Company Name: NMI Holdings, Inc. (NMIH)
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<<Analyst, JMP Securities LLC>>

I have NMI Holdings presenting today. They are provider of private mortgage insurance, offering credit protection to lenders by covering a portion of the unpaid balance of the mortgage upon default.

The Company was formed in May of 2011 and is licensed to add business in all 50 states n D.C. As of September 30th, which was just announced this morning, the Company has nine national and 176 accounts that are sending the Company business. And I believe, if I got this correct, 25 national and 625 regional that have approved master policies now.

Presenting I have Brad Shuster, who is the Chairman, President and Chief Executive Officer and J. Sherwood, who is the Executive Vice President and Chief Financial Officer.

I'll kick it off with a question about your announcement this morning, the $950 million of new insurance written in the quarter. I think that was a surprise to everybody with the upside. Can you just sort of, I guess, walk through where you're seeing the opportunities and what was really the driving force, nearly doubling new insurance written over the second quarter?

<<Bradley M. Shuster, Chairman, President & Chief Executive Officer>>

Sure. Thanks Christine. We're very encouraged by the growth we were able to deliver in the third quarter. We saw that in all three areas of business we ride we tend to break it down into our normal monthly flow business, which more than doubled through the quarter. Our single premium business, which also grew substantially, and then our aggregated single, which showed good growth as well.

So we're very encouraged by that, very encouraged by the 185 active customers that are now generating NIW with us. That's growing nicely and we have also got some large, very large customers, aggregators, large banks that came online and the third quarter – because of delay business kind of starts up with them. They've not given us substantial amount of NIW in the third quarter, but we're expecting a good production out of them in the fourth quarter. So it makes us really encouraged as we look forward into the close of this year and into next year.

<<Analyst, JMP Securities LLC>>

And breaking down the numbers, I could be incorrect on this, but I think this maybe one of the first times that you've give us monthly single, an aggregated single and they've varying buckets. How would you expect this mix to change going forward?

<<Bradley M. Shuster, Chairman, President & Chief Executive Officer>>

Well, we have disclosed the aggregated single because we're small and starting out. So it tends to be lumpy and it's a relatively large part of our total now, we don't expect that that will be the case as we mature as a company and we're thinking it will be somewhere on the order of 10% to 20% of our total production as we mature.

So I think you'll see that declining as the times goes on.

<<Analyst, JMP Securities LLC>>

What about the mix between the monthly and the singles, is that, do you see any shift happening there?

<<Bradley M. Shuster, President and Chief Executive Officer>>

Yeah I think that's still may be a little bit on a high side and you'll see the monthly to overtime emerge as being the most dominant part of our portfolio.

<<Analyst, JMP Securities LLC>>

Any questions from the audience? Okay I'll go ahead if none there.

I know you've recently on-boarded as you were saying one of your large clients and you've been with Wells for about a year now. What sort of market share do you think you can get from some of these larger players as you mature with them?

<<Bradley M. Shuster, President and Chief Executive Officer>>

Well, we started with Wells in the second quarter this year. We're not kind of putting out guidance in terms of what share we can have. I will just say generally, we feel good about our prospects for having significant share with the large customers, because of the terms in our master policy, that we're able to offer those customers. They are – offer more reliability and better protection for the customer, we believe than any other player in the industry, because of our underwriting everyone and that we insure and that allows us to offer 12-month rescission relief for our customers.

So that's been important in getting us in the door with these large institutions. It's a very complex boarding process that they have to go through to add new counter party in our space, especially after the Dodd-Frank regulations have got into place.

So it's our belief that they haven't gone through the amount of work that they've gone through, both in terms of counterparty approval, as well as in IT hookups that they need to put into place in order to do business with us. We don't think they've gone through that, in order to make us a small share player. We think overtime we will grow into a very nice share situation, there's seven companies in the industry, I think in a large – a number of these shops we can better than a pro-rata share. Yes.

Q&A

<Q>: [Question Inaudible]

<A – Bradley Shuster>: So we spend surprisingly little amount of time worrying about the size of the market. We're small and we don't want the size of the market to be something we're worried about or using as an excuse for not getting the kind of production volume that we need. So we really don't need even our pro rata share out of the seven participants in the industry to have a great business here. So that's number one.

Number two, part of why we've done this and probably why we're excited about our ability to address the market is we believe over the next five to 10 years there's going to be very good demand in the first-time home buyer segment of the market. You're about to have record numbers of people hit the age group where they typically have bought their first home and, yes, we can argue about student.

I think that will delay it somewhat, in a major way somewhat, but there's a still a very strong demographic factor that's going to becoming into play. And if you look at how much those people and then the sort of mid 30s have saved at this point in their lives relative to what they need to put 20% down payment, they just don't have it. So we believe there's going to be very strong demand for private mortgage insurance even in a situation where you may have sort of not real robust growth in the overall mortgage market.

<A – Jay Sherwood>: The other thing I would add is we do expect share to continue to shift back from the FHA. We estimate about 30% of what the FHA ensures could – the bar could receive a better rate if it was done through private mortgage insurance. And so that's about 60/40 mix right now, 60% of the ensured market, the FHA, 40% of private [indiscernible]. We expect to continue to migrate closer to 50/50.

<Q>: You sort of touched on this a little bit earlier, but one of the things that differentiates you and this largely commoditized market is the fact that you underwrite every loan. What sort of feedback do you get from your customers on that? And do you think that the industry will catch up with you on that point?

<A – Bradley Shuster>: Well, the feedback we've got and now it's very good from customers and we think that will translate, as I said earlier, into share over time. Just a little background on that – my background. I ran the international division for PMI, a mortgage insurance company. But outside of the U.S. the government doesn't play its bigger role in the mortgage market as they do here in the U.S.

So we were selling mortgage insurance to banks who were putting the product on their balance sheet. And so, it wasn't an option to sell them a mortgage insurance policy, have the homeowner default and then resend or deny the claim. We had to pay our claimer we never saw them on the policy. And that's the mindset we're bringing to this new company, we're the only one to underwrite every one of them. That allows us to give better terms of coverage, and the feedbacks and grade.

And we think overtime as we show more and more traction, yes we will not be surprised to see the industry move in our direction. You've already seen some of the competitors offering, our way of doing business as an option. We think as we start to show more and more traction with the large vendors in particular, it will move from being not just an option, but it'll be the way business is done. But it's going to take some time to show those results and to cause the industry to follow.

<Q>: [Question Inaudible]

<A – Jay M. Sherwood>: Yes sure. So we still think this is a mid to high-teens return business, right. Even with the new capital guidelines that are out there. You may save a point or two off the historical average, but still a mid to high-teens return business, if the guidelines come out as is.

In terms of underwriting every loan, so we try to qualify that for people. We'd process around $100 per loan to underwrite it. I remember the incremental cost to us relative to others is the only loan that come through that delegated channel, which is about 50% of the business being done today, all right.

So at a $100 per loan and an average loan size of $225,000, it ends up being around $500,000 of incremental cost to us for every billion dollars of NIW that we do through the delegated channel. And I remember we incurred that cost up front in a given year and then that loan produces revenue for on average say five years, all right. So it's all an upfront cost for the given year, but as you build the book of business, your revenue is based on multiple years of production. So in terms of an impact on the expense ratio it probably won't be noticeable.

Operator: Any other question from the audience?

<Q>: How many master policies do you ultimately target for approval and sort of how do you see the ramp of getting that over the next couple of years?

<A – Bradley Shuster>: We haven't really indicated a target in terms of master policies, but I think I could see us getting to the 1,000 number over time.

<Q>: And how many of those would you expect to be to be funding NIW?

<A – Bradley Shuster>: Well, I mean that's the job we have to do once – you have to start with the master policy and then once you have that then you have to get that first policy in the door. So our ramp from 102 customers sending us NIW at the end of second quarter to 185 at the end of third quarter, we think it's very encouraging sign about our ability to get customers with which we have a master policy to send us business.

And once an originator sent you that first policy, we think it's really unlikely that that's your last policy. We think it's creating a positive customer experience, just going to lead to more and more business out of each one of those customers. So we are very, very focused on causing those lines of approved master policies to convert with the line of customers who send us business.

<Q – Jay Sherwood>: I don't think it'd be unreasonable to assume in a given period 75% of your master policy holders will send you business, right – over some period of time. Now that's not going to happen this year and next year because obviously we'll continue to grow that, the number of master policies that we have executed, but that's probably a long-term number that you can look to.

One thing that I think it's worth explaining again is you're all aware that we had wells open up their corresponding channel to us in April-May time frame of this year. Chase was a more recent addition and the addition of those two lenders in the corresponding channel is really going to allow us to penetrate those master policies, right, it's one of the reasons we went from 102 customers generating NIW up to 185. We weren't really able to access the field until we got this correspondent approval. So we think that bodes off for converting a number of the master policy holders that we have today.

<Q>: Okay.

<A – Bradley Shuster>: Question?

<Q>: [Question Inaudible]

<A – Bradley Shuster>: Not that we're aware of, right, I mean nothing specific that we can think of. I think team the guidelines that were put out by pressure on the entire industry for the most part and probably had something to do with it.

<Q>: [Question Inaudible]

<A – Bradley Shuster>: The FHA?

<Q>: Yes.

<A – Bradley Shuster>: I don't see that in the cards. They've indicated that they are probably not increasing premiums anytime soon, but we don't see the FHA having a desire to increase their share in the marketplace. I suspect banks will start to coming back into the market and removing their overlays or broadening the credit box which will be an incentive for the FHA to not do that sort of thing, but I don't see that is on the table right now.

<Q>: Touching on PMIERs, quickly I know that it's not something that was impactful to you guys with some of the other players in the industry in a shorter term and your letter is publicly available, your common letter. But what points do you specifically look to, or you would like to see change or you think there the greatest likelihood of change from their proposed form?

<A – Bradley Shuster>: Well, as you mentioned, our letter it is public, so we've asked for some very limited credit for future premiums. One year credit would be great. Claim payments do take time and the monthly premiums come in on a contractual basis. So some acknowledgement that that's, a claim is being resourced we believe would be logical and appropriate.

And then also even though it doesn't benefit us as a new company, we think there should be some seasoning adjustment for books that have passed their peak loss years. And again that won't help us, but we just thought it was logical to adjust the draft rules to reflect that. But generally, we think the draft rules are very positive step in the right direction to get the industry back on firm capital footing and to play a very significant role in the future housing finance scheme.

So we are very supportive of the rules and would like to see them implemented without further delay.

<Q>: How do you feel about the level of competition in the market with, you know few new entrants coming in lately, yourself included. Over the next few years do you expect to see a little bit more of a leveling of market share? I known that some of the older players have gotten a bit of an outsized market share lately?

<A – Bradley Shuster>: Right. There are certain active companies in the industry which is sort of the number that's been historically in play, that's a very competitive marketplace. But we think because of our value proposition for our customers that we can compete very well in that non-environment. If you mentioned the couple of the legacy companies have grown dramatically throughout the financial crisis and currently enjoy market share numbers that are sort of historically unprecedented in a seven competitor industry.

So when I look at that, I see that as opportunity for us to penetrate both those accounts and to have those kind of share levels return to levels that are more historically normal.

<Q>: [Question Inaudible]

<A – Bradley Shuster>: Yeah, so it's clean, unencumbered capital, non legacy risk. As we underwrite everyone which enables us to offer the best terms of coverage available in the marketplace, we have the only brand new technology platform in the industry. So it's easy to do business with us. And we have our great experience team of people put together in order to built deep relationships with our customers. So that's it very simply.

<Q>: And how view yourself. So are you still looking to build it out of that, or do you feel that you have the sales force in place to grow the way you would like to in this market?

<A – Bradley Shuster>: We've essentially, fully hired our sales force and we did that relatively early in our lifespan. So we could bring customers on board, and get the master policies in place and begin to generate NIW. And we had a great value proposition to sell to people to join us.

So we feel like we’ve hired a great team of sales people, both at the field level which call on the small median size lenders, as well as the National Account lenders, which call on the largest institutions in the country. We might look to supplement our current compliment with just a few people, but we think we’re able to fully cover the market with what we have now.

And additionally, now that a lot there the formative steps that we had to complete, in order to get our franchise fully operational, are now complete and we’re fully licensed in all 50 states, first through all our GSC approvals and all that. We spend, as a senior management team, fair amount of time on relationship building with our large, most important customers. We think that we want to have that connection all the way from their C-Suite to our C-Suite and use that to build really long term deep relationships with our customers, which we think will create opportunities to benefit both of us.

Operator: Any questions.

<Q>: The GSCs continue to cede risk and then you guys did one such deal. Do you have an appetite to do any more of those type of pool deals?

<A – Bradley Shuster>: Yeah, sure. So any of the pool transactions that they put forward, we’ll certainly take a look at and we’re interested in bidding on. It all comes down to the type of product that we’re ensuring the return. But, yes, if they do more transactions like that we’ll certainly look to participate.

<Q>: And have you seen any in the market that are attractive enough at this point to participate, or is there a bit of competition there.

<A – Bradley Shuster>: So of the types that we have done there’s only been one subsequent transaction and we did bid on that transaction, but we’re not, we weren’t awarded the pool. But that’s the last one that we’ve seen.

<A – Jay Sherwood>: The second one had very different risk we had to risk extend the one we want. So I don’t know that we were going to see another opportunity quite like the one we got we were very happy with that transaction thing is going to service well.

<Q>: Any further in the audience? All right. What would you say are your top priority is for NMI over the next two to three years?

<A – Bradley Shuster>: Well, it’s really just execution. We’re really down to blocking and tackling. We’ve overcome a number of hurdles that you need to complete in order to start a franchise in this business. You can see there’s only been two new companies start to know though in this industry in the last 20 years. So there’s a lot of activity that needs to take place to get to this point. Now half the way it’s just blocking and tackling and adding new customers, converting them into NIW, generating customers, increasing share.

So it’s really very, very simple at this point and we feel really well positioned to where we are in order to do that. We think the numbers that we released this morning are very encouraging and in terms of demonstrating our ability to execute so we've had some exciting things we believe coming on in the fourth quarter. And it makes us very, very optimistic as we look forward to next year into how we'll to continue to ramp our capital and to capitalize on the opportunity that caused us to enter this business.

<Q>: Okay. Any follow-up questions?

<Q>: [Question Inaudible].

<A – Jay Sherwood>: So we haven't given a timeframe around that, what we have said though is we'll need $12 billion to $14 billion of insurance and force to break-even or just under $2 billion of insurance and force right now, so only $12 billion to $14 billion of insurance and force. What we have said that may help you think about that is that we'll need to raise capital in the 2016 timeframe and the reason in this capital is because we've been involved – we fully leveraged our existing capital base by that point.

<Q>: All right.

<Q>: [Question Inaudible]

<A – Bradley Shuster>: I think for me it would be a timing issue, right, relative to the expectations. It takes a long time to get engaged with customers. Now we've passed that with the majority of the large accounts which tend to have the longest vendor approval process, but for me, I think it would be a timing issue as opposed to some issue as a small or inability to penetrate customers at all.

<A – Jay Sherwood>: Yeah, when you're on this kind of a growth curve it's just a little difficult to pinpoint revenue growth and NIW growth on a quarter-to-quarter basis. So you have very large amounts of growth. And so, we're working hard to try and improve our ability to forecast that, but there is somewhat of an uncertainty in that as the timing.

<<Analyst, JMP Securities LLC>>

All right. That's all we have time for. Thank you very much Bray and Jay.

<<Jay M. Sherwood, Executive Vice President and Chief Financial Officer>>

Thank you.

<<Bradley M. Shuster, Chairman, President & Chief Executive Officer>>

Thank you.