decline further in the coming quarters. That being said, existing late-stage delinquencies are more likely to result in claims due to the continued weakness in the U.S. housing market and general economic conditions. This means CMG's losses are likely to remain at historically elevated levels for the foreseeable future.

Fitch views with caution the company's recent efforts to regain market share among its credit union customers by relaxing some of its underwriting standards. This concern is mitigated to some extent by the better quality of the new business being underwritten, particularly in comparison to CMG's existing book of business. Furthermore, growth is likely to be constrained by a joint-venture risk-to-capital trigger of 23.0:1, which the company is managing to remain below. Fitch analyzes CMG on a stand-alone basis and its IFS rating does not factor in any support from the company's owners.

Loans with mortgage insurance were not included in the definition of a Qualified Residential Mortgage (QRM) in the securitization risk retention rule proposed by regulators. The proposed rule is open for comment until Aug. 1st and is still subject to change. This exclusion likely would not have an immediate impact on CMG and its peers because loans guaranteed by the government sponsored enterprises (GSEs) will be exempt from the risk retention rule while they are in conservatorship. However, if the GSEs are wound down over the longer term, the exclusion of mortgage insurance from the QRM definition could significantly impact new business volumes, in Fitch's view.

The Negative Outlook primarily reflects continued uncertainty with respect to the mortgage insurance industry in general. In the case of CMG, a further downgrade could result if delinquency levels deteriorate further or if losses significantly reduce capital levels. Fitch also notes that CMG's operational dependence on PMI Mortgage Insurance Co. (PMI) raises some uncertainty regarding CMG's operational stability and infrastructure in a scenario where PMI is no longer able to provide those functions.

Headquartered in San Francisco and domiciled in Wisconsin, CMG is a 50/50 joint venture between CUNA Mutual Investment Corporation and PMI. CMG, the smallest of the eight private mortgage insurers, is dedicated solely to insuring loans made by the credit unions to their members that cover a broad variety of mortgage types strictly on a flow basis. As of March 31, 2011, the company had \$5 billion of risk-in-force.

Fitch has affirmed the following rating with a Negative Rating Outlook.

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

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Applicable Criteria and Related Research:  
--'Insurance Rating Methodology' (Aug. 13, 2010).

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