

**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 **September 30, 2019**

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.01	NMIH	Nasdaq

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 every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on November 4, 2019 was 67,980,992 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>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
<u>PART II</u>	<u>48</u>
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 6. <u>Exhibits</u>	<u>49</u>
<u>Signatures</u>	<u>52</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 other private mortgage insurers and government mortgage insurers like the Federal Housing Administration (FHA), the U.S. Department of Agriculture's Rural Housing Service (USDA) and the Veterans Administration (VA) (collectively, government MIs), 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, including any action by the Consumer Financial Protection Bureau to address the planned expiration of the "QM Patch" under the Dodd-Frank Act Ability to Repay/Qualified Mortgage rule;
- legislative or regulatory 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 natural disasters, including, with respect to 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;
- failure to maintain, improve and continue to develop necessary information technology 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 I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2018 (2018 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 September 30, 2019 (Unaudited) and December 31, 2018	6
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018 (Unaudited)	7
Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2019 and 2018 (Unaudited)	8
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 (Unaudited)	10
Notes to Condensed Consolidated Financial Statements (Unaudited)	11

NMI HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2019	December 31, 2018
<i>(In Thousands, except for share data)</i>		
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$1,043,639 and \$924,987 as of September 30, 2019 and December 31, 2018, respectively)	\$ 1,073,176	\$ 911,490
Cash and cash equivalents (including restricted cash of \$2,933 and \$1,414 as of September 30, 2019 and December 31, 2018, respectively)	45,889	25,294
Premiums receivable	45,730	36,007
Accrued investment income	6,885	5,694
Prepaid expenses	4,518	3,241
Deferred policy acquisition costs, net	56,642	46,840
Software and equipment, net	26,303	24,765
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	17,917	30,370
Other assets	20,768	4,708
Total assets	\$ 1,301,462	\$ 1,092,043
Liabilities		
Term loan	\$ 146,007	\$ 146,757
Unearned premiums	145,146	158,893
Accounts payable and accrued expenses	39,296	31,141
Reserve for insurance claims and claim expenses	20,505	12,811
Reinsurance funds withheld	16,072	27,114
Warrant liability, at fair value	6,364	7,296
Deferred tax liability, net	43,769	2,740
Other liabilities ⁽¹⁾	10,816	3,791
Total liabilities	427,975	390,543
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, \$0.01 par value; 67,927,370 and 66,318,849 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively (250,000,000 shares authorized)	679	663
Additional paid-in capital	698,393	682,181
Accumulated other comprehensive income (loss), net of tax	19,165	(14,832)
Retained earnings	155,250	33,488
Total shareholders' equity	873,487	701,500
Total liabilities and shareholders' equity	\$ 1,301,462	\$ 1,092,043

⁽¹⁾ Deferred Ceding Commissions have been reclassified to "Other liabilities" in prior periods.

See accompanying notes to condensed consolidated financial statements (unaudited).

NMI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Revenues	<i>(In Thousands, except for per share data)</i>			
Net premiums earned	\$ 92,381	\$ 65,407	\$ 249,499	\$ 181,936
Net investment income	7,882	6,277	22,894	16,586
Net realized investment gains (losses)	81	(8)	(219)	51
Other revenues	1,244	85	1,700	193
Total revenues	101,588	71,761	273,874	198,766
Expenses				
Insurance claims and claim expenses	2,572	1,099	8,238	3,311
Underwriting and operating expenses	33,244	30,379	96,636	87,852
Total expenses	35,816	31,478	104,874	91,163
Other expense				
Gain (loss) from change in fair value of warrant liability	1,139	(5,464)	(6,025)	(4,935)
Interest expense	(2,979)	(2,972)	(9,111)	(11,951)
Total other expense	(1,840)	(8,436)	(15,136)	(16,886)
Income before income taxes	63,932	31,847	153,864	90,717
Income tax expense	14,169	7,036	32,102	18,310
Net income	\$ 49,763	\$ 24,811	\$ 121,762	\$ 72,407
Earnings per share				
Basic	\$ 0.73	\$ 0.38	\$ 1.81	\$ 1.12
Diluted	\$ 0.69	\$ 0.36	\$ 1.75	\$ 1.07
Weighted average common shares outstanding				
Basic	67,849	65,948	67,381	64,584
Diluted	70,137	68,844	69,520	67,512
Net income	\$ 49,763	\$ 24,811	\$ 121,762	\$ 72,407
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) in accumulated other comprehensive income, net of tax expense (benefit) of \$1,376 and (\$337) for the three months ended September 30, 2019 and 2018, respectively and \$8,991 and (\$3,676) for the nine months ended September 30, 2019 and 2018, respectively	5,177	(1,267)	33,824	(13,828)
Reclassification adjustment for realized (gains) losses included in net income, net of tax expense (benefit) of \$17 and (\$2) for the three months ended September 30, 2019 and 2018, respectively and (\$46) and (\$27) for the nine months ended September 30, 2019 and 2018, respectively	(64)	7	173	102
Other comprehensive income (loss), net of tax	5,113	(1,260)	33,997	(13,726)
Comprehensive income	\$ 54,876	\$ 23,551	\$ 155,759	\$ 58,681

See accompanying notes to condensed consolidated financial statements (unaudited).

NMI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
<i>(In Thousands)</i>						
Balances, December 31, 2018	66,319	\$ 663	\$ 682,181	\$ (14,832)	\$ 33,488	\$ 701,500
Common stock: class A shares issued related to warrants	39	*	944	—	—	944
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,144	12	(1,471)	—	—	(1,459)
Share-based compensation expense	—	—	2,981	—	—	2,981
Change in unrealized investment gains/losses, net of tax expense of \$3,992	—	—	—	15,016	—	15,016
Net income	—	—	—	—	32,899	32,899
Balances, March 31, 2019	67,502	\$ 675	\$ 684,635	\$ 184	\$ 66,387	\$ 751,881
Common stock: class A shares issued related to warrants	128	1	3,835	—	—	3,836
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	138	1	218	—	—	219
Share-based compensation expense	—	—	3,475	—	—	3,475
Change in unrealized investment gains/losses, net of tax expense of \$3,686	—	—	—	13,868	—	13,868
Net income	—	—	—	—	39,100	39,100
Balances, June 30, 2019	67,768	\$ 677	\$ 692,163	\$ 14,052	\$ 105,487	\$ 812,379
Common stock: class A shares issued related to warrants	82	1	2,176	—	—	2,177
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	77	1	655	—	—	656
Share-based compensation expense	—	—	3,399	—	—	3,399
Change in unrealized investment gains/losses, net of tax expense of \$1,359	—	—	—	5,113	—	5,113
Net income	—	—	—	—	49,763	49,763
Balances, September 30, 2019	67,927	\$ 679	\$ 698,393	\$ 19,165	\$ 155,250	\$ 873,487

* During the three months ended March 31, 2019, we issued 39,195 common shares with a par value of \$0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding.

NMI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
<i>(In Thousands)</i>						
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
Common stock: class A shares issued related to warrants	3	*	63	—	—	63
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	182	2	885	—	—	887
Share-based compensation expense	—	—	3,017	—	—	3,017
Change in unrealized investment gains/losses, net of tax benefit of \$2,891	—	—	—	(1,510)	—	(1,510)
Net income	—	—	—	—	25,241	25,241
Balances, June 30, 2018	65,754	\$ 658	\$ 670,870	\$ (15,043)	\$ (26,843)	\$ 629,642
Common stock: class A shares issued related to warrants	57	1	1,244	—	—	1,245
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	475	4	3,092	—	—	3,096
Share-based compensation expense	—	—	2,959	—	—	2,959
Change in unrealized investment gains/losses, net of tax benefit of \$335	—	—	—	(1,260)	—	(1,260)
Net income	—	—	—	—	24,811	24,811
Balances, September 30, 2018	66,286	\$ 663	\$ 678,165	\$ (16,303)	\$ (2,032)	\$ 660,493

* During the three months ended March 31, 2018 and June 30, 2018, we issued 25,686 and 3,751 common shares, respectively, with a par value of \$0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to condensed consolidated financial statements (unaudited).

NMI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the nine months ended September 30,	
	2019	2018
<i>(In Thousands)</i>		
Cash flows from operating activities		
Net income	\$ 121,762	\$ 72,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses (gains)	219	(51)
Loss from change in fair value of warrant liability	6,025	4,935
Depreciation and amortization	6,661	5,825
Net amortization of premium on investment securities	943	1,176
Amortization of debt discount and debt issuance costs	754	3,141
Share-based compensation expense	9,855	8,781
Deferred income taxes	31,991	16,698
Changes in operating assets and liabilities:		
Premiums receivable	(9,723)	(9,496)
Accrued investment income	(1,191)	(1,669)
Prepaid expenses	(1,472)	(980)
Deferred policy acquisition costs, net	(9,802)	(6,512)
Other assets	(8,428)	927
Unearned premiums	(13,747)	(273)
Reserve for insurance claims and claim expenses	7,694	2,147
Reinsurance balances, net	(779)	565
Accounts payable and accrued expenses	(1,195)	1,728
Net cash provided by operating activities	139,567	99,349
Cash flows from investing activities		
Purchase of short-term investments	(190,122)	(168,751)
Purchase of fixed-maturity investments, available-for-sale	(186,793)	(310,286)
Proceeds from maturity of short-term investments	200,105	148,997
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	66,996	154,438
Additions to software and equipment	(7,449)	(5,326)
Net cash used in investing activities	(117,263)	(180,928)
Cash flows from financing activities		
Proceeds from issuance of common stock related to public offering, net of issuance costs	—	79,165
Proceeds from issuance of common stock related to employee equity plans	13,733	12,557
Proceeds from issuance of common stock related to warrants	—	320
Taxes paid related to net share settlement of equity awards	(14,317)	(10,113)
Proceeds from senior note, net	—	149,250
Repayments of term loan	(1,125)	(147,000)
Payments of debt issuance/modification costs	—	(3,609)
Net cash (used in) provided by financing activities	(1,709)	80,570
Net increase (decrease) in cash, cash equivalents and restricted cash	20,595	(1,009)
Cash, cash equivalents and restricted cash, beginning of period	25,294	19,196
Cash, cash equivalents and restricted cash, end of period	\$ 45,889	\$ 18,187
Supplemental disclosures of cash flow information		
Interest paid	\$ 8,060	\$ 9,233
Income tax (refunded) paid, net	\$ (119)	\$ 687

See accompanying 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). Our common stock is listed on the NASDAQ exchange under the ticker symbol "NMIH."

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, 2018, included in our 2018 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. Certain reclassifications to our previously reported financial information have been made to conform to current period presentation. 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, 2019.

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 2018 10-K, other than as noted in "*Variable interest entities*" and "*Recent Accounting Pronouncements - Adopted*" below.

Variable Interest Entities

NMIC is a party to reinsurance agreements with three special purpose reinsurance entities - Oaktown Re Ltd., Oaktown Re II Ltd. and Oaktown Re III Ltd. - respectively dated May 2, 2017, July 25, 2018 and July 30, 2019. At inception of the respective reinsurance agreements, we determined that Oaktown Re Ltd., Oaktown Re II, Ltd. and Oaktown Re III, Ltd. were variable interest entities (VIEs), as defined under GAAP Accounting Standards Codification (ASC) 810, because they did not have sufficient equity at risk to finance their respective activities. We evaluated the VIEs at inception to determine whether NMIC was the primary beneficiary under each deal and, if so, whether we were required to consolidate the assets and liabilities of each VIE. The primary beneficiary of a VIE is an enterprise that (1) has the power to direct the activities of the VIE, which most significantly impact its economic performance and (2) has significant economic exposure to the VIE, *i.e.*, the obligation to absorb losses or receive benefits that could potentially be significant. The determination of whether an entity is the primary beneficiary of a VIE is complex and requires management judgment regarding determinative factors, including the expected results of the VIE and how those results are absorbed by beneficial interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIE. We concluded that we are not the primary beneficiary of each VIE and as such, we do not consolidate them in our consolidated financial statements.

Recent Accounting Pronouncements - Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. We adopted this ASU on January 1, 2019 using the modified-retrospective method and applied it prospectively as of the effective date, without adjusting comparative periods presented as permitted by ASU 2018-11, *Leases* (Topic 842), *Targeted Improvements*. Adoption of this new standard increased our assets and liabilities by \$7.6 million in connection with the recognition of right-of-use (ROU) assets and lease liabilities, primarily related to the operating lease on our corporate headquarters. Adoption of this standard did not impact our consolidated statements of operations or cash flows. See Note 10, "*Leases*" for additional information related to our leases.

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. We adopted this ASU on January 1, 2019. Adoption of this standard had no impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718)*. This update expands the scope of Topic 718 to include share-based payments made to non-employees in connection with the acquisition of goods and services. We adopted this ASU on January 1, 2019. Adoption of this standard had no impact on our financial results as we have not made any share-based grants to non-employees as defined in ASC 718-10-20.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)* and subsequently issued amendments to the initial guidance: ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, and ASU 2019-05, *Financial Instruments – Credit Losses: Targeted Transition Relief*. These updates will require companies to measure and establish reserves for lifetime expected credit losses on many financial assets held at a given reporting date. Under the guidance, the methodology for measuring lifetime credit losses will generally shift from an incurred loss model, whereby losses are only recognized once probable and estimable, to a current expected credit loss (CECL) model, whereby losses are recognized upfront based on a future economic forecast. Credit losses relating to available-for-sale fixed maturity securities will be recorded through an allowance for credit losses, rather than a write-down of the asset as is currently required, with the amount of the allowance limited to the amount by which fair value is less than amortized cost. The length of time an available-for sale fixed maturity security has been held in an unrealized loss position will no longer impact its credit loss determination. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The impact of this guidance and the extent of the impact will depend on, among other things, economic conditions and the composition and credit quality of our financial assets as of the date of adoption. While we are still evaluating the impact of this guidance, we do not expect it to have a material impact on our consolidated financial statements. This standard will not impact our accounting for insurance claims and claim expenses as these items are not in the scope of this ASU.

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts*. This update provides guidance to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This update modifies the fair value measurement disclosure requirements of ASC 820. 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 do not expect the revised disclosure requirements to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*. This update applies to cloud computing arrangements structured as service contracts, and provides companies with guidance on the criteria for capitalizing implementation, set-up and other up-front costs incurred in association with these arrangements. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and we have elected to adopt this ASU prospectively for eligible costs incurred after the effective date of January 1, 2020. While we are still finalizing our analysis of this guidance, we do not expect it to have a material impact 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 earnings based on specific identification of securities sold or other-than-temporarily impaired.

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
As of September 30, 2019				
<i>(In Thousands)</i>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 48,198	\$ 1,095	\$ (40)	\$ 49,253
Municipal debt securities	103,974	1,790	(133)	105,631
Corporate debt securities	663,066	23,432	(520)	685,978
Asset-backed securities	179,651	3,765	(31)	183,385
Total bonds	994,889	30,082	(724)	1,024,247
Short-term investments	48,750	179	—	48,929
Total investments	\$ 1,043,639	\$ 30,261	\$ (724)	\$ 1,073,176

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
As of December 31, 2018				
<i>(In Thousands)</i>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 48,171	\$ 35	\$ (1,376)	\$ 46,830
Municipal debt securities	92,014	206	(963)	91,257
Corporate debt securities	554,079	847	(11,688)	543,238
Asset-backed securities	171,990	792	(1,457)	171,325
Total bonds	866,254	1,880	(15,484)	852,650
Short-term investments	58,733	107	—	58,840
Total investments	\$ 924,987	\$ 1,987	\$ (15,484)	\$ 911,490

We did not own any mortgage-backed securities in our asset-backed securities portfolio at September 30, 2019 or December 31, 2018.

The following table presents a breakdown of the fair value of our corporate debt securities by issuer industry group as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Financial	38%	38%
Consumer	27	27
Communications	10	12
Utilities	10	7
Industrial	8	7
Technology	5	6
Energy	2	2
Other	—	1
Total	100%	100%

As of September 30, 2019 and December 31, 2018, approximately \$5.5 million and \$5.3 million, respectively, 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 September 30, 2019 and December 31, 2018, 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 September 30, 2019	Amortized Cost	Fair Value
<i>(In Thousands)</i>		
Due in one year or less	\$ 102,581	\$ 102,787
Due after one through five years	424,455	434,248
Due after five through ten years	313,804	329,061
Due after ten years	23,148	23,695
Asset-backed securities	179,651	183,385
Total investments	<u>\$ 1,043,639</u>	<u>\$ 1,073,176</u>

As of December 31, 2018	Amortized Cost	Fair Value
<i>(In Thousands)</i>		
Due in one year or less	\$ 76,087	\$ 76,104
Due after one through five years	352,282	347,701
Due after five through ten years	318,728	310,633
Due after ten years	5,900	5,727
Asset-backed securities	171,990	171,325
Total investments	<u>\$ 924,987</u>	<u>\$ 911,490</u>

Aging of Unrealized Losses

As of September 30, 2019, the investment portfolio had gross unrealized losses of \$0.7 million, of which \$0.4 million had 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 September 30, 2019. We based our conclusion that these investments were not other-than-temporarily impaired as of September 30, 2019 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements and market fluctuations in credit spreads 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 Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
<i>(Dollars in Thousands)</i>									
As of September 30, 2019									
U.S. Treasury securities and obligations of U.S. government agencies	5	\$ 13,822	\$ (40)	—	\$ —	\$ —	5	\$ 13,822	\$ (40)
Municipal debt securities	4	15,720	(102)	4	4,337	(31)	8	20,057	(133)
Corporate debt securities	10	26,812	(122)	20	30,812	(398)	30	57,624	(520)
Asset-backed securities	3	13,451	(20)	2	3,583	(11)	5	17,034	(31)
Short-term investments ⁽¹⁾	1	9,999	—	—	—	—	1	9,999	—
Total	<u>23</u>	<u>\$ 79,804</u>	<u>\$ (284)</u>	<u>26</u>	<u>\$ 38,732</u>	<u>\$ (440)</u>	<u>49</u>	<u>\$ 118,536</u>	<u>\$ (724)</u>

⁽¹⁾ Includes securities with unrealized losses of less than 12 months which are not identifiable in the schedule due to rounding.

NMI HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
As of December 31, 2018									
<i>(Dollars in Thousands)</i>									
U.S. Treasury securities and obligations of U.S. government agencies	—	\$ —	\$ —	19	\$ 41,817	\$ (1,376)	19	\$ 41,817	\$ (1,376)
Municipal debt securities	4	7,409	(11)	31	58,658	(952)	35	66,067	(963)
Corporate debt securities	118	226,477	(3,952)	126	221,675	(7,736)	244	448,152	(11,688)
Asset-backed securities	25	36,017	(1,136)	22	33,988	(321)	47	70,005	(1,457)
Total	147	\$ 269,903	\$ (5,099)	198	\$ 356,138	\$ (10,385)	345	\$ 626,041	\$ (15,484)

Net Investment Income

The following table presents the components of net investment income:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
<i>(In Thousands)</i>				
Investment income	\$ 8,003	\$ 6,473	\$ 23,240	\$ 17,192
Investment expenses	(121)	(196)	(346)	(606)
Net investment income	\$ 7,882	\$ 6,277	\$ 22,894	\$ 16,586

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
<i>(In Thousands)</i>				
Gross realized investment gains	\$ 81	\$ 461	\$ 297	\$ 520
Gross realized investment losses	—	(469)	(516)	(469)
Net realized investment gains (losses)	\$ 81	\$ (8)	\$ (219)	\$ 51

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

As of September 30, 2019, we held no other-than-temporarily impaired securities. During the nine months ended September 30, 2019, we recognized a \$0.4 million OTTI loss in earnings related to the planned sale of a security in a loss position that was disposed of in April 2019. We did not recognize any OTTI losses for the three months ended September 30, 2019 or the three and nine months ended September 30, 2018. There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss) for the three or nine months ended September 30, 2019.

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.

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			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of September 30, 2019	<i>(In Thousands)</i>			
U.S. Treasury securities and obligations of U.S. government agencies	\$ 49,253	\$ —	\$ —	\$ 49,253
Municipal debt securities	—	105,631	—	105,631
Corporate debt securities	—	685,978	—	685,978
Asset-backed securities	—	183,385	—	183,385
Cash, cash equivalents and short-term investments	94,818	—	—	94,818
Total assets	<u>\$ 144,071</u>	<u>\$ 974,994</u>	<u>\$ —</u>	<u>\$ 1,119,065</u>
Warrant liability	—	—	6,364	6,364
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,364</u>	<u>\$ 6,364</u>

	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of December 31, 2018	<i>(In Thousands)</i>			
U.S. Treasury securities and obligations of U.S. government agencies	\$ 46,830	\$ —	\$ —	\$ 46,830
Municipal debt securities	—	91,257	—	91,257
Corporate debt securities	—	543,238	—	543,238
Asset-backed securities	—	171,325	—	171,325
Cash, cash equivalents and short-term investments	84,134	—	—	84,134
Total assets	<u>\$ 130,964</u>	<u>\$ 805,820</u>	<u>\$ —</u>	<u>\$ 936,784</u>
Warrant liability	—	—	7,296	7,296
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,296</u>	<u>\$ 7,296</u>

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 nine months ended September 30, 2019 and the year ended December 31, 2018.

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

Warrant Liability	For the nine months ended September 30,	
	2019	2018
	<i>(In Thousands)</i>	
Balance, January 1	\$ 7,296	\$ 7,472
Change in fair value of warrant liability included in earnings	6,025	4,935
Issuance of common stock on warrant exercise	(6,957)	(1,477)
Balance, September 30	<u>\$ 6,364</u>	<u>\$ 10,930</u>

The following table outlines the key inputs and assumptions used to calculate the fair value of the warrant liability in the Black-Scholes option-pricing model as of the dates indicated.

	As of September 30,	
	2019	2018
Common stock price	\$ 26.26	\$ 22.65
Risk free interest rate	1.76%	2.86 - 2.90%
Expected life	0.92 years	2.50 - 3.56 years
Expected volatility	33.5%	39.9 - 41.5%
Dividend yield	0%	0%

The changes in fair value of the warrant liability for the nine months ended September 30, 2019 and 2018 are primarily attributable to changes in the price of our common stock and exercises of outstanding warrants during the respective periods, with additional impact related to changes in other Black-Scholes model inputs.

4. Debt

On May 24, 2018, we entered into a credit agreement (2018 Credit Agreement), which provides for (i) a \$150 million 5-year senior secured term loan facility (2018 Term Loan) that matures on May 24, 2023; and (ii) a \$85 million three-year secured revolving credit facility (2018 Revolving Credit Facility) that matures on May 24, 2021. Proceeds from the 2018 Term Loan were used to repay in full the outstanding amount due under our \$150 million amended term loan (2015 Term Loan) due on November 10, 2019, and to pay fees and expenses incurred in connection with the 2018 Credit Agreement.

2018 Term Loan

The 2018 Term Loan bears interest at the Eurodollar Rate, as defined in the 2018 Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 4.75%, representing an all-in rate of 6.95% as of September 30, 2019, payable quarterly based on our current interest period election. Quarterly principal payments of \$375 thousand are also required. As of September 30, 2019, the outstanding principal balance of the 2018 Term Loan was \$148.1 million.

Interest expense for the 2018 Term Loan includes interest and the amortization of issuance costs, an original issue discount and capitalized modification costs related to the 2015 Term Loan. For the three and nine months ended September 30, 2019, interest expense was \$2.8 million and \$8.4 million, respectively. Remaining unamortized issuance costs and original issue discount were \$2.1 million as of September 30, 2019 and are being amortized to interest expense using the effective interest method over the contractual life of the 2018 Term Loan.

We are subject to certain covenants under the 2018 Term Loan (as defined in the 2018 Credit Agreement), including (but not limited to) a maximum debt-to-total capitalization ratio (as defined in the 2018 Credit Agreement) of 35% under the 2018 Term Loan. We were in compliance with all covenants as of September 30, 2019.

Future principal payments due under the 2018 Term Loan as of September 30, 2019 are as follows:

As of September 30, 2019	Principal <i>(In thousands)</i>
2019	\$ 375
2020	1,500
2021	1,500
2022	1,500
2023	143,250
Total	<u>\$ 148,125</u>

2018 Revolving Credit Facility

Borrowings under the 2018 Revolving Credit Facility may be used for general corporate purposes and will accrue interest at a variable rate equal to, at our discretion, (i) a base rate (as defined in the 2018 Credit Agreement, subject to a floor of 1.00% per annum) plus a margin of 1.00% to 2.50% per annum, based on the applicable corporate credit rating at the time, or (ii) the Eurodollar Rate (subject to a floor of 0.00% per annum) plus a margin of 2.00% to 3.50% per annum, based on the applicable corporate credit rating at the time. As of September 30, 2019, no borrowings had been made under the 2018 Revolving Credit Facility.

We are required to pay a quarterly commitment fee on the average daily undrawn amount of the 2018 Revolving Credit Facility, which ranges from 0.30% to 0.60%, based on the applicable corporate credit rating at the time. As of September 30, 2019, the applicable commitment fee was 0.40%. For the three and nine months ended September 30, 2019, we recorded \$0.1 million and \$0.3 million of commitment fees in interest expense, respectively.

We incurred issuance costs of \$1.5 million in connection with the establishment of the 2018 Revolving Credit Facility, which were deferred and recorded within "Other assets". These costs are being amortized through interest expense over the three-year life of the 2018 Revolving Credit Facility on a straight-line basis. For the three and nine months ended September 30, 2019, we recognized \$0.1 million and \$0.4 million, respectively, of interest expense from the amortization of deferred issuance costs. At September 30, 2019, remaining deferred issuance costs were \$0.8 million, net of accumulated amortization.

We are subject to certain covenants under the 2018 Revolving Credit Facility, including (but not limited to) the following: a maximum debt-to-total capitalization ratio of 35%, a minimum liquidity requirement, compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and minimum consolidated net worth and statutory capital requirements (respectively, as defined therein). We were in compliance with all covenants as of September 30, 2019.

5. Reinsurance

We enter into third-party reinsurance transactions to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements, 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		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	<i>(In Thousands)</i>			
Net premiums written				
Direct	\$ 100,475	\$ 73,748	\$ 274,418	\$ 210,452
Ceded ⁽¹⁾	(11,796)	(8,367)	(31,207)	(21,598)
Net premiums written	\$ 88,679	\$ 65,381	\$ 243,211	\$ 188,854
Net premiums earned				
Direct	\$ 106,687	\$ 76,513	\$ 288,165	\$ 210,725
Ceded ⁽¹⁾	(14,306)	(11,106)	(38,666)	(28,789)
Net premiums earned	\$ 92,381	\$ 65,407	\$ 249,499	\$ 181,936

⁽¹⁾ Net of profit commission.

Excess-of-loss reinsurance

NMIC entered into excess-of-loss reinsurance agreements with Oaktown Re Ltd., Oaktown Re II Ltd. and Oaktown Re III Ltd. (special purpose reinsurance entities collectively referred to as the Oaktown Re Vehicles) effective May 2, 2017, July 25, 2018 and July 30, 2019, respectively. Each agreement provides NMIC with aggregate excess-of-loss reinsurance coverage on a defined portfolio of mortgage insurance policies written during a discrete period. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. The respective outstanding reinsurance coverage amounts stop amortizing if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered.

NMIC makes risk premium payments to the Oaktown Re Vehicles for the applicable outstanding reinsurance coverage amount and pays an additional premium amount for anticipated operating expenses (capped at \$300 thousand per year to Oaktown Re Ltd. and \$250 thousand per year to Oaktown Re II, Ltd. and Oaktown Re III, Ltd.). NMIC ceded aggregate premiums to the Oaktown Re Vehicles of \$4.4 million and \$10.3 million during the three and nine months ended September 30, 2019, respectively, and \$3.1 million and \$6.4 million during the three and nine months ended September 30, 2018.

NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure under each excess-of-loss agreement. NMIC did not cede any incurred losses on covered policies to the Oaktown Re Vehicles during the three and nine months ended September 30, 2019 and 2018, as the aggregate first layer risk retention was not exhausted for each agreement during such periods.

Under the terms of each excess-of-loss reinsurance agreement, the Oaktown Re Vehicles are required to fully collateralize their outstanding reinsurance coverage amount to NMIC with funds deposited into segregated reinsurance trusts. Such trust funds are required to be invested in short-term U.S. Treasury money market funds at all times. Each Oaktown Re Vehicle financed its respective collateral requirement through the issuance of mortgage insurance-linked notes to unaffiliated investors. Such insurance-linked notes mature ten years from the inception date of each reinsurance agreement. We refer to NMIC's reinsurance agreements with and the insurance-linked note issuances by Oaktown Re Ltd., Oaktown Re II, Ltd. and Oaktown Re III, Ltd. individually as the 2017 ILN Transaction, 2018 ILN Transaction and 2019 ILN Transaction, and collectively as the ILN Transactions.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions.

<i>(\$ values in thousands)</i>	Inception Date	Covered Production	Initial Reinsurance Coverage	Current Reinsurance Coverage	Initial First Layer Retained Loss	Current First Layer Retained Loss
2017 ILN Transaction	May 2, 2017	1/1/2013 - 12/31/2016	\$ 211,320	\$ 75,639	\$ 126,793	\$ 124,074
2018 ILN Transaction	July 25, 2018	1/1/2017 - 5/31/2018	264,545	231,604	125,312	125,025
2019 ILN Transaction	July 30, 2019	6/1/2018 - 6/30/2019	326,905	326,905	123,424	123,424

NMIC holds optional termination rights under each ILN Transaction in the event of certain occurrences, including, among others, an optional call feature which provides NMIC the discretion to terminate the transaction on or after a prescribed date, and 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 a given agreement. In addition, there are certain events that trigger mandatory termination of an agreement, including NMIC's failure to pay premiums or consent to reductions in a trust account to make principal payments to noteholders, among others.

Under the terms of the 2018 ILN Transaction and the 2019 ILN Transaction, we are required to maintain a certain level of restricted funds in premium deposit accounts with Bank of New York Mellon until the respective notes have been redeemed in full. "Cash and cash equivalents" on our condensed consolidated balance sheet includes restricted amounts of \$2.9 million as of September 30, 2019. We are not required to deposit additional funds into the premium deposit accounts in the future and the restricted balances will decrease over time as the outstanding principal balances of the respective insurance-linked notes decline.

The amount of reinsurance premiums ceded under each ILN Transaction fluctuates based on changes in one-month LIBOR and changes in the earned rate on the money market funds in which the assets of the reinsurance trusts are invested. As the reinsurance premiums will vary based on changes in these rates, we have concluded that the ILN Transactions each contain an embedded derivative that must be treated separately as a freestanding derivative. The total fair value of such derivatives at September 30, 2019 and December 31, 2018, and the change in fair value of the derivatives during the three and nine months ended September 30, 2019 and 2018, were not material to our condensed consolidated financial statements.

Quota share reinsurance

NMIC entered into quota share reinsurance treaties effective September 1, 2016 (the 2016 QSR Transaction) and January 1, 2018 (the 2018 QSR Transaction), which we refer to collectively as the QSR Transactions. Under each of the QSR Transactions, NMIC cedes a proportional share of its risk on eligible policies written during a discrete period to panels of third-party reinsurance providers. Each of the third-party reinsurance providers has an insurer financial strength rating of A- or better by Standard & Poor's Rating Service (S&P), A.M. Best Company, Inc. (A.M.Best) or both.

Under the 2016 QSR Transaction, NMIC cedes premiums written related to 25% of the risk on eligible primary policies written for all periods through December 31, 2017 and 100% of the risk under our pool agreement with Fannie Mae. 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. 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.

Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of the risk on eligible policies written in 2018 and 20% of the risk on eligible policies written in 2019. The 2018 QSR Transaction is scheduled to terminate on December 31, 2029. 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.

NMIC may terminate either or both of the QSR Transactions without penalty if, due to a change in PMIERS requirements, it is no longer able to take full PMIERS asset credit for the risk-in-force (RIF) ceded under the respective agreements. Additionally, under the terms of the QSR Transactions, NMIC may elect to selectively terminate its engagement with individual reinsurers on a run-off basis (*i.e.*, reinsurers continue providing coverage on all risk ceded prior to the termination date, with no new cessions going forward) or cut-off basis (*i.e.*, the reinsurance arrangement is completely terminated with NMIC recapturing all previously ceded risk) under certain circumstances. Such selective termination rights arise when, among other reasons, a reinsurer experiences a deterioration in its capital position below a prescribed threshold and/or a reinsurer breaches (and fails to cure) its collateral posting obligations under the relevant agreement.

Effective April 1, 2019, NMIC elected to terminate its engagement with one reinsurer under the 2016 QSR Transaction on a cut-off basis. In connection with the termination, NMIC recaptured approximately \$500 million of previously ceded primary RIF and stopped ceding new premiums earned or written with respect to the recaptured risk. With the termination, ceded premiums written under the 2016 QSR Transaction decreased from 25% to 20.5% on eligible policies. The termination has no effect on the cession of pool risk under the 2016 QSR Transaction.

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

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	<i>(In Thousands)</i>			
Ceded risk-in-force	\$ 4,901,809	\$ 3,960,461	\$ 4,901,809	\$ 3,960,461
Ceded premiums earned	(23,151)	(19,286)	(65,538)	(53,581)
Ceded claims and claim expenses	766	337	2,435	1,053
Ceding commission earned	4,584	3,814	12,961	10,501
Profit commission	13,254	11,272	37,199	31,180

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 revenue 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 under each of the QSR Transactions, provided that the loss ratios on loans covered under the 2016 QSR Transaction and 2018 QSR Transaction generally remain below 60% and 61%, respectively, as measured annually. Ceded claims and claim expenses under each of the QSR Transactions reduce the respective profit commission received by NMIC on a dollar-for-dollar basis.

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 \$2.6 million as of September 30, 2019.

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 are also settled quarterly. NMIC's reinsurance recoverable balance is 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 2018 QSR Transaction was \$1.7 million as of September 30, 2019.

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 claim 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 September 30, 2019, we had reserves for insurance claims and claim expenses of \$20.5 million for 1,230 primary loans in default. During the nine months ended September 30, 2019, we paid 98 claims totaling \$3.0 million, including 91 claims covered under the QSR Transactions representing \$0.6 million of ceded claims and claim 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 September 30, 2019, 49 loans in the pool were past due by 60 days or more. These 49 loans represented approximately \$3.4 million of RIF. Due to the size of the remaining deductible, the low level of notices of default (NODs) reported on loans in the pool through September 30, 2019 and the expected severity (all loans in the pool have loan-to-value ratios (LTV) ratios under 80%), we did not establish any case or IBNR reserves for pool risk at September 30, 2019. In connection with the settlement of pool claims, we applied \$0.8 million to the pool deductible through September 30, 2019. At September 30, 2019, the remaining pool deductible was \$9.6 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

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

	For the nine months ended September 30,	
	2019	2018
	<i>(In Thousands)</i>	
Beginning balance	\$ 12,811	\$ 8,761
Less reinsurance recoverables ⁽¹⁾	(3,001)	(1,902)
Beginning balance, net of reinsurance recoverables	9,810	6,859
Add claims incurred:		
Claims and claim expenses incurred:		
Current year ⁽²⁾	10,948	5,090
Prior years ⁽³⁾	(2,710)	(1,779)
Total claims and claim expenses incurred	8,238	3,311
Less claims paid:		
Claims and claim expenses paid:		
Current year ⁽²⁾	—	37
Prior years ⁽³⁾	2,401	1,742
Reinsurance terminations ⁽⁴⁾	(549)	—
Total claims and claim expenses paid	1,852	1,779
Reserve at end of period, net of reinsurance recoverables	16,196	8,391
Add reinsurance recoverables ⁽¹⁾	4,309	2,517
Ending balance	\$ 20,505	\$ 10,908

⁽¹⁾ Related to ceded losses recoverable under the QSR Transactions, included in "Other assets" on the condensed consolidated balance sheets. See Note 5, "Reinsurance" for additional information.

⁽²⁾ 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. Amounts are presented net of reinsurance.

⁽³⁾ Related to insured loans with defaults occurring in prior years, which have been continuously in default before the start of the current year. Amounts are presented net of reinsurance.

⁽⁴⁾ Represents the settlement of reinsurance recoverables in conjunction with the termination of one reinsurer under the 2016 QSR Transaction on a cut-off basis. See Note 5, "Reinsurance" for additional information.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves and is presented net of reinsurance. The amount of claims incurred relating to current year NODs represents the estimated amount of claims and claim expenses to be ultimately paid on such loans in default. We recognized \$2.7 million and \$1.8 million of favorable prior year development during the nine months ended September 30, 2019 and 2018, 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 \$6.6 million related to prior year defaults remained as of September 30, 2019.

7. Earnings per Share (EPS)

Basic earnings per share is based on the weighted average number of shares of common stock outstanding. 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 and performance and service based restricted stock units (RSUs), and the exercise of vested and unvested stock options and outstanding warrants. The number of shares issuable for RSUs subject to performance and service based vesting requirements are only included in diluted shares if the relevant performance measurement period has commenced and results during such period meet the necessary performance criteria. 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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
	<i>(In Thousands, except for per share data)</i>			
Net income	\$ 49,763	\$ 24,811	\$ 121,762	\$ 72,407
Basic weighted average shares outstanding	67,849	65,948	67,381	64,584
Basic earnings per share	<u>\$ 0.73</u>	<u>\$ 0.38</u>	<u>\$ 1.81</u>	<u>\$ 1.12</u>
Net income	\$ 49,763	\$ 24,811	\$ 121,762	\$ 72,407
Gain from change in fair value of warrant liability	(1,139)	—	—	—
Diluted net income	<u>\$ 48,624</u>	<u>\$ 24,811</u>	<u>\$ 121,762</u>	<u>\$ 72,407</u>
Basic weighted average shares outstanding	67,849	65,948	67,381	64,584
Dilutive effect of issuable shares	2,288	2,896	2,139	2,928
Diluted weighted average shares outstanding	<u>70,137</u>	<u>68,844</u>	<u>69,520</u>	<u>67,512</u>
Diluted earnings per share	<u>\$ 0.69</u>	<u>\$ 0.36</u>	<u>\$ 1.75</u>	<u>\$ 1.07</u>
Anti-dilutive shares	6	—	642	252

8. Warrants

We issued 992 thousand warrants in connection with a private placement of our common stock in April 2012. 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 September 30, 2019, 130 thousand warrants were exercised resulting in the issuance of 82 thousand shares of common stock. Upon exercise, we reclassified approximately \$2.2 million of warrant fair value from warrant liability to additional paid-in capital, of which \$0.9 million related to changes in fair value during the three months ended September 30, 2019. During the nine months ended September 30, 2019, 390 thousand warrants were exercised resulting in the issuance of 249 thousand shares of common stock. Upon exercise, we reclassified approximately \$7.0 million of warrant fair value from warrant liability to additional paid-in capital, of which \$3.2 million related to changes in fair value during the nine months ended September 30, 2019.

During the three months ended September 30, 2018, 79 thousand warrants were exercised resulting in the issuance of 57 thousand shares of common stock. Upon exercise, we reclassified approximately \$0.9 million of warrant fair value from warrant liability to additional paid-in capital, of which \$0.3 million related to changes in fair value during the three months ended September 30, 2018. During the nine months ended September 30, 2018, 142 thousand warrants were exercised resulting in the issuance of 87 thousand shares of common stock. Upon exercise, we reclassified approximately \$1.5 million of warrant fair value from warrant liability to additional paid-in capital, of which \$0.3 million related to changes in fair value during the nine months ended September 30, 2018.

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%. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our effective tax rate on our pre-tax income was 22.2% and 20.9% for the three and nine months ended September 30, 2019, respectively, compared to 22.1% and 20.2% for the three and nine months ended September 30, 2018, respectively. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rate for a given year. Our effective tax rate may fluctuate between interim periods due to the impact of discrete items not included in our estimated annual effective tax rate, including the tax effects associated with the vesting of RSUs and exercise of options, and the change in fair value of our warrant liability. Such items are treated on a discrete basis in the reporting period in which they occur.

As a mortgage guaranty insurance company, we are eligible to claim a tax deduction for our statutory contingency reserve balance, subject to certain limitations outlined under IRC Section 832(e), and only to the extent we acquire tax and loss bonds in an amount equal to the tax benefit derived from the claimed deduction, which is our intent. As a result, our interim provision for income taxes for the three and nine months ended September 30, 2019 represents a change in our net deferred tax liability. During the three and nine months ended September 30, 2019, we had net purchases of \$7.6 million of tax and loss bonds, and, as of September 30, 2019, we held \$7.6 million of tax and loss bonds in "Other assets" in our condensed consolidated balance sheet.

10. Leases

We have two operating lease agreements related to our corporate headquarters and a data center facility for which we recognized operating ROU assets and lease liabilities of \$6.9 million and \$7.9 million, which are included in "Other assets" and "Other liabilities" on the condensed consolidated balance sheet, respectively, as of September 30, 2019. As of September 30, 2019, we did not have any finance leases.

We recognize ROU assets and lease liabilities in connection with the adoption of ASU 2016-02, *Leases* (Topic 842). ROU assets and lease liabilities are established based on the estimated present value of lease payments over the relevant lease term. We estimate a discount rate for each lease based on our estimated incremental borrowing rate at the commencement date of the relevant lease.

ROU assets obtained in exchange for new operating lease liabilities for the nine months ended September 30, 2019 were \$8.1 million. The following table provides a summary of our ROU asset and lease liability assumptions as of September 30, 2019:

Weighted-average remaining lease term	3.5 years
Weighted-average discount rate	6.21%

Cash paid on our operating lease liabilities for the three and nine months ended September 30, 2019 was \$0.6 million and \$1.8 million, respectively. Lease expenses recognized on our operating lease liabilities for the three and nine months ended September 30, 2019 were \$0.6 million and \$1.7 million, respectively. Future payments due under our existing operating leases as of September 30, 2019 are as follows:

As of September 30, 2019	<i>(In Thousands)</i>	
2019	\$	625
2020		2,537
2021		2,609
2022		2,574
2023		462
Total undiscounted lease payments		8,807
Less effects of discounting		(900)
Present value of lease payments	\$	7,907

Lease expense is recorded in underwriting and operating expenses on the consolidated statements of operations. Our existing operating leases have terms that range from three to five years. The lease for our corporate headquarters includes an option to renew for an additional five years at prevailing market rates at time of renewal. We have not included this renewal option in our calculation of minimum lease payments as it is not reasonably certain to be exercised.

NMI HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of December 31, 2018, the future minimum lease payments as accounted for prior to our adoption of ASU 2016-02, *Leases* (Topic 842) are as follows:

Year ending December 31, 2018

	<i>(In Thousands)</i>	
2019	\$	2,346
2020		2,417
2021		2,489
2022		2,564
2023		463
Totals	\$	10,279

11. Regulatory Information

Statutory Requirements

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 income (loss) was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Statutory net income (loss)	\$ 8,055	\$ (17,274)	\$ 13,594	\$ (22,022)

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

	September 30, 2019	December 31, 2018
	<i>(Dollars In Thousands)</i>	
Statutory surplus	\$ 447,304	\$ 430,785
Contingency reserve	476,756	332,702
RTC ratio	14.3:1	13.1:1

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 capital 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.

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 condensed 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 2018 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 2018 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 reinsurance to NMIC on insured loans 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 September 30, 2019, we had master policies with 1,450 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders, internet-sourced lenders and other non-bank lenders. As of September 30, 2019, we had \$92.4 billion of total insurance-in-force (IIF), including primary IIF of \$89.7 billion, and \$22.9 billion of gross RIF, including primary RIF of \$22.8 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 their homeownership goals, ensure that we remain a strong and credible counterparty, 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, utilizing our proprietary Rate GPSSM pricing platform to dynamically evaluate risk and price our policies, 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 claim payment practices, responsive customer service, financial strength and profitability.

Our common stock trades on the NASDAQ under the symbol "NMIH." Our headquarters is located in Emeryville, California. As of September 30, 2019, we had 318 full time employees. Our website is www.nationalmi.com. Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

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 new insurance writings, the composition of our insurance portfolio and other factors that we expect to impact our results.

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. Our NIW is also affected by the percentage of such high-LTV originations covered by private versus government 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. On June 4, 2018, we introduced a proprietary risk-based pricing platform, which we refer to as Rate GPSSM. Rate GPS considers a broad range of individual variables, including property type, type of loan product, borrower credit characteristics, and lender and market factors, and provides us with the ability to set and charge premium rates commensurate with the underlying risk of each loan that we insure. We introduced Rate GPS in June 2018 to replace our previous rate card pricing system. While most of our new business is priced through Rate GPS, we also continue to offer a rate card pricing option to a limited number of lender customers who require a rate card for operational reasons. We believe the introduction and utilization of Rate GPS provides us with a more granular and analytical approach to evaluating and pricing risk, and that this approach enhances our ability to continue building a high-quality mortgage insurance portfolio and delivering attractive risk-adjusted returns.

Premiums are generally fixed for the duration of our coverage of the underlying loans. Net premiums written are equal to gross premiums written minus ceded premiums written under our reinsurance arrangements, 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 claim payments and home prices; and
- cession of premiums under third-party reinsurance arrangements.

Premiums are paid either by the borrower (BPMP) or the lender (LPMP) 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 earned over the estimated life of the policy. Substantially all of our single premium policies in force as of September 30, 2019 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 our single premium policies are generally 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 premium rate or higher, our revenue is likely to decline.

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements, 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 premiums written and earned and also reduces 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. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

Quota share reinsurance

Effective September 1, 2016, NMIC entered into the 2016 QSR Transaction with a syndicate of third-party reinsurers. Under the terms of the 2016 QSR Transaction, NMIC cedes premiums written related to 25% of the risk on eligible primary policies written for all periods through December 31, 2017 and 100% of the risk under our pool agreement with Fannie Mae, in exchange for reimbursement of ceded claims and claim expenses on covered policies, a 20% ceding commission, and a profit commission of up to 60% that varies directly and inversely with ceded claims.

Effective January 1, 2018, NMIC entered into the 2018 QSR Transaction with a syndicate of third-party reinsurers. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of the risk on eligible policies written in 2018 and 20% of the risk on eligible policies written in 2019, in exchange for reimbursement of ceded claims and claim expenses on covered policies, a 20% ceding commission, and a profit commission of up to 61% that varies directly and inversely with ceded claims.

Under the terms of the QSR Transactions, NMIC may elect to selectively terminate its engagement with individual reinsurers on a run-off basis (*i.e.*, reinsurers continue providing coverage on all risk ceded prior to the termination date, with no new cessions going forward) or cut-off basis (*i.e.*, the reinsurance arrangement is completely terminated with NMIC recapturing all previously ceded risk) under certain circumstances. Such selective termination rights arise when, among other reasons, a reinsurer experiences a deterioration in its capital position below a prescribed threshold and/or a reinsurer breaches (and fails to cure) its collateral posting obligations under the relevant agreement.

Effective April 1, 2019, NMIC elected to terminate its engagement with one reinsurer under the 2016 QSR Transaction on a cut-off basis. In connection with the termination, NMIC recaptured approximately \$500 million of previously ceded primary RIF and stopped ceding new premiums written with respect to the recaptured risk. With this termination, ceded premiums written under the 2016 QSR Transaction decreased from 25% to 20.5% on eligible policies. The termination had no effect on the cession of pool risk under the 2016 QSR Transaction.

Excess-of-loss reinsurance

NMIC has secured aggregate excess-of-loss reinsurance coverage on defined portfolios of mortgage insurance policies written during discrete periods through a series of mortgage insurance-linked note offerings by the Oaktown Re Vehicles. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure under each excess-of-loss agreement. The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions.

<i>(\$ values in thousands)</i>	Inception Date	Covered Production	Initial Reinsurance Coverage	Current Reinsurance Coverage	Initial First Layer Retained Loss	Current First Layer Retained Loss
2017 ILN Transaction	May 2, 2017	1/1/2013 - 12/31/2016	\$ 211,320	\$ 75,639	\$ 126,793	\$ 124,074
2018 ILN Transaction	July 25, 2018	1/1/2017 - 5/31/2018	264,545	231,604	125,312	125,025
2019 ILN Transaction	July 30, 2019	6/1/2018 - 6/30/2019	326,905	326,905	123,424	123,424

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				For the nine months ended	
	September 30, 2019		September 30, 2018		September 30, 2019	September 30, 2018
	IIF	NIW	IIF	NIW	NIW	
	<i>(In Millions)</i>					
Monthly	\$ 71,814	\$ 12,994	\$ 46,967	\$ 6,675	\$ 30,272	\$ 17,827
Single	17,899	1,106	16,560	686	2,920	2,507
Primary	89,713	14,100	63,527	7,361	33,192	20,334
Pool	2,668	—	2,974	—	—	—
Total	\$ 92,381	\$ 14,100	\$ 66,501	\$ 7,361	\$ 33,192	\$ 20,334

For the three and nine months ended September 30, 2019, NIW increased 92% and 63%, respectively, compared to the three and nine months ended September 30, 2018, primarily due to growth in our monthly premium policy volume tied to increased penetration of existing customer accounts and new customer account activations. For the three and nine months ended September 30, 2019, monthly premium NIW increased 95% and 70%, respectively, compared to the three and nine months ended September 30, 2018.

For the three months ended September 30, 2019, monthly premium policies accounted for 92% of our NIW. As of September 30, 2019, monthly premium policies accounted for 80% of our primary IIF, as compared to 74% at September 30, 2018. 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 an increased monthly mix over time given the composition of our NIW.

Our primary IIF increased 41% as of September 30, 2019 compared to September 30, 2018, primarily due to the NIW generated between such measurement dates, partially offset by the run-off of our in-force policies. Our persistency rate decreased to 82.4% at September 30, 2019 from 86.1% at September 30, 2018, reflecting the impact of increased refinancing activity tied to record low interest rates.

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		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	<i>(In Thousands)</i>			
Net premiums written	\$ 88,679	\$ 65,381	\$ 243,211	\$ 188,854
Net premiums earned	92,381	65,407	249,499	181,936

For the three and nine months ended September 30, 2019, net premiums written increased 36% and 29%, respectively, and net premiums earned increased 41% and 37%, respectively, compared to the three and nine months ended September 30, 2018. The increases in net premiums written and earned are due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2018 and 2019 ILN Transactions. Single premium policy cancellations also contributed to the increases in net premiums earned for the three and nine months ended September 30, 2019 compared to the same periods in 2018.

Pool premiums written and earned for the three and nine months ended September 30, 2019, were \$0.7 million and \$2.3 million, respectively, before giving effect to the 2016 QSR Transaction, under which all of our written and earned pool premiums have been ceded. A portion of our ceded pool premiums written and earned are recouped through profit commission under the 2016 QSR Transaction.

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 dates and for the periods indicated.

Primary portfolio trends

	As of and for the three months ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
	(\$ Values In Millions)				
New insurance written	\$ 14,100	\$ 12,179	\$ 6,913	\$ 6,962	\$ 7,361
Percentage of monthly premium	92%	91%	90%	90%	91%
Percentage of single premium	8%	9%	10%	10%	9%
New risk written	\$ 3,651	\$ 3,183	\$ 1,799	\$ 1,799	\$ 1,883
Insurance-in-force ⁽¹⁾	89,713	81,708	73,234	68,551	63,527
Percentage of monthly premium	80%	78%	76%	75%	74%
Percentage of single premium	20%	22%	24%	25%	26%
Risk-in-force ⁽¹⁾	\$ 22,810	\$ 20,661	\$ 18,373	\$ 17,091	\$ 15,744
Policies in force (count) ⁽¹⁾	350,395	324,876	297,232	280,825	262,485
Average loan size ⁽¹⁾	\$ 0.256	\$ 0.252	\$ 0.246	\$ 0.244	\$ 0.242
Coverage percentage ⁽²⁾	25.4%	25.3%	25.1%	24.9%	24.8%
Loans in default (count) ⁽¹⁾	1,230	1,028	940	877	746
Percentage of loans in default ⁽¹⁾	0.35%	0.32%	0.32%	0.31%	0.28%
Risk-in-force on defaulted loans ⁽¹⁾	\$ 70	\$ 58	\$ 53	\$ 48	\$ 42
Average premium yield ⁽³⁾	0.43%	0.43%	0.42%	0.42%	0.43%
Earnings from cancellations	\$ 7.4	\$ 4.5	\$ 2.3	\$ 2.1	\$ 2.6
Annual persistency ⁽⁴⁾	82.4%	86.0%	87.2%	87.1%	86.1%
Quarterly run-off ⁽⁵⁾	7.5%	5.1%	3.3%	3.1%	3.3%

⁽¹⁾ Reported as of the end of the period.

⁽²⁾ Calculated as end of period RIF divided by end of period IIF.

⁽³⁾ Calculated as net premiums earned divided by average primary IIF for the period, annualized.

⁽⁴⁾ Defined as the percentage of IIF that remains on our books after a given 12-month period.

⁽⁵⁾ Defined as the percentage of IIF that is no longer on our books after a given three month period.

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

Primary IIF	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In Millions)			
IIF, beginning of period	\$ 81,708	\$ 58,089	\$ 68,551	\$ 48,465
NIW	14,100	7,361	33,192	20,334
Cancellations, principal repayments and other reductions	(6,095)	(1,923)	(12,030)	(5,272)
IIF, end of period	\$ 89,713	\$ 63,527	\$ 89,713	\$ 63,527

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 September 30, 2019		As of September 30, 2018	
	IIF	RIF	IIF	RIF
	<i>(In Millions)</i>			
September 30, 2019	\$ 31,844	\$ 8,283	\$ —	\$ —
2018	21,932	5,571	19,804	4,980
2017	16,283	4,028	19,317	4,731
2016	12,944	3,231	16,086	3,948
2015	5,792	1,464	7,144	1,790
2014 and before	918	233	1,176	295
Total	\$ 89,713	\$ 22,810	\$ 63,527	\$ 15,744

We utilize certain risk principles that form the basis of how we underwrite and originate NIW. We have established prudential underwriting standards and loan-level eligibility matrices which prescribe the maximum LTV, minimum borrower FICO score, maximum borrower debt-to-income (DTI) ratio, maximum loan size, property type, loan type, loan term and occupancy status of loans that we will insure and memorialized these standards and eligibility matrices in our Underwriting Guideline Manual that is publicly available on our website. Our underwriting standards and eligibility criteria are designed to limit the layering of risk 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		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	<i>(\$ In Millions)</i>			
>= 760	\$ 6,994	\$ 3,191	\$ 15,678	\$ 8,617
740-759	2,288	1,228	5,677	3,431
720-739	2,102	1,095	4,931	2,973
700-719	1,450	878	3,579	2,435
680-699	915	632	2,359	1,668
<=679	351	337	968	1,210
Total	\$ 14,100	\$ 7,361	\$ 33,192	\$ 20,334
Weighted average FICO	754	747	752	746

Primary NIW by LTV

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(\$ In Millions)			
95.01% and above	\$ 989	\$ 676	\$ 2,529	\$ 2,644
90.01% to 95.00%	6,592	3,553	15,947	9,249
85.01% to 90.00%	4,933	2,373	11,259	6,017
85.00% and below	1,586	759	3,457	2,424
Total	\$ 14,100	\$ 7,361	\$ 33,192	\$ 20,334
Weighted average LTV	91.7%	92.5%	91.9%	92.6%

Primary NIW by purchase/refinance mix

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In Millions)			
Purchase	\$ 11,284	\$ 7,022	\$ 28,364	\$ 18,584
Refinance	2,816	339	4,828	1,750
Total	\$ 14,100	\$ 7,361	\$ 33,192	\$ 20,334

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			
	September 30, 2019		September 30, 2018	
	(\$ In Millions)			
>= 760	\$ 41,855	47%	\$ 29,627	47%
740-759	15,028	17	10,386	16
720-739	12,666	14	8,566	14
700-719	9,822	11	7,008	11
680-699	6,559	7	4,655	7
<=679	3,783	4	3,285	5
Total	\$ 89,713	100%	\$ 63,527	100%

Primary RIF by FICO

	As of			
	September 30, 2019		September 30, 2018	
	(\$ In Millions)			
>= 760	\$ 10,611	47%	\$ 7,361	47%
740-759	3,847	17	2,592	16
720-739	3,257	14	2,131	14
700-719	2,501	11	1,732	11
680-699	1,665	7	1,145	7
<=679	929	4	783	5
Total	\$ 22,810	100%	\$ 15,744	100%

Primary IIF by LTV

	As of				
	September 30, 2019		September 30, 2018		
	(\$ In Millions)				
95.01% and above	\$ 8,500	10%	\$ 6,309	10%	
90.01% to 95.00%	42,255	47	28,879	45	
85.01% to 90.00%	28,083	31	19,074	30	
85.00% and below	10,875	12	9,265	15	
Total	\$ 89,713	100%	\$ 63,527	100%	

Primary RIF by LTV

	As of				
	September 30, 2019		September 30, 2018		
	(\$ In Millions)				
95.01% and above	\$ 2,326	10%	\$ 1,670	11%	
90.01% to 95.00%	12,358	54	8,416	53	
85.01% to 90.00%	6,854	30	4,590	29	
85.00% and below	1,272	6	1,068	7	
Total	\$ 22,810	100%	\$ 15,744	100%	

Primary RIF by Loan Type

	As of	
	September 30, 2019	September 30, 2018
Fixed	98%	98%
Adjustable rate mortgages:		
Less than five years	—	—
Five years and longer	2	2
Total	100%	100%

The table below presents selected primary portfolio statistics, by book year, as of September 30, 2019.

Book year	As of September 30, 2019										
	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) ⁽¹⁾	Cumulative Default Rate ⁽²⁾	Current Default Rate ⁽³⁾	
	(\$ Values in Millions)										
2013	\$ 162	\$ 25	15%	655	138	—	1	0.2%	0.2%	—%	
2014	3,451	893	26%	14,786	4,758	48	35	3.9%	0.6%	1.0%	
2015	12,422	5,792	47%	52,548	27,230	173	82	2.8%	0.5%	0.6%	
2016	21,187	12,944	61%	83,626	55,060	246	74	2.0%	0.4%	0.4%	
2017	21,582	16,283	75%	85,897	68,744	403	28	3.0%	0.5%	0.6%	
2018	27,288	21,932	80%	104,014	88,130	333	8	3.7%	0.3%	0.4%	
2019	33,192	31,844	96%	109,954	106,335	27	—	0.8%	—%	—%	
Total	\$ 119,284	\$ 89,713		451,480	350,395	1,230	228				

⁽¹⁾ Calculated as total claims incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.

⁽²⁾ Calculated as the sum of the number of claims paid ever to date and number of loans in default divided by policies ever in force.

⁽³⁾ Calculated as the number of loans in default divided by number of policies in force.

Geographic Dispersion

The following table shows the distribution by state of our primary RIF as of the periods indicated. As of September 30, 2019, 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 our primary RIF as of September 30, 2019 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state	As of	
	September 30, 2019	September 30, 2018
California	11.9%	13.3%
Texas	8.1	8.1
Florida	5.6	4.9
Virginia	5.3	4.9
Arizona	4.2	5.0
Illinois	3.8	3.3
Pennsylvania	3.6	3.6
Michigan	3.5	3.7
Colorado	3.4	3.4
Maryland	3.3	3.2
Total	52.7%	53.4%

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 macroeconomic environment, national and regional unemployment trends, changes in housing values, borrower risk characteristics, LTV ratios and other loan level risk attributes, the size and type of loans insured, and the percentage of coverage on insured loans.

Reserves for claims and allocated claim expenses are established for reported 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 defaults. We also establish reserves for unallocated claim expenses not associated with a specific claim. Claim 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 claim 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 value. 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 claims under the ILN Transactions unless losses exceed the respective retained coverage layers. Reserves are not established for future claims on insured loans which are not currently in default. 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 claims or claim expense reserves for pool exposure to date.

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. As of September 30, 2019, approximately 82% of our primary IIF related to business written since September 30, 2016. Although the claims experience on our IIF to date has been modest, we expect incurred claims to increase as a greater amount of our existing insured portfolio reaches its anticipated period of highest claim frequency.

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 risk 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, unemployment rates and other events, such as natural disasters. 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 Claim Expenses."

We insure mortgages for homes in areas that are impacted by recent natural disasters. We do not provide coverage for property or casualty claims related to physical damage of a home underpinning an insured mortgage. Our ultimate claims exposure for loans in areas impacted by natural disasters will depend on the number of NODs received, proximate cause of each default, cure rate of the NOD population, and potential repair cost curtailment for appropriate claims on damaged properties as permitted under our Master Policy. Cure rates on loan defaults following natural disasters 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 claim expenses.

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In Thousands)			
Beginning balance	\$ 18,432	\$ 10,601	\$ 12,811	\$ 8,761
Less reinsurance recoverables ⁽¹⁾	(3,775)	(2,382)	(3,001)	(1,902)
Beginning balance, net of reinsurance recoverables	14,657	8,219	9,810	6,859
Add claims incurred:				
Claims and claim expenses incurred:				
Current year ⁽²⁾	3,547	1,938	10,948	5,090
Prior years ⁽³⁾	(975)	(839)	(2,710)	(1,779)
Total claims and claim expenses incurred	2,572	1,099	8,238	3,311
Less claims paid:				
Claims and claim expenses paid:				
Current year ⁽²⁾	—	37	—	37
Prior years ⁽³⁾	1,033	890	2,401	1,742
Reinsurance terminations ⁽⁴⁾	—	—	(549)	—
Total claims and claim expenses paid	1,033	927	1,852	1,779
Reserve at end of period, net of reinsurance recoverables	16,196	8,391	16,196	8,391
Add reinsurance recoverables ⁽¹⁾	4,309	2,517	4,309	2,517
Ending balance	\$ 20,505	\$ 10,908	\$ 20,505	\$ 10,908

⁽¹⁾ 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 Condensed Consolidated Financial Statements - Note 5, Reinsurance" for additional information.

⁽²⁾ 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. Amounts are presented net of reinsurance.

⁽³⁾ Related to insured loans with defaults occurring in prior years, which have been continuously in default before the start of the current year. Amounts are presented net of reinsurance.

⁽⁴⁾ Represents the settlement of reinsurance recoverables in conjunction with the termination of one reinsurer under the 2016 QSR Transaction on a cut-off basis. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance" for additional information.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves and is presented net of reinsurance. 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 gather additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Gross reserves of \$6.6 million related to prior year defaults remained as of September 30, 2019.

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

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Beginning default inventory	1,028	768	877	928
Plus: new defaults	718	380	1,838	1,080
Less: cures	(476)	(378)	(1,383)	(1,203)
Less: claims paid	(37)	(24)	(98)	(59)
Less: claims denied	(3)	—	(4)	—
Ending default inventory	1,230	746	1,230	746

The increase in the ending default inventory at September 30, 2019 compared to September 30, 2018, primarily relates to an increase in new defaults tied to the growth in the number of policies in force and the aging of our earlier book years, partially offset by cure activity on our beginning NOD population. The ratio of cures to new defaults decreased during the three and nine months ended September 30, 2019 compared to the same periods in the prior year due to the elevated level of defaults on insured loans in areas declared by FEMA to be individual disaster zones following Hurricanes Harvey and Irma, and the California wildfires in 2017, and the subsequent curing of the majority of such defaults in 2018.

The following table provides details of our claims paid, before giving effect to claims ceded under the QSR Transactions, for the periods indicated.

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(\$ In Thousands)			
Number of claims paid ⁽¹⁾	37	24	98	59
Total amount paid for claims	\$ 1,265	\$ 1,128	\$ 2,979	\$ 2,217
Average amount paid per claim	\$ 34	\$ 47	\$ 30	\$ 38
Severity ⁽²⁾	70%	80%	70%	76%

⁽¹⁾ Count includes 8 and 14 claims settled without payment for the three and nine months ended September 30, 2019, respectively, and 1 and 5 claims settled without payment for the three and nine months ended September 30, 2018, respectively.

⁽²⁾ Severity represents the total amount of claims paid including claim expenses divided by the related RIF on the loan at the time the claim is perfected, and is calculated including claims settled without payment.

The increase in the number of claims paid for the three and nine months ended September 30, 2019, compared to the three and nine months ended September 30, 2018, is due to an increase in our default inventory and the continued growth and seasoning of our insured portfolio.

Our claims severity for each of the three and nine months ended September 30, 2019 was 70%, compared to 80% and 76% for the three and nine months ended September 30, 2018. Claims severity in each period benefitted from home price appreciation. Increasing values of the homes underlying the loans we insure generally causes a decline in the severity of claims that we pay. Over time, we expect the severity of claims paid to be between 85% and 95% of the coverage amount.

The following table provides detail on our average reserve per default, before giving effect to reserves ceded under the QSR Transactions, as of the dates indicated.

Average reserve per default:	As of September 30, 2019		As of September 30, 2018	
	(In Thousands)			
Case ⁽¹⁾	\$	15	\$	14
IBNR		2		1
Total ⁽²⁾	\$	17	\$	15

⁽¹⁾ Defined as the gross reserve per insured loan in default.

⁽²⁾ Amount includes claims adjustment expenses.

The average reserve per default at September 30, 2019 increased from September 30, 2018, primarily due to cure activity on defaults outstanding at September 30, 2018 for loans in areas impacted by natural disasters and the aging of our NOD population from non-disaster zones.

GSE Oversight

As an *approved insurer*, NMIC is subject to ongoing compliance with the PMIERS established by each of the GSEs (*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 loan-level risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (*i.e.*, current vs. delinquent), LTV ratio and other risk features. In general, higher quality loans carry lower asset charges.

Under the PMIERS, *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* RIF, assessed on a loan-by-loan basis and considered against certain risk-based factors derived from tables set out in the PMIERS, which is then adjusted on an aggregate basis for reinsurance transactions approved by the GSEs, such as with respect to our ILN Transactions and QSR Transactions. The *risk-based required asset amount* for performing, primary insurance is subject to a floor of 5.6% of *performing primary adjusted RIF*, and the *risk-based required asset amount* for pool insurance considers both factors in the PMIERS tables and the *net remaining stop loss* for each pool insurance policy.

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, 2019 that NMIC was in full compliance with the PMIERS as of December 31, 2018. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a failure to meet one or more of the PMIERS requirements. We continuously monitor NMIC's compliance with the PMIERS.

On September 27, 2018, the GSEs published revised PMIERS that took effect and became applicable to NMIC on March 31, 2019. The following table provides a comparison of the PMIERS *available assets* and *risk-based required asset amount* as reported by NMIC as of the dates indicated as calculated under the applicable PMIERS requirement.

	As of			
	September 30, 2019		September 30, 2018	
(In Thousands)				
Available assets	\$	955,554	\$	702,020
Risk-based required assets		637,914		398,975

Available assets were \$956 million at September 30, 2019, compared to \$702 million at September 30, 2018. The increase in *available assets* of \$254 million was driven by our positive cash flow from operations and the impact of adopting the revised PMIERS guidance effective March 31, 2019. The increase in the *risk-based required asset amount* was primarily due to the growth of our gross RIF and the termination of our engagement with and recapture of previously ceded primary RIF from one reinsurer under the 2016 QSR Transaction, partially offset by the cession of risk generally under our third-party reinsurance agreements.

Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings

In addition to GSE-imposed asset requirements, NMIC is 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 September 30, 2019, NMIC's performing primary RIF, net of reinsurance, was approximately \$13.2 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory capital of \$888 million (including contingency reserves) as of September 30, 2019, NMIC's RTC ratio was 14.8:1. Re One had total statutory capital of \$36 million as of September 30, 2019, and a RTC ratio of 1.2:1. We continuously monitor our compliance with state capital requirements.

In October 2019, Moody's Investors Service (Moody's) upgraded its financial strength rating of NMIC from "Baa3" to "Baa2" and upgraded its rating of NMIH's \$150 million senior secured 2018 Term Loan and 2018 Revolving Credit Facility from "Ba3" to "Ba2". The outlook for Moody's ratings is stable. In June 2019, S&P upgraded its financial strength and long-term counter-party credit ratings of NMIC from "BBB-" to "BBB" and upgraded its long-term counter-party credit rating of NMIH from "BB-" to "BB". The outlook for S&P's ratings is positive.

Competition

The MI industry is highly competitive and currently consists of six private mortgage insurers, including NMIC, as well as government MIs such as the FHA, USDA or VA. Private MI companies compete based on service, customer relationships, underwriting and other factors, including price, credit risk tolerance and information technology capabilities. We expect the private MI market to remain competitive, with pressure for industry participants to maintain or grow their market share.

The private MI industry overall competes more broadly with government 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 increasing private capital participation and decreasing government exposure to credit risk in the U.S. housing finance system, it remains difficult to predict whether the combined market share of government MIs will recede to historical levels. A range of factors influence a lender's and borrower's decision to choose private over government 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 government MI alternatives.

Consolidated Results of Operations

Consolidated statements of operations	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenues	<i>(In Thousands)</i>			
Net premiums earned	\$ 92,381	\$ 65,407	\$ 249,499	\$ 181,936
Net investment income	7,882	6,277	22,894	16,586
Net realized investment gains (losses)	81	(8)	(219)	51
Other revenues	1,244	85	1,700	193
Total revenues	101,588	71,761	273,874	198,766
Expenses				
Insurance claims and claim expenses	2,572	1,099	8,238	3,311
Underwriting and operating expenses	33,244	30,379	96,636	87,852
Total expenses	35,816	31,478	104,874	91,163
Other expense				
Gain (loss) from change in fair value of warrant liability	1,139	(5,464)	(6,025)	(4,935)
Interest expense	(2,979)	(2,972)	(9,111)	(11,951)
Income before income taxes	63,932	31,847	153,864	90,717
Income tax expense	14,169	7,036	32,102	18,310
Net income	\$ 49,763	\$ 24,811	\$ 121,762	\$ 72,407
Earnings per share - Basic	\$ 0.73	\$ 0.38	\$ 1.81	\$ 1.12
Earnings per share - Diluted	\$ 0.69	\$ 0.36	\$ 1.75	\$ 1.07
Loss ratio ⁽¹⁾	2.8%	1.7%	3.3%	1.8%
Expense ratio ⁽²⁾	36.0%	46.4%	38.7%	48.3%
Combined ratio	38.8%	48.1%	42.0%	50.1%

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

⁽²⁾ Expense ratio is calculated by dividing underwriting and operating expenses by net premiums earned.

Revenues

For the three and nine months ended September 30, 2019, net premiums earned increased \$27.0 million or 41% and \$67.6 million or 37%, respectively, compared to the three and nine months ended September 30, 2018. The increase is primarily due to the growth of our IIF and increased monthly policy production, as well as an increase in earnings from single premium policy cancellations, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2018 and 2019 ILN Transactions.

For the three and nine months ended September 30, 2019, net investment income increased \$1.6 million and \$6.3 million, respectively, compared to the three and nine months ended September 30, 2018, due to an increase in the size and yield of our investment portfolio.

For the three and nine months ended September 30, 2019, other revenues increased \$1.2 million and \$1.5 million, respectively, compared to the three and nine months ended September 30, 2018. Other revenues represents underwriting fee revenue from our subsidiary, NMIS, which provides outsourced loan review services to mortgage loan originators. The increase in the period presented is due to an increase in NMIS' outsourced loan review volume. Amounts recognized in other revenue generally correspond with amounts incurred in underwriting and operating expenses for outsourced loan review services (in the same periods).

Expenses

We recognize insurance claims and claim 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 claim expenses increased \$1.5 million and \$4.9 million for the three and nine months ended September 30, 2019, respectively, compared to the three and nine months ended September 30, 2018, primarily due to an increase in NODs tied to the growth in the number of policies in force and the aging of our earlier book years, and an increase in our average reserve per default tied to the aging of our NOD population from non-disaster zones and composition of our default inventory between loans in disaster and non-disaster impacted areas. The growth in insurance claims and claim expenses for the three and nine months ended September 30, 2018 was partially offset by the release of prior year reserves tied to NOD cures and ongoing analysis of recent loss development trends.

Underwriting and operating expenses increased \$2.9 million or 9% and \$8.8 million or 10% for the three and nine months ended September 30, 2019, respectively, compared to the three and nine months ended September 30, 2018. The increase relates to an increase in underwriting expenses associated with the growth in our policy volume, as well as certain employee compensation and technology costs incurred to support the growth of our business, and an increase in NMIS' outsourced loan review expenses incurred in connection with the growth in outsourced loan review volume. We incurred \$2.4 million of underwriting and operating expenses during the nine months ended September 30, 2019 in connection with the 2019 ILN Transaction completed in July 2019. Underwriting and operating expenses for the nine months ended September 30, 2018 included \$2.6 million related to the 2018 ILN Transaction completed in July 2018.

Interest expense was \$3.0 million and \$9.1 million for the three and nine months ended September 30, 2019, respectively, compared to \$3.0 million and \$12.0 million, for the three and nine months ended September 30, 2018, respectively. Interest expense for the nine months ended September 30, 2018 included \$2.2 million of costs related to the extinguishment of the 2015 Term Loan and issuance of the 2018 Term Loan completed in May 2018. Interest expense for the nine months ended September 30, 2019 further benefited from a lower interest spread payable on borrowings under the 2018 Term Loan as compared to the 2015 Term Loan, partially offset by commitment fees recognized in interest for the 2018 Revolving Credit Facility. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt.*"

Income tax expense was \$14.2 million and \$32.1 million for the three and nine months ended September 30, 2019, respectively, compared to \$7.0 million and \$18.3 million for the three and nine months ended September 30, 2018, respectively. Income tax expense increased due to the growth in our pre-tax income. Our provision for income taxes for interim periods is established based on our estimated annual effective tax rate for a given year. Our effective tax rate on our pre-tax income was 22.2% and 20.9% for the three and nine months ended September 30, 2019, respectively, compared to 22.1% and 20.2% for the three and nine months ended September 30, 2018, respectively. We are subject to a 21% statutory U.S. federal corporate income tax rate. Our effective tax rate for the three and nine months interim periods ended September 30, 2019 and 2018 reflect the discrete tax effects of the vesting of RSUs and exercise of options, and the change in fair value of our warrant liability in each period. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes.*"

Net Income

Net income was \$49.8 million and \$121.8 million for the three and nine months ended September 30, 2019, respectively, compared to \$24.8 million and \$72.4 million for the three and nine months ended September 30, 2018, respectively. The increase in net income primarily relates to growth in total revenues, partially offset by an increase in total expenses and an increase in tax expense.

Diluted EPS was \$0.69 and \$1.75 for the three and nine months ended September 30, 2019, respectively, compared to \$0.36 and \$1.07 for the three and nine months ended September 30, 2018, respectively. Diluted EPS increased due to growth in net income, partially offset by an increase in weighted average diluted shares outstanding.

Consolidated balance sheets

	September 30, 2019	December 31, 2018
	(In Thousands)	
Total investment portfolio	\$ 1,073,176	\$ 911,490
Cash and cash equivalents	45,889	25,294
Premiums receivable	45,730	36,007
Deferred policy acquisition costs, net	56,642	46,840
Software and equipment, net	26,303	24,765
Prepaid reinsurance premiums	17,917	30,370
Other assets	35,805	17,277
Total assets	\$ 1,301,462	\$ 1,092,043
Term loan	\$ 146,007	\$ 146,757
Unearned premiums	145,146	158,893
Accounts payable and accrued expenses	39,296	31,141
Reserve for insurance claims and claim expenses	20,505	12,811
Reinsurance funds withheld	16,072	27,114
Warrant liability	6,364	7,296
Deferred tax liability, net	43,769	2,740
Other liabilities	10,816	3,791
Total liabilities	427,975	390,543
Total shareholders' equity	873,487	701,500
Total liabilities and shareholders' equity	\$ 1,301,462	\$ 1,092,043

As of September 30, 2019, we had \$1.1 billion in cash and investments, including \$43.3 million held by NMIH. The increase in cash and investments from December 31, 2018 relates to cash generated from operations.

Premiums receivable was \$45.7 million as of September 30, 2019, compared to \$36.0 million as of December 31, 2018. 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 \$56.6 million as of September 30, 2019, compared to \$46.8 million as of December 31, 2018. The increase was primarily driven by growth in the number of policies written during the period and the deferral of certain costs associated with the origination of those policies, partially offset by the amortization of previously deferred acquisition costs.

Prepaid reinsurance premiums were \$17.9 million as of September 30, 2019, compared to \$30.4 million as of December 31, 2018. Prepaid reinsurance premiums, which represent the unearned premiums on single premium policies ceded under the 2016 QSR Transaction, decreased due to the termination of our engagement with one reinsurer under the 2016 QSR Transaction and the continued amortization of previously ceded unearned premiums.

Other assets increased to \$35.8 million as of September 30, 2019 from \$17.3 million as of December 31, 2018. Other assets as of September 30, 2019 includes \$7.6 million of tax and loss bonds and \$6.9 million of operating lease right-of-use assets, which we recognized following the adoption of ASU 2016-02, *Leases* (Topic 842). See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes." and "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 10, Leases."

Unearned premiums decreased from \$158.9 million as of December 31, 2018 to \$145.1 million as of September 30, 2019, primarily due to the amortization of existing unearned premiums through earnings in accordance with the expiration of risk on related single premium policies and the cancellation of other single premium policies, partially offset by single premium policy originations during the nine months ended September 30, 2019.

Accounts payable and accrued expenses increased from \$31.1 million as of December 31, 2018 to \$39.3 million as of September 30, 2019, primarily due to unsettled payments from the purchase of certain securities and an increase in reinsurance premiums payable, partially offset by the payment of previously accrued compensation.

Reserve for insurance claims and claim expenses increased from \$12.8 million as of December 31, 2018 to \$20.5 million as of September 30, 2019, primarily due to an increase in NODs tied to the growth in the number of policies in force and the aging of our earlier book years, and an increase in our average reserve per default tied to the aging of our NOD population from non-disaster zones and composition of our default inventory between loans in disaster and non-disaster impacted areas, partially offset by the release of prior year reserves tied to NOD cures and ongoing analysis of recent loss development trends. See "- Insurance Claims and Claim Expenses," above for further details.

Reinsurance funds withheld was \$16.1 million as of September 30, 2019, representing the net of our ceded reinsurance premiums written, less our profit and ceding commission receivables related to the 2016 QSR Transaction. The decrease in reinsurance funds withheld of \$11.0 million from December 31, 2018, relates to the termination of our engagement with one reinsurer under the 2016 QSR Transaction and the continued decline in ceded premiums written on single premium policies, due to the end of the reinsurance coverage period for new business under 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 from \$7.3 million at December 31, 2018 to \$6.4 million at September 30, 2019, primarily due to the reclassification of warrant liability to additional paid-in capital following the exercise of warrants during the nine months ended September 30, 2019, partially offset by an increase in our stock price. For further information regarding the valuation of our warrant liability and its 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."

Net deferred tax liability increased from \$2.7 million as of December 31, 2018 to \$43.8 million as of September 30, 2019, primarily due to the forecasted deductibility of our statutory contingency reserve in fiscal year 2019. 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."

Other liabilities as of September 30, 2019 include \$7.9 million of operating lease liabilities, which we recognized following the adoption of ASU 2016-02, *Leases* (Topic 842). See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 10, Leases."

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

Consolidated cash flows	For the nine months ended September 30,	
	2019	2018
Net cash provided by (used in):	<i>(In Thousands)</i>	
Operating activities	\$ 139,567	\$ 99,349
Investing activities	(117,263)	(180,928)
Financing activities	(1,709)	80,570
Net increase (decrease) in cash and cash equivalents	\$ 20,595	\$ (1,009)

Net cash provided by operating activities was \$139.6 million for the nine months ended September 30, 2019, compared to \$99.3 million for the nine months ended September 30, 2018. The increase in cash generated from operating activities was primarily driven by growth in premiums written and investment income, partially offset by increased operating expenses and the purchase of tax and loss bonds.

Cash used in investing activities for the periods presented reflects the purchase of fixed and short-term maturities with cash provided by operating and financing activities, and the reinvestment of coupon payments, maturities and sale proceeds within our investment portfolio. Cash used in investing activities for the nine months ended September 30, 2018 reflects, in part, the investment of net cash proceeds raised in a common stock offering we completed in March 2018.

Cash used in financing activities was \$1.7 million for the nine months ended September 30, 2019, compared to cash provided by financing activities of \$80.6 million for the nine months ended September 30, 2018. Cash provided by financing activities for the nine months ended September 30, 2018 reflects \$79.2 million of net cash proceeds raised in a common stock offering we completed in March 2018.

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 2018 Term Loan and 2018

Revolving Credit Facility; (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 that are incorporated in Delaware. Delaware law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations).

As of September 30, 2019, NMIH had \$43.3 million of cash and investments. NMIH's principal source of net cash is investment income. NMIH also has access to \$85 million of undrawn revolving credit capacity under the 2018 Revolving Credit Facility and \$2.7 million of ordinary course dividend capacity from Re One. In the future, NMIH could benefit from dividend capacity from NMIC, as available and permitted under law and by the GSEs.

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 the 2015 Term Loan to NMIC in the first quarter of 2017, consistent with the benefits NMIC received when NMIH contributed the loan proceeds to NMIC. NMIH received similar approval from the Wisconsin OCI to allocate interest expense to NMIC on the 2018 Term Loan and 2018 Revolving Credit Facility.

NMIC and Re One's ability to pay dividends to NMIH is subject to insurance department notice or approval. Under Wisconsin law, NMIC and Re One 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 year ended December 31, 2018 and cannot pay any dividends to NMIH through December 31, 2019 without the prior approval of the Wisconsin OCI. Re One has never paid dividends to NMIH. Re One has capacity to pay ordinary dividends of up to \$2.7 million to NMIH through December 31, 2019. Certain other states in which NMIC and Re One are licensed also have statutes or regulations that may restrict their ability to pay dividends.

As an *approved insurer* under PMIERS, NMIC would be subject to additional restrictions on its ability to pay dividends to NMIH if it failed to meet the financial requirements prescribed by PMIERS. *Approved insurers* that fail to meet the PMIERS financial requirements are not permitted to pay dividends without prior approval of the GSEs.

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 minimum 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 May 2018, NMIH entered into the 2018 Credit Agreement covering the 2018 Term Loan and 2018 Revolving Credit Facility. The 2018 Term Loan bears interest at the Eurodollar Rate, as defined in the 2018 Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 4.75%, payable monthly based on our current interest period election. Borrowings under the 2018 Revolving Credit Facility will accrue interest at a variable rate equal to, at our discretion, (i) a base rate (as defined in the 2018 Credit Agreement, subject to a floor of 1.00% per annum) plus a margin of 1.00% to 2.50% per annum, based on the applicable corporate credit rating at the time, or (ii) the Eurodollar Rate (subject to a floor of 0.00% per annum) plus a margin of 2.00% to 3.50% per annum, based on the applicable corporate credit rating at the time. The 2018 Revolving Credit Facility also requires a quarterly commitment fee on the average daily undrawn amount ranging from 0.30% to 0.60%, based on the applicable corporate credit rating at the time.

We are subject to certain covenants under the 2018 Term Loan and 2018 Revolving Credit Facility. Under the 2018 Term Loan (and as defined in the 2018 Credit Agreement), we are subject a maximum debt-to-total capitalization ratio of 35%. Under the 2018 Revolving Credit Facility (and as defined in the 2018 Credit Agreement), we are subject to a maximum debt-to-total capitalization ratio of 35%, a minimum liquidity requirement, compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and minimum consolidated net worth and statutory capital requirements. We were in compliance with all covenants as of September 30, 2019.

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.

Our investment portfolio is entirely comprised of fixed maturity instruments. As of September 30, 2019, the fair value of our investment portfolio was \$1.1 billion. We also had an additional \$45.9 million of cash and equivalents as of September 30, 2019. Pre-tax book yield on the investment portfolio for the nine months ended September 30, 2019 was 3.1%. The book yield is calculated as period-to-date net investment income divided by average amortized cost of the investment portfolio. Yield on the investment portfolio is likely to change over time based on movements in interest rates, credit spreads, 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	September 30, 2019	December 31, 2018
Corporate debt securities	61%	58%
Asset-backed securities	16	18
Municipal debt securities	10	10
Cash, cash equivalents, and short-term investments	9	9
U.S. treasury securities and obligations of U.S. government agencies	4	5
Total	100%	100%

Investment portfolio ratings at fair value ⁽¹⁾	September 30, 2019	December 31, 2018
AAA	19%	22%
AA ⁽²⁾	15	18
A ⁽²⁾	51	42
BBB ⁽²⁾	15	18
BB ⁽³⁾	—	—
Total	100%	100%

⁽¹⁾ Excluding certain operating cash accounts.

⁽²⁾ Includes +/- ratings.

⁽³⁾ We held one security with a BB rating at December 31, 2018, which is not identifiable in the table due to rounding.

Our investments are rated by one or more nationally recognized statistical rating organizations. If multiple ratings are available, we assign the middle rating for classification purposes, otherwise we assign the lowest rating.

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

As of September 30, 2019, we held no other-than-temporarily impaired securities. During the nine months ended September 30, 2019, we recognized a \$0.4 million OTTI loss in earnings related to the planned sale of a security in a loss position that was disposed of in April 2019. We did not recognize any OTTI losses for the three months ended September 30, 2019 or the three and nine months ended September 30, 2018. There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss) for the three or nine months ended September 30, 2018.

Other Items

Off-Balance Sheet Arrangements and Contractual Obligations

We had no material off-balance sheet arrangements as of September 30, 2019. In connection with the ILN Transactions, we have certain future contractual commitments to the Oaktown Re Vehicles, special purpose VIEs that are not consolidated in our financial results. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 1. Organization, Basis of Presentation and Summary of Accounting Principles."

Critical Accounting Estimates

We use accounting principles and methods that conform to GAAP. 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 and reserves for insurance claims and claim expenses 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 2018 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 September 30, 2019 and December 31, 2018 was \$1.1 billion and \$911 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 September 30, 2019, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.38 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 3.38% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.53 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 3.53% in fair value of our fixed income portfolio.

We are also subject to market risk related to our 2018 Term Loan and the ILN Transactions. As discussed in Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt*" the 2018 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 ILN Transactions 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 September 30, 2019 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 September 30, 2019 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 will disclose information relating to any such potential loss, whether in excess of any established accruals or where there is no established accrual. We will 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 2018 10-K. As of the date of this report, we are not aware of any material changes in our risk factors from the risk factors disclosed in our 2018 10-K. You should carefully consider the risks and uncertainties described herein and in our 2018 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 2018 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.

Item 6. Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated November 30, 2011 , 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	Amendment to Stock Purchase Agreement, dated April 6, 2012 , 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	Second Amended and Restated Certificate of Incorporation (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	Third Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, filed on December 9, 2014)
4.1	Specimen Class A common stock certificate (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	Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets & Co., dated April 24, 2012 (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	Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012 (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	Registration Rights Agreement between FBR & Co., FBR Capital Markets LT, Inc., FBR Capital Markets & Co., FBR Capital Markets PT, Inc. and NMI Holdings, Inc., dated April 24, 2012 (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	Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets & Co., dated June 13, 2013 (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	Form of Warrant to Purchase Common Stock of NMI Holdings, Inc. issued to former stockholders of MAC Financial Ltd. (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 ~	NMI Holdings Inc. 2012 Stock Incentive Plan (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 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.3 ~	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 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.4 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.5 ~	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)
10.6 ~	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)
10.7 ~	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)
10.8 ~	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)
10.9 ~	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)
10.10 ~	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)

- 10.11 ~ [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)
- 10.12 + [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)
- 10.13 [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)
- 10.14 [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)
- 10.15 [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)
- 10.16 [Credit Agreement, dated May 24, 2018, between NMI Holdings, Inc., the lender 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 May 25, 2018)
- 10.17 ~ [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)
- 10.18 ~ [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)
- 10.19 ~ [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)
- 10.20 ~ [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)
- 10.21 ~ [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)
- 10.22 ~ [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)
- 10.23 ~ [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)
- 10.24 ~ [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)
- 10.25 ~ [NMI Holdings, Inc. Severance Benefit Plan](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016)
- 10.26 ~ [NMI Holdings, Inc. Amended and Restated Change in Control Severance Benefit Plan \(incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on October 30, 2018\)](#)
- 10.27 ~ [NMI Holdings, Inc. Clawback Policy](#) (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
- 10.28 ~ [Employment Letter by and between NMI Holdings, Inc. and Bradley M. Shuster, effective as of January 1, 2019](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 28, 2018)
- 10.29 ~ [Employment Letter by and between NMI Holdings, Inc. and Claudia J. Merkle, effective as of January 1, 2019](#) (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on December 28, 2018)
- 10.30~ [Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors](#) (incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on May 2, 2019)
- 10.31~ [Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Employees](#) (incorporated herein by reference to Exhibit 10.31 to our Form 10-Q, filed on May 2, 2019)
- 10.32~ [Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Agreement for Employees](#) (incorporated herein by reference to Exhibit 10.32 to our Form 10-Q, filed on May 2, 2019)

- 10.33~ [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 10.33 to our Form 10-Q, filed on May 2, 2019)
- 10.34~ [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 10.34 to our Form 10-Q, filed on May 2, 2019)
- 10.35~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Agreement for Employees](#) (incorporated herein by reference to Exhibit 10.35 to our Form 10-Q, filed on May 2, 2019)
- 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](#)
- 101 The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 formatted in XBRL (eXtensible Business Reporting Language):
- (i) Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018;
 - (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018;
 - (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2019 and 2018;
 - (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018; and
 - (v) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.

~ 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.

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.

Date: November 6, 2019

By: /s/ Adam S. Pollitzer

Name: Adam S. Pollitzer

Title: Chief Financial Officer and Duly Authorized Signatory

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Claudia J. Merkle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NMI Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

/s/ Claudia J. Merkle

Claudia J. Merkle
Chief Executive Officer
(Principal Executive Officer)

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Adam S. Pollitzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NMI Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

/s/ Adam Pollitzer

Adam S. Pollitzer

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION 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**

In connection with the Quarterly Report of NMI Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 6, 2019

/s/ Claudia J. Merkle

Claudia Merkle

Chief Executive Officer

(Principal Executive Officer)

November 6, 2019

/s/ Adam S. Pollitzer

Adam S. Pollitzer

Chief Financial Officer

(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to NMI Holdings, Inc. and will be retained by NMI Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.