

NMI Holdings, Inc.  
Form 10-Q  
May 01, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-36174

NMI Holdings, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

45-4914248

(I.R.S. Employer Identification No.)

2100 Powell Street, Emeryville, CA

(Address of principal executive offices)

94608

(Zip Code)

(855) 530-6642

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer ☐

Accelerated  
filer ☒

Non-accelerated filer ☐

(Do not check if a smaller reporting  
company)

Smaller reporting  
company ☐

Emerging growth  
company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒ x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES ☐ o NO ☒ x

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on April 27, 2018 was 65,573,093 shares.

---

TABLE OF CONTENTS

<u>Cautionary Note Regarding Forward Looking Statements</u>	<u>3</u>
<u>PART I</u>	<u>5</u>
Item 1. <u>Financial Statements</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
Item 4. <u>Controls and Procedures</u>	<u>44</u>
<u>PART II</u>	<u>45</u>
Item 1. <u>Legal Proceedings</u>	<u>45</u>
Item 1A. <u>Risk Factors</u>	<u>45</u>
Item 6. <u>Exhibits</u>	<u>48</u>
<u>Signatures</u>	<u>49</u>
<u>Exhibit Index</u>	<u>i</u>

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believe," "can," "could," "may," "predict," "potential," "should," "will," "estimate," "plan," "project," "continuing," "ongoing," "expect," "intend" or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. All forward looking statements are necessarily only estimates of future results, and actual results may differ materially from expectations. You are, therefore, cautioned not to place undue reliance on such statements which should be read in conjunction with the other cautionary statements that are included elsewhere in this report. Further, any forward looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. We have based these forward looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy and financial needs. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward looking statements including, but not limited to:

- changes in the business practices of Fannie Mae and Freddie Mac (collectively, the GSEs), including decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement;
- our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements (PMIERs) and other requirements imposed by the GSEs, which they may change at any time;
- retention of our existing certificates of authority in each state and the District of Columbia (D.C.) and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- our future profitability, liquidity and capital resources;
- actions of existing competitors, including governmental agencies like the Federal Housing Administration (FHA) and the Veterans Administration (VA), and potential market entry by new competitors or consolidation of existing competitors;
- developments in the world's financial and capital markets and our access to such markets, including reinsurance;
- adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators;
- changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance in particular;
- potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries;
- changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance;
- our ability to successfully execute and implement our capital plans, including our ability to access the capital, credit and reinsurance markets and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators;
- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;
- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
-

potential adverse impacts arising from recent natural disasters, including, with respect to the affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;

the inability of our counter-parties, including third party reinsurers, to meet their obligations to us;  
our ability to utilize our net operating loss carryforwards, which could be limited or eliminated in various ways, including if we experience an ownership change as defined in Section 382 of the Internal Revenue Code;  
failure to maintain, improve and continue to develop necessary information technology (IT) systems or the failure of technology providers to perform; and  
ability to recruit, train and retain key personnel.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the Risk Factors in Part II, Item 1A of this report and in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 10-K), as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

Unless expressly indicated or the context requires otherwise, the terms "we," "our," "us" and the "Company" in this document refer to NMI Holdings, Inc., a Delaware corporation, and its wholly owned subsidiaries on a consolidated basis.

PART I

Item 1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017	<u>6</u>
Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2018 and 2017	<u>7</u>
Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and the year ended December 31, 2017	<u>8</u>
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017	<u>9</u>
Notes to Condensed Consolidated Financial Statements	<u>10</u>

## NMI HOLDINGS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2018	December 31, 2017
	(In Thousands, except for share data)	
<b>Assets</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$733,153 and \$713,859 as of March 31, 2018 and December 31, 2017, respectively)	\$723,790	\$715,875
Cash and cash equivalents	101,890	19,196
Premiums receivable	28,164	25,179
Accrued investment income	4,765	4,212
Prepaid expenses	3,602	2,151
Deferred policy acquisition costs, net	40,026	37,925
Software and equipment, net	22,857	22,802
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	38,557	40,250
Deferred tax asset, net	16,343	19,929
Other assets	3,963	3,695
<b>Total assets</b>	<b>\$987,591</b>	<b>\$894,848</b>
<b>Liabilities</b>		
Term loan	\$143,868	\$143,882
Unearned premiums	165,590	163,166
Accounts payable and accrued expenses	21,218	23,364
Reserve for insurance claims and claim expenses	10,391	8,761
Reinsurance funds withheld	33,179	34,102
Deferred ceding commission	4,838	5,024
Warrant liability, at fair value	6,563	7,472
<b>Total liabilities</b>	<b>385,647</b>	<b>385,771</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Common stock - class A shares, \$0.01 par value; 65,569,342 and 60,517,512 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively (250,000,000 shares authorized)	656	605
Additional paid-in capital	666,905	585,488
Accumulated other comprehensive loss, net of tax	(13,533 )	(2,859 )
Accumulated deficit	(52,084 )	(74,157 )
<b>Total shareholders' equity</b>	<b>601,944</b>	<b>509,077</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$987,591</b>	<b>\$894,848</b>
See accompanying notes to consolidated financial statements.		



## NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(UNAUDITED)

	For the three months ended March 31, 2018      2017 (In Thousands, except for per share data)	
Revenues		
Net premiums earned	\$54,914	\$33,225
Net investment income	4,574	3,807
Net realized investment losses	—	(58 )
Other revenues	64	80
Total revenues	59,552	37,054
Expenses		
Insurance claims and claim expenses	1,569	635
Underwriting and operating expenses	28,453	25,989
Total expenses	30,022	26,624
Other expense		
Gain (Loss) from change in fair value of warrant liability	420	(196 )
Interest expense	(3,419 )	(3,494 )
Total other expense	(2,999 )	(3,690 )
Income before income taxes	26,531	6,740
Income tax expense	4,176	1,248
Net income	\$22,355	\$5,492
Earnings per share		
Basic	\$0.36	\$0.09
Diluted	\$0.34	\$0.09
Weighted average common shares outstanding		
Basic	62,099	59,184
Diluted	65,697	62,339
Net income	\$22,355	\$5,492
Other comprehensive income (loss), net of tax:		
Net unrealized (losses) gains in accumulated other comprehensive income, net of tax benefit of \$423 and tax expense \$664 for the quarters ended March 31, 2018 and 2017, respectively	(10,956 )	1,175
Reclassification adjustment for realized losses included in net income, net of tax expenses of \$0 for the quarters ended March 31, 2018 and 2017, respectively	—	58
Other comprehensive income (loss), net of tax	(10,956 )	1,233
Comprehensive income	\$11,399	\$6,725

See accompanying notes to consolidated financial statements.

## NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)

	Common Stock - Class A Shares Amount (In Thousands)		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balances, January 1, 2017	59,145	\$ 591	\$ 576,927	\$ (5,287	) \$ (96,722	) \$ 475,509
Cumulative effect of change in accounting principle	—	—	388	—	515	903
Common stock: class A shares issued related to warrants	32	*	183	—	—	183
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,341	14	(1,494	)—	—	(1,480 )
Share-based compensation expense	—	—	9,484	—	—	9,484
Change in unrealized investment gains/losses, net of tax expense of \$1,307	—	—	—	2,428	—	2,428
Net income	—	—	—	—	22,050	22,050
Balances, December 31, 2017	60,518	\$ 605	\$ 585,488	\$ (2,859	) \$ (74,157	) \$ 509,077
Cumulative effect of change in accounting principle	—	—	—	282	(282	)—
Common stock: class A shares issued related to public offering	4,255	43	79,122	—	—	79,165
Common stock: class A shares issued related to warrants	26	*	489	—	—	489
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	770	8	(999	)—	—	(991 )
Share-based compensation expense	—	—	2,805	—	—	2,805
Change in unrealized investment gains/losses, net of tax benefit of \$423	—	—	—	(10,956	)—	(10,956 )
Net income	—	—	—	—	22,355	22,355
Balances, March 31, 2018	65,569	\$ 656	\$ 666,905	\$ (13,533	) \$ (52,084	) \$ 601,944

\* During the year ended December 31, 2017 and the three months ended March 31, 2018, we issued 32,368 and 25,686 common shares, respectively, with a par value of \$0.01 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

## NMI HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31,	
	2018	2017
	(In Thousands)	
Cash flows from operating activities	\$22,355	\$5,492
Net income		
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment losses	—	58
(Gain) Loss from change in fair value of warrant liability	(420)	) 196
Depreciation and amortization	1,858	1,502
Net amortization of premium on investment securities	439	357
Amortization of debt discount and debt issuance costs	361	403
Share-based compensation expense	2,805	1,911
Deferred income taxes	4,009	1,146
Changes in operating assets and liabilities:		
Premiums receivable	(2,985)	) (1,838 )
Accrued investment income	(553)	) (479 )
Prepaid expenses	(1,451)	) (944 )
Deferred policy acquisition costs, net	(2,101)	) (2,056 )
Other assets	(268)	) (192 )
Unearned premiums	2,424	1,805
Reserve for insurance claims and claim expenses	1,630	760
Reinsurance balances, net	584	141
Accounts payable and accrued expenses	(7,556)	) (10,351 )
Net cash provided by (used in) operating activities	21,131	(2,089 )
Cash flows from investing activities		
Purchase of short-term investments	(16,858)	) (38,663 )
Purchase of fixed-maturity investments, available-for-sale	(74,095)	) (60,212 )
Proceeds from maturity of short-term investments	31,309	46,845
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	44,444	23,841
Additions to software and equipment	(1,370)	) (3,069 )
Net cash used in investing activities	(16,570)	) (31,258 )
Cash flows from financing activities		
Proceeds from issuance of common stock related to public offering	79,249	—
Proceeds from issuance of common stock related to employee equity plans	4,782	2,392
Taxes paid related to net share settlement of equity awards	(5,523)	) (3,503 )
Repayments of term loan	(375)	) (375 )
Payments of debt modification costs	—	(370 )
Net cash provided by (used in) financing activities	78,133	(1,856 )
Net increase (decrease) in cash and cash equivalents	82,694	(35,203 )
Cash and cash equivalents, beginning of period	19,196	47,746
Cash and cash equivalents, end of period	\$101,890	\$12,543
Supplemental disclosures of cash flow information		
Interest paid	\$3,072	\$3,314
Income taxes paid	—	170
See accompanying notes to consolidated financial statements.		



NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization, Basis of Presentation and Summary of Accounting Principles

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011, to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One).

In April 2012, we completed a private placement of our securities, through which we offered and sold an aggregate of 55,000,000 of our Class A common stock resulting in net proceeds of approximately \$510 million (the Private Placement), and we completed the acquisition of our insurance subsidiaries for \$8.5 million in cash, common stock and warrants, plus the assumption of \$1.3 million in liabilities. In November 2013, we completed an initial public offering of 2.4 million shares of our common stock, and our common stock began trading on the NASDAQ exchange on November 8, 2013, under the symbol "NMIH." In March 2018, we completed the sale of an additional 4.3 million shares of common stock including a 15% option to purchase additional shares, which was exercised in full.

In April 2013, NMIC, our primary insurance subsidiary, issued its first mortgage insurance policy. NMIC is licensed to write mortgage insurance in all 50 states and D.C. In August 2015, NMIH capitalized a wholly owned subsidiary, NMI Services, Inc. (NMIS), through which we offer outsourced loan review services to mortgage loan originators.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the results of NMIH and its wholly owned subsidiaries, have been prepared in accordance with the instructions to Form 10-Q as prescribed by the SEC for interim reporting and include other information and disclosures required by accounting principles generally accepted in the U.S. (GAAP). Our accounts are maintained in U.S. dollars. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2017, included in our 2017 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2018.

Significant Accounting Principles

There have been no changes to our significant accounting principles as described in Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 2 - Summary of Accounting Principles" of our 2017 Form 10-K, other than as noted in "Reinsurance" and "Recent Accounting Pronouncements - Adopted" below.

Reinsurance

We account for premiums, claims and claim expenses that are ceded to reinsurers on a basis consistent with those we use to account for the original policies we issue and pursuant to the terms of our reinsurance contracts. We account for premiums ceded or otherwise paid to reinsurers as reductions to premium revenue.

Effective January 1, 2018, NMIC entered into a second quota share reinsurance transaction (2018 QSR Transaction) which is similar in nature to the quota share reinsurance transaction we entered into in September 2016 (2016 QSR Transaction, together with 2018 QSR Transaction, the QSR Transactions) (see Note 5, "Reinsurance"). We earn profit and ceding commissions in connection with the QSR Transactions. Profit commissions represent a percentage of the profits recognized by reinsurers that are returned to us, based on the level of claims and claim expenses that we cede. We recognize any profit commissions we earn as increases to premium revenue. Ceding commissions are calculated as a percentage of ceded written premiums under the 2016 QSR Transaction and as a percentage of ceded earned premiums under the 2018 QSR Transaction, and we intended to cover our costs to acquire and service the direct policies. We earn the ceding commissions in a manner consistent with our recognition of earnings on the underlying insurance policies, over the terms of the policies reinsured. We account for ceding commissions earned as a reduction to underwriting and operating expenses.

Under the QSR Transactions, we cede a portion of claims and claim expenses reserves to our reinsurers, which are accounted for as reinsurance recoverables in "Other Assets" on the consolidated balance sheets and as reductions to claim expense on the consolidated statements of operations. We remain directly liable for all loss payments in the event we are unable to collect from any reinsurer.

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Recent Accounting Pronouncements - Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In December 2016, the FASB clarified that all contracts that are within the scope of Topic 944, Financial Services-Insurance, are excluded from the scope of ASU 2014-09. Accordingly, this update did not impact the recognition of revenue related to insurance premiums or investment income, which represent a majority of our total revenues. The update impacted our loan review services revenue, which is the only revenue stream in scope of the update. We adopted this update on January 1, 2018 using the modified-retrospective approach. For the period ended March 31, 2018, the impact was immaterial to our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). This update requires entities to reduce the carrying amount of deferred tax assets, if necessary, by the amount of any tax benefit that is not expected to be realized. We adopted this update effective January 1, 2018. The impact was immaterial to our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20). This update shortened the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The standard took effect for public business entities for fiscal years beginning after December 15, 2017. The adoption of this update had no impact on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). This update permits a company to reclassify the disproportionate income tax effects as a result of the 2017 Tax Cuts and Jobs Act (the TCJA) on items within accumulated other comprehensive income (AOCI) to retained earnings. This standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We adopted this update on January 1, 2018 and adjusted the disproportionate income tax effects, or "stranded tax effects," resulting in a \$0.3 million reduction to our beginning retained earnings as of January 1, 2018.

Recent Accounting Pronouncements - Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires that businesses recognize rights and obligations associated with certain leases as assets and liabilities on the balance sheet. The standard also requires additional disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. For public business entities, this update is effective for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted in any period. We expect to adopt this guidance on January 1, 2019. In September 2017, ASU 2017-13, added guidance from an SEC Staff Announcement, "Transition Related to Accounting Standards Update No. 2016-02." We anticipate this standard will have an impact on our financial position, primarily due to our office space operating lease, as we will be required to recognize lease assets and lease liabilities on our consolidated balance sheet. We will continue to assess the potential impacts of this standard, including the impact the adoption of this guidance will have on our results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326). This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The standard also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815). This update is intended to simplify the accounting for certain equity-linked financial instruments. This standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance must be applied using a full or modified retrospective approach. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

2. Investments

We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized through comprehensive income and loss, and on an accumulated basis in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold.



## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
As of March 31, 2018	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$57,018	\$—	\$(1,807)	\$55,211
Municipal debt securities	89,792	155	(1,259)	88,688
Corporate debt securities	453,262	806	(6,883)	447,185
Asset-backed securities	125,030	357	(736)	124,651
Total bonds	725,102	1,318	(10,685)	715,735
Long-term investments - other	353	—	—	353
Short-term investments	7,698	4	—	7,702
Total investments	\$733,153	\$1,322	\$(10,685)	\$723,790
As of December 31, 2017	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$65,669	\$—	\$(981)	\$64,688
Municipal debt securities	89,973	534	(659)	89,848
Corporate debt securities	435,562	4,231	(1,958)	437,835
Asset-backed securities	100,153	916	(125)	100,944
Total bonds	691,357	5,681	(3,723)	693,315
Long-term investments - other	353	—	—	353
Short-term investments	22,149	58	—	22,207
Total investments	\$713,859	\$5,739	\$(3,723)	\$715,875

As of March 31, 2018 and December 31, 2017, approximately \$7.0 million of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

## Scheduled Maturities

The amortized cost and fair values of available-for-sale securities as of March 31, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed securities provide for periodic payments throughout their lives, they are listed below in a separate category.

As of March 31, 2018	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$59,804	\$59,705
Due after one through five years	252,066	249,638
Due after five through ten years	287,110	280,837
Due after ten years	9,143	8,959
Asset-backed securities	125,030	124,651
Total investments	\$733,153	\$723,790

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of December 31, 2017	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$97,406	\$97,394
Due after one through five years	195,795	195,626
Due after five through ten years	305,798	306,930
Due after ten years	14,707	14,981
Asset-backed securities	100,153	100,944
Total investments	\$713,859	\$715,875

## Aging of Unrealized Losses

As of March 31, 2018, the investment portfolio had gross unrealized losses of \$10.7 million, \$3.5 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of March 31, 2018. We based our conclusion that these investments were not other-than-temporarily impaired as of March 31, 2018 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses
As of March 31, 2018	(Dollars in Thousands)					
U.S. Treasury securities and obligations of U.S. government agencies	12	\$26,792	\$ (994 )	23	\$24,960	\$ (813 )
Municipal debt securities	27	54,924	(691 )	10	17,772	(568 )
Corporate debt securities	180	302,287	(5,000 )	18	42,745	(1,883 )
Asset-backed securities	39	74,208	(497 )	4	9,261	(239 )
Short-term investments	1	995	—	—	1	995
Total	259	\$459,206	\$ (7,182 )	55	\$94,738	\$ (3,503 )
	Less Than 12 Months		12 Months or Greater		Total	
	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses
As of December 31, 2017	(Dollars in Thousands)					
U.S. Treasury securities and obligations of U.S. government agencies	16	\$29,806	\$ (394 )	26	\$34,882	\$ (587 )
Municipal debt securities	21	38,628	(264 )	10	17,945	(395 )
Corporate debt securities	94	128,313	(829 )	23	48,978	(1,129 )
Asset-backed securities	22	27,947	(63 )	5	12,438	(62 )
Total	153	\$224,694	\$ (1,550 )	64	\$114,243	\$ (2,173 )

The following table presents the components of net investment income:

	For the three months ended March 31, 2018 2017	
	(In Thousands)	
Investment income	\$4,782	\$3,993

Investment expenses (208 ) (186 )  
Net investment income \$4,574 \$3,807

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the components of net realized investment gains (losses):

	For the three months ended March 31, 2018	2017
	(In Thousands)	
Gross realized investment gains	\$ —	\$ 279
Gross realized investment losses	—	(337)
Net realized investment gains (losses)	\$ —	\$ (58)

### Investment Securities - Other-than-Temporary Impairment (OTTI)

For the quarter ended March 31, 2018, we held no other-than-temporarily impaired securities. There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income. For the quarter ended March 31, 2017, we recognized OTTI losses in earnings of \$144 thousand related to a single security with an unfavorable recovery forecast. The impaired security was liquidated in the second quarter of 2017.

### 3. Fair Value of Financial Instruments

The following describes the valuation techniques used by us to determine the fair value of our financial instruments: We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this standard are described below:

Level 1 - Fair value measurements based on quoted prices in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.

Level 2 - Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions, which require significant management judgment or estimation about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

#### Assets classified as Level 1 and Level 2

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided

markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources.

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Liabilities classified as Level 3

We calculate the fair value of outstanding warrants utilizing Level 3 inputs, including a Black-Scholes option-pricing model, in combination with a binomial model, and we value the pricing protection features within the warrants using a Monte-Carlo simulation model. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of our stock price.

The following tables present the level within the fair value hierarchy at which our financial instruments were measured:

	Fair Value Measurements Using			
	Quoted			
	Prices in	Significant	Significant	Fair
	Active	Other	Unobservable	Value
	Markets	Observable	Inputs	
	for	Inputs	(Level 3)	
	Identical	(Level 2)		
	Assets			
	(Level 1)			
As of March 31, 2018	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$55,211	\$ —	\$ —	\$55,211
Municipal debt securities	—	88,688	—	88,688
Corporate debt securities	—	447,185	—	447,185
Asset-backed securities	—	124,651	—	124,651
Long-term investment – other	353	—	—	353
Cash, cash equivalents and short-term investments	109,592	—	—	109,592
Total assets	\$165,156	\$ 660,524	\$ —	\$825,680
Warrant liability	—	—	6,563	6,563
Total liabilities	\$—	\$ —	\$ 6,563	\$6,563
	Fair Value Measurements Using			
	Quoted			
	Prices in	Significant	Significant	Fair
	Active	Other	Unobservable	Value
	Markets	Observable	Inputs	
	for	Inputs	(Level 3)	
	Identical	(Level 2)		
	Assets			
	(Level 1)			
As of December 31, 2017	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$59,844	\$ 4,844	\$ —	\$64,688
Municipal debt securities	—	89,848	—	89,848
Corporate debt securities	—	437,835	—	437,835
Asset-backed securities	—	100,944	—	100,944
Long-term investment - other	353	—	—	353
Cash, cash equivalents and short-term investments	41,403	—	—	41,403
Total assets	\$101,600	\$ 633,471	\$ —	\$735,071
Warrant liability	—	—	7,472	7,472
Total liabilities	\$—	\$ —	\$ 7,472	\$7,472

There were no transfers between Level 1 and Level 2, nor any transfers in or out of Level 3, of the fair value hierarchy during the three months ended March 31, 2018 and the year ended December 31, 2017.



NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following is a roll-forward of Level 3 liabilities measured at fair value:

	For the three months ended March 31,	
Warrant Liability	2018	2017
	(In Thousands)	
Balance, January 1	\$7,472	\$3,367
Change in fair value of warrant liability included in earnings	(420 )	196
Issuance of common stock on warrant exercise	(489 )	—
Balance, March 31	\$6,563	\$3,563

The following table outlines the key inputs and assumptions used in the Black-Scholes option-pricing model as of the dates indicated.

	As of March 31,	
	2018	2017
Common Stock Price	\$16.55	\$11.40
Risk free interest rate	2.37%	1.70%
Expected life	2.59	3.92
	years	years
Expected volatility	30.1%	30.5%
Dividend yield	0%	0%

The changes in fair value of the warrant liability for the quarters ended March 31, 2018 and 2017 are primarily attributable to changes in the price of our common stock during the respective periods, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants.



NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. Term Loan

On November 10, 2015, we entered into a credit agreement (the Credit Agreement) to obtain a \$150 million three-year senior secured term loan (the Term Loan). On February 10, 2017, we amended the Credit Agreement (Amendment No. 1) to reduce the interest rate and extend the maturity date of the Term Loan from November 10, 2018 to November 10, 2019. On October 25, 2017, we further amended the Credit Agreement (Amendment No. 2) to remove a covenant that required NMIH to maintain liquidity (as defined therein) in an aggregate amount no less than all remaining interest payments due under the Term Loan. As modified by Amendment No. 2, the Credit Agreement retains a requirement that NMIH maintain liquidity in an aggregate amount no less than the sum of all remaining principal amortization payments due under the Term Loan, excluding principal scheduled to be paid on its maturity date. The amendments to the Credit Agreement have been treated as modifications.

As of March 31, 2018, the Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 6.75%, representing an all-in rate of 8.54%, payable monthly or quarterly based on our interest rate election. Quarterly principal payments of \$375 thousand are also required. The outstanding balance of the Term Loan as of March 31, 2018 was \$146.3 million.

Interest expense for the Term Loan includes interest and amortization of issuance costs, modification costs and the original issue discount. Original debt issuance costs totaling \$4.9 million, including \$445 thousand related to Amendment No.1 and Amendment No.2 modifications and a 1% original issue discount, are being amortized to interest expense, using the effective interest method, over the contractual life of the Term Loan. As of March 31, 2018, the remaining unamortized issuance costs, modification costs and original issue discount totaled \$2.4 million. For the three months ended March 31, 2018, we recorded \$3.4 million of interest expense.

We are subject to various covenants under the amended Credit Agreement, which include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined therein) of 35%, maximum risk-to-capital (RTC) ratio of 22.0:1.0, minimum liquidity (as defined therein) of \$2.3 million as of March 31, 2018, compliance with the PMIERs financial requirements (subject to any GSE-approved waivers), and minimum shareholders' equity requirements. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the amended Credit Agreement, including its covenants and events of default. We were in compliance with all covenants as of March 31, 2018.

Future principal payments for the Term Loan as of March 31, 2018 are as follows:

As of March 31, 2018	Principal
	(In
	thousands)
2018	1,125
2019	145,125
Total	\$ 146,250

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 5. Reinsurance

We enter into third-party reinsurance transactions to actively manage our risk, ensure PMIERs compliance and support the growth of our business. The GSEs and the Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) have approved all such transactions (subject to certain conditions and ongoing review, including levels of approved capital credit).

The effect of our reinsurance agreements on premiums written and earned is as follows:

	For the three months ended March 31, March 31, 2018      2017 (In Thousands)	
Net premiums written		
Direct	\$66,027	\$39,245
Ceded <sup>(1)</sup>	(6,997 )	(4,641 )
Net premiums written	\$59,030	\$34,604

Net premiums earned		
Direct	\$63,604	\$37,438
Ceded <sup>(1)</sup>	(8,690 )	(4,213 )
Net premiums earned	\$54,914	\$33,225

<sup>(1)</sup> Net of profit commission

## Excess-of-loss reinsurance

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re Ltd. (Oaktown Re) that provides for up to \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the reinsurance coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid and was \$166.6 million as of March 31, 2018. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of \$211.3 million to unaffiliated investors (the Notes). The Notes mature on April 26, 2027. All of the proceeds paid to Oaktown Re from the sale of the Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re to NMIC under the reinsurance agreement. At all times, funds in the reinsurance trust account are required to be invested in high credit quality money market funds. We refer collectively to NMIC's reinsurance agreement with Oaktown Re and the issuance of the Notes by Oaktown Re as the 2017 ILN Transaction. Under the terms of the 2017 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re for anticipated operating expenses (capped at \$300 thousand per year). For the three months ended March 31, 2018, NMIC paid risk premiums of \$1.6 million. NMIC did not cede any losses to Oaktown Re.

Under the reinsurance agreement, NMIC holds an optional termination right if certain events occur, including, among others, a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under the agreement. In addition, there are certain events that will result in mandatory termination of the agreement, including NMIC's failure to pay premiums or consent to reductions in the trust account to make principal payments to noteholders, among others.

At the time the 2017 ILN Transaction was entered into with Oaktown Re, we evaluated the applicability of the accounting guidance that addresses VIEs. As a result of the evaluation of the 2017 ILN Transaction, we concluded that Oaktown Re is a VIE. However, given that NMIC does not have significant economic exposure in Oaktown Re, we do not consolidate Oaktown Re in our consolidated financial statements.

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Quota share reinsurance

## 2016 QSR Transaction

Effective September 1, 2016, NMIC entered into the 2016 QSR Transaction with a panel of third-party reinsurers.

Each of the third-party reinsurers has an insurer financial strength rating of A- or better by Standard and Poor's Rating Services (S&P), A.M. Best or both.

Under the 2016 QSR Transaction, NMIC ceded premiums written related to:

- 25% of existing risk written on eligible policies as of August 31, 2016;
- 100% of existing risk under our pool agreement with Fannie Mae; and
- 25% of risk on eligible policies written from September 1, 2016 through December 31, 2017.

The 2016 QSR Transaction is scheduled to terminate on December 31, 2027, except with respect to the ceded pool risk, which is scheduled to terminate on August 31, 2023. However, NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2020, or at the end of any calendar quarter thereafter, which would result in NMIC reassuming the related risk.

## 2018 QSR Transaction

Effective January 1, 2018, NMIC entered into the 2018 QSR Transaction with a panel of third-party reinsurers. Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written from January 1, 2018 through December 31, 2019.

The 2018 QSR Transaction is scheduled to terminate on December 31, 2029. However, NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2022, or at the end of any calendar quarter thereafter, which would result in NMIC reassuming the related risk.

The following table shows the amounts related to the QSR Transactions:

	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Thousands)	
Ceded risk-in-force	\$3,304,335	\$2,167,745
Ceded premiums written <sup>(1)</sup>	(14,525 )	(10,292 )
Ceded premiums earned <sup>(1)</sup>	(16,218 )	(9,865 )
Ceded claims and claims expenses	543	268
Ceding commission written	2,905	2,058
Ceding commission earned	3,151	2,065
Profit commission	9,201	5,651

<sup>(1)</sup> The presentation of these line items was enhanced starting in the second quarter of 2017, to separately disclose "Profit commission." Prior to the second quarter of 2017, "Profit commission" was netted within both the "Ceded premium written" and "Ceded premium earned" lines.

Ceded premiums written under the 2016 QSR Transaction are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of income on direct premiums. Under the 2018 QSR Transaction, premiums are ceded on an earned basis as defined in the agreement. NMIC receives a 20% ceding commission for premiums ceded under the QSR Transactions. NMIC also receives a profit commission, provided that the loss ratio on the loans covered under the 2016 QSR Transaction and 2018 QSR Transaction generally remains below 60% and 61%, respectively, as measured annually. Ceded claims and claim expenses under the QSR Transactions reduce NMIC's profit commission on a dollar-for-dollar basis.

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was \$2.3 million as of March 31, 2018.

In accordance with the terms of the 2018 QSR Transaction, cash payments for ceded premiums earned are settled on a quarterly basis, offset by amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will also settle quarterly. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. NMIC did not have any reinsurance recoverable on loss reserves related to our 2018 QSR Transaction as of March 31, 2018.

6. Reserves for Insurance Claims and Claim Expenses

We establish reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Consistent with industry practice, we establish reserves for loans that have been reported to us by servicers as having been in default for at least 60 days, referred to as case reserves, and additional loans that we estimate (based on actuarial review) have been in default for at least 60 days that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish claims expense reserves, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claims settlement process. As of March 31, 2018, we had reserves for insurance claims and claims expenses of \$10.4 million for 1,000 primary loans in default. During the first three months of 2018, we paid 17 claims totaling \$482 thousand, including 14 claims covered under the QSR Transactions representing \$111 thousand of ceded claims and claims expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At March 31, 2018, 64 loans in the pool were past due by 60 days or more. These 64 loans represent approximately \$4.2 million of risk-in-force (RIF). Due to the size of the remaining deductible, the low level of notices of default (NODs) reported on loans in the pool through March 31, 2018 and the expected severity (all loans in the pool have loan-to-value ratios (LTV) ratios under 80%), we did not have any case or IBNR reserves for pool risks at March 31, 2018 or March 31, 2017. In connection with the settlement of pool claims, we applied \$492 thousand to the pool deductible through March 31, 2018. At March 31, 2018, the remaining pool deductible was \$9.9 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table provides a reconciliation of the beginning and ending reserve balances for primary insurance claims and claim expenses:

	For the three months ended March 31, 2018      2017 (In Thousands)	
Beginning balance	\$8,761	\$3,001
Less reinsurance recoverables <sup>(1)</sup>	(1,902 )	(297 )
Beginning balance, net of reinsurance recoverables	6,859	2,704
Add claims incurred:		
Claims and claim expenses incurred:		
Current year <sup>(2)</sup>	1,940	955
Prior years <sup>(3)</sup>	(371 )	(320 )
Total claims and claims expenses incurred	1,569	635
Less claims paid:		
Claims and claim expenses paid:		
Current year <sup>(2)</sup>	—	—
Prior years <sup>(3)</sup>	371	142
Total claims and claim expenses paid	371	142
Reserve at end of period, net of reinsurance recoverables	8,057	3,197
Add reinsurance recoverables <sup>(1)</sup>	2,334	564
Ending balance	\$10,391	\$3,761

<sup>(1)</sup> Related to ceded losses recoverable on the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, "Reinsurance" for additional information.

<sup>(2)</sup> Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year.

<sup>(3)</sup> Related to insured loans with defaults occurring in prior years, which have been continuously in default since that time.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred relating to current year NODs represents the estimated amount of claims and claims expenses to be ultimately paid on such loans in default. We recognized \$371 thousand and \$320 thousand of favorable prior year development during the three months ended March 31, 2018 and 2017, respectively, due to NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Gross reserves of \$7.2 million related to prior year defaults remained as of March 31, 2018.

#### 7. Earnings per Share (EPS)

Basic earnings per share is based on the weighted average number of shares of common stock outstanding, while diluted earnings per share is based on the weighted average number of shares of common stock outstanding and common stock equivalents that would be issuable upon the vesting of service based RSUs, and exercise of vested and unvested stock options and outstanding warrants. The following table reconciles the net income and the weighted average shares of common stock outstanding used in the computations of basic and diluted earnings per share of common stock:



## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	For the three months ended March 31, 2018      2017 (In Thousands, except for per share data)	
Basic net income	\$22,355	\$5,492
Basic weighted average shares outstanding	62,099	59,184
Basic earnings per share	\$0.36	\$0.09
Basic net income	\$22,355	\$5,492
Warrant gain, net of tax	\$(332 )	\$—
Diluted net income	\$22,023	\$5,492
Basic weighted average shares outstanding	62,099	59,184
Dilutive effect of issuable shares	3,598	3,155
Diluted weighted average shares outstanding	65,697	62,339
Diluted earnings per share	\$0.34	\$0.09
Anti-dilutive securities	169	1,211

## 8. Warrants

We issued 992 thousand warrants in connection with the Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to \$10.00. The warrants were issued with an aggregate fair value of \$5.1 million.

During the three months ended March 31, 2018, 54 thousand warrants were exercised resulting in 26 thousand common shares issued. No warrants were exercised during the three months ended March 31, 2017. Upon exercise, we reclassified the fair value of the warrants from warrant liability to additional paid-in capital and recognized a loss of approximately \$52 thousand.

We account for these warrants to purchase our common shares in accordance with ASC 470-20, Debt with Conversion and Other Options and ASC 815-40, Derivatives and Hedging - Contracts in Entity's Own Equity.

## 9. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21% for the current and all future years following the enactment of the TCJA on December 22, 2017. We were subject to a statutory U.S. federal corporate income tax rate of 35% for all prior years through December 31, 2017. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rates for a given year. Our effective tax rate on our pre-tax income was 15.7% for the three months ended March 31, 2018, compared to 18.5% for the three months ended March 31, 2017. The decrease in the effective tax rate for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 is attributable to the decrease in the statutory U.S. federal corporate income tax rate. We currently pay no federal income tax primarily due to the forecasted utilization of our federal net operating loss carryforwards, which were \$93.3 million as of December 31, 2017. As a result, the interim provision for income taxes represents changes to deferred tax assets.

## Provisional amounts

The TCJA reduced the statutory U.S. federal corporate income tax rate from 35% to 21% and changed the tax deductibility of certain expenses for tax years beginning after December 31, 2017. We have not completed our full



assessment of the tax effects of the enactment of the TCJA on our deferred tax balances as of March 31, 2018 and December 31, 2017; however, in certain cases, as described below, we have made reasonable estimates of the effects on our deferred tax balances. We recognized a \$13.6 million income tax expense in the year ended December 31, 2017 for the items we could reasonably estimate. We are still analyzing the TCJA and refining our calculations, which could impact the measurement of our existing deferred tax assets including those related to share-based compensation. For tax years beginning after December 31, 2017, the TCJA expanded the number of individuals whose

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

compensation is subject to a \$1 million cap on tax deductibility and includes performance-based compensation in the calculation. As a result, we recorded a provisional amount to reduce the future tax benefit related to share-based compensation. We will continue to make and refine our calculations as additional analysis is completed. In addition, our estimates may also be affected as we incorporate additional guidance that may be issued by the U.S. Treasury Department, the IRS, or other standard-setting bodies.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). This update permits a company to reclassify the disproportionate income tax effects as a result of the TCJA on items within AOCI to retained earnings. We adopted this update on January 1, 2018 and adjusted the disproportionate income tax effects, or "stranded tax effects," resulting in a \$0.3 million reduction to our beginning retained earnings as of January 1, 2018. The disproportionate tax effects that remain in AOCI of \$4.2 million was not related to the TCJA and will remain in AOCI until certain events occur. Our elected accounting policy for available-for-sale debt securities is the "aggregate portfolio" approach.

## 10. Common Stock Offerings

In March 2018, we completed the sale of 3.7 million shares of common stock and granted the underwriters on the transaction a 15% overallotment option to purchase additional shares. The overallotment option was exercised in full, resulting in a total of 4.3 million shares of common stock issued. The common stock offering generated total proceeds of approximately \$79.2 million, net of underwriting discounts, commissions and other direct offering expenses.

## 11. Regulatory Information

Our insurance subsidiaries, NMIC and Re One, file financial statements in conformity with statutory accounting principles (SAP) prescribed or permitted by the Wisconsin OCI, NMIC's principal regulator. Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners. The Wisconsin OCI recognizes only statutory accounting practices prescribed or permitted by the state of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Wisconsin insurance laws.

NMIC and Re One's combined statutory net loss was as follows:

For the three  
months ended  
March 31,  
2018      2017  
(In Thousands)

Statutory net loss \$(6,814) \$(10,090)

NMIC and Re One's statutory surplus, contingency reserve and risk to capital (RTC) ratios were as follows:

March 31, December 31,  
2018      2017  
(\$ In Thousands)

Statutory surplus \$368,202 \$ 371,084

Contingency reserve 218,518 186,641

Risk-to-Capital 14.4:1 13.2:1

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware corporate law provides that dividends are only payable out of a corporation's surplus or, subject to certain limitations, recent net profits. NMIC and Re One's ability to pay dividends to NMIH is subject to Wisconsin OCI notice or approval. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends. Since inception, NMIC and Re One have not paid any dividends to NMIH.

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. Subsequent Event

In April 2018, NMIH made a capital contribution of \$70 million to NMIC.

24

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2017 10-K, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Cautionary Note Regarding Forward-Looking Statements" above and the "Risk Factors" detailed in Part II, Item 1A of this report and in Part I, Item 1A of our 2017 10-K, as subsequently updated in other reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.

### Overview

We provide private MI through our wholly owned insurance subsidiaries NMIC and Re One. NMIC and Re One are domiciled in Wisconsin and principally regulated by the Wisconsin OCI. NMIC is our primary insurance subsidiary, and is approved as an MI provider by the GSEs and is licensed to write coverage in all 50 states and D.C. Re One provides statutorily required reinsurance to NMIC on insured loans with coverage levels in excess of 25% after giving effect to third-party reinsurance. Our subsidiary, NMIS, provides outsourced loan review services to mortgage loan originators.

MI protects lenders and investors from default-related losses on a portion of the unpaid principal balance of a covered mortgage. MI plays a critical role in the U.S. housing market by mitigating mortgage credit risk and facilitating the secondary market sale of high-LTV (i.e., above 80%) residential loans to the GSEs, who are otherwise restricted by their charters from purchasing or guaranteeing high-LTV mortgages that are not covered by certain credit protections. Such credit protection and secondary market sales allow lenders to increase their capacity for mortgage commitments and expand financing access to existing and prospective homeowners.

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of March 31, 2018, we had master policy relationships with 1,291 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders and other non bank lenders. As of March 31, 2018, we had \$56.6 billion of total insurance-in-force (IIF), including primary IIF of \$53.4 billion, and \$13.2 billion of gross RIF, including primary RIF of \$13.1 billion.

We believe that our success in acquiring a large and diverse group of lender customers and growing a portfolio of high-quality IIF traces to our founding principles, whereby we aim to help qualified individuals achieve the dream of homeownership, ensure that we remain a strong and credible counter-party, deliver a unique customer service experience, establish a differentiated risk management approach that emphasizes the individual underwriting review or validation of the vast majority of the loans we insure, and foster a culture of collaboration and excellence that helps us attract and retain experienced industry leaders.

Our strategy is to continue to build on our position in the private MI market, expand our customer base and grow our insured portfolio of high-quality residential loans by focusing on long-term customer relationships, disciplined and proactive risk selection and pricing, fair and transparent claims payment practices, responsive customer service, financial strength and profitability.

Our common stock trades on the NASDAQ under the symbol "NMIH."

We discuss below our results of operations for the periods presented, as well as the conditions and trends that have impacted or are expected to impact our business, including customer development, new business writings, the composition of our insurance portfolio and other factors that we expect to impact our results. Our headquarters are located in Emeryville, California and our website is [www.nationalmi.com](http://www.nationalmi.com). Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

### New Insurance Written, Insurance In Force and Risk In Force

New insurance written (NIW) is the aggregate unpaid principal balance of mortgages underpinning new policies written during a given period. Our NIW is affected by the overall size of the mortgage origination market and the

volume of high-LTV mortgage originations, which tend to be generated to a greater extent in purchase originations as compared to refinancings. Our NIW is also affected by the percentage of such high-LTV originations covered by private versus public MI or other alternative credit enhancement structures and our share of the private MI market. NIW, together with persistency, drives our IIF. IIF is the aggregate unpaid principal balance of the mortgages we insure, as reported to us by servicers at a given date, and represents the sum total of NIW from all prior periods less principal payments on insured mortgages and policy cancellations (including for prepayment,

nonpayment of premiums, coverage rescission and claim payments). RIF is related to IIF and represents the aggregate amount of coverage we provide on all outstanding policies at a given date. RIF is calculated as the sum total of the coverage percentage of each individual policy in our portfolio applied to the unpaid principal balance of such insured mortgage. RIF is affected by IIF and the LTV profile of our insured mortgages, with lower LTV loans generally having a lower coverage percentage and higher LTV loans having a higher coverage percentage. Gross RIF represents RIF before consideration of reinsurance. Net RIF is gross RIF net of ceded reinsurance.

#### Net Premiums Written and Net Premiums Earned

We set our premium rates on individual policies based on the risk characteristics of the underlying mortgage loans and borrowers, and in accordance with our filed rates and applicable rating rules.

Premiums are generally fixed over the estimated life of the underlying loans. Net premiums written are equal to gross premiums written minus ceded premiums written under our reinsurance arrangements and less premium refunds. As a result, net premiums written are generally influenced by:

#### NIW;

premium rates and the mix of premium payment type, which are either single, monthly or annual premiums, as described below;

cancellation rates of our insurance policies, which are impacted by payments or prepayments on mortgages, refinancings (which are affected by prevailing mortgage interest rates as compared to interest rates on loans underpinning our in force policies), levels of claims payments and home prices;

cession of premiums under third-party reinsurance arrangements.

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium).

Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is initially recorded as unearned premium and earned over the estimated life of the policy. A majority of our single premium policies in force as of December 31, 2017 were non-refundable under most cancellation scenarios. If non-refundable single premium policies are canceled, we immediately recognize the remaining unearned premium balances as earned premium revenue. Monthly premiums are recognized in the month billed and when the coverage is effective. Annual premiums are earned on a straight-line basis over the year of coverage. Substantially all of our policies provide for either single or monthly premiums.

The percentage of IIF that remains on our books after any 12-month period is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher persistency rates can have a significant impact on our net premiums earned and profitability. Generally, faster speeds of mortgage prepayment lead to lower persistency.

Prepayment speeds and the relative mix of business between single and monthly premium policies also impact our profitability. Our premium rates include certain assumptions regarding repayment or prepayment speeds of the mortgages underlying our policies. Because premiums are paid at origination on single premium policies and substantially all of our single premium policies are non-refundable on cancellation, assuming all other factors remain constant, if single premium loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than anticipated, we do not earn any more premium with respect to those loans and, unless we replace the repaid monthly premium loan with a new loan at the same or greater premium rate, our profitability is likely to decline.

#### Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure PMIERs compliance and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERs asset positions. Under a quota share reinsurance agreement, the reinsurer receives a premium in exchange for covering an agreed-upon portion of incurred losses. Such a quota share arrangement reduces net premiums written and earned and also reduces net RIF, providing capital relief to the ceding insurance company and reducing incurred claims in accordance with the terms of the reinsurance agreement. In addition, reinsurers typically pay ceding commissions as part of quota share transactions, which offset the ceding company's acquisition and underwriting expenses. Certain quota share agreements include profit

commissions that are earned based on loss performance and serve to reduce ceded premiums. Under an excess-of-loss agreement, the ceding insurer is typically responsible for losses up to an agreed-upon threshold and the reinsurer then provides coverage in excess of such threshold up to a maximum agreed-upon limit. In general, there are no ceding commissions under excess-of-loss reinsurance agreements. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

## Quota share reinsurance

NMIC entered into the 2018 QSR Transaction, which took effect January 1, 2018. Under the terms of the 2018 QSR Transaction, NMIC will cede 25% of its eligible policies written in 2018 and 20% to 30% (such amount to be determined by NMIC at its sole election by December 1, 2018) of eligible policies written in 2019, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a 20% ceding commission, and a profit commission of up to 61% that varies directly and inversely with ceded claims.

NMIC entered into the 2016 QSR Transaction in September 2016. Under the terms of the 2016 QSR Transaction, NMIC (1) ceded 100% of the risk relating to our pool agreement with Fannie Mae, (2) ceded 25% of existing risk written on eligible policies as of August 31, 2016 and (3) ceded 25% of the risk relating to eligible primary insurance policies written between September 1, 2016 and December 31, 2017, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a 20% ceding commission, and a profit commission of up to 60% that varies directly and inversely with ceded claims.

## Excess-of-loss reinsurance

In May 2017, NMIC secured \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid, and was \$166.6 million as of March 31, 2018. For the reinsurance coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide a second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

See, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance" for further discussion of these third-party reinsurance arrangements.

## Portfolio Data

The following table presents primary and pool NIW and IIF as of the dates and for the periods indicated. Unless otherwise noted, the tables below do not include the effects of our third-party reinsurance arrangements described above.

Primary and pool IIF and NIW	As of and for the three months ended			
	March 31, 2018		March 31, 2017	
	IIF	NIW	IIF	NIW
	(In Millions)			
Monthly	\$37,574	\$5,441	\$21,511	\$2,892
Single	15,860	1,019	13,268	667
Primary	53,434	6,460	34,779	3,559
Pool	3,153	—	3,545	\$—
Total	\$56,587	\$6,460	\$38,324	\$3,559

For the three months ended March 31, 2018, primary NIW increased 82%, compared to the three months ended March 31, 2017, primarily because of the growth in our monthly policy volume tied to increased penetration of existing customer accounts and new customer account activations, with additional benefit from growth in our single policy volume. For the three months ended March 31, 2018, monthly premium NIW increased 88% compared to the three months ended March 31, 2017.

For the three months ended March 31, 2018, 84% of our NIW related to monthly premium policies. As of March 31, 2018, monthly premium policies accounted for 70% of our primary IIF, as compared to 62% at March 31, 2017. We expect the break-down of monthly premium policies and single premium policies (which we refer to as "mix") in our primary IIF to continue to trend toward our current NIW mix over time. Our total IIF increased 48% as of March 31, 2018 compared to March 31, 2017, primarily because of the NIW we generated between such measurement dates and the high persistency of our policies in force.





The following table presents net premiums written and earned for the periods indicated.

Primary and pool premiums written and earned	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Thousands)	
Net premiums written <sup>(1)</sup>	\$59,030	\$34,604
Net premiums earned <sup>(1)</sup>	54,914	33,225

<sup>(1)</sup> Net premiums written and earned are reported net of reinsurance and premium refunds.

For the three months ended March 31, 2018, net premiums written increased 71% and net premiums earned increased 65%, respectively, compared to the three months ended March 31, 2017. The increase in net premiums written is due to the growth of our IIF and increased monthly and single policy production, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume. The increase in net premiums earned is primarily due to the growth in our IIF, increased monthly and single policy production, and higher earnings from cancellations, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2017 ILN Transaction in May 2017. Pool premiums written and earned for the three months ended March 31, 2018 and 2017, were \$0.9 million and \$1.0 million, respectively, before the effects of the 2016 QSR Transaction, under which all of our written and earned pool premiums have been ceded.

#### Portfolio Statistics

Unless otherwise noted, the portfolio statistics tables presented below do not include the effects of our third-party reinsurance arrangements described above. The table below highlights trends in our primary portfolio as of the date and for the periods indicated.

Primary portfolio trends	As of and for the three months ended				
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	(\$ In Millions)				
New insurance written	\$6,460	\$ 6,876	\$ 6,115	\$5,037	\$3,559
Percentage of monthly premium	84	% 83	% 79	% 81	% 81
Percentage of single premium	16	% 17	% 21	% 19	% 19
New risk written	\$1,580	\$ 1,665	\$ 1,496	\$1,242	\$868
Insurance in force (IIF) <sup>(1)</sup>	53,434	48,465	43,259	38,629	34,779
Percentage of monthly premium	70	% 69	% 66	% 64	% 62
Percentage of single premium	30	% 31	% 34	% 36	% 38
Risk in force <sup>(1)</sup>	\$13,085	\$ 11,843	\$ 10,572	\$9,417	\$8,444
Policies in force (count) <sup>(1)</sup>	223,263	202,351	180,089	161,195	145,632
Average loan size <sup>(1)</sup>	\$0.239	\$ 0.240	\$ 0.240	\$0.240	\$0.239
Average coverage <sup>(2)</sup>	24.5	% 24.4	% 24.4	% 24.4	% 24.3
Loans in default (count)	1,000	928	350	249	207
Percentage of loans in default	0.5	% 0.5	% 0.2	% 0.2	% 0.1
Risk in force on defaulted loans	\$57	\$ 53	\$ 19	\$14	\$12
Average premium yield <sup>(3)</sup>	0.43	% 0.44	% 0.43	% 0.41	% 0.40
Earnings from cancellations	\$2.8	\$ 4.2	\$ 4.3	\$3.8	\$2.5
Annual persistency <sup>(4)</sup>	85.7	% 86.1	% 85.1	% 83.1	% 81.3
Quarterly run-off <sup>(5)</sup>	3.1	% 3.9	% 3.8	% 3.4	% 2.9

<sup>(1)</sup> Reported as of the end of the period.

<sup>(2)</sup> Calculated as end of period RIF divided by IIF.

<sup>(3)</sup>

Calculated as net primary and pool premiums earned, net of reinsurance, divided by average gross primary IIF for the period, annualized.

- (4) Defined as the percentage of IIF that remains on our books after any 12-month period.
- (5) Defined as the percentage of IIF that is no longer on our books after any 3-month period.

The table below presents a summary of the change in total primary IIF during the periods indicated.

Primary IIF	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Millions)	
IIF, beginning of period	\$48,465	\$32,168
NIW	6,460	3,559
Cancellations and other reductions	(1,491 )	(948 )
IIF, end of period	\$53,434	\$34,779

We consider a "book" to be a collective pool of policies insured during a particular period, normally a calendar year. In general, the majority of underwriting profit, calculated as earned premium revenue minus claims and underwriting and operating expenses, generated by a particular book year emerges in the years immediately following origination. This pattern generally occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years following origination, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and by increasing losses.

The table below presents a summary of our primary IIF and RIF by book year as of the dates indicated.

Primary IIF and RIF	As of March 31, 2018		As of March 31, 2017	
	IIF	RIF	IIF	RIF
	(In Millions)			
March 31, 2018	\$6,427	\$1,573	\$—	\$—
2017	20,272	4,948	3,544	865
2016	17,497	4,262	19,774	4,756
2015	7,913	1,971	9,681	2,384
2014	1,292	323	1,735	428
2013	33	8	45	11
Total	\$53,434	\$13,085	\$34,779	\$8,444

We utilize certain risk principles that form the basis of how we underwrite and originate primary NIW. We manage our portfolio credit risk by using several loan eligibility matrices which prescribe the maximum LTV, minimum borrower credit score, maximum borrower debt-to-income ratio, maximum loan size, property type, loan type, loan term and occupancy status of loans that we will insure. Our loan eligibility matrices, as well as all of our detailed underwriting guidelines, are contained in our Underwriting Guideline Manual that is publicly available on our website. Our eligibility criteria and underwriting guidelines are designed to mitigate the layered risk inherent in a single insurance policy. "Layered risk" refers to the accumulation of borrower, loan and property risk. For example, we have higher credit score and lower maximum allowed LTV requirements for investor-owned properties, compared to owner-occupied properties. We monitor the concentrations of various risk attributes in our insurance portfolio, which may change over time, in part, as a result of regional conditions or public policy shifts.

The tables below present our primary NIW by FICO, LTV and purchase/refinance mix for the periods indicated. We calculate the LTV of a loan as the percentage of the original loan amount to the original purchase value of the property securing the loan.

Primary NIW by FICO	For the three months ended	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
>= 760	\$2,619	\$1,683
740-759	1,073	551
720-739	914	456
700-719	811	396
680-699	567	264
<=679	476	209
Total	\$6,460	\$3,559
Weighted average FICO	743	749

Primary NIW by LTV	For the three months ended	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
95.01% and above	\$997	\$274
90.01% to 95.00%	2,765	1,612
85.01% to 90.00%	1,755	1,101
85.00% and below	943	572
Total	\$6,460	\$3,559
Weighted average LTV	92.5 %	92.0 %

Primary NIW by purchase/refinance mix	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Millions)	
Purchase	\$5,425	\$2,984
Refinance	1,035	575
Total	\$6,460	\$3,559

The tables below present our total primary IIF and RIF by FICO and LTV and total primary RIF by loan type as of the dates indicated.

Primary IIF by FICO	As of	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
>= 760	\$25,371 48 %	\$17,408 50 %
740-759	8,635 16	5,658 16
720-739	6,981 13	4,460 13
700-719	5,814 11	3,533 10
680-699	3,852 7	2,336 7
<=679	2,781 5	1,384 4

Edgar Filing: NMI Holdings, Inc. - Form 10-Q

Total	\$53,434	100%	\$34,779	100%
-------	----------	------	----------	------

30

---

## Primary RIF by FICO As of

	March 31, 2018			March 31, 2017		
	(\$ In Millions)					
>= 760	\$6,246	48	%	\$4,253	50	%
740-759	2,125	16		1,383	16	
720-739	1,710	13		1,081	13	
700-719	1,416	11		851	10	
680-699	932	7		556	7	
<=679	656	5		320	4	
Total	\$13,085	100	%	\$8,444	100	%

## Primary IIF by LTV As of

	March 31, 2018			March 31, 2017		
	(\$ In Millions)					
95.01% and above	\$4,872	9	%	\$1,931	5	%
90.01% to 95.00%	23,937	45		15,601	45	
85.01% to 90.00%	16,034	30		11,058	32	
85.00% and below	8,591	16		6,189	18	
Total	\$53,434	100%		\$34,779	100%	

## Primary RIF by LTV As of

	March 31, 2018			March 31, 2017		
	(\$ In Millions)					
95.01% and above	\$1,294	10	%	\$533	6	%
90.01% to 95.00%	6,978	53		4,585	55	
85.01% to 90.00%	3,831	29		2,626	31	
85.00% and below	982	8		700	8	
Total	\$13,085	100%		\$8,444	100%	

## Primary RIF by Loan Type As of

	March 31, 2018		March 31, 2017	
Fixed	98	%	99	%
Adjustable rate mortgages:				
Less than five years	—		—	
Five years and longer	2		1	
Total	100%		100%	

The table below shows selected primary portfolio statistics, by book year, as of March 31, 2018.

As of March 31, 2018

Book year	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) <sup>(1)</sup>	Cumulative default rate <sup>(2)</sup>			
(\$ Values in Millions)												
2013	\$162	\$ 33	20 %	655	177	1	1	0.3 %	0.3 %			
2014	3,451	1,292	37 %	14,786	6,627	79	17	3.8 %	0.6 %			
2015	12,422	7,913	64 %	52,548	36,383	338	27	3.1 %	0.7 %			
2016	21,187	17,497	83 %	83,626	72,004	374	11	2.4 %	0.5 %			
2017	21,583	20,272	94 %	85,900	82,145	207	—	2.3 %	0.2 %			
2018	6,460	6,427	99 %	26,026	25,927	1	—	0.5 %	— %			
Total	\$65,265	\$ 53,434		263,541	223,263	1,000	56					

<sup>(1)</sup> The ratio of total claims incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.

<sup>(2)</sup> The sum of the number of claims paid ever to date and number of loans in default as of the end of the period divided by policies ever in force.

#### Geographic Dispersion

The following table shows the distribution by state of our primary RIF as of the periods indicated. As of March 31, 2018, our RIF continues to be relatively more concentrated in California, primarily as a result of the size of the California mortgage market relative to the rest of the country and the location and timing of our acquisition of new customers. The distribution of risk as of March 31, 2018 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state As of

	March 31, 2018	March 31, 2017
California	13.5 %	13.8 %
Texas	8.0	7.2
Virginia	5.1	6.3
Arizona	4.8	4.1
Florida	4.7	4.4
Michigan	3.7	3.7
Pennsylvania	3.6	3.6
Colorado	3.5	3.9
Maryland	3.4	3.7
Utah	3.4	3.6
Total	53.7 %	54.3 %

#### Insurance Claims and Claim Expenses

Insurance claims and claim expenses incurred represent estimated future payments on newly defaulted insured loans and any change in our claim estimates for previously existing defaults. Claims incurred is generally affected by a variety of factors, including the state of the economy, changes in housing values, loan and borrower level risk characteristics, the size of loans insured and the percentage of coverage on insured loans.

Reserves for claims and allocated claim expenses are established for mortgage loan defaults, which we refer to as case reserves, when we are notified that a borrower has missed two or more mortgage payments (i.e., an NOD). We also make estimates of IBNR defaults, which are defaults that have been incurred but have not been reported by loan servicers, based on historical reporting trends, and establish IBNR reserves for those estimates. We also establish



reserves for unallocated claims expenses not associated with a specific claim. The claims expenses consist of the estimated cost of the claim administration process, including legal and other fees as well as other general expenses of administering the claims settlement process.

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property valuation. Reserves are released the month in which a loan in default is brought current by the borrower, which is referred to as a cure. Adjustments to reserve estimates are reflected in the period in which the adjustment is made. Reserves are also ceded to reinsurers under the QSR Transactions. We will not cede reserves to the reinsurer under the 2017 ILN Transaction unless losses exceed our retained coverage layer. Reserves are not established for future claims on insured loans which are not currently in default.

Based on our experience and industry data, we believe that claims incidence for mortgage insurance is generally highest in the third through sixth years after loan origination. Although the claims experience on new primary insurance written by us to date has been favorable, we expect incurred claims to increase as a greater amount of our existing insured portfolio reaches its anticipated period of highest claim frequency. We estimate that the loss ratio over the life of our existing primary insured portfolio will be between 20% and 25% of earned premiums, and we price to that expectation. Additionally, our pool insurance agreement with Fannie Mae contains a claim deductible through which Fannie Mae absorbs specified losses before we are obligated to pay any claims. We have not established any pool reserves for claims or IBNR to date.

The actual claims we incur as our portfolio matures are difficult to predict and depend on the specific characteristics of our current in-force book (including the credit score and DTI of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the profile of new business we write in the future. In addition, claims experience will be affected by future macroeconomic factors such as housing prices, interest rates and employment and other events, such as natural catastrophes. To date, our claims experience is developing at a slower pace than historical trends indicate, as a result of high quality underwriting, a strong macroeconomic environment and a favorable housing market. For additional discussion of our reserves, see, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 6, Reserves for Insurance Claims and Claims Expenses."

We insure mortgages for homes in areas that have been impacted by recent natural disasters, including hurricanes Harvey and Irma and the California wildfires. We do not provide coverage for property or casualty claims related to physical damage of a home underpinning an insured mortgage. We have experienced an increase in NODs on insured loans in the impacted areas. Our ultimate claims exposure will depend on the number of NODs received, proximate cause of each default and cure rate of the NOD population. In the event of natural disasters, cure rates are influenced by the adequacy of homeowners and other hazard insurance carried on a related property, GSE-sponsored forbearance and other assistance programs, and a borrower's access to aid from government entities and private organizations, in addition to other factors which generally impact cure rates in unaffected areas.

The following table provides a reconciliation of the beginning and ending reserve balances for primary insurance claims and claims expenses.

	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Thousands)	
Beginning balance	\$8,761	\$ 3,001
Less reinsurance recoverables <sup>(1)</sup>	(1,902 )	(297 )
Beginning balance, net of reinsurance recoverables	6,859	2,704
Add claims incurred:		
Claims and claim expenses incurred:		
Current year <sup>(2)</sup>	1,940	955
Prior years <sup>(3)</sup>	(371 )	(320 )
Total claims and claims expenses incurred	1,569	635
Less claims paid:		
Claims and claim expenses paid:		
Current year <sup>(2)</sup>	—	—
Prior years <sup>(3)</sup>	371	142
Total claims and claim expenses paid	371	142
Reserve at end of period, net of reinsurance recoverables	8,057	3,197
Add reinsurance recoverables <sup>(1)</sup>	2,334	564
Ending balance	\$10,391	\$ 3,761

<sup>(1)</sup> Related to ceded losses recoverable under the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Item 1, "Financial Statements - Notes to Consolidated Financial Statements - Note 5, Reinsurance" for additional information.

<sup>(2)</sup> Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year.

<sup>(3)</sup> Related to insured loans with defaults occurring in prior years, which have been continuously in default since that time.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred for current year NODs represents the estimated amount to be ultimately paid on such loans in default. The decreases during the periods presented in reserves held for prior year defaults represent favorable development and are generally the result of NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims, and continue to observe and analyze loss development trends in our portfolio.

Gross reserves of \$7.2 million related to prior year defaults remained as of March 31, 2018.

The following table provides a reconciliation of the beginning and ending count of loans in default for the periods indicated.

	For the three months ended	
	March 31, 2018	March 31, 2017
Beginning default inventory	928	179

Plus: new defaults	413	124
Less: cures	(324 )	(92 )
Less: claims paid	(17 )	(4 )
Ending default inventory	1,000	207

34

---

The increase in the ending default inventory at March 31, 2018 compared to March 31, 2017 was primarily due to new defaults on insured loans in areas impacted by hurricanes Harvey and Irma and the California wildfires, as well as the aging of earlier book years and an increase in the overall number of policies in our portfolio.

The following table provides details of our claims paid, before giving effect to claims ceded under the 2016 QSR Transaction, for the periods indicated. No claims were ceded under the 2018 QSR Transaction during the periods indicated.

	For the three months ended	
	March 31, 2018	March 31, 2017
	(\$ In Thousands)	
Number of claims paid <sup>(1)</sup>	17	4
Total amount paid for claims	\$482	\$142
Average amount paid per claim <sup>(2)</sup>	\$34	\$35
Severity <sup>(3)</sup>	74 %	88 %

<sup>(1)</sup> Count includes claims settled without payment.

<sup>(2)</sup> Calculation is net of claims settled without payment.

<sup>(3)</sup> Severity represents the total amount of claims paid divided by the related RIF on the loan at the time the claim is perfected.

The increase in the number of claims paid for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 is due to an increase in our default inventory. Claims settled without payment are included in claim counts, but excluded from averages. We expect the severity of claims paid to be between 85% and 95% of the coverage amount. We believe our severity is below long-term expectations due to home price appreciation in recent periods.

The following table shows our average reserve per default, before giving effect to reserves ceded under the QSR Transactions, as of the periods indicated.

	As of March 31, 2018	As of March 31, 2017
Average reserve per default:	(In Thousands)	
Case <sup>(1)</sup>	\$ 9	\$ 16
IBNR	1	2
Total	\$ 10	\$ 18

<sup>(1)</sup> Defined as the gross reserve per insured loan in default.

The average reserve per default at March 31, 2018 decreased from March 31, 2017, primarily due to new defaults on insured loans in areas impacted by hurricanes Harvey and Irma and the California wildfires. As of March 31, 2018, 474 of the 1,000 loans in default relate to homes in areas declared by FEMA to be disaster zones following the aforementioned natural disasters. We anticipate that this population of loans in default will cure at a higher rate than the estimated rate we apply to non-disaster related loans in default, due to our Master Policy coverage terms, historical industry experience, and current economic indicators and relief programs. As such, we have established lower reserves for these NODs than we otherwise do for similarly situated NODs in non-disaster zones. Over time, we anticipate that our average reserve per default will revert to our historical averages as the NODs in these zones cure.

#### GSE Oversight

As an Approved Insurer, NMIC is subject to ongoing compliance with the PMIERS. (Italicized terms have the same meaning that such terms have in the PMIERS, as described below.) The PMIERS establish operational, business,

remedial and financial requirements applicable to Approved Insurers. The PMIERS financial requirements prescribe a risk-based methodology whereby the amount of assets required to be held against each insured loan is determined based on certain risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (i.e., current vs. delinquent), LTV and other risk features. An asset charge is calculated for each insured loan based on its risk profile. In general, higher quality loans carry lower charges.

Under the PMIERS financial requirements, Approved Insurers must maintain available assets that equal or exceed minimum required assets, which is an amount equal to the greater of (i) \$400 million or (ii) a total risk-based required asset amount. The risk-based required asset amount is a function of the risk profile of an Approved Insurer's net RIF, calculated by applying on a loan-

by-loan basis certain risk-based factors derived from tables set out in the PMIERS to the net RIF, and other transactional adjustments approved by the GSEs, such as with respect to our 2017 ILN Transaction and QSR Transactions. The risk-based required asset amount for primary insurance is subject to a floor of 5.6% of total, performing, primary RIF, and the risk-based required asset amount for pool insurance considers both the factors in the tables and the net remaining stop loss for each pool insurance policy. The PMIERS financial requirements also increase the amount of available assets that must be held by an Approved Insurer for LPMI policies originated on or after January 1, 2016.

By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2018 that NMIC was in full compliance with the PMIERS as of December 31, 2017. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of its failure to meet one or more of the PMIERS requirements. We continuously monitor our compliance with the PMIERS.

The following table provides a comparison of the PMIERS financial requirements as reported by NMIC as of the dates indicated.

	As of	
	March	March
	31, 2018	31, 2017
	(In Thousands)	
Available assets	\$555,336	\$466,982
Risk-based required assets	522,260	398,859

The increase in available assets of \$88 million as of March 31, 2018 compared to March 31, 2017 is driven by our positive cash flow from operations, partially offset by an increase in our unearned premium reserve. The increase in the risk-based required asset amount is due to the growth of our gross RIF and increase in our NOD population, which has a higher risk-based required asset amount charge, partially offset by the cession of risk relating to our third-party reinsurance agreements.

In April 2018, NMIH made a capital contribution of \$70 million to NMIC, directly increasing NMIC's available assets and, consequently, its cushion between available assets and risk-based required asset amount.

On December 18, 2017, the GSEs provided us with a confidential summary of the proposed changes to the PMIERS financial, business and other requirements that they are developing with the FHFA. We have engaged in conversations with the FHFA and the GSEs about the proposed changes and expect to continue to provide feedback to them in the coming months. Once changes to the PMIERS requirements are finalized, we expect the industry will be afforded a six-month implementation period and currently anticipate that updated PMIERS requirements, if any, will take effect no sooner than the fourth quarter of 2018.

#### Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings

In addition to GSE-imposed asset requirements, NMIC is also subject to state regulatory minimum capital requirements based on its RIF. While formulations of this minimum capital may vary by jurisdiction, the most common measure allows for a maximum permitted RTC ratio of 25:1.

As of March 31, 2018, NMIC's primary RIF, net of reinsurance, was approximately \$8.4 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory surplus of \$552.6 million (including contingency reserves) as of March 31, 2018, NMIC's RTC ratio was 15.2:1. The \$70 million capital contribution from NMIH to NMIC in April 2018 increases NMIC's statutory surplus dollar-for-dollar, and consequently, reduces its RTC ratio. Re One had total statutory capital of \$34.2 million as of March 31, 2018, with a RTC ratio of 0.9:1. We continuously monitor our compliance with state capital requirements.

In March 2017, Moody's Investors Service (Moody's) upgraded its financial strength rating from "Ba2" to "Ba1" for NMIC. At that time, Moody's also upgraded its rating of NMIH's \$150 million Term Loan from "B2" to "B1." In August 2017, Moody's re-affirmed its "Ba1" financial strength rating for NMIC and its B1 rating of NMIH's \$150 million Term Loan and upgraded the outlook for both ratings from "stable" to "positive." In July 2017, S&P re-affirmed its "BBB-" financial strength and long-term counter-party credit ratings on NMIC and its "BB-" long-term counter-party credit rating on NMIH and upgraded the outlook for both ratings to "positive."

#### Competition

The MI industry is highly competitive and currently consists of six private mortgage insurers, including NMIC, as well as public MIs like the FHA and the VA. Private MI companies compete based on service, customer relationships, underwriting and



other factors, including price. We expect the MI market to remain competitive, with pressure for industry participants to grow or maintain their market share.

The private MI industry overall competes more broadly with public MIs who significantly increased their presence in the MI market following the financial crisis. Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, it remains difficult to predict whether the combined market share of public MIs will recede to historical levels. A range of factors influence a lender's decision to choose private over public MI, including among others, premium rates and other charges, loan eligibility requirements, cancelability, loan size limits and the relative ease of use of private MI products compared to public MI alternatives.

## Consolidated Results of Operations

Consolidated statements of operations	For the three months ended	
	March 31, 2018	March 31, 2017
(In Thousands)		
Revenues		
Net premiums earned	\$54,914	\$33,225
Net investment income	4,574	3,807
Net realized investment losses	—	(58 )
Other revenues	64	80
Total revenues	59,552	37,054
Expenses		
Insurance claims and claim expenses	1,569	635
Underwriting and operating expenses	28,453	25,989
Total expenses	30,022	26,624
Other expense		
Gain (Loss) from change in fair value of warrant liability	420	(196 )
Interest expense	(3,419 )	(3,494 )
Income before income taxes	26,531	6,740
Income tax expense	4,176	1,248
Net income	\$22,355	\$5,492
Loss ratio <sup>(1)</sup>	2.9	% 1.9 %
Expense ratio <sup>(2)</sup>	51.8	% 78.2 %
Combined ratio	54.7	% 80.1 %

<sup>(1)</sup> Loss ratio is calculated by dividing the provision for insurance claims and claims expenses by net premiums earned.

<sup>(2)</sup> Expense ratio is calculated by dividing other underwriting and operating expenses by net premiums earned.

## Revenues

For the three months ended March 31, 2018, net premiums earned increased \$21.7 million or 65%, compared to the three months ended March 31, 2017. The increase is primarily due to the growth of our IIF, increased monthly and single policy production, and higher earnings from cancellations, partially offset by cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2017 ILN Transaction in May 2017.

For the three months ended March 31, 2018, net investment income increased \$0.8 million, compared to the three months ended March 31, 2017, due to an increase in the size of and improved yields on our total investment portfolio.

## Expenses

We recognize insurance claims and claims expenses in connection with the loss experience of our insured portfolio and incur other underwriting and operating expenses, including employee compensation and benefits, policy acquisition costs, and technology, professional services and facilities expenses, in connection with the development and operation of our business.

Insurance claims and claims expenses increased \$0.9 million for the three months ended March 31, 2018, compared to the three months ended March 31, 2017, as a result of an increase in NODs, driven by new defaults on insured loans impacted by hurricanes Harvey and Irma and the California wildfires, and an increase in the overall number of policies in our portfolio and aging of earlier book years, offset by the partial release of reserves related to prior year defaults.

Underwriting and operating expenses increased \$2.5 million or 9% for the three months ended March 31, 2018, compared to the three months ended March 31, 2017. Employee compensation accounts for the majority of our operating expenses. We increased the size of our workforce from 289 employees as of March 31, 2017 to 307 employees as of March 31, 2018 to support the growth of our business, particularly in our operating functions.

Underwriting and operating expenses for the three months ended March 31, 2017, included \$1.6 million of operating expenses related to the 2017 ILN Transaction and Amendment No. 1 to the Credit Agreement.

Interest expense was \$3.4 million for the three months ended March 31, 2018, compared to \$3.5 million for the three months ended March 31, 2017. Interest expense declined in connection with the amendment of our Credit Agreement completed in February 2017, which among other items, reduced the interest spread payable on the Term Loan. The interest expense reduction was partially offset by a rise in the underlying LIBOR rate. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Term Loan."

Income tax expense increased to \$4.2 million for the three months ended March 31, 2018 from \$1.2 million for the three months ended March 31, 2017 because of the growth in our pre-tax income, partially offset by a decrease in our effective tax rate. Our effective tax rate on our pre-tax income decreased to 15.7% for the three months ended March 31, 2018 from 18.5% for the three months ended March 31, 2017, primarily because the TCJA reduced the statutory U.S. federal corporate income tax rate to 21% for the current and all future years from 35% for all prior years through December 31, 2017. Our provision for income taxes for interim periods is established based on our estimated annual effective tax rate for a given year. We expect our annual effective tax rate for the year ending December 31, 2018 will approximate the current 21% statutory U.S. federal corporate income tax rate. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes."

Consolidated balance sheets	March 31, 2018	December 31, 2017
	(In Thousands)	
Total investment portfolio	\$723,790	\$715,875
Cash and cash equivalents	101,890	19,196
Premiums receivable	28,164	25,179
Deferred policy acquisition costs, net	40,026	37,925
Software and equipment, net	22,857	22,802
Prepaid reinsurance premiums	38,557	40,250
Deferred tax asset, net	16,343	19,929
Other assets	15,964	13,692
Total assets	\$987,591	\$894,848
Term loan	\$143,868	\$143,882
Unearned premiums	165,590	163,166
Accounts payable and accrued expenses	21,218	23,364
Reserve for insurance claims and claims expenses	10,391	8,761
Reinsurance funds withheld	33,179	34,102
Deferred ceding commission	4,838	5,024
Warrant liability	6,563	7,472
Total liabilities	385,647	385,771
Total shareholders' equity	601,944	509,077
Total liabilities and shareholders' equity	\$987,591	\$894,848

As of March 31, 2018, we had approximately \$825.7 million in cash and investments, including \$123.0 million held at NMIH. The increase in cash and cash equivalents and investments from December 31, 2017 primarily relates to net proceeds of approximately \$79.2 million from the common stock offering completed in March 2018 and cash generated from operations.

Premiums receivable was \$28.2 million as of March 31, 2018, compared to \$25.2 million as of December 31, 2017. The increase was primarily driven by the increase in our monthly premium policies in force, where premiums are generally paid one month in arrears.

Net deferred policy acquisition costs were \$40.0 million as of March 31, 2018, compared to \$37.9 million at December 31, 2017. The increase was driven by growth in the number of policies written during the period ended March 31, 2018 and the deferment of certain costs associated with the origination of those policies, partially offset by the amortization of previously deferred acquisition costs and the capitalization of ceding commissions associated with the 2016 QSR Transaction during the period.

Prepaid reinsurance premiums were \$38.6 million as of March 31, 2018, compared to \$40.3 million as of December 31, 2017. The prepaid reinsurance premiums balance represents the ceded unearned premiums reserve on the single premium policies under the 2016 QSR Transaction. The reinsurance coverage period of the 2016 QSR Transaction ended for new premiums written

as of December 31, 2017, and under our 2018 QSR Transaction we ceded premiums on an earned basis. Consequently, we did not cede any unearned premium reserves on single premium policies with coverage effective dates on or after January 1, 2018. The decrease in prepaid reinsurance premiums reflects the amortization of the unearned premium balance on single premium policies ceded under the 2016 QSR Transaction through December 31, 2017.

Unearned premiums increased \$2.4 million to \$165.6 million as of March 31, 2018, primarily due to single premium policy origination during the period, offset by the amortization through earnings of existing unearned premiums in accordance with the expiration of risk on the related policies and the cancellation of other single premium policies. Net deferred tax assets decreased to \$16.3 million as of March 31, 2018, from \$19.9 million at December 31, 2017, primarily due to the utilization of net operating loss carryforwards during the period. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes."

Accounts payable and accrued expenses decreased to \$21.2 million as of March 31, 2018, from \$23.4 million at December 31, 2017. The decrease was driven by the payment, during the first quarter of 2018, of bonuses accrued at year end. The decrease was partially offset by unsettled payments from the purchase of certain securities.

Reserve for insurance claims and claim expenses increased \$1.6 million to \$10.4 million at March 31, 2018, primarily due to an increase in our ending default inventory. See "- Insurance Claims and Claims Expenses," above for further details.

Reinsurance funds withheld was \$33.2 million as of March 31, 2018, representing ceded premiums written, less our profit and ceding commission receivables under the 2016 QSR Transaction. The decrease in reinsurance funds withheld of \$0.9 million from December 31, 2017, was a result of a decline in ceded premiums written due to the end of the effective reinsurance coverage period of the 2016 QSR Transaction at December 31, 2017. See, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance."

Warrant liability decreased to \$6.6 million at March 31, 2018, compared to \$7.5 million at December 31, 2017, primarily due to the decrease in our common stock price during the period, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants. For further information regarding valuation of our warrant liability and their impact on our results of operations and financial position, see Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 3, Fair Value of Financial Instruments."

The following table summarizes our consolidated cash flows from operating, investing and financing activities.

Consolidated cash flows	For the three months ended March 31,	
	2018	2017
Net cash provided by (used in) :	(In Thousands)	
Operating activities	\$21,131	\$(2,089 )
Investing activities	(16,570 )	(31,258 )
Financing activities	78,133	(1,856 )
Net increase (decrease) in cash and cash equivalents	\$82,694	\$(35,203)

Net cash provided by operating activities was \$21.1 million for the three months ended March 31, 2018, compared to cash used in operating activities of \$2.1 million in the three months ended March 31, 2017. The increase in cash generated from operating activities was primarily driven by growth in premiums written, partially offset by increased operating expenses in connection with employee compensation and benefit costs, as well as higher claims paid due to an increase in our default inventory.

Cash used in investing activities for the periods presented was driven by the purchase of fixed and short-term maturities during those periods. The cash outflow was lower by \$14.7 million in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to the timing of reinvestment activities across period end.

Cash provided by financing activities was \$78.1 million for the three months ended March 31, 2018, compared to cash used in financing activities of \$1.9 million for the three months ended March 31, 2017. The increase related to the cash proceeds of \$79.2 million raised in our common stock offering completed in March 2018, partially offset by the

increase in taxes paid on the net share settlement of equity awards.

40

---

### Holding Company Liquidity and Capital Resources

NMIH serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. NMIH's principal liquidity demands include funds for: (i) payment of certain corporate expenses; (ii) payment of certain reimbursable expenses of its insurance subsidiaries; (iii) payment of principal and interest related to the Term Loan; (iv) tax payments to the Internal Revenue Service; (v) capital support for its subsidiaries; and (vi) payment of dividends, if any, on its common stock. NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMIH, that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations).

As of March 31, 2018, NMIH had \$123.0 million of cash and investments. NMIH's principal source of operating cash is investment income and in the future could include dividends from NMIC, if available and permitted under law and by the GSEs.

In March 2018, NMIH completed the sale of 4.3 million shares of common stock, including the exercise of a 15% overallotment option to purchase additional shares, and raised proceeds of approximately \$79.2 million, net of underwriting discounts, commissions and other direct offering expenses. In April, 2018, NMIH made a capital contribution of \$70 million to NMIC.

NMIH has entered into tax and expense-sharing agreements with its subsidiaries which have been approved by the Wisconsin OCI, but such approval may be changed or revoked at any time. With the Wisconsin OCI's approval, NMIH began allocating the interest expense on its Term Loan to NMIC in the first quarter of 2017, consistent with the benefits NMIC received when NMIH down-streamed the loan proceeds to NMIC.

Our insurance subsidiaries' ability to pay dividends to NMIH is subject to insurance department notice or approval. Under Wisconsin law, the insurance companies may pay dividends up to specified levels (i.e., "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts, or "extraordinary" dividends, are subject to the Wisconsin OCI's prior approval. Under Wisconsin insurance laws, an extraordinary dividend is defined as any payment or distribution that together with other dividends and distributions made within the preceding 12 months exceeds the lesser of (i) 10% of the insurer's statutory policyholders' surplus as of the preceding December 31 or (ii) adjusted statutory net income for the 12-month period ending the preceding December 31.

NMIC has never paid any dividends to NMIH. NMIC reported a statutory net loss for the 12 months ended December 31, 2017 and cannot pay any dividends to NMIH through December 31, 2018 without the prior approval of the Wisconsin OCI. Re One has never paid dividends to NMIH. Re One currently has the capacity to pay ordinary dividends of \$505 thousand to NMIH. Certain other states in which NMIC and Re One are licensed also have statutes or regulations that restrict their ability to pay dividends.

NMIC's capital needs depend on many factors including its ability to successfully write new business, establish premium rates at levels sufficient to cover claims and operating costs and meet minimum required asset thresholds under the PMIERs and state capital requirements. NMIC's capital needs also depend on its decision to access the reinsurance markets. NMIH may require liquidity to fund the capital needs of its insurance subsidiaries.

In November 2015, NMIH entered into the Credit Agreement for the Term Loan. On February 10, 2017, NMIH amended the Credit Agreement (Amendment No. 1) to reduce the interest rate and extend the maturity date of the Term Loan from November 10, 2018 to November 10, 2019. The amended Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 6.75%, payable monthly or quarterly based on our interest rate election. On October 25, 2017, NMIH further amended the Credit Agreement (Amendment No. 2) to remove a covenant that required NMIH to maintain liquidity (as defined therein) in an aggregate amount no less than all remaining interest payments due under the Term Loan. As modified by Amendment No. 2, the Credit Agreement retains the requirement that NMIH maintain liquidity in an aggregate amount no less than the sum of all remaining principal amortization payments due under the Term Loan, excluding principal scheduled to be paid on its maturity date, determined to be \$2.3 million as of March 31, 2018. The Credit Agreement contains other restrictive covenants and required financial ratios and tests (which were not modified by Amendments No.1 or No.2) that we are required to meet or maintain. The current covenants include, but are not



limited to the following: a maximum debt-to-total capitalization ratio (as defined therein) of 35%, maximum RTC ratio of 22.0:1.0, minimum liquidity (as modified by Amendment No. 2 and defined therein), compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and minimum shareholders' equity requirements.

### Consolidated Investment Portfolio

Our primary objectives with respect to our investment portfolio are to preserve capital and generate investment income, while maintaining sufficient liquidity to cover our operating needs. We aim to achieve diversification by type, quality, maturity, and industry. We have adopted an investment policy that defines, among other things, eligible and ineligible investments, concentration limits for asset types, industry sectors, single issuers, and certain credit ratings, and benchmarks for asset duration.

Substantially all of our investment portfolio is held in fixed maturity instruments. As of March 31, 2018, the fair value of our investment portfolio was \$723.8 million. We also had an additional \$101.9 million of cash and equivalents as of March 31, 2018. Pre-tax book yield on the portfolio for the three months ended March 31, 2018 was 2.4%. The book yield is calculated as period-to-date net investment income divided by the average amortized cost of the investment portfolio. Yield on the investment portfolio is likely to change over time based on movements in interest rates, the duration or mix of our investment portfolio and other factors.

The following tables present a breakdown of our investment portfolio and cash and cash equivalents by investment type and credit rating.

Percentage of portfolio's fair value	March 31, 2018	December 31, 2017
Corporate debt securities	54 %	59 %
Asset-backed securities	15	14
Cash, cash equivalents, and short-term investments	13	6
Municipal debt securities	11	12
U.S. treasury securities and obligations of U.S. government agencies	7	9
Total	100 %	100 %

Investment portfolio ratings at fair value <sup>(1)</sup>	March 31, 2018	December 31, 2017
AAA	27 %	21 %
AA <sup>(2)</sup>	18	19
A <sup>(2)</sup>	40	46
BBB <sup>(2)</sup>	15	14
Total	100 %	100 %

<sup>(1)</sup> Excluded certain operating cash accounts.

<sup>(2)</sup> Includes +/- ratings.

The ratings above are provided by one or more of: Moody's, S&P and Fitch Ratings. If three ratings are available, we assign the middle rating for classification purposes, otherwise we assign the lowest rating.

### Other Items

#### Off-Balance Sheet Arrangements and Contractual Obligations

We had no material off-balance sheet arrangements as of March 31, 2018. In connection with the 2017 ILN Transaction, we have certain future contractual commitments to Oaktown Re, a special purpose VIE that is not consolidated in our financial results. See "Financial Statements - Notes to Condensed Consolidated Financial Statements - "Note 5, Reinsurance."

#### Critical Accounting Estimates

We use accounting principles and methods that conform to GAAP. Where GAAP specifically excludes mortgage insurance we follow general industry practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with revenue recognition, fair value measurements, our investment portfolio, deferred policy acquisition costs, premium deficiency reserves, income taxes, reserves for insurance claims and claims expenses, warrants and share-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting estimates. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2017 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large portfolio of various holdings, types and maturities. NMIH's principal source of operating cash is investment income. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance.

We manage market risk via a defined investment policy implemented by our treasury function with oversight from our Board of Director's Risk Committee. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

Changes to the level of interest rates. Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates of our insurance portfolio, and as a result we may determine that our investment portfolio needs to be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse. Additionally, the changes in Eurodollar based interest rates affect the interest expense related to the Company's debt.

Changes to the term structure of interest rates. Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.

Market volatility/changes in the real or perceived credit quality of investments. Deterioration in the quality of investments, identified through changes to our own or third party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.

Concentration Risk. If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.

Prepayment Risk. Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

The carrying value of our investment portfolio as of March 31, 2018 and December 31, 2017 was \$724 million and \$716 million, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of March 31, 2018, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.39 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.39% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.78 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.78% in fair value of our fixed income portfolio.

We are also subject to market risk related to our Term Loan and 2017 ILN Transaction. As discussed in Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Term Loan," the Term Loan bears interest at a variable rate and, as a result, increases in market interest rates would generally result in increased interest expense on our outstanding principal.

The risk premium amounts under the 2017 ILN Transaction are calculated by multiplying the outstanding reinsurance coverage amount at the beginning of any payment period by a coupon rate, which is the sum of 1-month LIBOR and a risk margin, and then subtracting actual investment income earned on the trust balance during that payment period. An increase in 1-month LIBOR rates would generally increase the risk premium payments, while an increase to money market rates, which directly affect investment income earned on the trust balance, would generally decrease them. Although we expect the two rates to move in tandem, to the extent they do not, it could increase or decrease the risk premium payments that otherwise would be due.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of March 31, 2018 pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018 our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

##### Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

Certain lawsuits and claims arising in the ordinary course of business may be filed or pending against us or our affiliates from time to time. In accordance with applicable accounting guidance, we establish accruals for all lawsuits, claims and expected settlements when we believe it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. When a loss contingency is not both probable and estimable, we do not establish an accrual. Any such loss estimates are inherently uncertain, based on currently available information and are subject to management's judgment and various assumptions. Due to the inherent subjectivity of these estimates and unpredictability of outcomes of legal proceedings, any amounts accrued may not represent the ultimate resolution of such matters.

To the extent we believe any potential loss relating to such lawsuits and claims may have a material impact on our liquidity, consolidated financial position, results of operations, and/or our business as a whole and is reasonably possible but not probable, we disclose information relating to any such potential loss, whether in excess of any established accruals or where there is no established accrual. We also disclose information relating to any material potential loss that is probable but not reasonably estimable. Where reasonably practicable, we will provide an estimate of loss or range of potential loss. No disclosures are generally made for any loss contingencies that are deemed to be remote.

Based upon information available to us and our review of lawsuits and claims filed or pending against us to date, we have not recognized a material accrual liability for these matters, nor do we currently expect it is reasonably possible that these matters will result in a material liability to the Company. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of such matters currently pending or threatened could have an unanticipated material adverse effect on our liquidity, consolidated financial position, results of operations, and/or our business as a whole, in the future.

#### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our 2017 10-K. As of the date of this report, other than as included below, we are not aware of any material changes in our risk factors from the risk factors disclosed in our 2017 10-K. You should carefully consider the risks and uncertainties described herein and in our 2017 10-K, which have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. The risks described herein and in our 2017 10-K are not the only risks we face, as there are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial which may in the future adversely affect our business, financial condition and/or operating results.

We face intense competition for business in our industry from existing private MI providers and potentially from new entrants. If we are unable to compete effectively, we may not be able to achieve our business goals, which would adversely affect our business, financial condition and operating results.

The MI industry is highly competitive. With six private MI companies actively competing for business from the same residential mortgage originators, it is important that we continue to differentiate ourselves from the other mortgage insurers, each of which sells substantially similar products to ours. We compete with other private mortgage insurers based on our terms of coverage, underwriting guidelines, pricing, customer service (including speed of MI underwriting and decisions), availability of ancillary products and services (including training and loan review services), financial strength, information security, customer relationships, name recognition and reputation, the strength of management teams and sales organizations, the effective use of technology, and innovation in the delivery and servicing of insurance products.

One or more of our competitors may seek to capture increased market share from the public MIs, such as the FHA or VA, or from other private mortgage insurers by reducing prices, offering alternative coverage and product options, including offerings for loans not intended to be sold to the GSEs, loosening their underwriting guidelines or relaxing risk management policies, which could, in turn, improve their competitive positions in the industry and negatively impact our ability to achieve our business goals. Competition within the private mortgage insurance industry could result in our loss of customers, lower premiums, riskier credit guidelines and other changes that could lower our revenues or increase our expenses. If our information technology systems are inferior to our competitors', existing and

potential customers may choose our competitors' products over ours. If we are unable to compete effectively against our competitors and attract and retain our target customers, our revenue may be adversely impacted, which could adversely impact our growth and profitability.

In addition, we and most of our competitors, either directly or indirectly, offer certain ancillary services to mortgage lenders with which we also conduct MI business, including loan review, training and other services. For various reasons, including those

related to resources or compliance, we may choose not to offer these services at all or not to offer them in a form or to the extent that is similar to the prevailing offerings of our competitors. If we choose not to offer these services, or if we were to offer ancillary services that are not well-received by the market and fail to perform as anticipated, we could be at a competitive disadvantage which could adversely impact our profitability.

Certain of our competitors are subsidiaries of larger and more diversified corporations that may have access to greater amounts of capital and financial resources than we do, or at a lower cost of capital, and some have better financial strength ratings than we have. As a result, they may be better positioned to compete in and outside of the traditional MI market, including when the GSEs pursue alternative forms of credit enhancement other than private MI. In particular, Freddie Mac recently commenced piloting a new credit risk transfer program under which it purchases high-LTV loans (i.e., LTVs above 80%) without MI and subsequently places mortgage insurance with a captive insurer controlled by one of our competitors, which captive in turn cedes 100% of the risk to a panel of offshore reinsurers (Freddie Mac calls the program IMAGIN). There have been media reports that Fannie Mae is considering a similar initiative. Although IMAGIN is currently in the pilot phase, we believe it competes with traditional LPMI products offered by private MI companies, including ours, and may gain traction in the market if, and to the extent, IMAGIN pricing is lower than prevailing LPMI rates and features of the IMAGIN offering cause originators and the GSEs to materially modify their historical preference for private MI as credit enhancement on high-LTV loans. In addition, the pricing of IMAGIN and competing LPMI products may allow these products to begin to impinge on BPMI market share, or may cause MIs, including NMIC, to reduce BPMI rates to deter this from occurring. Our financial strength ratings may remain important for our customers to maintain confidence in our products and our competitive position. A downgrade in NMIC's ratings or ratings outlook could have an adverse effect on our financial condition and operating results, including (i) increased scrutiny of our financial condition by our customers, resulting in potential reduction in our NIW or (ii) negative impacts to our ability to conduct business in the non-GSE mortgage market, where financial strength ratings may be more important for such lenders. In addition, although financial strength ratings are not a requirement to remain an Approved Insurer under the current PMIERs framework, they may play a greater role to the extent GSEs use forms of credit enhancement other than traditional MI, including use of deeper MI coverage or other forms of credit risk transfer.

The amount of insurance we may be able to write could be adversely affected if lenders and investors select alternatives to private MI.

If lenders and investors select alternatives to private MI on high-LTV loans, our business could be adversely affected. These alternatives to private MI include, but are not limited to:

- lenders using government mortgage insurance programs, including those of the FHA and the VA, and state-supported mortgage insurance funds in several states, including Massachusetts and California;
- lenders and other investors holding mortgages in portfolio and self-insuring;
- GSEs and other investors using credit enhancements other than MI (including alternative forms of credit risk transfer such as IMAGIN), using other credit enhancements in conjunction with reduced levels of MI coverage, or accepting credit risk without credit enhancement;
- lenders originating mortgages using "piggy-back" or other structures to avoid MI, such as a first mortgage with an 80% LTV and a second mortgage with a 10%, 15% or 20% LTV (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with an LTV above 80% that has MI; and
- borrowers paying cash or making large down payments versus securing mortgage financing, which has occurred with greater frequency in the years following the most recent financial crisis.

Any of these alternatives to private MI could reduce or eliminate the need for our products, could cause us to lose business and/or could limit our ability to attract the business that we would prefer to insure.

Further, at the direction of the FHFA, the GSEs have expanded their credit and mortgage risk transfer programs. These programs have included the use of structured finance vehicles, obtaining insurance from non-mortgage insurers (e.g., IMAGIN), including off-shore reinsurance, engaging in credit-linked note transactions in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors. The growing success of these programs and the perception that some of these risk-sharing structures have beneficial features in comparison to private MI (e.g., lower costs, reduced counter-party risk due to collateral requirements or more



diversified insurance exposures) may create increased competition for private MI on loans traditionally sold to the GSEs with private MI.

Beginning in 2008, the public MIs, principally the FHA and VA, significantly expanded their role in the MI market as incumbent private mortgage insurers came under significant financial stress. While declining from peak market share following the

most recent financial crisis, the market share of the public MIs remains substantially above their historically low market share prior to 2008. Government mortgage insurance programs are not subject to the same capital requirements, costs of capital, risk tolerance or business objectives that we and other private mortgage insurers are, and therefore, generally have greater financial flexibility in setting their pricing, guidelines and capacity, which could put us at a competitive disadvantage. Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, it remains difficult to predict whether the combined market share of the public MIs will recede to historical levels. These agencies may continue to maintain a strong combined market position and could increase their market share in the future.

Factors that could cause government-supported mortgage insurance programs to remain significant include:

- federal housing policy, including future premium reductions or loosening of underwriting guidelines;
- increases in premium rates or tightening of underwriting guidelines by private mortgage insurers;
- capital constraints in the private MI industry;
- increase in capital requirements imposed on private mortgage insurers by the GSEs or states;
- continuation of increases to or imposition of new GSE loan delivery fees on loans that require MI, which may result in higher borrower costs for MI loans compared to loans insured by public MIs;
- loans insured under federal government-supported mortgage insurance programs are eligible for securitization in Ginnie Mae securities, which may be viewed by investors as more desirable than GSE securities due to the explicit backing of Ginnie Mae securities by the full faith and credit of the U.S. federal government;
- difference in the spread between GSE mortgage-backed securities and Ginnie Mae mortgage-backed securities;
- increase in public MIs' loan limits above GSE loan limits; and
- perceived operational ease of using insurance from public MIs compared to private MI.

If the public MIs maintain or increase their share of the mortgage insurance market, our business and industry could be negatively affected.

The degree to which lenders or borrowers may select these alternatives now, or in the future, is difficult to predict. As one or more of the alternatives described above, or new alternatives that enter the market, are chosen over MI, our revenues could be adversely impacted. The loss of business in general or the specific loss of more profitable business could have a material adverse effect on our financial position and operating results.

Changes in the business practices of the GSEs, including a decision to decrease or discontinue the use of private MI, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.

The requirements and practices of the GSEs impact the operating results and financial performance of GSE-approved private mortgage insurers. Changes in the charters or business practices of Freddie Mac or Fannie Mae could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. The GSEs could be directed to make such changes by the FHFA, which was appointed as their conservator in September 2008 and has the authority to control and direct the operations of the GSEs.

With the GSEs in a prolonged conservatorship, there has been ongoing debate over the future role and purpose of the GSEs in the U.S. housing market. The U.S. Congress may legislate structural and other changes to the GSEs and the functioning of the secondary mortgage market. Since 2011, there have been numerous legislative proposals intended to incrementally scale back the GSEs (such as a statutory mandate for the GSEs to transfer mortgage credit risk to the private sector) or to completely reform the housing finance system. Congress, however, has not enacted any legislation to date. The proposals vary greatly with regard to the government's role in the housing market, and more specifically, with regard to the existence of an explicit or implicit government guarantee. If any GSE reform legislation is enacted, it could impact the current role of private mortgage insurance as credit enhancement, including its reduction or elimination, which would have an adverse effect on our revenue, operating results, prospects or financial condition. As a result of these matters, it is uncertain what role private capital, including MI, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes to the charters or statutory authorities of the GSEs would require Congressional action to implement. Passage and timing of any comprehensive GSE reform

legislation or incremental change is uncertain and could change through the legislative process, which could take time, making the actual impact on us and our industry difficult to predict. With the current administration and Republican majority in Congress (including the resulting control of key committees addressing GSE reform), there is a possibility for greater consensus, although much uncertainty remains regarding the details of any reform as well as when it would be enacted or implemented. Any such changes that come to pass could have a significant impact on our business.

In recent years, the FHFA has set goals for the GSEs to transfer significant portions of the GSEs' mortgage credit risk to the private sector. To date, several credit risk transfer products have been created under the program, including IMAGIN and others discussed above in "The amount of insurance we may be able to write could be adversely affected if lenders and investors select alternatives to private MI." To the extent these credit risk products evolve in a manner that displaces primary MI coverage, the amount of insurance we write may be reduced. It is difficult to predict the impact of alternative credit risk transfer products, if any, that are developed to meet the goals established by the FHFA.

Item 6. Exhibits

An index to exhibits has been filed as part of this report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NMI HOLDINGS, INC.

May 1, 2018

By: /s/ Adam Pollitzer

Name: Adam Pollitzer

Title: Chief Financial Officer and Duly Authorized Signatory

# EXHIBIT INDEX

Exhibit Number	Description
2.1	<u>Stock Purchase Agreement, dated November 30, 2011</u> , between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
2.2	<u>Amendment to Stock Purchase Agreement, dated April 6, 2012</u> , between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.1	<u>Second Amended and Restated Certificate of Incorporation</u> (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.2	<u>Third Amended and Restated By-Laws</u> (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, filed on December 9, 2014)
4.1	<u>Specimen Class A common stock certificate</u> (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.2	<u>Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets &amp; Co., dated April 24, 2012</u> (incorporated herein by reference to Exhibit 4.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.3	<u>Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012</u> (incorporated herein by reference to Exhibit 4.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.4	<u>Registration Rights Agreement between FBR &amp; Co., FBR Capital Markets LT, Inc., FBR Capital Markets &amp; Co., FBR Capital Markets PT, Inc. and NMI Holdings, Inc., dated April 24, 2012</u> (incorporated herein by reference to Exhibit 4.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.5	<u>Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets &amp; Co., dated June 13, 2013</u> (incorporated herein by reference to Exhibit 4.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.6	<u>Form of Warrant to Purchase Common Stock of NMI Holdings, Inc. issued to former stockholders of MAC Financial Ltd.</u> (incorporated herein by reference to Exhibit 4.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.1 ~	<u>NMI Holdings Inc. 2012 Stock Incentive Plan</u> (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (registration No. 333-191635), filed on October 9, 2013)
10.2 ~	<u>Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and Chief Financial Officer</u> (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.3 ~	<u>Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management</u> (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.4 ~	<u>Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Directors</u> (incorporated herein by reference to Exhibit 10.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.5 ~	<u>Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer</u> (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.6 ~	<u>Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management</u> (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)

- 10.7 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
- 10.8 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017)
- 10.9 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017)
- 10.10 ~ Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015)

- 10.11 Offer Letter by and between NMI Holdings, Inc. and William Leatherberry, dated July 11, 2014 (incorporated ~ herein by reference to Exhibit 10.10 to our Form 10-Q, filed on April 28, 2016)
- 10.12 Offer Letter by and between NMI Holdings, Inc. and Adam Pollitzer, dated February 1, 2017 (incorporated ~ herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 3, 2017)
- 10.13 Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive ~ officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014)
- 10.14 Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the ~ Portfolio of approximately \$5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. + 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
- 10.15 Credit Agreement, dated November 10, 2015, between NMI Holdings, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on November 10, 2015)
- 10.16 Amendment No. 1, dated February 10, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative ~ agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 10, 2017)
- 10.17 Amendment No. 2, dated October 25, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative ~ agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on October 26, 2017)
- 10.18 NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan (incorporated herein by reference to ~ Appendix A to our 2017 Annual Proxy Statement, filed on March 30, 2017)
- 10.19 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit ~ Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.19 to our Form 10-Q filed on August 1, 2017)
- 10.20 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit ~ Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.20 to our Form 10-Q filed on August 1, 2017)
- 10.21 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit ~ Award Agreement for Employees (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q filed on August 1, 2017)
- 10.22 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit ~ Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.22 to our Form 10-Q filed on August 1, 2017)
- 10.23 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option ~ Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.23 to our Form 10-Q filed on August 1, 2017)
- 10.24 Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option ~ Award Agreement for Executive Officers and Employees (incorporated herein by reference to Exhibit 10.24 to our Form 10-Q filed on August 1, 2017)
- 10.25 Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Phantom Unit Award Agreement for Independent ~ Directors (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q, filed on August 5, 2015)
- 10.26 Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award ~ Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.26 to our Form 10-K, filed on February 17, 2017)
- 10.27 NMI Holdings, Inc. Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, ~ filed on February 17, 2016)
- 10.28 NMI Holdings, Inc. Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit ~ 10.1 to our Form 8-K, filed on February 23, 2017)



Edgar Filing: NMI Holdings, Inc. - Form 10-Q

- 10.29 NMI Holdings, Inc. Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed ~ on February 23, 2017)
- 21.1 Subsidiaries of NMI Holdings, Inc. (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q, filed on October 30, 2015)
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 # Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 formatted in XBRL (eXtensible Business Reporting Language):

(i) Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017

101 (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2018 and 2017

\* (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and the year ended December 31, 2017

(iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017, and

(v) Notes to Condensed Consolidated Financial Statements.

~ Indicates a management contract or compensatory plan or contract.

+ Confidential treatment granted as to certain portions, which portions have been filed separately with the SEC.

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act except to the extent that the registrant specifically incorporates it by reference.

In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act except to the extent that the registrant specifically incorporates it by reference.