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 **June 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	**45-4914248**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2100 Powell Street , Emeryville , CA	**94608**
(Address of principal executive offices)	**(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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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 July 29, 2019 was 67,768,466 shares.

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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

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

	June 30, 2019	December 31, 2018
Assets	*(In Thousands, except for share data)*	
Fixed maturities, available-for-sale, at fair value (amortized cost of $994,543 and $924,987 as of June 30, 2019 and December 31, 2018, respectively)	$ 1,017,607	$ 911,490
Cash and cash equivalents (including restricted cash of $1,430 and $1,414 as of June 30, 2019 and December 31, 2018, respectively)	35,735	25,294
Premiums receivable	42,225	36,007
Accrued investment income	6,301	5,694
Prepaid expenses	3,358	3,241
Deferred policy acquisition costs, net	52,607	46,840
Software and equipment, net	25,827	24,765
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	20,426	30,370
Other assets	12,679	4,708
Total assets	$ 1,220,399	$ 1,092,043
Liabilities		
Term loan	$ 146,253	$ 146,757
Unearned premiums	151,358	158,893
Accounts payable and accrued expenses	24,351	31,141
Reserve for insurance claims and claim expenses	18,432	12,811
Reinsurance funds withheld	18,092	27,114
Warrant liability, at fair value	9,679	7,296
Deferred tax liability, net	28,258	2,740
Other liabilities [1]	11,597	3,791
Total liabilities	408,020	390,543
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, $0.01 par value; 67,768,466 and 66,318,849 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively (250,000,000 shares authorized)	677	663
Additional paid-in capital	692,163	682,181
Accumulated other comprehensive income (loss), net of tax	14,052	(14,832)
Retained earnings	105,487	33,488
Total shareholders' equity	812,379	701,500
Total liabilities and shareholders' equity	$ 1,220,399	$ 1,092,043

[1] Deferred Ceding Commissions have been reclassified to "Other Liabilities" in prior periods

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues	*(In Thousands, except for per share data)*			
Net premiums earned	$ 83,249	$ 61,615	$ 157,118	$ 116,529
Net investment income	7,629	5,735	15,012	10,309
Net realized investment (losses) gains	(113)	59	(300)	59
Other revenues	415	44	456	108
Total revenues	91,180	67,453	172,286	127,005
Expenses				
Insurance claims and claim expenses	2,923	643	5,666	2,212
Underwriting and operating expenses	32,543	29,020	63,392	57,473
Total expenses	35,466	29,663	69,058	59,685
Other expense				
(Loss) gain from change in fair value of warrant liability	(1,685)	109	(7,164)	529
Interest expense	(3,071)	(5,560)	(6,132)	(8,979)
Total other expense	(4,756)	(5,451)	(13,296)	(8,450)
Income before income taxes	50,958	32,339	89,932	58,870
Income tax expense	11,858	7,098	17,933	11,274
Net income	$ 39,100	$ 25,241	$ 71,999	$ 47,596
Earnings per share				
Basic	$ 0.58	$ 0.38	$ 1.07	$ 0.74
Diluted	$ 0.56	$ 0.37	$ 1.04	$ 0.70
Weighted average common shares outstanding				
Basic	67,590	65,664	67,143	63,891
Diluted	69,590	68,616	69,348	67,171
Net income	$ 39,100	$ 25,241	$ 71,999	$ 47,596
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) in accumulated other comprehensive income, net of tax expense (benefit) of $3,662 and ($2,879) for the three months ended June 30, 2019 and 2018 and $7,615 and ($3,304) for the six months ended June 30, 2019 and 2018, respectively	13,779	(1,464)	28,647	(12,429)
Reclassification adjustment for realized losses (gains) included in net income, net of tax (benefit) expense of ($24) and $12 for the three months ended June 30, 2019 and 2018 and ($63) and $10 for the six months ended June 30, 2019 and 2018, respectively	89	(46)	237	(37)
Other comprehensive income (loss), net of tax	13,868	(1,510)	28,884	(12,466)
Comprehensive income	$ 52,968	$ 23,731	$ 100,883	$ 35,130

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.

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

	Common Stock - Class A										
	Shares		Amount		Additional Paid-in Capital		Accumulated Other Comprehensive Income (Loss)		Retained Earnings		Total
	(In Thousands)										
Balances, January 1, 2019	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 benefit 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

* During the three months ended March 31, 2019, we issued 39,195 common shares with a par value of $0.01 related to 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)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount				
			(In Thousands)			
Balances, January 1, 2018	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

* 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 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

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

	For the six months ended June 30,	
	2019	2018
Cash flows from operating activities	(In Thousands)	
Net income	$ 71,999	$ 47,596
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment losses (gains)	300	(59)
Loss (gain) from change in fair value of warrant liability	7,164	(529)
Depreciation and amortization	4,339	3,810
Net amortization of premium on investment securities	622	810
Amortization of debt discount and debt issuance costs	499	2,851
Share-based compensation expense	6,456	5,822
Deferred income taxes	17,840	10,864
Changes in operating assets and liabilities:		
Premiums receivable	(6,218)	(6,073)
Accrued investment income	(607)	(577)
Prepaid expenses	(312)	(756)
Deferred policy acquisition costs, net	(5,767)	(4,438)
Other assets	(260)	68
Unearned premiums	(7,535)	2,492
Reserve for insurance claims and claim expenses	5,621	1,840
Reinsurance balances, net	(438)	365
Accounts payable and accrued expenses	(6,379)	(2,733)
Net cash provided by operating activities	87,324	61,353
Cash flows from investing activities		
Purchase of short-term investments	(113,276)	(83,874)
Purchase of fixed-maturity investments, available-for-sale	(126,179)	(219,093)
Proceeds from maturity of short-term investments	119,748	52,562
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	49,229	111,485
Additions to software and equipment	(4,491)	(3,273)
Net cash used in investing activities	(74,969)	(142,193)
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	12,374	6,173
Taxes paid related to net share settlement of equity awards	(13,538)	(6,480)
Proceeds from senior note, net	—	149,250
Repayments of term loan	(750)	(146,625)
Payments of debt issuance/modification costs	—	(3,385)
Net cash (used in) provided by financing activities	(1,914)	78,098
Net increase (decrease) in cash, cash equivalents and restricted cash	10,441	(2,742)
Cash, cash equivalents and restricted cash, beginning of period	25,294	19,196
Cash, cash equivalents and restricted cash, end of period	$ 35,735	$ 16,454
Supplemental disclosures of cash flow information		
Interest paid	$ 5,365	$ 6,425
Income tax (refunded) paid, net	$ (134)	$ 447

See accompanying notes to consolidated financial statements.

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 "*Recent Accounting Pronouncements - Adopted*" below.

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 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 at this time 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 in April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which includes codification improvements to Topic 326. 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. 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. 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. Adoption of this ASU will not have an impact on our Consolidated Balance Sheet, Statements of Operations and Comprehensive Income, Changes in Shareholders Equity or Cash Flows.

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 hosted by a vendor 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. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

2. Investments

We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized through comprehensive income and loss, and on an accumulated basis in shareholders' equity. Net realized investment gains and losses are reported in 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 June 30, 2019		*(In Thousands)*		
U.S. Treasury securities and obligations of U.S. government agencies	$ 48,193	$ 688	$ (116)	$ 48,765
Municipal debt securities	91,650	1,497	(73)	93,074
Corporate debt securities	634,188	18,569	(785)	651,972
Asset-backed securities	168,251	3,216	(36)	171,431
Total bonds	942,282	23,970	(1,010)	965,242
Short-term investments	52,261	104	—	52,365
Total investments	$ 994,543	$ 24,074	$ (1,010)	$ 1,017,607

As of December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
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 June 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 June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Financial	38%	38%
Consumer	27	27
Communications	10	12
Utilities	9	7
Industrial	8	7
Technology	6	6
Energy	1	2
Other	1	1
Total	100%	100%

As of June 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 June 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 June 30, 2019	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 99,314	$ 99,375
Due after one through five years	412,820	420,131
Due after five through ten years	300,990	312,792
Due after ten years	13,168	13,878
Asset-backed securities	168,251	171,431
Total investments	$ 994,543	$ 1,017,607

As of December 31, 2018	Amortized Cost	Fair Value
	(In Thousands)	
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	$ 924,987	$ 911,490

Aging of Unrealized Losses

As of June 30, 2019, the investment portfolio had gross unrealized losses of $1.0 million, of which $0.8 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 June 30, 2019. We based our conclusion that these investments were not other-than-temporarily impaired as of June 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
As of June 30, 2019					*(Dollars in Thousands)*				
U.S. Treasury securities and obligations of U.S. government agencies	—	$ —	$ —	5	$ 13,750	$ (116)	5	$ 13,750	$ (116)
Municipal debt securities[(1)]	1	2,000	—	10	15,025	(73)	11	17,025	(73)
Corporate debt securities	13	24,737	(199)	33	51,099	(586)	46	75,836	(785)
Asset-backed securities	2	8,786	(33)	6	1,953	(3)	8	10,739	(36)
Total	16	$ 35,523	$ (232)	54	$ 81,827	$ (778)	70	$ 117,350	$ (1,010)

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

	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					*(Dollars in Thousands)*				
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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
	(In Thousands)			
Investment income	$ 7,741	$ 5,937	$ 15,237	$ 10,719
Investment expenses	(112)	(202)	(225)	(410)
Net investment income	$ 7,629	$ 5,735	$ 15,012	$ 10,309

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

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
	(In Thousands)			
Gross realized investment gains	$ 22	$ 59	$ 217	$ 59
Gross realized investment losses	(135)	—	(517)	—
Net realized investment losses	$ (113)	$ 59	$ (300)	$ 59

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

As of June 30, 2019, we held no other-than-temporarily impaired securities. During the six months ended June 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 June 30, 2019 or the three and six months ended June 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 six months ended June 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			
As of June 30, 2019	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**
	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 48,765	$ —	$ —	$ 48,765
Municipal debt securities	—	93,074	—	93,074
Corporate debt securities	—	651,972	—	651,972
Asset-backed securities	—	171,431	—	171,431
Cash, cash equivalents and short-term investments	88,100	—	—	88,100
Total assets	$ 136,865	$ 916,477	$ —	$ 1,053,342
Warrant liability	—	—	9,679	9,679
Total liabilities	$ —	$ —	$ 9,679	$ 9,679

	Fair Value Measurements Using			
As of December 31, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**
	(In Thousands)			
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	$ 130,964	$ 805,820	$ —	$ 936,784
Warrant liability	—	—	7,296	7,296
Total liabilities	$ —	$ —	$ 7,296	$ 7,296

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 six months ended June 30, 2019 and the year ended December 31, 2018.

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

	For the six months ended June 30,	
Warrant Liability	**2019**	**2018**
	(In Thousands)	
Balance, January 1	$ 7,296	$ 7,472
Change in fair value of warrant liability included in earnings	7,164	(529)
Issuance of common stock on warrant exercise	(4,781)	(552)
Balance, June 30	$ 9,679	$ 6,391

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 June 30,	
	2019	**2018**
Common stock price	$ 28.39	$ 16.30
Risk free interest rate	1.72 - 1.95%	2.60%
Expected life	0.92 - 2.81 years	2.49 years
Expected volatility	33.8 - 40.0%	32.7%
Dividend yield	0%	0%

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

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 June 30, 2019, payable monthly based on our current interest period election. Quarterly principal payments of $375 thousand are also required. As of June 30, 2019, the outstanding principal balance of the 2018 Term Loan was $148.5 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 six months ended June 30, 2019, interest expense was $2.8 million and $5.7 million, respectively. Remaining unamortized issuance costs were $2.2 million as of June 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 June 30, 2019.

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

As of June 30, 2019	Principal
	(In thousands)
2019	$ 750
2020	1,500
2021	1,500
2022	1,500
2023	143,250
Total	$ 148,500

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 June 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 June 30, 2019, the applicable commitment fee was 0.40%. For the three and six months ended June 30, 2019, we recorded $0.1 million and $0.2 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 six months ended June 30, 2019, we recognized $0.1 million and $0.3 million, respectively, of interest expense from the amortization of deferred issuance costs. At June 30, 2019, remaining deferred issuance costs were $1.0 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 June 30, 2019.

5. Reinsurance

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

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(In Thousands)			
Net premiums written				
Direct	$ 92,213	$ 70,677	$ 173,943	$ 136,704
Ceded [(1)]	(9,604)	(6,234)	(19,411)	(13,231)
Net premiums written	$ 82,609	$ 64,443	$ 154,532	$ 123,473
Net premiums earned				
Direct	$ 95,180	$ 70,609	$ 181,478	$ 134,212
Ceded [(1)]	(11,931)	(8,994)	(24,360)	(17,683)
Net premiums earned	$ 83,249	$ 61,615	$ 157,118	$ 116,529

(1) Net of profit commission.

Excess-of-loss reinsurance

2017 ILN Transaction

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re Ltd. (Oaktown Re), which provides for up to $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the reinsurance coverage period, NMIC retains the first layer of $126.8 million of aggregate losses, of which $124.4 million remained at June 30, 2019, and Oaktown Re then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC then retains losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled and was $91.5 million as of June 30, 2019. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $211.3 million to unaffiliated investors (the 2017 Notes). The 2017 Notes mature on April 26, 2027. All of the proceeds paid to Oaktown Re from the sale of the 2017 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re and the issuance of the 2017 Notes by Oaktown Re as the 2017 ILN Transaction. Under the terms of the 2017 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re for anticipated operating expenses (capped at $300 thousand per year). NMIC ceded risk premiums to Oaktown Re of $1.3 million and $2.6 million during the three and six months ended June 30, 2019, respectively, and $1.6 million and $3.3 million during the three and six months ended June 30, 2018, respectively. NMIC did not cede any losses to Oaktown Re during the three and six months ended June 30, 2019 and 2018.

2018 ILN Transaction

In July 2018, NMIC entered into a reinsurance agreement with Oaktown Re II Ltd. (Oaktown Re II), which provides for up to $264.5 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written between January 1, 2017 and May 31, 2018. For the reinsurance coverage period, NMIC retains the first layer of $125.3 million of aggregate losses, of which $125.2 million remained at June 30, 2019, and Oaktown Re II then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC then retains losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from $264.5 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled, and was $258.2 million as of June 30, 2019. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re II financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $264.5 million to unaffiliated investors (the 2018 Notes). The 2018 Notes mature on July 25, 2028. All of the proceeds paid to Oaktown Re II from the sale of the 2018 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re II to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re II and the issuance of the 2018 Notes by Oaktown Re II as the 2018 ILN Transaction. Under the terms of the 2018 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re II for anticipated operating expenses (capped at $250 thousand per year). For the three and six months ended June 30, 2019, NMIC ceded risk premiums of $1.6 million and $3.3 million, respectively, to Oaktown Re II. NMIC did not cede any losses to Oaktown Re II during the three and six months ended June 30, 2019.

Under the terms of the 2018 ILN Transaction, we are required to maintain a certain level of restricted funds in a premium deposit account with Bank of New York Mellon until the 2018 Notes have been redeemed in full. "Cash and cash equivalents" on our balance sheet includes restricted cash of $1.4 million as of June 30, 2019. We are not required to deposit additional funds into the premium deposit account and the restricted balance will decrease over time as the principal balance of the 2018 Notes declines.

We refer collectively to the 2017 ILN Transaction and 2018 ILN Transaction as the ILN Transactions. NMIC holds optional termination rights under each ILN Transaction in the event of certain occurrences, including, among others, a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under 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.

At inception of each ILN Transaction, we determined that Oaktown Re and Oaktown Re II were variable interest entities (VIEs). However, we concluded that we are not the primary beneficiary of either Oaktown Re or Oaktown Re II because NMIC does not have significant economic exposure to either Oaktown Re or Oaktown Re II, and, as such, we do not consolidate the VIEs in our consolidated financial statements.

The amount of reinsurance premium ceded under the ILN Transactions 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 contain embedded derivatives that must be accounted for separately as freestanding derivatives. The total fair value of such derivatives at June 30, 2019 and December 31, 2018, and the change in fair value of the derivatives during the three and six months ended June 30, 2019 and 2018, were not material to our consolidated financial statements.

Quota share reinsurance

2016 QSR Transaction

Effective September 1, 2016, NMIC entered into a quota-share reinsurance (QSR) transaction (the 2016 QSR Transaction) with a panel of third-party reinsurers. Each of the third-party reinsurers has an insurer financial strength rating of A- or better by Standard and Poor’s Rating Services (S&P), A.M. Best or both.

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

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

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

2018 QSR Transaction

Effective January 1, 2018, NMIC entered into a second quota share reinsurance treaty with a panel of third-party reinsurers (the 2018 QSR Transaction, together with the 2016 QSR Transaction, the QSR Transactions). Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P, AM Best or both. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written in 2018 and 20% of risk on eligible policies written in 2019. The 2018 QSR Transaction is scheduled to terminate on December 31, 2029. However, NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2022, or at the end of any calendar quarter thereafter, which would result in NMIC reassuming the related risk.

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 this 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 six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(In Thousands)			
Ceded risk-in-force	$ 4,558,862	$ 3,606,928	$ 4,558,862	$ 3,606,928
Ceded premiums written	(18,592)	(15,318)	(37,437)	(29,843)
Ceded premiums earned	(20,919)	(18,077)	(42,387)	(34,295)
Ceded claims and claim expenses	770	173	1,669	716
Ceding commission written	3,717	3,064	7,488	5,969
Ceding commission earned	4,171	3,536	8,377	6,687
Profit commission	11,884	10,707	23,945	19,908

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, provided that the loss ratio on the loans covered under the 2016 QSR Transaction and 2018 QSR Transaction generally remains below 60% and 61%, respectively, as measured annually. Ceded claims and claim expenses under the QSR Transactions reduce NMIC's profit commission on a dollar-for-dollar basis.

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 $2.7 million as of June 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 $1.1 million as of June 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 June 30, 2019, we had reserves for insurance claims and claim expenses of $18.4 million for 1,028 primary loans in default. During the six months ended June 30, 2019, we paid 62 claims totaling $1.7 million, including 58 claims covered under the QSR Transactions representing $0.3 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 June 30, 2019, 54 loans in the pool were past due by 60 days or more. These 54 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 June 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 June 30, 2019. In connection with the settlement of pool claims, we applied $0.7 million to the pool deductible through June 30, 2019. At June 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 six months ended June 30,	
	2019	**2018**
	(In Thousands)	
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)]	7,401	3,152
Prior years [(3)]	(1,735)	(940)
Total claims and claim expenses incurred	5,666	2,212
Less claims paid:		
Claims and claim expenses paid:		
Current year [(2)]	—	—
Prior years [(3)]	1,368	852
Reinsurance terminations [(4)]	(549)	—
Total claims and claim expenses paid	819	852
Reserve at end of period, net of reinsurance recoverables	14,657	8,219
Add reinsurance recoverables [(1)]	3,775	2,382
Ending balance	$ 18,432	$ 10,601

(1) Related to ceded losses recoverable on the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, *"Reinsurance"* for additional information.
(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 since that time. 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 $1.7 million and $0.9 million of favorable prior year development during the six months ended June 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 $8.9 million related to prior year defaults remained as of June 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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
	(In Thousands, except for per share data)			
Net income	$ 39,100	$ 25,241	$ 71,999	$ 47,596
Basic weighted average shares outstanding	67,590	65,664	67,143	63,891
Basic earnings per share	$ 0.58	$ 0.38	$ 1.07	$ 0.74
Net income	$ 39,100	$ 25,241	$ 71,999	$ 47,596
Warrant gain, net of tax	—	(86)	—	(418)
Diluted net income	$ 39,100	$ 25,155	$ 71,999	$ 47,178
Basic weighted average shares outstanding	67,590	65,664	67,143	63,891
Dilutive effect of issuable shares	2,000	2,952	2,205	3,280
Diluted weighted average shares outstanding	69,590	68,616	69,348	67,171
Diluted earnings per share	$ 0.56	$ 0.37	$ 1.04	$ 0.70
Anti-dilutive shares	705	308	748	231

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 six months ended June 30, 2019, 260 thousand warrants were exercised resulting in the issuance of 168 thousand common shares. Upon exercise, we reclassified approximately $4.8 million of warrant fair value from warrant liability to additional paid-in capital, of which $2.3 million related to changes in fair value during the six months ended June 30, 2019. During the six months ended June 30, 2018, 63 thousand warrants were exercised resulting in the issuance of 29 thousand common shares. Upon exercise, we reclassified approximately $0.6 million of warrant fair value from warrant liability to additional paid-in capital, of which $42 thousand related to changes in fair value during the six months ended June 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 23.3% and 19.9% for the three and six months ended June 30, 2019, respectively, compared to 21.9% and 19.2% for the three and six months ended June 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 six months ended June 30, 2019 represents a change in our net deferred tax liability.

10. Leases

We have two operating lease agreements related to our corporate headquarters and a data center facility for which we recognized operating right-of-use (ROU) assets and lease liabilities of $7.3 million and $8.4 million, respectively, as of June 30, 2019. As of June 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.

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

Weighted-average remaining lease term	3.7 years
Weighted-average discount rate	6.21%

Cash paid on our operating lease liabilities for the three and six months ended June 30, 2019 was $0.6 million and $1.2 million, respectively. Lease expenses recognized on our operating lease liabilities for the three and six months ended June 30, 2019 were $0.6 million and $1.1 million, respectively. Future payments due under our existing operating leases as of June 30, 2019 are as follows:

		(In Thousands)
As of June 30, 2019		
2019	$	1,239
2020		2,537
2021		2,609
2022		2,574
2023		462
Total undiscounted lease payments		9,421
Less effects of discounting		(1,028)
Present value of lease payments	$	8,393

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.

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		
		(In Thousands)
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 June 30,				**For the six months ended June 30,**		
	2019		**2018**		**2019**		**2018**
			(In Thousands)				
Statutory net income (loss)	$	6,466	$	2,066	$	5,539	(4,748)

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

	June 30, 2019		**December 31, 2018**	
	(Dollars In Thousands)			
Statutory surplus	$	438,397	$	430,785
Contingency reserve		423,413		332,702
RTC Ratio		15.8:1		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.

12. Subsequent Event

On July 30, 2019, NMIC entered into a reinsurance agreement with Oaktown Re III Ltd. (Oaktown Re III), a Bermuda domiciled special purpose reinsurer, that provides for up to $326.9 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written between June 1, 2018 and June 30, 2019. For the reinsurance coverage period, NMIC will retain the first layer of $123.4 million of aggregate losses and Oaktown Re III will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount.

Oaktown Re III financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $326.9 million to unaffiliated investors (the 2019 Notes). The 2019 Notes mature on July 25, 2029. All of the proceeds paid to Oaktown Re III from the sale of the 2019 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re III to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re III and the issuance of the 2019 Notes by Oaktown Re III as the 2019 ILN Transaction. Under the terms of the 2019 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re III for anticipated operating expenses (capped at $250,000 per year).

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 June 30, 2019, we had master policies with 1,424 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 June 30, 2019, we had $84.5 billion of total insurance-in-force (IIF), including primary IIF of $81.7 billion, and $20.8 billion of gross RIF, including primary RIF of $20.7 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 counter-party, deliver a unique customer service experience, establish a differentiated risk management approach that emphasizes the individual underwriting review or validation of the vast majority of the loans we insure, utilizing our proprietary Rate GPS℠ 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 June 30, 2019, we had 314 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, which tend to be generated to a greater extent in purchase originations as compared to refinancings. Our NIW is also affected by the percentage of such high-LTV originations covered by private versus 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 GPS℠. 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 (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium). Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is earned over the estimated life of the policy. A majority of our single premium policies in force as of June 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 substantially all of our single premium policies are non-refundable on cancellation, assuming all other factors remain constant, if single premium loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than anticipated, we do not earn any more premium with respect to those loans and, unless we replace the repaid monthly premium loan with a new loan at the same premium rate or higher, our profitability is likely to decline.

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure PMIERs compliance and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERs asset positions. Under a quota share reinsurance agreement, the reinsurer receives a premium in exchange for covering an agreed-upon portion of incurred losses. Such a quota share arrangement reduces 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. In general, there are no ceding commissions under excess-of-loss reinsurance agreements. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

Quota share reinsurance

Effective September 1, 2016, NMIC entered into the 2016 QSR Transaction with a panel of third-party reinsurers. Under the terms of the 2016 QSR Transaction, NMIC ceded premiums written related to (1) 100% of the risk under our pool agreement with Fannie Mae, (2) 25% of the existing risk on eligible policies written as of August 31, 2016 and (3) 25% of the risk on eligible policies written between September 1, 2016 and December 31, 2017, 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 panel of third-party reinsurers. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written in 2018 and will cede premiums earned related to 20% of 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 earned or 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 has no effect on the cession of pool risk under the 2016 QSR Transaction. PMIERs *risk-based required assets* increased by approximately $27 million at April 1, 2019 as a result of the termination.

Excess-of-loss reinsurance

In May 2017, NMIC secured $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled and was $91.5 million as of June 30, 2019. For the reinsurance coverage period, NMIC retains the first layer of $126.8 million of aggregate losses, of which $124.4 million remained as of June 30, 2019, and Oaktown Re then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC then retains losses in excess of the outstanding reinsurance coverage amount.

In July 2018, NMIC secured $264.5 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of policies written from January 1, 2017 through May 31, 2018, through a mortgage insurance-linked notes offering by Oaktown Re II. The reinsurance coverage amount under the terms of the 2018 ILN Transaction decreases from $264.5 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled and was $258.2 million as of June 30, 2019. For the reinsurance coverage period, NMIC retains the first layer of $125.3 million of aggregate losses, of which $125.2 million remained at June 30, 2019, and Oaktown Re II then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC then retains losses in excess of the outstanding reinsurance coverage amount.

In July 2019, NMIC secured $326.9 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of policies written from June 1, 2018 through June 30, 2019, through a mortgage insurance-linked notes offering by Oaktown Re III. The reinsurance coverage amount under the terms of the 2019 ILN Transaction decreases from $326.9 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. The outstanding reinsurance coverage amount will begin amortizing after an initial period in which a target level of credit enhancement is obtained. For the reinsurance coverage period, NMIC retains the first layer of $123.4 million of aggregate losses and Oaktown Re III then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC then retains losses in excess of the outstanding reinsurance coverage amount.

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

Portfolio Data

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

Primary and pool IIF and NIW	**As of and for the three months ended**				**For the six months ended**	
	June 30, 2019		**June 30, 2018**		**June 30, 2019**	**June 30, 2018**
	IIF	**NIW**	**IIF**	**NIW**	**NIW**	
	(In Millions)					
Monthly	$ 63,922	$ 11,067	$ 41,843	$ 5,711	$ 17,278	$ 11,152
Single	17,786	1,112	16,246	802	1,814	1,821
Primary	81,708	12,179	58,089	6,513	19,092	12,973
Pool	2,758	—	3,064	—	—	—
Total	$ 84,466	$ 12,179	$ 61,153	$ 6,513	$ 19,092	$ 12,973

For the three and six months ended June 30, 2019, NIW increased 87% and 47%, respectively, compared to the three and six months ended June 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 six months ended June 30, 2019, monthly premium NIW increased 94% and 55%, respectively, compared to the three and six months ended June 30, 2018.

For the three months ended June 30, 2019, monthly premium polices accounted for 91% of our NIW. As of June 30, 2019, monthly premium policies accounted for 78% of our primary IIF, as compared to 72% at June 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 June 30, 2019 compared to June 30, 2018, primarily due to the NIW generated between such measurement dates and the persistency of in force policies.

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 six months ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
	(In Thousands)			
Net premiums written	$ 82,609	$ 64,443	$ 154,532	$ 123,473
Net premiums earned	83,249	61,615	157,118	116,529

For the three and six months ended June 30, 2019, net premiums written increased 28% and 25%, respectively, and net premiums earned increased 35% compared to each of the three and six months ended June 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 ILN Transaction. Single premium policy cancellations also contributed to the increases in net premiums earned for the three and six months ended June 30, 2019 compared to the same periods in 2018.

Pool premiums written and earned for the three and six months ended June 30, 2019, were $0.8 million and $1.6 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**				
	June 30, 2019	**March 31, 2019**	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**
			($ Values In Millions)		
New insurance written	$ 12,179	$ 6,913	$ 6,962	$ 7,361	$ 6,513
Percentage of monthly premium	91%	90%	90%	91%	88%
Percentage of single premium	9%	10%	10%	9%	12%
New risk written	$ 3,183	$ 1,799	$ 1,799	$ 1,883	$ 1,647
Insurance-in-force (IIF) (1)	81,708	73,234	68,551	63,527	58,089
Percentage of monthly premium	78%	76%	75%	74%	72%
Percentage of single premium	22%	24%	25%	26%	28%
Risk-in-force (1)	$ 20,661	$ 18,373	$ 17,091	$ 15,744	$ 14,308
Policies in force (count) (1)	324,876	297,232	280,825	262,485	241,993
Average loan size (1)	$ 0.252	$ 0.246	$ 0.244	$ 0.242	$ 0.240
Coverage percentage (2)	25.3%	25.1%	24.9%	24.8%	24.6%
Loans in default (count) (1)	1,028	940	877	746	768
Percentage of loans in default (1)	0.3%	0.3%	0.3%	0.3%	0.3%
Risk in force on defaulted loans (1)	$ 58	$ 53	$ 48	$ 42	$ 43
Average premium yield (3)	0.43%	0.42%	0.42%	0.43%	0.44%
Earnings from cancellations	$ 4.5	$ 2.3	$ 2.1	$ 2.6	$ 3.1
Annual persistency (4)	86.0%	87.2%	87.1%	86.1%	85.5%
Quarterly run-off (5)	5.1%	3.3%	3.1%	3.3%	3.5%

(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 six months ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
		(In Millions)		
IIF, beginning of period	$ 73,234	$ 53,434	$ 68,551	$ 48,465
NIW	12,179	6,513	19,092	12,973
Cancellations and other reductions	(3,705)	(1,858)	(5,935)	(3,349)
IIF, end of period	$ 81,708	$ 58,089	$ 81,708	$ 58,089

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 June 30, 2019**		**As of June 30, 2018**	
	IIF	**RIF**	**IIF**	**RIF**
	(In Millions)			
June 30, 2019	$ 18,745	$ 4,892	$ —	$ —
2018	24,344	6,177	12,758	3,174
2017	17,512	4,319	19,784	4,837
2016	13,903	3,454	16,800	4,109
2015	6,218	1,569	7,505	1,877
2014 and before	986	250	1,242	311
Total	$ 81,708	$ 20,661	$ 58,089	$ 14,308

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 six months ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
	($ In Millions)			
>= 760	$ 5,627	$ 2,807	$ 8,684	$ 5,425
740-759	2,165	1,129	3,389	2,203
720-739	1,785	964	2,829	1,878
700-719	1,337	747	2,129	1,558
680-699	891	469	1,444	1,036
<=679	374	397	617	873
Total	$ 12,179	$ 6,513	$ 19,092	$ 12,973
Weighted average FICO	751	747	751	745

Primary NIW by LTV	**For the three months ended**		**For the six months ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
	($ In Millions)			
95.01% and above	$ 971	$ 971	$ 1,540	$ 1,968
90.01% to 95.00%	5,931	2,932	9,355	5,696
85.01% to 90.00%	4,085	1,888	6,326	3,644
85.00% and below	1,192	722	1,871	1,665
Total	$ 12,179	$ 6,513	$ 19,092	$ 12,973
Weighted average LTV	92.0%	92.7%	92.1%	92.6%

Primary NIW by purchase/refinance mix	**For the three months ended**		**For the six months ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
	(In Millions)			
Purchase	$ 10,697	$ 6,137	$ 17,080	$ 11,562
Refinance	1,482	376	2,012	1,411
Total	$ 12,179	$ 6,513	$ 19,092	$ 12,973

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**			
	June 30, 2019		**June 30, 2018**	
	($ In Millions)			
>= 760	$ 37,830	46%	$ 27,311	47%
740-759	13,731	17	9,460	16
720-739	11,388	14	7,722	14
700-719	9,028	11	6,355	11
680-699	6,045	7	4,174	7
<=679	3,686	5	3,067	5
Total	$ 81,708	100%	$ 58,089	100%

Primary RIF by FICO	**As of**			
	June 30, 2019		**June 30, 2018**	
	($ In Millions)			
>= 760	$ 9,551	46%	$ 6,758	47%
740-759	3,499	17	2,344	16
720-739	2,904	14	1,905	14
700-719	2,286	11	1,558	11
680-699	1,524	8	1,016	7
<=679	897	4	727	5
Total	$ 20,661	100%	$ 14,308	100%

Primary IIF by LTV	As of			
	June 30, 2019		June 30, 2018	
	($ In Millions)			
95.01% and above	$ 7,925	10%	$ 5,747	10%
90.01% to 95.00%	38,371	47	26,119	45
85.01% to 90.00%	25,099	31	17,319	30
85.00% and below	10,313	12	8,904	15
Total	$ 81,708	100%	$ 58,089	100%

Primary RIF by LTV	As of			
	June 30, 2019		June 30, 2018	
	($ In Millions)			
95.01% and above	$ 2,145	10%	$ 1,522	11%
90.01% to 95.00%	11,206	54	7,610	53
85.01% to 90.00%	6,108	30	4,154	29
85.00% and below	1,202	6	1,022	7
Total	$ 20,661	100%	$ 14,308	100%

Primary RIF by Loan Type	As of	
	June 30, 2019	June 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 June 30, 2019.

	As of June 30, 2019									
Book year	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) (1)	Cumulative default rate (2)	Current default rate (3)
	($ Values in Millions)									
2013	$ 162	$ 27	16%	655	145	—	1	0.2%	0.2%	—%
2014	3,451	960	28%	14,786	5,085	46	35	3.8%	0.5%	0.9%
2015	12,422	6,218	50%	52,548	29,049	183	69	2.9%	0.5%	0.6%
2016	21,187	13,902	66%	83,626	58,662	209	67	2.0%	0.3%	0.4%
2017	21,582	17,512	81%	85,897	72,988	355	17	3.1%	0.4%	0.5%
2018	27,288	24,344	89%	104,015	95,477	231	3	3.0%	0.2%	0.2%
2019	19,092	18,745	98%	64,429	63,470	4	—	0.3%	—%	—%
Total	$ 105,184	$ 81,708		405,956	324,876	1,028	192			

(1) The ratio of total claims incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.
(2) The sum of the number of claims paid ever to date and number of loans in default divided by policies ever in force.
(3) The ratio of 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 June 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 June 30, 2019 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state	**As of**	
	June 30, 2019	**June 30, 2018**
California	12.3%	13.4%
Texas	8.2	8.0
Florida	5.4	4.7
Virginia	5.2	5.0
Arizona	4.6	5.0
Illinois	3.6	3.3
Pennsylvania	3.6	3.6
Michigan	3.5	3.7
Colorado	3.4	3.5
Maryland	3.3	3.3
Total	53.1%	53.5%

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 June 30, 2019, approximately 85% of our primary IIF related to business written since June 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 six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(In Thousands)			
Beginning balance	$ 15,537	$ 10,391	$ 12,811	$ 8,761
Less reinsurance recoverables [1]	(3,678)	(2,334)	(3,001)	(1,902)
Beginning balance, net of reinsurance recoverables	11,859	8,057	9,810	6,859
Add claims incurred:				
Claims and claim expenses incurred:				
Current year [2]	3,492	1,212	7,401	3,152
Prior years [3]	(569)	(569)	(1,735)	(940)
Total claims and claim expenses incurred	2,923	643	5,666	2,212
Less claims paid:				
Claims and claim expenses paid:				
Current year [2]	—	—	—	—
Prior years [3]	674	481	1,368	852
Reinsurance terminations [4]	(549)	—	(549)	—
Total claims and claim expenses paid	125	481	819	852
Reserve at end of period, net of reinsurance recoverables	14,657	8,219	14,657	8,219
Add reinsurance recoverables [1]	3,775	2,382	3,775	2,382
Ending balance	$ 18,432	$ 10,601	$ 18,432	$ 10,601

(1) Related to ceded losses recoverable on 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 since that time. 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 $8.9 million related to prior year defaults remained as of June 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 six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Beginning default inventory	940	1,000	877	928
Plus: new defaults	546	287	1,120	700
Less: cures	(433)	(501)	(907)	(825)
Less: claims paid	(25)	(18)	(62)	(35)
Ending default inventory	1,028	768	1,028	768

The increase in the ending default inventory at June 30, 2019 compared to June 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 six months ended June 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 six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	($ In Thousands)			
Number of claims paid [(1)]	25	18	62	35
Total amount paid for claims	$ 788	$ 607	$ 1,714	$ 1,089
Average amount paid per claim	$ 32	$ 34	$ 28	$ 31
Severity[(2)]	77%	78%	69%	76%

(1) Count includes 4 and 7 claims settled without payment for the three and six months ended June 30, 2019, respectively, and 1 and 4 claims settled without payment for the three and six months ended June 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 six months ended June 30, 2019, compared to the three and six months ended June 30, 2018, is due to an increase in our default inventory and the continued growth and seasoning of our insured portfolio. 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 June 30, 2019**		**As of June 30, 2018**	
	(In Thousands)			
Case [1]	$	16	$	13
IBNR		2		1
Total [2]	$	18	$	14

(1) Defined as the gross reserve per insured loan in default.
(2) Amount includes claims adjustment expenses.

The average reserve per default at June 30, 2019 increased from June 30, 2018, primarily due to cure activity on defaults outstanding at June 30, 2018 for loans in areas impacted by natural disasters. We established lower reserves for these NODs than we otherwise do for similarly situated NODs in non-disaster zones. As this default population declined with increased cure activity, the average reserve per remaining default increased. As of June 30, 2019, 17 of the 1,028 loans in default related to homes in areas declared by FEMA to be individual assistance disaster zones following natural catastrophes that we determine to be focal events, compared to 215 of 768 loans at June 30, 2018. We anticipate that focal disaster-related loans in default will cure at a higher rate than the estimated rate we apply to non-disaster related loans in default, due to our historical and observed industry experience, and current economic indicators and relief programs. As such, we establish lower reserves for these NODs than we otherwise do for our broader NOD population.

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	
	June 30, 2019	**June 30, 2018**
	(In Thousands)	
Available assets	$ 878,550	$ 653,080
Risk-based required assets	782,460	587,235

Available assets were $879 million at June 30, 2019, compared to $653 million at June 30, 2018. The increase in *available assets* of $225 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 June 30, 2019, NMIC's performing primary RIF, net of reinsurance, was approximately $13.6 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory capital of $826 million (including contingency reserves) as of June 30, 2019, NMIC's RTC ratio was 16.4:1. Re One had total statutory capital of $36 million as of June 30, 2019, and a RTC ratio of 1.2:1. We continuously monitor our compliance with state capital requirements.

In June 2019, S&P upgraded its financial strength and long-term counter-party credit ratings on NMIC from "BBB-" to "BBB" and upgraded its long-term counter-party credit rating on NMIH from "BB-" to "BB". The outlook for S&P's ratings is positive. In May 2018, Moody's Investors Service (Moody's) upgraded its financial strength rating on NMIC from "Ba1" to "Baa3" and issued a "Ba3" rating for NMIH's $150 million senior secured 2018 Term Loan, compared to its previous "B1" rating on the 2015 Term Loan. In August 2018, Moody's assigned a "Ba3" rating to our 2018 Revolving Credit Facility. The outlook for Moody's ratings is stable.

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		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues	*(In Thousands)*			
Net premiums earned	$ 83,249	$ 61,615	$ 157,118	$ 116,529
Net investment income	7,629	5,735	15,012	10,309
Net realized investment (losses) gains	(113)	59	(300)	59
Other revenues	415	44	456	108
Total revenues	91,180	67,453	172,286	127,005
Expenses				
Insurance claims and claim expenses	2,923	643	5,666	2,212
Underwriting and operating expenses	32,543	29,020	63,392	57,473
Total expenses	35,466	29,663	69,058	59,685
Other expense				
(Loss) gain from change in fair value of warrant liability	(1,685)	109	(7,164)	529
Interest expense	(3,071)	(5,560)	(6,132)	(8,979)
Income before income taxes	50,958	32,339	89,932	58,870
Income tax expense	11,858	7,098	17,933	11,274
Net income	$ 39,100	$ 25,241	$ 71,999	$ 47,596
Earnings per share - Basic	$ 0.58	$ 0.38	$ 1.07	$ 0.74
Earnings per share - Diluted	$ 0.56	$ 0.37	$ 1.04	$ 0.70
Loss ratio[1]	3.5%	1.0%	3.6%	1.9%
Expense ratio[2]	39.1%	47.1%	40.3%	49.3%
Combined ratio[3]	42.6%	48.1%	44.0%	51.2%

(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.
(3) Combined ratio may not foot due to rounding.

Revenues

For the three and six months ended June 30, 2019, net premiums earned increased $21.6 million or 35% and $40.6 million or 35%, respectively, compared to the three and six months ended June 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 ILN Transaction.

For the three and six months ended June 30, 2019, net investment income increased $1.9 million and $4.7 million, respectively, compared to the three and six months ended June 30, 2018, due to an increase in the size and yield of our investment portfolio.

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 $2.3 million and $3.5 million for the three and six months ended June 30, 2019, respectively, compared to the three and six months ended June 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 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 six months ended June 30, 2019 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 $3.5 million or 12% and $5.9 million or 10% for the three and six months ended June 30, 2019, respectively, compared to the three and six months ended June 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.

Interest expense was $3.1 million and $6.1 million for the three and six months ended June 30, 2019, respectively, compared to $5.6 million and $9.0 million, for the three and six months ended June 30, 2018, respectively. Interest expense for the three and six months ended June 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 three and six months ended June 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 interest recognized on the 2018 Revolving Credit Facility. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt.*"

Income tax expense was $11.9 million and $17.9 million for the three and six months ended June 30, 2019, respectively, compared to $7.1 million and $11.3 million for the three and six months ended June 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 23.3% and 19.9% for the three and six months ended June 30, 2019, respectively, compared to 21.9% and 19.2% for the three and six months ended June 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 six month interim periods ended June 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 $39.1 million and $72.0 million for the three and six months ended June 30, 2019, respectively, compared to $25.2 million and $47.6 million for the three and six months ended June 30, 2018, respectively. The increase in net income primarily relates to growth in total revenues and a reduction in interest expense, partially offset by an increase in total expenses, an increase in the fair value of our warrant liability and an increase in tax expense.

Diluted EPS was $0.56 and $1.04 for the three and six months ended June 30, 2019, respectively, compared to $0.37 and $0.70 for the three and six months ended June 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	June 30, 2019	December 31, 2018
	(In Thousands)	
Total investment portfolio	$ 1,017,607	$ 911,490
Cash and cash equivalents	35,735	25,294
Premiums receivable	42,225	36,007
Deferred policy acquisition costs, net	52,607	46,840
Software and equipment, net	25,827	24,765
Prepaid reinsurance premiums	20,426	30,370
Other assets	25,972	17,277
Total assets	$ 1,220,399	$ 1,092,043
Term loan	$ 146,253	$ 146,757
Unearned premiums	151,358	158,893
Accounts payable and accrued expenses	24,351	31,141
Reserve for insurance claims and claim expenses	18,432	12,811
Reinsurance funds withheld	18,092	27,114
Warrant liability	9,679	7,296
Deferred tax liability, net	28,258	2,740
Other liabilities	11,597	3,791
Total liabilities	408,020	390,543
Total shareholders' equity	812,379	701,500
Total liabilities and shareholders' equity	$ 1,220,399	$ 1,092,043

As of June 30, 2019, we had $1.1 billion in cash and investments, including $44.8 million held by NMIH. The increase in cash and investments from December 31, 2018 relates to cash generated from operations.

Premiums receivable was $42.2 million as of June 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 $52.6 million as of June 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 $20.4 million as of June 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 $26.0 million as of June 30, 2019 from $17.3 million as of December 31, 2018. Other assets as of June 30, 2019 include $7.3 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 10, Leases.*"

Unearned premiums decreased from $158.9 million as of December 31, 2018 to $151.4 million as of June 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 six months ended June 30, 2019.

Accounts payable and accrued expenses decreased from $31.1 million as of December 31, 2018 to $24.4 million as of June 30, 2019, primarily due to the payment of previously accrued compensation during the six months ended June 30, 2019.

Reserve for insurance claims and claim expenses increased from $12.8 million as of December 31, 2018 to $18.4 million as of June 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 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 $18.1 million as of June 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 $9.0 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 increased from $7.3 million at December 31, 2018 to $9.7 million at June 30, 2019, primarily due to an increase in our stock price from December 31, 2018 to June 30, 2019 and partially offset by the reclassification of warrant liability to additional paid-in-capital following warrant exercises during the period and changes in the Black-Scholes model inputs during the period. 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 $28.3 million as of June 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 June 30, 2019 include $8.4 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 six months ended June 30,**	
	2019	**2018**
Net cash provided by (used in):	*(In Thousands)*	
Operating activities	$ 87,324	$ 61,353
Investing activities	(74,969)	(142,193)
Financing activities	(1,914)	78,098
Net increase (decrease) in cash and cash equivalents	$ 10,441	$ (2,742)

Net cash provided by operating activities was $87.3 million for the six months ended June 30, 2019, compared to $61.4 million for the six months ended June 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 growth in claims paid tied to the growth and aging of our insured portfolio.

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 six months ended June 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 $1.9 million for the six months ended June 30, 2019, compared to cash provided by financing activities of $78.1 million for the six months ended June 30, 2018. Cash provided by financing activities for the six months ended June 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 June 30, 2019, NMIH had $44.8 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 June 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 June 30, 2019, the fair value of our investment portfolio was $1.0 billion. We also had an additional $35.7 million of cash and equivalents as of June 30, 2019. Pre-tax book yield on the investment portfolio for the six months ended June 30, 2019 was 3.2%. 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	June 30, 2019	December 31, 2018
Corporate debt securities	62%	58%
Asset-backed securities	16	18
Municipal debt securities	9	10
Cash, cash equivalents, and short-term investments	8	9
U.S. treasury securities and obligations of U.S. government agencies	5	5
Total	100%	100%

Investment portfolio ratings at fair value (1)	June 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 June 30, 2019, we held no other-than-temporarily impaired securities. During the six months ended June 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 June 30, 2019 or the three and six months ended June 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 six months ended June 30, 2019.

Other Items

Off-Balance Sheet Arrangements and Contractual Obligations

We had no material off-balance sheet arrangements as of June 30, 2019. In connection with the ILN Transactions, we have certain future contractual commitments to Oaktown Re and Oaktown Re II, special purpose VIEs that are not consolidated in our financial results. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance.*"

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 June 30, 2019 and December 31, 2018 was $1.0 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 June 30, 2019, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.33 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 3.33% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.55 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 3.55% 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 June 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 June 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 June 30, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2019 and 2018; (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2019 and 2018; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 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: July 31, 2019

By: /s/ Adam S. Pollitzer

Name: Adam S. Pollitzer

Title: Chief Financial Officer and Duly Authorized Signatory

EXHIBIT 31.1

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.

July 31, 2019	/s/ Claudia J. Merkle
	Claudia J. Merkle
	Chief Executive Officer
	(Principal Executive Officer)

EXHIBIT 31.2

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.

July 31, 2019

/s/ Adam Pollitzer
Adam S. Pollitzer
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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 June 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.

July 31, 2019

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

July 31, 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.