As filed with the Securities and Exchange Commission on August 9, 2013

Registration No. 333- 189507

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

Amendment No. 1
to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
NMI HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**524126**	**45-4914248**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

2100 Powell Street, 12th Floor

Emeryville, CA 94608

(855) 530-6642

(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

Glen Corso

EVP General Counsel

2100 Powell Street, 12th Floor

Emeryville, CA 94608

(510) 858-0410

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
David E. Shapiro, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Telephone: (212) 403-1000
Facsimile: (212) 403-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

Large accelerated filer	☐		*Accelerated Filer*	☐
Non-accelerated filer	x	*(Do not check if a smaller reporting company)*	*Smaller reporting company*	☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price per Share (1)**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Class A Common Stock, par value $0.01 per share	52,183,640 (2)	$12.00	$626,203,680.00	85,414.18

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act 1933. No exchange or over-the-counter market exists for the registrant’s common stock. Shares of the registrant’s common stock issued to qualified institutional buyers in connection with its April 2012 private placement are eligible for trading on the FBR PLUS™ System. The last sale of shares of the registrant’s common stock that was eligible for FBR PLUS™, of which the registrant is aware, occurred on August 5, 2013 at a price of $12.00.

(2) Includes shares issuable under certain warrants issued by the registrant.

The Registrant hereby amends this Registration Statement on such date as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion. Dated August 9, 2013

The information in this preliminary prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

52,183,640 Shares

NMI Holdings, Inc.

Class A Common Stock

This prospectus relates to the registration of up to 52,183,640 shares of our Class A common stock (“our common stock”) by the selling stockholders identified in this prospectus. The shares of our common stock registered by this prospectus were acquired by the selling stockholders in connection with our April 2012 private placement or in transactions before or after that time that were exempt from registration. We are registering the offer and sale of the shares of our common stock to satisfy registration rights we have granted to the selling stockholders.

We are not selling any shares of common stock under this prospectus and will not receive any proceeds from the sale of common stock by the selling stockholders. The shares of common stock to which this prospectus relates may be offered and sold from time to time directly by the selling stockholders or alternatively through underwriters or broker-dealers or agents. The shares of our common stock may be sold in one or more transactions, at fixed prices, at prevailing market prices at the time of sale or at negotiated prices. Please read “Plan of Distribution.”

Prior to the date of this prospectus, there was not a public market for our shares. Because all of the shares offered under this prospectus are being offered by the selling stockholders, we cannot currently determine the price or prices at which our shares may be sold under this prospectus. Our common stock currently trades on a proprietary trading platform developed by FBR Capital Markets Inc. called “FBR Plus™,” which provides qualified institutional buyers (“QIBs”) access to trading information for companies which have issued restricted securities in private placement transactions exempt from registration pursuant to Rule 144A of the Securities Act of 1933 (the "Securities Act"). Our securities are not currently eligible for trading on the NASDAQ Global Market ("NASDAQ") or the New York Stock Exchange, because we have less than 400 holders of our common stock. We intend to apply to the Over-the-Counter Bulletin Board (“OTCBB”), through a market maker that is a licensed broker dealer, to allow the listing of our common stock under the symbol “NMIH” upon our becoming a reporting entity under Section 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”). If our application for quotation on the OTCBB is approved, and a public market for our common stock materializes which results in our common stock being held by 400 or more holders, we intend to apply (assuming we meet all other listing requirements) to list our common stock on the NASDAQ under the symbol “NMIH.”

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 and will be subject to reduced public reporting requirements.

See "Risk Factors" beginning on page 11 to read about factors you should consider before buying our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2013

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About this Prospectus

Neither we nor the selling stockholders have authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. Neither we nor the selling stockholders take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. Neither we nor the selling stockholders are making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. Our business, financial condition, operating results and prospects may have changed since that date.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the distribution of this prospectus applicable to those jurisdictions.

Market Data

Market data used in this prospectus has been obtained from independent industry sources and publications. We have not independently verified the data obtained from these sources. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements in this prospectus.

PROSPECTUS SUMMARY

The following is a summary of selected information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before deciding to purchase shares of our common stock. You should read this entire prospectus carefully, especially the "Risk Factors" immediately following this Prospectus Summary, the historical financial statements and the related notes thereto and management's discussion and analysis thereof included elsewhere in this prospectus, before making an investment decision to purchase our common stock.

Unless the context otherwise indicates, when we refer to "we", "our", "us", and "the Company" for purposes of this prospectus, we are referring to NMI Holdings, Inc. ("NMIH") and its consolidated subsidiaries.

Company Overview

NMIH is a Delaware corporation that through our subsidiaries provides private mortgage insurance (which we refer to as "mortgage insurance" or "MI") in the United States. In April 2012, we raised net proceeds of approximately $510 million from a private placement of our common stock and purchased MAC Financial Holding Corporation, a Delaware corporation, ("MAC Financial") and its Wisconsin licensed insurance subsidiaries, which have been renamed National Mortgage Insurance Corporation ("NMIC"), National Mortgage Reinsurance Inc One ("NMRI One") and National Mortgage Reinsurance Inc Two ("NMRI Two"). The proceeds from the private placement were and will be primarily used to capitalize our MI subsidiaries and fund our operating expenses until our MI subsidiaries generate positive cash flows. In January 2013, the Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, approved NMIC as a qualified mortgage insurance provider (collectively "GSE Approval"). We refer to Fannie Mae and Freddie Mac collectively as the "GSEs." With GSE Approval, our customers who originate loans insured by NMIC may sell such loans to the GSEs (as of April 1, 2013 for Freddie Mac and as of June 1, 2013 for Fannie Mae). Our primary insurance subsidiary, NMIC, requires a certificate of authority, or insurance license, in each state or jurisdiction where we issue insurance policies. NMIC applied for a certificate of authority in each of the 50 states plus the District of Columbia ("D.C.") in June 2012. NMIC is currently licensed in 48 states and D.C. and commenced, on a limited test basis, writing insurance business on April 1, 2013. As of June 30, 2013, NMIC has insured six loans with an aggregate unpaid principal balance of approximately $1 million, representing insurance risk-in-force of approximately $257,000. With respect to each policy, primary risk-in-force ("RIF") is the product of an insured loan's coverage percentage (the level of insurance protection) specified in the policy multiplied by that loan's unpaid principal balance.

Overview of the Private Mortgage Insurance Industry

The MI industry emerged in the United States in the 1880s and the first laws regulating MI were passed in New York in 1904. The industry grew in response to the real estate boom of the 1920s. Following the Great Depression, the federal government began insuring mortgages through the Federal Housing Administration ("FHA") and the Veterans Administration ("VA"). The modern MI industry was established in the late 1950s to provide a private market alternative to federal government insurance programs, principally the FHA. MI covers losses of the insured institutions should homeowners default on their residential mortgage loans, up to pre-established coverage levels. MI enables consumers, especially first-time homebuyers, to finance homes with less than a 20% down payment, thereby expanding homeownership opportunities. Loans with less than 20% down payments are referred to as "low down payment" mortgages or loans in this prospectus.

Primarily as a result of their governmental mandate to provide liquidity in the secondary mortgage market, the GSEs are the principal purchasers of the mortgages insured by MI companies. The GSEs cannot buy low down payment loans without certain forms of credit enhancement, one of which is mortgage insurance. As a result, the nature of the MI industry in the United States is driven in large part by the requirements and practices of the GSEs. These requirements and practices, as well as those of the federal regulators that oversee the GSEs and lenders, impact the operating results and financial performance of companies in the MI industry.

The Federal Housing Finance Agency (“FHFA”) is the conservator of the GSEs. As their conservator, FHFA has the authority to control and direct the operations of the GSEs. In February 2011, the U.S. Department of the Treasury reported its recommendations regarding options for ending the conservatorship of the GSEs, and while it does not provide any definitive timeline for GSE reform, it does recommend substantially reducing the government's footprint in housing finance. In addition to providing the primary form of credit enhancement on low down payment loans purchased by the GSEs, MI also reduces the regulatory capital that depository institutions are required to hold against low down payment mortgages that they hold as assets.

The MI industry competes with governmental agencies and products designed to eliminate the need for MI. For primary business, we and other mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the VA. During 2010, 2011 and 2012, the FHA's and VA's combined market share was approximately 84%, 77% and 68%, respectively of the total low down payment residential mortgages that were subject to governmental or private mortgage insurance, a substantial increase from an approximately 23% market share in 2007, according to statistics reported by Inside Mortgage Finance. As noted above, the combined market share of the FHA and VA has decreased each year since 2010, a trend that we believe has been positive for the MI industry. In our view, this decrease may have been influenced by increases in the cost of FHA insurance in recent years, the FHA's stricter guidelines, the inability of the borrower to cancel FHA mortgage insurance and the FHA pulling back from the market given its failure to meet its congressionally mandated capital requirements.

Our Strategy and Competitive Strengths

We believe the current environment provides an opportune time for a new mortgage insurer with no exposure to the recent financial crisis to enter the market. By entering the market at this time, we believe that we should be well positioned to profit from conservative underwriting standards, improving loss trends and attractive risk adjusted premium pricing levels.

Our business strategy is to become a leading national MI company with our principal focus on writing insurance on high quality, low down payment residential mortgages in the United States. As part of this strategy, we have near term objectives including:

- ***Obtaining outstanding certificates of authority, or state insurance licenses, and establishing effective rates and policy forms where required.*** As of the date of this prospectus, NMIC is licensed in 48 states and D.C., has effective rates in 47 states and D.C. and effective policy forms in 46 states and D.C. Our objective is to obtain licenses, effective rates and policy forms in all 50 states and D.C. NMIC's application for a certificate of authority was not accepted by the Wyoming Insurance Department for formal review due to the state's two year statutory seasoning requirement. We are in the process of preparing documentation to submit to the Wyoming Insurance Department to attempt to obtain a waiver of Wyoming's seasoning requirement. In Florida, we withdrew NMI C's application in response to a request by Florida's Office of Insurance Regulation ("FL OIR"). With the goal of resolving the FL OIR's concerns as expeditiously as possible, we intend to refile NMIC's application for a certificate of authority in Florida by mid-August 2013. NMIC's application for approval of rates is pending in Washington and its applications for approvals of policy forms are pending in Maryland and Alaska.

- ***Evaluating risk in a timely fashion on all insured loans.*** We intend to review every loan we insure through both our delegated and non-delegated channels. Through a program we call "Delegated Assurance Review", we plan to conduct a post-close underwriting review of each mortgage insurance policy issued by our customers under their delegated authority. This differs from other MI companies that typically underwrite a sampling of policies originated through their delegated underwriting channels. By underwriting each policy, we believe we can more effectively manage the risk characteristics in our portfolio and provide a high level of confidence to our lenders that valid claims will be paid. We also expect this process will allow us to provide our customers with timely, value-added feedback on the risk characteristics of their loan originations.
- ***Establishing customer relationships.*** In order to develop a diverse customer base of mortgage originators, we believe we will ultimately need to have a sales force of qualified mortgage professionals that generally have well-established relationships with industry leading lenders and significant experience in both MI and mortgage lending. Mortgage insurance is a highly competitive industry and therefore we believe establishing and maintaining relationships with many lending institutions is critical to our success. As of the date of this prospectus, we have made progress with hiring approximately 30% of our target sales force staffing goal.
- ***Attracting and retaining our employee base.*** We believe our Company will be an attractive, stable place of employment, given that we are a well-capitalized insurance company that has made significant progress in commencing business in the MI marketplace, allowing us to attract what we believe to be a high-quality talent pool. We have grown from zero employees prior to our capitalization in April 2012 to over 100 employees as of July 31, 2013. We currently expect to have approximately 200 employees by the end of 2013.
- ***Integrating electronically with mortgage lenders, the largest loan servicing systems and leading third-party origination systems.*** Many of our customers will require us to have connectivity or be integrated with one or more of the largest loan servicing and/or leading third-party loan origination systems as a precursor to doing business with them. We have completed integration with two of the largest loan servicing systems, LPS MSP and Fiserv LoanServ™. We have also begun the process of integrating with the leading third-party loan origination systems, and expect to complete some of these integrations this year, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer® and Mortgage Builder. By mid-2014, we believe we will be integrated with the other leading third-party loan origination systems. We also intend to integrate directly with those lenders that maintain their own, proprietary loan origination and servicing system technologies, recognizing that the time-lines for these integrations are heavily dependent upon the lenders' internal technology resource time-lines and availability.
- ***Continuing development of our enterprise technology platform.*** We seek to continue to develop our enterprise technology platform to support our mortgage insurance operations, including underwriting, premium billing, policy servicing, and delinquency and claims management functions. In order to adequately support our mortgage insurance operations, we expect that, when completed and all components are fully integrated, our technology platform will allow us to: (i) obtain applications and supporting documentation from our lenders on an automated basis, thereby enabling lenders to submit insurance applications in an efficient manner and facilitating our risk review, (ii) obtain real-time data on performance of individual insured loans and programs, enabling a transparent and collaborative policy acquisition and underwriting process that should reduce response times, decrease costs and streamline communication with lenders, (iii) provide real-time feedback data for monitoring underwriting guidelines and for communicating to lenders the quality metrics and performance of the loans we insure, (iv) bill and collect premiums electronically and (v) adjust and settle claims.

We intend to execute the above strategy, by taking advantage of the following competitive strengths:

- ***Availability of capital to support growth.*** As a newly capitalized mortgage insurer, we do not have exposure to the losses caused by historical underwriting standards (which we believe to have been less than adequate) and declines in home values experienced during the recent financial crisis. We believe our current capital will support approximately $30 billion of insurance in force (“IIF”) while staying within the regulatory guidelines imposed by state insurance departments and the GSEs.

- ***Superior business practices and terms of trade.*** Existing MI companies have rescinded or denied coverage on a significant number of mortgage insurance policies in recent years. We believe this has strained the relationship between a number of the mortgage originators and some existing mortgage insurers, providing an opportunity for a new entrant to more effectively compete with existing providers. We believe our terms of trade offer a unique approach to rescission relief that sets us apart from other MI companies. Under our master policy, after a borrower has timely made 18 consecutive monthly payments on a loan we insure, we have agreed that we will not rescind or cancel coverage of that loan for borrower fraud or underwriting defects. In addition, upon the borrower attaining 18 full and timely consecutive monthly payments, we have agreed to limitations on our ability to initiate an investigation of fraud or misrepresentation by our insureds or any other party involved in the origination of an insured loan, which we collectively refer to in our master policies as a "First Party." We believe the standard approach used by most MI companies is to provide this rescission relief with respect to underwriting defects and investigation of First Party fraud or misrepresentation after 36 months of full and timely consecutive monthly payments. We believe the terms of our insurance coverage described in our Master Policy Agreement will be favorably received by our customers, allowing us to gain market share from current providers. In addition, because we review every loan we insure as described above, we believe we are well aligned with the GSEs' desire that MI providers adopt up-front quality control practices that have the effect of giving insureds assurance of coverage after a borrower has timely made 36 months of loan payments.

- ***Experienced management team.*** We have assembled a senior management team with extensive experience developing and operating MI companies. Our Chief Executive Officer, Bradley M. Shuster, was responsible for international operations for PMI Mortgage Insurance Co. (“PMIC”), coordinating both acquisitions in Australia and de novo operations in Canada, Europe and Hong Kong. Before leaving PMIC in 2008, Mr. Shuster was responsible for the sale of PMIC's Australian operations to QBE Group for approximately $1.0 billion. In addition to Mr. Shuster, the other members of the Company's executive management team collectively average over 25 years of mortgage or financial services industry experience. See "Management - Directors and Executive Officers."

We believe our strategy and competitive strengths should provide for an efficient deployment of our capital and for strong overall risk management allowing us to operate profitably across market cycles.

Risk Factors

Investing in our common stock involves substantial risk. The risks described under the heading “Risk Factors” immediately following this summary may cause us to not realize the benefits of our strengths or may cause us to be unable to successfully execute all or part of our strategy. Some of the more significant challenges include the following:

- We are a development stage corporation that, prior to receipt of GSE Approval in January 2013, did not engage in any substantive insurance operations. Therefore, our operating history is not comparable to what we expect our future operations will be. In addition, we have a history of losses and expect to continue to report annual net losses in the near term; therefore, our ability to achieve profitability, if at all, is uncertain.

- Ÿ The success of our business is highly dependent on our ability to utilize technology to conduct business electronically with our customers. Our inability to timely meet the technological demands of our customers or to develop, enhance and maintain our technology platform could result in adverse effects to our business.

- Ÿ We believe that NMIC will require licenses in all 50 states and D.C. in order to conduct MI business with many, or potentially all, large national lenders, and NMIC may not be able to ultimately obtain licenses in all 50 states.

- Ÿ Changes in the business practices of the GSEs, including a decision to decrease or discontinue the use of MI, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses. In addition, the implementation of the Dodd-Frank Act and Basel III may negatively impact private mortgage insurers.

- Ÿ We, as well as our Chief Executive Officer, Chief Financial Officer, Chief Sales Officer and Vice President of Sales Operations, Analytics & Planning, are defendants in a lawsuit brought by the Receiver of PMI Mortgage Insurance Co. ("PMI"). If the lawsuit is determined adversely to us we could face significant monetary damages or be required to remove the officers involved, and this litigation could adversely affect our ability to conduct insurance operations, including obtaining licenses in the two states (Florida and Wyoming) where we do not currently have them.

- Ÿ We are outsourcing a significant portion of our MI underwriting on certain loans to third party service providers. Should these service providers fail to adequately perform their underwriting services or place coverage on ineligible loans, we could experience increased losses on loans underwritten by them and our customer relationships could be negatively impacted.

You should carefully consider all of the information included in this prospectus, including matters set forth under the headings “Risk Factors” and “Important Information and Cautionary Statement Regarding Forward Looking Statements,” before deciding to invest in our common stock.

Additional Information

NMI Holdings, Inc. is a Delaware corporation incorporated on May 19, 2011 for the purpose of building an MI company, as discussed below. On November 30, 2011, we entered into an agreement with MAC Financial Ltd. to purchase MAC Financial and its Wisconsin-licensed subsidiaries, which acquisition was completed on April 24, 2012. Prior to acquisition, MAC Financial and its insurance subsidiaries were primarily engaged in start-up related activities, such as commencing the initial work on an insurance management system, starting the state licensing process, completing the initial GSE applications and beginning to hire personnel. Prior to acquisition by NMIH, none of MAC Financial's insurance subsidiaries had written any MI. As consideration for the acquisition, MAC Financial Ltd. received 250,000 shares of our common stock, a warrant to purchase 678,295 shares of our common stock and $2.5 million in cash consideration (the "MAC Acquisition"). After completion of the MAC Acquisition, MAC Financial's insurance subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Inc Two, each a Wisconsin corporation, were renamed National Mortgage Insurance Corporation (“NMIC”), National Mortgage Reinsurance Inc One (“NMRI One”) and National Mortgage Reinsurance Inc Two (“NMRI Two”), respectively.

On April 24, 2012, we also completed a private placement of 55,000,000 shares of our common stock for gross proceeds of $550 million. We received net proceeds of approximately $510 million, after the initial purchaser's discount and placement fees and after our offering expenses. Pursuant to the terms of the offering, we were able to access approximately $32 million to cover operating expenses while the remaining proceeds from the offering were placed in investment accounts which could not be utilized by

us for operating activities until we received GSE Approval. Upon receipt of GSE Approval on January 15, 2013, the funds in the investment accounts became available for operating activities.
Also on April 24, 2012, as part of the consideration for the line of credit it granted to us to pay for costs associated with our formation and capitalization, including some of the expenses of the private offering described in the preceding paragraph, we issued to FBR Capital Markets LT, Inc. a warrant to purchase up to 313,870 shares of our Class A common stock (the "FBR Warrant"). FBR Capital Markets LT, Inc. subsequently assigned the FBR Warrant to FBR Capital Markets & Co.

Prior to the completion of the MAC Acquisition, our activities were focused on organizational development, capital raising and other start-up related activities. Additionally, for the period from May 19, 2011 through the date of this filing our efforts have been primarily directed toward building the foundation of the Company which would allow us to write mortgage insurance. These efforts included, among other things, attracting an executive management team and other key officers and directors, attracting and hiring staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE Approval. We commenced writing MI in April 2013 through NMIC.

Our principal executive offices are located at 2100 Powell Street, 12th Floor Emeryville, CA 94608. Our main telephone number is (855) 530-NMIC (6642), and our website is www.nationalmi.com.

The Offering

Common stock offered by the selling stockholders	52,183,640 shares of common stock.
Common stock outstanding	55,637,480 shares of common stock.[(1)]
Voting Rights	Each share of common stock has one vote.
Use of proceeds	We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders in this offering.
Dividend policy	We have never paid cash dividends to holders of our common stock. We do not expect to declare or pay any cash or other dividends on our common stock in the foreseeable future.
Listing	We intend to apply to have our common stock quoted on the OTCBB under the symbol "NMIH." If our application is accepted and a public market for our stock materializes which results in our common stock being held by at least 400 holders, we intend to apply to list our common stock on the NASDAQ Global Market under the trading symbol "NMIH."
Risk factors	Please read the section entitled "Risk Factors" beginning on page 11 for a discussion of some of the factors you should consider before buying our common stock.

(1) Based on 55,637,480 shares of our common stock issued and outstanding as of July 31, 2013, and includes 137,380 shares that were issued upon vesting of restricted stock units issued under the 2012 Stock Incentive Plan. As of July 31, 2013, there were 59 holders of our common stock. Unless otherwise indicated, information contained in this prospectus regarding the number of shares of our common stock outstanding after this offering does not include an aggregate of up to 6,354,785 shares of our common stock comprising:

- 313,870 shares of our common stock issuable upon exercise of the FBR Warrant;
- 678,295 shares of our common stock issuable upon exercise of the MAC Warrant;
- 3,068,579 shares of our common stock issuable upon exercise of outstanding stock options, 658,424 of which are currently exercisable;
- 1,248,650 shares of our common stock issuable upon vesting of restricted stock units; and
- An aggregate of 1,045,391 shares of our common stock reserved for issuance under the 2012 Stock Incentive Plan.

SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables set forth our summary selected historical consolidated financial data. You should read this information in conjunction with “Selected Condensed Historical Financial Information,” “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes thereto included elsewhere in this prospectus. References in this prospectus to "Successor" refer to the Company on or after April 24, 2012 and references to "Predecessor" refer to MAC Financial Holding Corporation prior to April 24, 2012.

The summary historical consolidated financial statements of the Company (Successor entity) are set forth below as of and for the six months ended June 30, 2013 and June 30, 2012, as of and for the year ended December 31, 2012, as of December 31, 2011, for the period May 19, 2011 (date of inception) through December 31, 2011 and for the period May 19, 2011 (date of inception) through June 30, 2013. The summary financial information presented is derived from our audited or unaudited interim consolidated financial statements included elsewhere in this prospectus.

We have included the summary historical consolidated statements of operations of our Predecessor entity as of and for the period January 1, 2012 through April 24, 2012 (date of purchase of Predecessor entity), as of and for the year ended December 31, 2011, and for the period from July 6, 2009 (date of inception of Predecessor entity) through April 24, 2012.

We have also included the unaudited pro forma consolidated statement of operations for the year ended December 31, 2012, which combines the Predecessor's consolidated income statement for such period with the Successor's consolidated income statement, which are included elsewhere in this prospectus, giving effect to the MAC Acquisition as if it had occurred on January 1, 2012. Because there was an immaterial level of operations during this pro forma period, totaling approximately $9,000, we do not further discuss the pro forma presentation in this prospectus.

We were formed in May 2011. Prior to the completion of the MAC Acquisition on April 24, 2012, our activities were focused on organizational development, capital raising and other start-up related activities. Additionally, for the period from May 19, 2011 through the date of this filing, our efforts were primarily directed toward building the foundation of the Company which would allow us to write mortgage insurance. These efforts included, among other things, building an executive management team and hiring other key officers and directors and staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE Approval.

In April 2012, we raised net proceeds of approximately $510 million in a private placement of our common stock and completed our acquisition of MAC Financial, a Delaware corporation, and its Wisconsin-licensed subsidiaries, including NMIC. The proceeds from the private placement were and will be primarily used to capitalize our MI subsidiaries and fund our operating expenses until our MI subsidiaries generate positive cash flows. We recently commenced issuing mortgage insurance policies in April 2013. Therefore, our results of operation following our receipt of GSE Approval cannot be meaningfully compared to our operations prior thereto.

CONSOLIDATED STATEMENTS OF OPERATIONS

	SUCCESSOR					PRO FORMA	PREDECESSOR		
	NMI Holdings, Inc. (A Development Stage Company)					NMI Holdings, Inc. (A Development Stage Company)	MAC Financial Holding Corporation (A Development Stage Company)		
	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2012	For the Period May 19, 2011 (inception) to December 31, 2011	For the Period May 19, 2011 (inception) to June 30, 2013	For the Year Ended December 31, 2012	For the Period January 1, 2012 to April 24, 2012	For the Year Ended December 31, 2011	For the Period July 6, 2009 (inception) to April 24, 2012
	(unaudited)	(unaudited)			(unaudited)	(unaudited)			
	(In Thousands, except per share data)					*(In Thousands, except per share data)*	*(In Thousands)*		
Revenues									
Direct premiums written	$ 1	$ —	$ —	$ —	$ 1	$ —	$ —	$ —	$ —
(Increase) decrease in unearned premiums	—	—	—	—	—	—	—	—	—
Net premiums earned	1	—	—	—	1	—	—	—	—
Net investment income	1,817	—	6	—	1,823	6	—	—	—
Other revenue	(599)	—	278	—	(321)	278	—	2	18
Total Revenues	1,219	—	284	—	1,503	284	—	2	18
Expenses									
Payroll and related	13,806	1,829	11,559	—	25,365	11,559	—	334	2,402
Share-based compensation	6,859	1,046	6,115	—	12,974	6,115	—	—	—
Professional fees	5,160	840	4,242	1,248	10,650	4,246	—	21	1,939
Depreciation	1,847	—	3	—	1,850	3	4	14	33
Other	1,773	2,867	5,856	101	7,730	5,863	6	237	1,285
Total Expenses	29,445	6,582	27,775	1,349	58,569	27,786	10	606	5,659
Net loss	$ (28,226)	$ (6,582)	$ (27,491)	$ (1,349)	$ (57,066)	$ (27,502)	$ (10)	$ (604)	$ (5,641)
Share Data									
Basic and Diluted loss per share	$ (0.51)	$ (0.33)	$ (0.73)	$ (13,490.00)	$ (1.81)	$ (0.73)			
Book value per share	$ 8.20	$ 9.55	$ 8.81	$ (13,490.00)	$ 8.20	$ 8.81			
Weighted average common	55,565,374	20,126,474	37,909,936	100	31,448,608	37,909,936			
Shares outstanding	55,637,480	55,500,100	55,500,100	100	55,637,480	55,500,100			

CONSOLIDATED BALANCE SHEETS

	SUCCESSOR				PREDECESSOR	
	NMI Holdings, Inc. (A Development Stage Company)				MAC Financial Holding Corporation (A Development Stage Company)	
	June 30, 2013	June 30, 2012	December 31, 2012	December 31, 2011	April 24, 2012	December 31, 2011
	(unaudited)	(unaudited)				
	(In Thousands)				*(In Thousands)*	
Cash and cash equivalents	$ 25,941	$ 502,981	$ 485,855	$ —	$ 17	$ 17
Restricted cash	—	20,830	40,338	—	—	—
Investment securities	427,472	—	4,864	—	—	—
Accrued investment income	2,105	—	—	—	—	—
Goodwill and other intangible assets	3,634	4,702	3,634	—	—	—
Software and equipment, net	8,786	5,184	7,550	—	2,887	2,891
Other assets	1,012	317	526	210	12	19
Total Assets	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927
Accounts payable and accrued expenses	$ 6,416	$ 4,156	$ 8,708	$ 1,354	$ 1,467	$ 1,227
Purchase fees and purchase consideration payable	—	—	40,338	—	—	—
Warrant liability	5,921	—	4,842	—	—	—
Other liabilities	133	—	133	205	—	240
Total Liabilities	12,470	4,156	54,021	1,559	1,467	1,467
Total Stockholders' Equity (Deficit)	456,480	529,858	488,746	(1,349)	1,449	1,460
Total Liabilities and Stockholders' Equity	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this prospectus, including our consolidated financial statements and the related notes thereto, before deciding to invest in our common stock. The occurrence of any of the following risks could materially and adversely affect our business, prospects, financial condition, operating results and cash flow. In such case, the trading price of our common stock could decline and you could lose all or part of your investment.

This registration statement contains forward-looking statements that involve risks and uncertainties. See "Important Information and Cautionary Statement Regarding Forward-Looking Statements." Our actual results could differ materially and adversely from those anticipated in these forward-looking statements, including any such statements made in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Risk Factors Relating to Our Business Generally

We are a recently formed development stage corporation that, prior to receipt of GSE Approval in January 2013, did not engage in any substantive insurance operations. Therefore, we do not have a track record or operating history on which investors may rely for purposes of projecting our future operating results.

We are a recently formed development stage corporation that received GSE Approval in January 2013. We did not engage in any substantive operations (including writing MI) prior to receipt of GSE Approval and, therefore, do not have a track record or operating history on which investors may rely for purposes of projecting future operating results. Having no insurance operating history, we are subject to substantial business and financial risks and could suffer significant losses, all of which are difficult to predict. We are seeking to develop business relationships, develop and implement our technology platform, gain customers, establish operating procedures, continue to hire staff and complete other tasks appropriate for the conduct of our intended business activities. Our success will also be dependent upon our ability to implement the operating procedures we have established, and continue to develop the internal controls (including the timely and successful implementation of information technology systems and programs) to effectively support our business and our regulatory and reporting requirements. In addition to the foregoing, as a new company with no insurance operating history, we do not have all the necessary licenses and authorizations to operate the insurance business described in this prospectus in all of the United States. As of the date of this prospectus, we have obtained certificates of authority to write MI business in 48 states and D.C. We do not yet have certificates of authority in Florida or Wyoming. Of the 48 states and D.C. where we obtained certificates of authority, we have effective rates in all jurisdictions other than the state of Washington and authorized policy forms in all jurisdictions other than Maryland and Alaska. Further, industry conditions may change by the time we are able to start operating in a manner that may adversely affect the development of our business, and there can be no assurance that we will be successful in our efforts to develop our business or obtain the necessary licenses and authorizations in a timely manner, if at all.

We have reported net losses since our inception, expect to continue to report annual net losses in the near term, and cannot assure you when we will achieve profitability.

We have reported net losses since our inception. For the six months ended June 30, 2013 we reported a net loss of $28.2 million and for the year ended December 31, 2012, we reported a net loss of $27.5 million. We currently expect to continue to report annual net losses in the near term, the size of which will depend

primarily on the amount of insurance business we can transact and the returns generated from our investment portfolio. We cannot assure you when, or if, we will achieve profitability. Conditions that could delay our profitability primarily include our ability to obtain and maintain certificates of authority from state insurance departments, fully develop and implement our enterprise technology platform, attract and retain a diverse customer base, maintain GSE eligibility, and to a lesser extent, include high unemployment rates, low housing values, and unfavorable resolution of ongoing legal proceedings.

As a participant in the mortgage lending and MI industry, we rely on e-commerce and other technologies to conduct business with our customers. Our inability to meet the technological demands of customers could adversely impact our business, financial condition and operating results.

As a participant in the mortgage lending and MI industry, we rely on e-commerce and other technologies to provide and expand our products and services. Customers require us to provide certain products and services in a secure manner, electronically via the Internet or electronic data transmission, and we will process a significant amount of our new insurance written and claims electronically. Accordingly, we are investing resources in establishing and maintaining electronic connectivity with customers and, more generally, in e-commerce and technological advancements. In order to integrate electronically with mortgage lenders, we will need to connect our systems to the industry's largest mortgage servicing systems and leading third-party loan origination systems. As discussed below in "*Management's Discussion and Analysis of Financial Condition and Results of Operations* - *Factors Affecting our Operating Results* - *Development of our IT Platform*", we have begun the process of integration with the largest loan servicing and leading third-party loan origination systems. We expect this integration process may take a significant amount of time before it is complete. We are also working to integrate directly with those lenders that maintain their own, proprietary loan origination and servicing system technologies, recognizing that the timelines for these integrations are heavily dependent upon the lenders' internal technology resources. Our inability to continue to make progress with these e-commerce connections could negatively impact our ability to attract as customers the larger mortgage lenders who rely on these connections to do business. Many customers require us to have such connectivity in place as a precursor to doing business with them. Our business, financial condition and operating results may be adversely impacted if we do not successfully establish these arrangements or otherwise keep pace with the technological demands of customers.

If we, together with third parties with whom we have contracted, are unable to develop, enhance and maintain our technology platform with respect to the products and services we offer, our business and financial performance could be significantly harmed.

As discussed below in this prospectus, we are developing an enterprise technology platform designed to support our mortgage insurance operations. If our technology platform fails to perform in the manner we expect, our business, financial condition and operating results will be significantly harmed. Further, if we are unable to timely and effectively enhance our platform when necessary to support our current and future business functions, our business would be negatively impacted. Until we reach a significant volume of mortgage insurance applications through our policy acquisition system, and even if we reach a significant volume, we cannot be assured that we will not experience difficulties. The success of our business will be dependent on our ability to resolve any issues identified with our technology platform during operations and to make timely improvements. Further, we will need to match or exceed the technological capabilities of our competitors over time. We cannot predict with certainty the cost of such maintenance and improvements, but failure to make such improvements could have an adverse effect on our business, financial condition and operating results.

In addition, we have contracted with a number of third parties in connection with the development

and operation of the platform and rely on these third parties to competently perform their obligations in a timely manner. Any failure to maintain acceptable arrangements with these third parties, or the failure of any of these third parties to perform and/or deliver in an acceptable and timely manner, could have an adverse effect on our business, financial condition and operating results.

If we are unable to enhance, augment and maintain our insurance management system (which we refer to as "IMS") we purchased in connection with the MAC Acquisition our business and financial performance could be significantly harmed.

As part of the MAC Acquisition, we acquired IMS, which is a major component of our technology platform (which we refer to as "AXIS"). After the acquisition of IMS, business analysis and development efforts pursued over the ensuing months revealed that IMS would require greater modifications and enhancements than originally anticipated in order to adequately and acceptably interface with our customers, underwrite their mortgage insurance, bill and collect the premiums due to us, run relevant internal and external reports on our current book of business and process and pay our customers' claims in a timely manner. Given the time required to upgrade the policy acquisition and underwriting modules of IMS, we determined that the modules of IMS that support policy servicing, billing, and delinquency and claims management would not effectively and efficiently support our business needs based on our projected volume and customer experience we desire. As such, we made the business decision in the second quarter of 2013 to pursue the development of new modules to support these business functions, which development may increase our development costs. There is no assurance we will be able to build these capabilities, that our customers will accept any short-term, work around solutions or that we will be able to make any of these system modifications or enhancements in a timely manner. Furthermore, such system development and enhancement efforts are critical to having and maintaining a fully operational business and technology platform, as specifically required in our approval conditions from the GSEs. Any significant shortfall in these technology enhancements or negative variance in the time-line in which the system functionality is delivered could have an adverse impact on our business, financial condition and operating results.

We may not receive, or be able to retain, licenses in all states, which would hamper our ability to issue MI on a nationwide basis.

In addition to GSE Approval, in order to transact MI on a nationwide basis NMIC must receive certificates of authority in each of the 50 states and D.C. As of the date of this prospectus, NMIC has obtained certificates of authority in 48 states and D.C. NMIC has not yet received certificates of authority in Wyoming or Florida.

NMIC's application for a certificate of authority was not accepted by the Wyoming Insurance Department for formal review due to Wyoming's seasoning requirement. Like many other states, Wyoming has a statutory seasoning requirement, which requires an applicant for admission to Wyoming to have transacted insurance for two years in its state of domicile prior to being admitted to Wyoming. The Wyoming Insurance Commissioner has the discretion to waive the requirement, however, if he or she finds that the applicant insures against special hazards to property or liability for which, in the Commissioner's opinion, adequate provision is not already made by insurers already authorized in the state. We have requested a waiver under the foregoing provision; however, as of the date hereof, the Wyoming Insurance Commissioner has not granted a waiver to us.

In Florida, we withdrew NMIC's application for a license in response to a request by Florida's Office of Insurance Regulation ("FL OIR"). With the goal of resolving the FL OIR's concerns as expeditiously as possible, we intend to refile NMIC's application for a certificate of authority in Florida by mid-August 2013.

There can be no assurance as to whether the FL OIR will accept NMIC's revised application as presented or whether FL OIR will require additional documentation and other information in order to proceed with reviewing the application. Although we intend to provide all information requested by the FL OIR, we cannot guarantee that this information will be satisfactory to the FL OIR and cause it to approve our application for a license.

There can be no assurance that our efforts to obtain licenses in Wyoming and Florida will be successful as the insurance regulatory authorities in these states have considerable discretion as to whether to grant us a license. Unless and until we are successful in obtaining these licenses, our mortgage insurance business will be confined to those states where we have been issued a certificate of authority and where our forms and rates have been approved. In addition, certain lenders may require that we hold certificates of authority in all, or nearly all, states before they are willing to do business with us, which could also have an adverse effect on the volume of business we are able to write. There are no assurances that we will receive certificates of authority in Wyoming and Florida in a timely manner, if at all.

We may not receive, or be able to retain, rate and form approvals in all states, which would hamper our ability to issue MI on a nationwide basis.

We intend to write MI business in the 50 states and D.C. In addition to needing to obtain certificates of authority in each of these jurisdictions, many of the states require approval of our insurance rates and/or policy forms before we may issue insurance policies in those states. Of the states in which NMIC has received certificates of authority, NMIC currently has effective rates in 47 states and D.C. and effective policy forms in 46 states and D.C. NMIC's application for approval of rates is pending in the state of Washington and its applications for approvals of policy forms are pending in Maryland and Alaska. Until such time as we receive the additional approvals of rates and policy forms that we need, our ability to provide MI will be geographically limited to those states in which our insurance subsidiaries have obtained certificates of authority as insurance companies and the necessary rate and form approvals. These geographic limitations could have an adverse effect on the volume of business we are able to write. There are no assurances that we will receive rate and form approvals in the remaining states in a timely manner, if at all. If we fail to do so, our business, financial condition and operating results may be adversely affected.

We are outsourcing the underwriting of our mortgage insurance on certain loans to third-party service providers. If these service providers fail to adequately perform their underwriting services or place coverage on ineligible loans, we could experience increased losses on loans underwritten by them and our customer relationships could be negatively impacted.

If our underwriting service providers fail to adequately perform their underwriting services, including mishandling of customer inquiries or an inability to underwrite a sufficient volume of applications per day, we may lose opportunities to place mortgage insurance coverage on particular loans, our reputation may suffer, and customers may choose not to do business with us at all. In addition, if our underwriting service providers place coverage on loans that are ineligible for coverage under our underwriting guidelines, our risk of loss will be increased on those loans or the premiums we charge will be inadequate to the risk presented. We do not have the right under our mortgage insurance policies to cancel coverage of an ineligible loan as a result of an underwriting vendor's inappropriate decision. Further, other than being able to terminate our contracts, we do not have explicit monetary contractual remedies against these service providers in the event we are obligated to pay claims on ineligible loans that vendors improperly agreed to insure on our behalf. If these service providers fail to adequately perform their underwriting services or consistently place coverage on ineligible loans, we could experience increased losses on loans underwritten by them and our customer relationships

could be negatively impacted, which would have an adverse impact on our business, financial condition and operating results.

We currently intend to perform a post-close underwriting review of every loan that has been insured through our delegated mortgage insurance program within the first months of coverage, which will increase our costs of doing business and could negatively impact our ability to compete. In addition, a delegated lender could commit us to insure loans with unacceptable risk profiles before we discover and remedy the problem.

Our delegated underwriting program permits lenders who are approved by us to bind coverage on our behalf, so long as the insurance decision is consistent with applicable eligibility and underwriting criteria. Historically, delegated underwriting of mortgage insurance by lenders has been perceived by both lenders and MI companies as affording mutually beneficial efficiencies to the mortgage underwriting process. Compared to the prevailing delegated programs of our competitors, our delegated program is costlier and less efficient for us and our customers. The terms of coverage that apply to loans insured under our delegated program require the lenders to submit complete loan origination files to us within 60 days of the coverage effective dates. To comply with the loan file delivery requirement, our customers' processes would likely need to be modified, which will require the expenditure of greater resources on their part and could have the effect of driving our customers to choose our competitors' products over ours. In addition, we intend to conduct a post-close underwriting review (with the assistance of third-party service providers) of every loan insured under our delegated program to determine whether such loans meet applicable eligibility and underwriting criteria. While we believe our timely post-close review will afford greater certainty of coverage to our customers, this process could significantly increase our costs of doing business compared to our competitors. In addition, a lender could commit us to insure loans with unacceptable risk profiles before we discover the problem and terminate that lender's delegated underwriting authority or pursue other rights that may be available to us, such as our rights to rescind coverage or deny claims. For these reasons, the structure of our delegated program could negatively impact our ability to compete, which would have an adverse effect on our business, financial condition and operating results.

Our mortgage insurance master policies contain restrictions on our ability to rescind coverage for fraud and underwriting defects, and if we were to fail to timely discover any such fraud or underwriting defects, our rights of rescission would be significantly limited, and we could suffer increased losses as a result of paying claims on loans with unacceptable risk profiles.

Under our mortgage insurance policies, after a borrower has timely made 18 consecutive monthly payments on a loan we insure, we have agreed that we will not rescind or cancel coverage of that loan for borrower fraud or underwriting defects. In addition, upon the borrower attaining 18 full and timely consecutive monthly payments, we have agreed to limitations on our ability to initiate an investigation of fraud or misrepresentation by our insureds or any other party involved in the origination of an insured loan, which we collectively refer to in our master policies as a "First Party." Although we have processes in place to review every loan we insure, we may not discover fraud and/or underwriting defects prior to a borrower making the 18th payment. If this were to occur, we would be contractually prohibited from exercising our rights of rescission for borrower fraud; our rights to investigate potential First Party fraud or misrepresentation would be curtailed; and we may be obligated to pay claims on certain loans with unacceptable risk profiles or which failed to meet our underwriting guidelines at the time of origination. As a result, we could suffer significant unexpected losses, which could adversely impact our business, financial condition and operating results.

NMIC is required to maintain minimum capital under its agreements with the GSEs and certain states, and if NMIC falls below these capital requirements or exceeds certain risk-to-capital ratios, we could

be required to cease writing business in these states and would likely lose our GSE eligibility, either of which would adversely impact our business, financial condition and operating results.

As a condition of GSE Approval, we have agreed with Fannie Mae and Freddie Mac to limit NMIC's risk-to-capital ("RTC") ratio to no greater than 15 to 1 and to maintain total statutory capital of at least $150 million for a three year period ending on January 15, 2016. After that date, we agree to comply with the risk-to-capital ratios that are imposed in the GSEs' then existing eligibility requirements. As part of our process of obtaining certificates of authority, NMIC entered into risk-to-capital agreements with the California Insurance Department, the Missouri Department of Insurance, the New York State Department of Financial Services, the Ohio Department of Insurance and the Texas Commissioner of Insurance. These agreements require NMIC to maintain a risk-to-capital ratio not to exceed 20 to 1 until January 15, 2016. If our business grows faster (i.e. our risk-in-force grows faster than expected) or is less profitable than expected (i.e. our revenues do not generate the return we expect), our actual RTC ratios over the short to mid-term could exceed our expected RTC ratios and could begin to approach the limits to which we are subject. With respect to each policy, primary risk-in-force (“RIF”) is the product of an insured loan's coverage percentage (the level of insurance protection) specified in the policy multiplied by that loan's unpaid principal balance. If we are unable to raise additional capital or enter into alternative arrangements to reduce our risk-in-force, including through reinsurance, we may exceed the GSE and/or state-imposed capital requirements. If this were to occur, we may lose our GSE eligibility and/or may be required to cease transacting new business in these states, which would substantially impair our business and adversely impact our financial position and operating results.

Our insurance subsidiary is subject to state insurance department capital adequacy requirements, which if breached, could result in NMIC being required to cease writing new business or lose GSE eligibility.

NMIC's principal regulator is the Wisconsin Office of Commissioner of Insurance ("Wisconsin OCI" or "WOCI"). Under applicable Wisconsin law, as well as that of 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to the risk-in-force (“RTC”) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “RTC requirement.” While formulations of minimum capital may vary in each jurisdiction that has such a requirement, the most common measure applied allows for a maximum permitted RTC ratio of 25 to 1. Wisconsin and certain other states, including California and Illinois, apply a substantially similar requirement referred to as minimum policyholders' position. Accordingly, if we fail to meet the capital adequacy requirements in one or more states, we could be required to suspend writing business in some or all of the states in which we do business.

Our inability to timely attract and retain the largest mortgage originators as customers could negatively impact our ability to achieve our business goals.

The success of our mortgage insurance business is highly dependent on our ability to attract and retain as customers the largest mortgage originators in the United States. To that end, we have identified thirty-five of the nation's largest lenders and classified them as our National Accounts. These lenders originate loans through their retail channels, as well as purchase loans from other originators, including the smaller correspondent lenders. Within the National Accounts, there are approximately five national mortgage originators who we consider critical to the achievement of our business goals because of their dominant market share. As a result of their size and market share, these entities originate a significant majority of low down payment mortgages in the United States and, therefore, influence the size of the MI market. In order to insure low down payment loans originated by these five largest originators, we must first obtain their respective approvals as an authorized MI provider and achieve connectivity with their loan origination systems and servicing platforms. The process of obtaining such approvals and integrating our systems is time-consuming and requires the dedication and coordination of significant resources by us and the lenders. There

is no assurance we will receive approvals from these lenders to do MI business in this channel in a timely manner or at all. If we cannot timely obtain such approvals, or fail to obtain and retain one or more approvals, our business, financial condition and operating results could be adversely impacted.

If we ultimately gain these entities as customers, we cannot be certain that any loss of business from a single lender would be replaced from other new or existing lending customers in the industry. Such lending customers may decide to write business only with certain mortgage insurers based on their views with respect to an insurer's pricing, underwriting guidelines, loss mitigation practices, financial strength or other factors. Our customers may choose to diversify the mortgage insurers with which they do business, which could negatively affect our level of new insurance written and our market share. The loss of business from a significant customer could have an adverse effect on the amount of new business we are able to write, and consequently, our financial condition and operating results.

The mortgage market is dominated by the largest mortgage originators. We have identified thirty-five of the nation's largest volume lenders as critical to our success and termed these lenders our National Accounts. If these lenders experience disruptions to their ability to originate mortgage loans, our business and financial performance could suffer.

Maintaining business relationships and new origination volumes with these National Accounts, particularly those who we believe to be the largest five originators, once they become customers, will be critical to the success of our business. The economic downturn and challenging market conditions of the recent past have adversely affected the financial condition of a number of them. If the U.S. economy fails to fully recover or re-enters a recessionary period, these lenders could again become subject to serious financial constraints that may jeopardize the viability of their business plans or their access to additional capital, forcing them to consider alternatives such as bankruptcy or consolidation with others in the industry. If this were to happen to any of our National Accounts the overall health of the U.S. mortgage origination market would be negatively impacted. The loss of business from a significant customer could have an adverse effect on the amount of new business we are able to write, and consequently, our financial condition and operating results.

There can be no assurance that the GSEs will continue to treat us as a qualified mortgage insurer in the future.

Fannie Mae and Freddie Mac have imposed certain capitalization, operational and reporting conditions in connection with their recent approvals of NMIC as a qualified mortgage insurer. Some of these conditions remain in effect for a three-year period from the date of GSE Approval, while others do not expressly expire. Even though we have received GSE Approval to be a qualified mortgage insurer, there can be no assurance that the GSEs will continue to treat us as a qualified mortgage insurer in the future or, alternatively, they could, in their own discretion, require additional limitations on certain of our activities and practices in order to remain qualified. Such additional limitations could limit our operating flexibility and the areas in which we may write new business. The GSEs, as major purchasers of conventional mortgage loans in the United States, will likely be the primary beneficiaries of our MI coverage. If, in the future, either or both of the GSEs were to cease to consider us a qualified mortgage insurer and, therefore, cease accepting our MI products, our business, financial condition and operating results would be adversely impacted.

Under the terms of the GSE Approval, either or both of the GSEs could require us to redomicile from Wisconsin to another state, which, if required, could have an adverse impact on our business, financial condition and operating results.

Under the terms of Fannie Mae's and Freddie Mac's respective approvals of NMIC as a qualified mortgage insurer, each GSE has the right to require NMIC to redomicile to another state approved by such GSE. If either or both of the GSEs were to require that NMIC redomicile to another state, the process to redomicile would likely be time consuming and could strain Company resources. Moreover, redomicile is subject to approval by both current and proposed state insurance regulators, a process which would place further strain on Company resources. NMIC's primary insurance regulator is currently the WOCI. If NMIC were required to redomicile to another state of the GSEs' choosing, NMIC's primary insurance regulator would change and become the insurance regulator in the new state of domicile. If this were to occur, there is no assurance that the regulations of the state of domicile will be similar to the regulations of the Wisconsin OCI or that NMIC would develop a favorable relationship with the new regulator. A requirement to redomicile could slow or prevent the successful execution of our plan of operations, which could adversely impact our business, financial condition and operating results.

We expect to face intense competition for business in our industry from existing MI providers and potentially from new entrants. If we are unable to compete effectively, we may not be able to gain market share and our business may be adversely affected.

The MI industry is highly competitive. We intend to compete with other private mortgage insurers based on our financial strength, underwriting guidelines, clear coverage terms, customer relationships, name recognition, reputation, strength of management teams and field organizations, comprehensiveness of databases covering insured loans, effective use of technology and innovation in the delivery and servicing of insurance products and pricing. However, the existing MI companies, many of which have larger operations than us and/or are part of larger diversified companies, have established relationships and significantly greater capital, infrastructure, personnel and other resources than we are anticipated to have during our initial years of operation. If our information technology systems are inferior to our competitors, existing and potential customers may choose our competitors' products over ours. If we are unable to compete effectively against our competitors and attract our target customers, our revenue may be adversely impacted and we may not be able to gain market share. In addition, we believe there is a substantial likelihood that one or more additional companies will enter the industry and provide products similar to those that we intend to provide. Increased competition could result in fewer submissions of policy applications to us and therefore result in premiums written being lower than expected, which could adversely impact our growth and profitability.

Our underwriting and risk management policies and practices may not anticipate all risks and/or the magnitude of potential for loss as the result of unforeseen risks.

We have established underwriting and risk management policies and practices that seek to mitigate our exposure to borrower default risk in our insured portfolio by anticipating future risks and the magnitude of those risks. However, the losses we incur will be uncertain and will depend largely on general economic conditions, including rates of unemployment and home prices. Given the uncertainties caused by the slow pace of economic recovery and instability in the housing and mortgage markets and, to the extent that a risk is unforeseen or is underestimated in terms of magnitude of loss, these policies and practices may not completely insulate us from the effects of those risks. If our risk management policies and practices do not correctly anticipate risk or the potential for loss we may underwrite business for which we have not charged premium commensurate with the risk or we may establish our loss reserves at a rate that does not accurately approximate our actual ultimate loss payments. Either one of these could result in severe adverse material results.

Our primary insurance in force may be concentrated in specific geographic regions and could make our business highly susceptible to downturns in local economies, which could be detrimental to our financial condition.

We will seek to diversify our insured portfolio geographically; however, the availability of business might lead to concentrations in specific regions in the United States, which could make our business highly susceptible to economic downturns in these regions. A deterioration in local or national economic conditions in the mortgage market and other economic conditions, including home prices, levels of unemployment and interest rates or an increase in default rates in specific geographical areas or generally could have a material adverse effect on our operating results and financial position.

Actual premiums and investment earnings may not be sufficient to cover loss payments and our operating costs.

We set premiums at the time a policy is issued based on our expectations regarding likely performance over the term of the policy. Our premiums are subject to approval by state regulatory agencies, which can delay or limit our ability to increase our premiums. Generally, we will not be able to cancel the MI coverage or adjust renewal premiums during the life of an MI policy. As a result, higher than anticipated claims generally will not be able to be offset by premium increases on policies in force or mitigated by our non-renewal or cancellation of insurance coverage. While we believe our initial capital, premiums and investment earnings will provide a pool of resources sufficient to cover expected loss payments and have made estimates regarding loss payments and potential claims, the ultimate number and magnitude of claims we experience cannot be predicted with certainty and the actual premiums and investment earnings may not be sufficient to cover losses and/or our operating costs. An increase in the number or size of claims, compared to what we anticipate, could adversely affect our operating results or financial condition. We may not be able to achieve the results that we expect, and there can be no assurance that losses will not exceed our total resources.

Adverse investment performance may affect our financial results and ability to conduct business.

Our investment portfolio consists primarily of highly rated debt obligations. Our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities. Changing and unprecedented market conditions could materially impact the future valuation of securities in our investment portfolio, which may cause us to impair, in the future, some portion of those securities. Volatility or illiquidity in the markets in which we hold positions may cause certain other-than-temporary impairments within our portfolio, which could have a significant adverse effect on our liquidity, financial condition and operating results.

Income from our investment portfolio is one of our primary sources of cash flow to support our operations and claim payments. If we improperly structure our investments to meet those future liabilities or have unexpected losses, including losses resulting from the forced liquidation of investments before their maturity we may be unable to meet those obligations. NMIC's investments and investment policies are subject to state insurance laws, which results in our portfolio being predominantly limited to highly rated fixed income securities. Interest rates on our fixed income securities are near historical lows. If interest rates rise above the rates on our fixed income securities, the market value of our investment portfolio would decrease. Any significant decrease in the value of our investment portfolio would adversely impact our financial condition.

In addition, compared to historical averages, interest rates and investment yields on highly rated investments have generally declined, which has the effect of limiting the investment income we can generate.

We depend on our investments as a source of revenue, and a prolonged period of low investment yields would have an adverse impact on our revenues and could potentially adversely affect our operating results.

We may be forced to change our investments or investment policies depending upon regulatory, economic and market conditions, and our existing or anticipated financial condition and operating requirements, including the tax position, of our business. Our investment objectives may not be achieved. Although our portfolio consists mostly of highly-rated investments and complies with applicable regulatory requirements, the success of our investment activity is affected by general economic conditions, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and, consequently, the value of fixed-income securities.

Estimating future losses and the timing of future losses is inherently uncertain and requires significant judgment, and as a result, our loss estimates may vary widely and are dependent on a number of factors.

Estimating future losses and the timing of future losses is inherently uncertain and requires significant judgment. Our expectations regarding future losses may change significantly over time. Our future losses and ability to meet applicable capital adequacy requirements could be affected by a variety of factors. Such factors include, among others:

- current and future economic conditions, including continued slow economic recovery from the most recent recession or the potential of the U.S. economy to reenter a recessionary period, borrower access to credit, levels of unemployment, interest rates and home prices;
- the level of defaults, the claim rates on loans in default and the claim severity within NMIC's mortgage insurance portfolio;
- potentially negative economic changes in geographic regions where our insurance in force is more concentrated;
- the rate at which our MI portfolio remains in force (persistency rate);
- future levels of new insurance written (and the profitability of such business), which will impact future premiums written and earned and future losses;
- the performance of our investment portfolio and the extent to which issuers of the fixed-income securities that we own default on principal and interest payments or the extent to which we are required to impair portions of the portfolio as a result of deteriorating capital markets;
- our limited operating history, which adds to the speculative nature of our loss estimates; and
- our operating performance for at least the next few years, which likely will continue to be an unreliable indicator of future performance due to the nature of the MI business and our expectation that our claims incidence is expected to be lower as a result of the typical distribution of claims over the life of a book resulting in fewer defaults during the first two to three years after loans are originated.

Many of these factors are outside of our control and difficult to predict. In addition, some of these factors are subjective and not subject to specific quantitative standards. Due to the inherent uncertainty and significant judgment involved in the numerous assumptions required in order to estimate our losses, our loss estimates may vary widely. If we incorrectly estimate the factors that drive our losses, our business, financial condition and operating results could be adversely impacted.

We will establish loss reserves when we are notified that a loan we insure is in default for at least 60 days, based on management's estimate of claim rates and claim sizes, which will be subject to uncertainties and will be based on assumptions about certain estimation parameters that may be volatile. As a result, our actual ultimate claim payments may materially exceed the amount of our loss reserves.

We are a new company and have only recently commenced transacting mortgage insurance. We do not anticipate a material level of losses (relative to written premiums or stockholders' equity) in the first few years of our operations. Our practice, consistent with United States generally accepted accounting principles ("GAAP") for the MI industry, will be to establish loss reserves only for loans at least 60 days in default. We will also establish reserves for estimated losses incurred on loans that have been in default for at least 60 days that have not yet been reported to us by the servicers (this is often referred to as incurred but not reported or "IBNR").

The establishment of loss and IBNR reserves is subject to inherent uncertainty and will require significant judgment by management. We plan to establish loss reserves using our best estimates of claim rates, *i.e.*, the percent of loan defaults that ultimately result in claim payments, and claim amounts, *i.e.*, the dollar amounts required to settle claims, to estimate the ultimate losses on loans reported to us as being at least 60 days in default as of the end of each reporting period. We will estimate IBNR by analyzing historical lags in default reporting to determine a specific number of IBNR claims in each reporting period. Our estimates of claim rates and claim sizes will be strongly influenced by prevailing economic conditions, for example current rates or trends in unemployment, housing price appreciation and/or interest rates, and our best judgments as to the future values or trends of these macroeconomic factors. If prevailing economic conditions deteriorate suddenly and/or unexpectedly, our estimates of loss reserves could be materially understated, which may adversely impact our financial condition and operating results. Because loss and IBNR reserves are based on estimates and judgments, there can be no assurance that even in a stable economic environment, actual claims paid by us will not be substantially different than our loss and IBNR reserves for such claims. Our business, operating results and financial condition will be adversely impacted if, and to the extent, our actual losses are greater than our loss and IBNR reserves.

We may be required to establish a premium deficiency reserve if the net present value of our premiums and reserves is less than the net present value of our loss payments and expenses

In addition to establishing loss reserves for loans in default, under GAAP, we are required to establish a premium deficiency reserve, or PDR, for our mortgage insurance products if the amount by which the net present value of expected future losses for a particular product and the expenses for such product exceeds the net present value of expected future premiums and existing reserves for such product. We evaluate whether a premium deficiency exists at the end of each fiscal quarter. Our evaluation of premium deficiency is based on our best estimates of future losses, expenses and premiums. This evaluation depends upon many significant assumptions, including assumptions regarding future macroeconomic conditions, and therefore, is inherently uncertain and may prove to be inaccurate. There can be no assurance that premium deficiency reserves will not be required in future periods after we commence writing insurance business. If this were to occur, our business, financial condition and operating results would be adversely impacted.

As a condition of obtaining approval from Freddie Mac to be a qualified mortgage insurer, we are required to obtain an insurance financial rating by July 31, 2015, and if we fail to obtain a rating by the deadline, we may lose our Freddie Mac approval status. Further, our failure to obtain a rating may negatively impact our ability to attract and retain certain lenders as customers or to transact business in the private label (non-GSE) mortgage-backed securities ("MBS") market.

As a condition of our approval from Freddie Mac to be a qualified mortgage insurer, we are required to obtain a rating from a Nationally Recognized Statistical Rating Organization by July 31, 2015. While we have commenced the process of obtaining such a rating, we are still in the exploratory phase and have not yet engaged any particular rating agency to obtain a rating. If we fail to obtain a rating by July 31, 2015, we may lose our Freddie Mac approval status, which would adversely affect our business, financial condition and operating results.

We believe many lenders who hold mortgages in portfolio and choose to obtain MI on the loans may assess a mortgage insurer's financial strength rating as a factor in their choice of an MI provider. As a result, failure to obtain a rating may impact our ability to attract and/or retain certain lenders as customers. In addition, if MI is again utilized as a form of credit enhancement in connection with the issuance of private-label MBS, our failure to obtain a rating or inability to obtain a rating better than our competitors could harm our prospects of transacting business in the private label MBS market.

If we are unsuccessful in our efforts to attract, train and retain qualified personnel, or to retain those personnel we have already recruited, our business may be adversely affected.

We believe that our growth and future success will depend in large part on the services and skills of our management team and our ability to motivate and retain these individuals and other key personnel, which include members of our Finance, Sales, Legal, Risk, Insurance Operations and IT departments. We intend to pay competitive salaries, bonuses and equity-based rewards in order to attract and retain such personnel, but there can be no assurance that we will be successful in such endeavors. The loss of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition or operating results.

The mix of business we write affects our revenue stream and the likelihood of losses occurring.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores, with lower scores tending to have higher probabilities of claims, or higher total debt-to-income ratios, as well as loans having combinations of these higher risk factors and thus have layered risk. In general, we charge higher premiums for loans with higher risk characteristics. There is, however, no guarantee that our premiums will compensate us for the losses we incur on loans with higher risk characteristics. From time to time, in response to market conditions, we may change the types of loans that we insure and the guidelines under which we insure them, and in doing so, the concentration of insured loans with higher risk characteristics in our portfolio may increase. In addition, we may make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. We expect any exceptions to be very limited and on a case-by-case basis. Even though underwriting that falls outside of our guidelines would be on a case-by-case basis, we could incur higher than expected claims and claim payments on this business, which could negatively impact our revenues and operating results.

We may not be able to effectively manage our growth.

Our future operating results depend to a large extent on our ability to successfully manage our growth. Our growth has placed, and it may continue to place, significant demands on our operations and management. Whether through additional acquisitions or organic growth, our current plan is dependent upon our ability to:

- continue to implement and improve our operational, credit, financial, management and other internal risk controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships;
- scale our technology platform; and
- attract and retain management talent.

We may not successfully implement improvements to, or integrate, our management information and control systems, procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new customers. If we are unable to manage future expansion in our operations, we may experience compliance and operational problems, be required to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could have an adverse effect on our business, financial condition or operating results.

We rely on our systems and employees, and any errors or fraud could materially and adversely affect us.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical record-keeping errors and transactional errors. Our business is dependent on our employees as well as third parties to process a large number of increasingly complex transactions. We could be materially and adversely affected if one of our employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business also could be sources of operational risk to us, including breakdowns or failures of such parties' own systems or employees. Any of these occurrences could result in our diminished ability to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could result in a material adverse effect on our financial position and operating results.

We are dependent on our information technology and telecommunications systems and third-party servicer providers, and termination of third-party contracts, systems failures, interruptions, or breaches of security could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party service providers. We outsource many of our major information technology functions, including for the development and operation of our enterprise technology platform, data center hosting and management, email and collaboration, and human resource systems. The failure of any of these third parties to perform and/or deliver on a timely basis, or the failure of these systems, either individually or collectively, or the termination of a third-party software license or service agreement on which any of our systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third parties, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have an adverse effect on our business, financial condition and operating results.

The security of our information technology may be compromised and confidential information could be inappropriately disclosed.

As part of our business, our computer systems process and retain large amounts of personal information of the borrowers whose mortgages we insure. The security of our computer systems and networks, and those functions that we may outsource, may be subject to cyber threats that could result in failures, unauthorized access or disruptions in our business. Additionally, our employees and vendors may use portable computers or mobile devices which can be stolen, lost or damaged. Despite our efforts to ensure the integrity of our systems and information, it is possible that we may not be able to anticipate or to implement effective preventive measures against all cyber threats, particularly because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers. We maintain technology errors and omissions coverage to limit our exposure in the event an incident occurs. This insurance provides coverage for (i) claims related to, among other things, unauthorized network or computer access, unintentional disclosure or misuse of personally identifiable information in our possession, unintentional failure to disclose a breach and (ii) certain costs related to privacy notification, crisis management and business interruption. While we maintain such coverage, any compromise of the security of our information technology systems that results in the loss of personally identifiable information may result in loss of customer business, would be costly and time-consuming, could expose us to liability for damages, harm our reputation, subject us to regulatory scrutiny or expose us to civil litigation, any of which could have an adverse effect on our business, financial condition and operating results. Further, our insurance coverage may be inadequate to cover any claims or costs associated with an incident that may occur in the future.

If servicers fail to adhere to appropriate servicing standards or experience disruptions to their businesses, our losses could unexpectedly increase.

We depend on reliable, consistent third-party servicing of the loans that we insure. Among other things, our mortgage insurance policies require our insureds and their servicers to timely submit premium and monthly insurance-in-force and default reports and utilize commercially reasonable efforts to limit and mitigate loss when a loan is in default. If these servicers fail to adhere to such servicing standards and fail to limit and mitigate loss when appropriate, our losses may unexpectedly increase. In addition, if one or more servicers were to experience adverse effects to its business, such servicers could experience delays in their reporting and premium payment requirements. Without reliable, consistent third-party servicing, our insurance subsidiaries may be unable to correctly record new loans as they are underwritten, receive and process payments on insured loans and/or properly recognize and establish loss reserves on loans when a default exists or occurs but is not reported to us. Significant failures by large servicers or disruptions in the servicing of mortgage loans covered by our insurance policies would adversely impact our business, financial condition and operating results.

The occurrence of natural or man-made disasters or a pandemic could adversely affect our business, financial condition and operating results.

We could be exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, floods and tornadoes, and man-made disasters, including acts of terrorism, military actions and pandemics. For example, a natural or man-made disaster or a pandemic could lead to unexpected changes in persistency rates as policyholders and contract holders who are directly or indirectly affected by the disaster may be unable to meet their contractual obligations, such as payment of premiums on our insurance policies, interest payments due on our invested assets, and mortgage payments on loans insured by our MI policies. The continued threat of terrorism may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business and increased claims from those areas, as well as an adverse effect on home prices in those areas, which could result in increased loss experience

in our business. Disasters or a pandemic also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, a disaster or a pandemic could adversely affect the value of the assets in our investment portfolio if it affects companies' ability to pay us principal or interest on their securities.

Our holding company structure and certain regulatory and other constraints, including adverse business performance, could affect our ability to satisfy our obligations and potentially require us to raise more capital.

We serve as the holding company for our insurance subsidiaries, which are mono-line insurance companies restricted to writing residential MI business only, and we do not have any significant operations of our own. As a result, our principal sources of funds will be income from our investment portfolio, dividends and other distributions from our insurance subsidiaries, including permitted payments under our tax and expense-sharing arrangements, and funds that may be raised from time-to-time in the capital markets. Our dividend income is limited to upstream dividend payments from our mono-line insurance subsidiaries, which dividends are restricted by agreements with the GSEs and various state insurance departments and by Wisconsin law. Under agreements with the GSEs and various state insurance departments, we are not permitted to extract dividends from our insurance subsidiaries until December 31, 2015. In general, dividends in excess of prescribed limits are deemed “extraordinary” and require approval of the Wisconsin OCI. For a further discussion of state insurance regulatory dividend limitations see “*State Insurance Regulations*.” As a result of these dividend limitations, we will not receive dividend income from our subsidiaries for several years. In addition, the expense-sharing arrangements between us and our insurance subsidiaries, as amended, have been approved by the Wisconsin OCI, but such approval may be revoked at any time. If this were to occur, payments to us could be curtailed or limited which would adversely impact our business and operating results.

Our principal liquidity demands include funds for: (i) the payment of certain corporate operating expenses; (ii) capital support for our MI subsidiaries; and (iii) potential payments to the Internal Revenue Service ("IRS") and local taxing and licensing authorities. Under the terms of the GSE Approvals, we are required to make additional capital contributions to NMIC in order to support a minimum surplus of $150.0 million and maintain a risk-to-capital ratio under 15 to 1 through December 31, 2015. We could be required to provide additional capital support for NMIC and our other mortgage insurance subsidiaries if additional capital is required pursuant to insurance laws and regulations or by the GSEs. If we were unable to meet our obligations, our insurance subsidiaries could lose GSE Approval and/or be required to cease writing business in one or more states, which would adversely impact our business, financial condition and operating results.

Our future capital requirements depend on many factors, including our ability to successfully write new business and establish premium rates at levels sufficient to cover losses, expenses and allow us to achieve profitability. To the extent that the funds generated by our ongoing operations and initial capitalization are insufficient to fund future operating requirements or to achieve a return on capital attractive to investors, we may need to raise additional funds, including through equity or debt financings or reinsurance, or curtail our growth. We cannot be sure that we will be able to raise equity or debt financing on terms favorable to us and our stockholders and in the amounts that we require, or at all. If we cannot obtain adequate capital, our business, financial condition and operating results could be adversely affected.

We, as well as certain of our officers, are party to a lawsuit, which if determined adverse to us and our officers could have an adverse effect on our financial condition and operating results.

We, as well as our Chief Executive Officer, Chief Financial Officer, Chief Sales Officer and Vice President of Sales Operations, Analytics & Planning, are defendants in a lawsuit titled: **Germaine L. Marks,**

as Receiver, et al v. NMI Holdings, Inc. et al, filed on August 8, 2012 in California Superior Court, Alameda County. The lawsuit alleges breach of fiduciary duty, breach of loyalty, aiding and abetting breach of fiduciary duty and loyalty, misappropriation of trade secrets, conversion, breach of proprietary information agreement, breach of separation agreement, and intentional interference with contractual relations, unfair competition and conspiracy. The lawsuit seeks injunctive relief as well as unspecified monetary damages. We and the individual defendants believe these claims are without merit and have filed an answer denying all allegations. There is no assurance that we and the individual defendants will prevail in the lawsuit. If the lawsuit is determined adversely to us, the court could grant injunctive relief to the plaintiffs preventing NMIC from conducting insurance operations, including obtaining certificates of authority in Florida and Wyoming, and/or subject us to significant monetary damages. In addition, if the lawsuit is determined adversely to any of our officers who are individual defendants in the lawsuit, we would likely be required to remove and replace those officers under the terms of agreements NMIC and NMIH entered into with each of the Alabama Department of Insurance, Arizona Department of Insurance, the Texas Commissioner of Insurance and the New York State Department of Financial Services, as a condition of NMIC obtaining certificates of authority in those states, as well as under an agreement with the Wisconsin OCI. If we were required to replace such officers our business and reputation could be significantly impaired, which could result in an adverse effect on our financial position and operating results.

Risk Factors Relating to the Mortgage Insurance Industry and its Regulation

The implementation of the Basel III Capital Accord may affect the use of MI by and, our ability to conduct business with, certain banks.

In 1988, the Basel Committee on Banking Supervision developed the Basel Capital Accord ("Basel I"), which set out international benchmarks for assessing banks' capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, "Basel II"), which, among other factors, governs the capital treatment of MI purchased by domestic and international banks in respect of their origination and securitization activities. In November 2010, the United States agreed to a new capital framework known as Basel III. This new capital framework will replace the Basel II capital rules, which have not yet been implemented for U.S. depository institutions or holding companies. The Basel III framework will apply to the 10 to 12 largest U.S. banking organizations, as well as banking companies that have significant international operations. It may also be imposed on non-banking financial companies that are determined by the relevant regulators to present systemic risks to the U.S. financial system. The Basel III framework refines the Basel II risk-based structure by requiring the use of highly stressed scenarios in determining the appropriate levels of risk undertaken by banks, and it will also increase the required minimum capital ratios. The Basel III framework restricts the instruments that can count toward meeting the capital requirements, placing greater emphasis on common equity and retained earnings. Finally, Basel III will impose a new minimum liquidity standard on banking organizations.

The phase in period for the Basel III regime for larger banking organizations will begin in 2014 and for community banks in 2015. The final regulations increase the amount of capital and the quality of the capital required to be held by banks. In addition, the capital rules will continue to risk-weight assets based on internal models that use inputs such as the probability of default and the bank's expected loss given a default. The final version of the regulations continues the current treatment for the risk weighting of residential mortgage assets and the treatment of mortgage insurance as reducing the risk weighting on mortgages where the borrower has made a down payment of less than 20% of the value of the residential property. The draft Basel III regulations proposed by the regulators in 2012 would have increased the risk weightings of residential mortgage assets and did not require that MI be factored into the calculation of the risk weightings. In addition, the final regulations increase the risk weighting for mortgage servicing assets

held by banks and require the mortgage servicing assets above certain levels be deducted from the calculation of Tier I equity. Since most low down payment mortgages originated today are either sold to the GSEs or insured by the FHA or guaranteed by the VA, we cannot predict what, if any, impact to the MI industry the Basel III regulations will have. Since a significant percentage of the mortgages insured by the MI industry are serviced by banks or bank-owned mortgage companies, the changes in risk weighting for mortgage servicing assets and the deductions from Tier I equity capital for mortgage servicing assets above certain levels could cause shifts in the amounts of mortgages serviced by banks and bank affiliates or subsidiaries relative to non-banking organizations. It is difficult to predict the impact these shifts may have on the quality of the servicing of insured mortgages or the ultimate impact on the MI industry.

Implementation of the Dodd-Frank Act could negatively impact private mortgage insurers and the amount of insurance they can write, including if the definition of Qualified Residential Mortgage ("QRM") results in a reduction of the number of low down payment loans available to be insured.

The Dodd-Frank Act, enacted by Congress in July 2010, expands federal oversight of consumer financial products and services, including mortgage loans. The Dodd-Frank Act also authorized the formation of the Federal Insurance Office, charging it with, among other things, monitoring all aspects of the insurance industry (excluding certain insurance lines other than MI), including the identification of gaps in regulation of insurers that could contribute to financial crisis. As discussed below in "*Management's Discussion and Analysis of Financial Condition and Results of Operation-Regulation-Qualified Residential Mortgage Rule"*, the Dodd-Frank Act contains a risk-retention requirement on securitized mortgage loans that do not meet the definition of a QRM. In March 2011, federal regulators issued the proposed risk-retention rule that includes a definition of QRM which contains many requirements, including a maximum loan-to-value ratio (or, "LTV") of 80%, and does not give consideration to mortgage insurance in computing LTV. If the final QRM rule does not give consideration to MI in computing LTV, the attractiveness of MI to originators and securitizers will be reduced.

The regulators requested public comments regarding an alternative QRM definition, which would allow loans with 90% LTVs, higher debt-to-income ratios than allowed under the proposed QRM definition, and the consideration of MI in determining whether the LTV requirement is met. The public comment period for the proposed rule expired on August 1, 2011. Under the proposed rule, because of the capital support provided by the U.S. government, the GSEs satisfy the Dodd-Frank Act risk-retention requirements while they are in conservatorship. Changes in final regulations regarding treatment of GSE guaranteed mortgage loans, or changes in the conservatorship or capital support provided to the GSEs by the U.S. government, could impact the manner in which the risk-retention rules apply to GSE securitizations and our business. Depending on, among other things, (i) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio and (ii) to what extent, if any, the use of MI would allow for a higher LTV in the definition of QRM, the number of mortgage loans that are QRMs may be limited. If, in the future, the GSEs become subject to the risk-retention requirements or lenders do not choose MI for non-QRM loans, the MI industry, as well as the amount of new insurance that we may write, may be adversely affected.

Our business prospects and operating results could be adversely impacted if, and to the extent that, the Consumer Financial Protection Bureau's ("CFPB") final ability to repay rules defining a qualified mortgage reduce the size of the origination market.

The Dodd-Frank Act established the CFPB to regulate the offering and provision of consumer financial products and services under federal law, including residential mortgages. As discussed below in "*Management's Discussion and Analysis of Financial Condition and Results of Operation-Regulation-Qualified Mortgage Rule*," the Dodd-Frank Act authorized the CFPB to issue regulations governing a loan originator's determination that, at the time a loan is originated, the consumer has a reasonable ability to repay the loan ("ATR"). The

CFPB issued final QM regulations on January 10, 2013 and an amendment on May 29, 2013 implementing detailed requirements on how lenders shall establish a borrower's ability to repay a mortgage loan. The ATR rule is scheduled to become effective for residential mortgage loan applications received on or after January 10, 2014. A subset of mortgages within the ATR rule are known as "qualified mortgages" ("QMs"). The Dodd-Frank Act provides a statutory presumption that a borrower will have the ability to repay a loan if the loan has the characteristics that meet the definition of QM, thus limiting the liability of the creditor and assignee of the creditor under the Truth in Lending Act and ATR remedies. One of the characteristics of a lawful QM transaction is that the "points and fees" payable in connection with the transaction should not exceed 3% of the total loan amount. We expect that most lenders will be reluctant to make loans that do not qualify as QMs because they will not be entitled to the presumption against civil liability under the Dodd-Frank Act. As a result, we believe QM regulations will have a direct impact on establishing a subset of borrowers who can meet the regulatory standards and will have a direct effect on the size of the residential mortgage market in any given year once the regulations become effective. We expect that the majority of our new insurance written will be on loans that will meet the QM definition, and therefore do not believe such limitations would materially affect our business. However, it is difficult to predict with any certainty how lenders' origination practices will change as a result of the QM rule and whether any such changes would have a negative impact on the MI industry. Our business prospects and operating results could be adversely impacted if, and to the extent that, the QM regulations reduce the size of the origination market.

In addition, there are certain aspects of the QM regulations that could have an adverse impact on mortgage insurers. Under the QM regulations, if the lender requires the borrower to purchase mortgage insurance, then the MI premiums are included in monthly mortgage costs in determining the borrower's ability to repay the loan. The demand for MI may decrease if, and to the extent that, monthly MI premiums make it less likely that a loan will qualify for QM status, especially if MI alternatives (discussed below in "*-The amount of insurance we may be able to write could be adversely affected if lenders and investors select alternatives to MI."*) are relatively less expensive than MI.

In addition, under the QM regulations, mortgage insurance premiums that are payable at or prior to consummation of the loan are includible in points and fees unless, and to the extent that, such up-front premiums (“UFP”) are (i) less than or equal to the UFP charged by the FHA, and (ii) are automatically refundable on a *pro rata* basis upon satisfaction of the loan. (The FHA currently charges UFP of 1.75% on all residential mortgage loans, but it has the authority to change its UFP from time to time.) The QM rule includes a limitation on points and fees in excess of 3% of the total loan amount. As inclusion of MI premiums towards the 3% cap will reduce the capacity for other points and fees in covered transactions, mortgage originators may be less likely to purchase single premium MI products to the extent that the associated premiums are deemed to be points and fees. As a result, we believe that the QM rule may increase demand for monthly and annual MI products relative to single premium products, which may have an adverse impact on our business, financial condition and operating results to the extent that profitability of single premium products exceeds that of monthly and annual MI products.

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

We currently expect that the significant majority of our insurance written will be on loans sold to Fannie Mae and Freddie Mac. As discussed below, the requirements and practices of the GSEs impact the operating results and financial performance of companies in the MI industry. Changes in the charters or business practices of Freddie Mac or Fannie Mae could reduce the number of mortgages they purchase that are insured by us and

consequently diminish our franchise value. For example, the Federal Housing Finance Agency ("FHFA"), which was appointed as the conservator of the GSEs in September 2008, has indicated that its 2013 strategic plan for the GSEs includes a target of $30 billion of unpaid principal balance in multiple types of risk-sharing transactions for both Fannie Mae and Freddie Mac, which may include MI. The "$30 billion of unpaid principal balance" refers to the outstanding loan amount for all loans under consideration in these transactions. As discussed below under *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Operating Results - Start-up Operations - New Business Writings"*, NMIC has entered into a pool insurance agreement with Fannie Mae, pursuant to which NMIC will insure approximately 22,700 residential mortgage loans with an aggregate unpaid principal balance of approximately $5.46 billion. Based on this transaction, we generally believe the FHFA's 2013 strategy will have a beneficial impact on our business and the MI industry. However, it is difficult to predict with any certainty whether we will have the opportunity to enter into additional risk-sharing transactions with either of the GSEs.

The appointment of the FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's capacity to write a sufficient volume of insurance to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have an adverse effect on us. These factors also increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of MI coverage that they use as credit enhancement, which could have an adverse effect on our revenue, operating results or financial condition. In February 2011, the U.S. Department of the Treasury reported its recommendations regarding options for ending the conservatorship of the GSEs, and while it does not provide any definitive timeline for GSE reform, it does recommend substantially reducing the government's footprint in housing finance.

Since 2011, there have been numerous legislative proposals, including in the current Congressional session, that are intended to wind down the GSEs in a piecemeal fashion. Among other changes, these bills, if ultimately enacted, would gradually reduce the GSE maximum portfolio size, prohibit the GSEs from engaging in any new activities or businesses and repeal the GSE affordable housing goals. In addition, there were several comprehensive housing finance reform proposals introduced in Congress. Each of these proposals has been designed to eliminate the GSEs, while most of them would also replace the GSEs with a new mortgage financing system. The proposals vary greatly with regard to the government's role in the housing market, and more specifically, with regard to the existence of an explicit or implicit government guarantee. On August 6, 2013, President Barack Obama endorsed bipartisan mortgage reform legislation pending in the Senate and in the House of Representatives which would, as part of the proposed bills, eliminate and/or replace Fannie Mae and Freddie Mac and have private investors (in lieu of the government) bear the risk undertaken by Fannie Mae and Freddie Mac. This legislation currently pending in Congress would have differing impacts on the current role of mortgage insurance as credit enhancement, including the elimination of the requirement altogether. We cannot predict whether any mortgage reform legislation will be passed by the Senate or the House of Representatives, the changes such reform would introduce or the effect the legislation would have on private mortgage insurers including NMIC.

As a result of the matters referred to above, it is uncertain what role the GSEs, FHFA and private capital, including MI, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes to the charters or statutory authorities of the GSEs would require Congressional action to implement, and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

The U.S. MI industry is subject to regulatory risk and has been subject to increased scrutiny by insurance and other regulatory authorities.

The U.S. MI industry and our insurance subsidiaries are and will be subject to substantial federal and state regulation, which has increased in recent years as a result of the deterioration of the housing and mortgage markets in the United States. Increased federal or state regulatory scrutiny could lead to new legal precedents, new regulations or new practices, or regulatory actions or investigations, which could adversely affect our financial condition and operating results. In addition, given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries may be subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including making changes to capital requirements, that could have a material adverse effect on us. Further, failure to comply with the various federal and state regulations promulgated by federal consumer protection authorities and state insurance regulatory authorities could lead to enforcement or disciplinary action, including the imposition of penalties and the revocation of our authorization to operate. See "*Regulation.*"

The NAIC has formed a working group to explore, among other things, whether the risk-to-capital requirements applicable to mortgage insurers should be overhauled. We, along with other MI companies are working with the Mortgage Guaranty Insurance Working Group of the Financial Condition (E) Committee of the NAIC (the "Working Group"). The Working Group will determine and make a recommendation to the Financial Condition (E) committee of the NAIC as to what changes, if any, the Working Group believes are necessary to the solvency regulation of MI companies, including changes to the Mortgage Guaranty Insurers Model Act (Model #630). The Working Group is in the early stages of discussion and the ultimate outcome of these discussions and any potential actions taken by the NAIC cannot be predicted at this time. If the Working Group proposes that the NAIC adopt more stringent capital requirements, this could ultimately lead to NMIC being obligated to hold more capital for its insured business, which would reduce our profitability compared to the profitability we expect under the existing capital requirements.

A downturn in the U.S. economy or a decline in the value of borrowers' homes from their value at the time their loans close may result in more homeowners defaulting and could increase our losses.

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as increasing unemployment and whether the home of a borrower who defaults on his or her mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. Deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can decrease the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues affecting lenders or other factors, such as the phase-out of the mortgage interest deduction. The residential mortgage market in the United States has for some time experienced a variety of worsening economic conditions and housing values have only recently begun to stabilize. If our loss projections are inaccurate, our loss payments could materially exceed our recorded loss reserves resulting in an adverse effect on our financial position and operating results. Also, if unemployment rates and price declines exceed our forecasts our underwriting standards may prove inadequate to shield us from materially increased losses.

If interest rates decline, house prices appreciate or mortgage insurance cancellation requirements change, the length of time that our policies remain in force could decline and result in a decrease in our actual versus projected revenue.

In each year, most of our premiums will be from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is also generally referred to as persistency, is a significant determinant of our revenues. The factors affecting the length of time our insurance remains in force include:

- the level of current mortgage interest rates compared to the mortgage rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings (i.e., lower current interest rates make it more attractive for borrowers to refinance and receive a lower interest rate); and
- mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

Current mortgage interest rates are at or near historic lows. Future premiums on our insurance in force represent a material portion of our claims paying resources. We are unsure what the impact on our revenues will be as mortgages are refinanced, because the number of policies we write for replacement mortgages may be more or less than the terminated policies associated with the refinanced mortgages. Our revenues might be negatively impacted if there is a higher than expected level of refinance activity on loans we insure in the future.

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

If lenders and investors select alternatives to MI, our business could be adversely affected. These alternatives to MI include, but are not limited to:

- lenders using government MI programs, including those of the FHA and the VA;
- state-supported mortgage insurance funds in several states, including California and New York;
- lenders and other investors holding mortgages in portfolio and self-insuring;
- investors using credit enhancements other than MI, using other credit enhancements in conjunction with reduced levels of MI coverage, or accepting credit risk without credit enhancement;
- lenders originating mortgages using “piggy-back” structures to avoid MI, such as a first mortgage with an 80% LTV and a second mortgage with a 10%, 15% or 20% LTV (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% LTV that has MI; and
- if borrowers pay cash versus securing mortgage financing, which has occurred with greater frequency in recent years.

Any of these alternatives to MI could reduce or eliminate the need for our product, could cause us to lose business and/or could limit our ability to attract the business that we would prefer to underwrite. The degree to which lenders or borrowers may select these alternatives now, or in the future, is difficult to predict. As one or more of the alternatives described above, or new alternatives that enter the market, are chosen over MI, our revenues could be adversely impacted. The loss of business in general or the specific loss of more profitable business could have a material adverse effect on our financial position and operating results.

If the volume of low down payment home mortgage originations declines, the amount of insurance that we may be able to write could decline, which would reduce our revenues.

Our revenues, in part, depend on the volume of low down payment home mortgage originations and may be negatively affected if the volume declines. The factors that affect the volume of low down payment mortgage originations include, among other things:

- restrictions on mortgage credit due to more stringent underwriting standards and liquidity issues affecting lenders;
- the level of home mortgage interest rates;
- the health of the real estate industry and the national economy as well as the conditions in regional and local economies;
- housing affordability;
- population trends, including the rate of household formation;
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have LTVs that require MI; and
- U.S. government housing policy encouraging loans to first-time homebuyers.

A decline in the volume of low down payment home mortgage originations could decrease demand for MI, decrease our new insurance written and therefore reduce our revenues and have an adverse effect on our operating results.

The U.S. MI industry is, and as a participant we will be, subject to litigation risk generally.

The MI industry faces litigation risk in the ordinary course of operations, including the risk of class action lawsuits and administrative enforcement by federal agencies. Litigation relating to capital markets transactions and securities-related matters in general has increased and is expected to continue to increase as a result of the recent financial crisis. Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers have been involved in litigation alleging violations of the Real Estate Settlement Procedures Act of 1974 (“RESPA”) and the Fair Credit Reporting Act (“FCRA”). RESPA generally precludes mortgage insurers from paying referral fees to mortgage lenders for the referral of MI business. This limitation also can prohibit providing services or products to mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that mortgage lenders provide that are higher than their reasonable or fair market value, in exchange for the referral of MI business services. Violations of the referral fee limitations of RESPA may be enforced by the federal CFPB, as well as by private litigants in class actions. In the past, a number of lawsuits have challenged the actions of private mortgage insurers under RESPA, alleging that the insurers have violated the referral fee prohibition by entering into captive reinsurance arrangements or providing products or services to mortgage lenders at improperly reduced prices in return for the referral of MI. In addition to these private lawsuits, other MI companies have received Civil Investigative Demands (“CID”) from the CFPB as part of its investigation to determine whether mortgage lenders and mortgage insurance providers engaged in acts or practices in connection with their captive mortgage insurance arrangements in violation of the RESPA, the Consumer Financial Protection Act and the Dodd-Frank Act. We are not currently subject to RESPA-related inquiries by the CFPB or other regulators or litigation, and we do not currently have any captive reinsurance arrangements. However, should we become a party to such an inquiry or action, the ultimate outcome is difficult

to predict and it is possible that any outcome could be negative to us specifically or the industry in general and such a negative outcome could have an adverse effect on our business, financial position and operating results.

Risks Related to This Offering and Our Common Stock

There is currently no public market for our common stock, which could result in future stockholders in this offering being unable to liquidate their investments. An active, liquid market for our common stock may not develop or be sustained, which would materially and adversely affect the market price of our common stock.

There is no established public market for our common stock. We will seek to have our common stock quoted on the OTCBB prior to or shortly following the filing of this prospectus. If our application is accepted and a public market for our common stock materializes which results in our common stock being held by 400 or more holders (and we meet all other listing requirements then in effect), we subsequently intend to list our common stock on the NASDAQ Global Market ("NASDAQ"). Even if our stock does become quoted on the OTCBB and/or we do begin trading our common stock on the NASDAQ, an active, liquid trading market for our common stock may not develop or be sustained, which likely would materially and adversely affect the market price of our common stock. Stockholders also may not be able to sell their shares of our common stock at the volume, prices and times desired.

Failure to list certain of our shares for trading on the New York Stock Exchange or the NASDAQ within the time periods set forth in a Registration Rights Agreement to which we are a party could result in the removal of certain of our directors, which could in turn disrupt the continuity of our operations and adversely affect our business.

Concurrently with the consummation of our April 2012 private placement, we entered into a Registration Rights Agreement for the benefit of our stockholders with respect to our common stock sold in the private placement. Under the terms of the Registration Rights Agreement, we are required to use commercially reasonable efforts to list the registrable shares for trading on the New York Stock Exchange or the NASDAQ. If the registrable shares have not been listed for trading on the New York Stock Exchange or the NASDAQ on the date that is the earlier of six months after the filing of the registration statement of which this prospectus is a part or 12 months after the date of GSE Approval, the Registration Rights Agreement and our bylaws will require us to call a special meeting of our stockholders for the purpose of considering and voting on the removal of our directors then in office and electing the successors of any directors so removed. The removal of our directors at such a special meeting could have an adverse effect on our business, including disrupting the continuity of our operations.

We may not be accepted for quotation on the OTCBB or for listing or inclusion on the NASDAQ.

Following the effectiveness of this registration statement of which this prospectus forms a part, we will seek to have our common stock quoted on the OTCBB. There is no assurance that our application will be approved, however, as an application for quotation on the OTCBB must be submitted by one or more market makers who (i) are approved by the Financial Industry Regulatory Authority (“FINRA”); (ii) who agree to sponsor the security and (iii) who demonstrate compliance with SEC Rule 15(c)2-11 before initiating a quote in the security on the OTCBB. In order for a security to be eligible for quotation by a market maker on the OTCBB, the security must be registered with the SEC and the company must be current in its required filings with the SEC. There are no listing requirements for the OTCBB and accordingly no financial or minimum bid price requirement.

If our application is accepted and a public market for our common stock materializes which results in our common stock being held by 400 or more holders (and we meet all other listing requirements then in effect), we will then apply to list our common stock on the NASDAQ (including seeking to cure in our listing any deficiencies cited by such exchange or market), and thereafter maintain the listing on such exchange or market. Each exchange and market has initial listing criteria, including criteria related to minimum bid price, public float, market makers, minimum numbers of round lot holders and board independence requirements that we can give no assurance we will meet. Our inability to list or include our common stock on the NASDAQ could affect the ability of our stockholders to sell their shares of our common stock subsequent to the declaration of the effectiveness of the registration statement of which this prospectus forms a part and, consequently, could adversely affect the value of such shares. In such case, our stockholders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock. In addition, we would have more difficulty attracting the attention of market analysts to cover us in their research. In order for us to meet the requirements to list on the NASDAQ, we believe we will need a minimum of 400 stockholders. We currently do not have 400 stockholders, but we expect to achieve this number of stockholders by first listing our stock on the OTCBB which we expect will allow us to gain the number of public stockholders to comply with the NASDAQ listing requirements. While we expect that we will be successful in this plan, there can be no assurance that we will achieve the number of stockholders necessary to list on the NASDAQ. If we are unsuccessful, holders of shares of our common stock may not be able to sell their shares of our common stock at or near their original acquisition price, or at any price.

We can give no assurances as to the development of liquidity or any trading market for our common stock. Holders of shares of our common stock may not be able to resell their shares of our common stock at or near their original acquisition price, or at any price.

We do not anticipate paying any dividends on our common stock in the near future, and payment of any declared dividends may be delayed.

As a condition of GSE Approval, the GSEs have prohibited NMIC from paying a dividend to us before December 31, 2015. NMIC has also agreed with various state insurance regulators to similar three year restrictions on the payment of dividends. After the expiration of the three year period, we must obtain prior approval from the GSEs for the payment of any dividend by NMIC and we will have to obtain permission from our state of domicile regulator, the Wisconsin OCI or any successor domestic regulator, for the payment of any extraordinary dividend. Without the payment of dividends from NMIC to us, it may be difficult for us to pay dividends to stockholders.

We have not declared or paid dividends in the past, and we do not expect to pay dividends in the near future. Further, we do not have such earnings from which dividends may be paid. In our early years, to the extent we have earnings, we intend to retain such earnings to expand our business. As a result, only appreciation in the price of our common stock, which may never occur, will provide a return to investors. Any future declaration and payment of dividends by our board of directors will depend on many factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal requirements and other factors that our board of directors deems relevant. In addition, we may enter into credit agreements or other debt arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock.

The price per share of our common stock may not accurately reflect its actual value.

The price of our common stock may not accurately reflect the value of our common stock and may not be realized upon any subsequent disposition of the shares of our common stock. There is currently no public

trading market for our common stock or prevailing public market price by which our common stock trades. In addition, our lack of operating history makes it difficult to value our common stock.

The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale.

As of the date of this prospectus, we had 55,637,480 shares of our common stock issued and outstanding. Of the outstanding shares of our common stock, the shares held by a person (or persons whose shares are aggregated) who is not deemed to be an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 of the Securities Act may be eligible for resale in the public market under Rule 144 under the Securities Act subject to applicable restrictions under Rule 144. Shares purchased by "affiliates" (as that term is defined in Rule 144 under the Securities Act) only may be sold in compliance with the limitations described in the section entitled "*Shares Eligible for Future Sale*." Sales of substantial amounts of our common stock in the public market following this offering or in future offerings, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future, at a time and place that we deem appropriate.

In addition, we intend to file a registration statement on Form S-8 under the Securities Act to register an aggregate of approximately 5.5 million shares of our common stock for issuance under our 2012 Stock Incentive Plan. Any shares issued in connection with acquisitions, the exercise of stock options or otherwise would dilute the percentage ownership held by investors who purchase our shares. See "*Shares Eligible for Future Sale*."

Future issuances of shares of our common stock may depress our share price and might dilute the book value of our common stock and reduce your influence over matters on which stockholders vote.

Our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares that may be issued to satisfy our obligations under our incentive plans, and securities and instruments that are convertible into our common stock. Such stock issuances could be made at a price that reflects a discount or a premium from the then-current trading price of our common stock and might dilute the book value of our common stock or result in a decrease in the per share price of our common stock.

The availability to certain stockholders of the Participation Right (described in "*Description of Capital Stock-Common Stock-Preemptive or Other Rights*") may reduce or eliminate the risk of dilution to those stockholders, but we cannot guarantee that additional offerings of our common stock will be at a price or on terms attractive to our existing stockholders such that those stockholders will want or have the capital available to them to exercise their Participation Right. In addition, issuances of common stock, or preferred stock containing voting rights, would reduce your influence over matters on which our stockholders vote.

Sales of substantial amounts of our common stock in the public market following this offering or in future offerings, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future, at a time and place that we deem appropriate.

Future issuance of debt or preferred stock, which would rank senior to our common stock upon our liquidation, may adversely affect the market value of our common stock.

In the future, we may attempt to increase our capital resources by issuing debt, including bank debt, commercial paper, medium-term notes, senior or subordinated notes or classes of shares of preferred stock. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of shares of our common stock. Accordingly, upon our liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of our common stock. In addition, if we incur debt in the future, our future interest cost could increase and adversely affect our liquidity, cash flow and operating results.

Our decision to issue debt or preferred stock will depend on market conditions and other factors, some of which will be beyond our control. We cannot predict or estimate the amount, timing or nature of such future issuances. Holders of our common stock bear the risk of such future issuances of debt or preferred stock reducing the market value of our common stock.

The market price of our common stock may be volatile, which could cause the value of an investment in our common stock to decline.

Once our common stock becomes publicly traded and an active trading market develops, the market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, which may make it difficult for stockholders to sell their shares of our common stock at the volume, prices and times desired. There are many factors that will impact the market price of our common stock, including, without limitation:

- general market conditions, including price levels and volume and changes in interest rates;
- national, regional and local economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- our actual or projected financial condition, liquidity, operating results, cash flows and capital levels;
- changes in, or failure to meet, our publicly disclosed expectations as to our future financial and operating performance;
- publication of research reports about us, our competitors or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- market valuations, as well as the financial and operating performance and prospects, of similar companies;
- future issuances or sales, or anticipated issuances or sales, of our common stock or other securities convertible into or exchangeable or exercisable for our common stock;
- expenses incurred in connection with changes in our stock price, such as changes in the value of the warrant liability;
- the potential failure to establish and maintain effective internal controls over financial reporting; and
- additions or departures of key personnel.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our common stock. In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention and resources and harm our business or operating results.

We will incur increased costs as a result of being a public company.

Following the effectiveness of this registration statement, we will be a company with securities registered under The Securities Act and as such, we will need to comply with new laws, regulations and requirements, certain corporate governance provisions of The Sarbanes-Oxley Act of 2002 (“SOX”), related regulations of the SEC, and, if we are accepted for listing, the requirements of the NASDAQ or other stock exchanges, with all of which we would not be required to comply as a private company with no registered securities. Complying with these statutes, regulations and requirements will occupy a significant amount of time from our board of directors and management and will significantly increase our costs and expenses. We will need to, among other things:

- institute a more comprehensive compliance function within legal, finance, accounting, operations and internal audit;
- maintain a board of directors comprised of a majority of “independent directors” and recruit new directors as necessary;
- design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of SOX and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- comply with rules promulgated by the OTCBB or the NASDAQ or other stock exchange on which we may list our common stock;
- prepare and distribute periodic public reports in compliance with our obligations under the federal securities laws;
- establish new internal policies, such as those relating to disclosure controls and procedures as well as controls to prevent insider trading;
- incur increased costs for professional services for independent auditors and attorney fees (annual compliance and additional fees), as well as public relations and information technology;
- enhance insurance coverage for Directors and Officers (“D&O”) and Errors and Omission (“E&O”) policies;
- involve and retain to a greater degree outside counsel and accountants in the foregoing activities; and
- establish an investor relations function.

The SEC rules will require that our Chief Executive Officer and Chief Financial Officer periodically certify the existence and effectiveness of our internal controls over financial reporting. We believe that, beginning with the fiscal year ending December 31, 2014, or such earlier time as we are no longer an “emerging growth company” or "EGC" as defined in the Jumpstart Our Business Startups Act (“JOBS Act”), our independent registered public accounting firm will be required to attest to our assessment of our internal controls over financial reporting. We believe that there is a substantial possibility that our ability to take advantage of any of the JOBS Act elections will cease at year end 2014, depending in large part on the market value of our

equity at that time, as we believe that we will no longer meet all of the requirements to be considered an EGC at that point. This process will require significant documentation of policies, procedures and systems, review of that documentation by our internal auditing staff and our outside auditors and testing of our internal controls over financial reporting by our internal auditing and accounting staff and our outside independent registered public accounting firm. This process will involve considerable time and expense, may strain our internal resources and have an adverse impact on our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees during the implementation of these changes and thereafter.

During the course of our testing, we may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of our internal controls over financial reporting. As a consequence, we may have to disclose in periodic reports we file with the SEC material weaknesses in our system of internal controls. In addition, those deficiencies may need to be reported to regulators in our state of domicile, the National Association of Insurance Commissioners ("NAIC") and various state regulators in compliance with the Model Audit Rule (“MAR”) promulgated by the NAIC. The existence of a material weakness would preclude management from concluding that our internal controls over financial reporting are effective and would preclude our independent auditors from issuing an unqualified opinion that our internal controls over financial reporting are effective. In addition, disclosures of this type in our SEC reports, as well as our statutory reports, could cause investors and/or regulators to lose confidence in our financial reporting and may negatively affect the trading price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our disclosure controls and procedures or internal controls over financial reporting, it may negatively impact our business, operating results and reputation.

We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors. In addition, our election not to opt out of the JOBS Act extended accounting transition period may make our financial statements less easily comparable to the financial statements of other companies.

As a company that had gross revenues of less than $1 billion during its last fiscal year, we are an EGC. Since we are not required, among other things, to (i) file reports under Section 13 of the Exchange Act, (ii) comply with certain provisions of Sarbanes-Oxley and the Dodd-Frank Act and certain provisions and reporting requirements of or under the Securities Act and the Exchange Act or (iii) comply with new or revised financial accounting standards as long as we are an EGC, the JOBS Act has the effect of reducing the amount of information that we are required to provide for the foreseeable future. These reduced disclosure requirements may make our common stock less attractive to investors.

Further, as an EGC, the Company need not present more than two years of audited financial statements in order for a registration statement with respect to an initial public offering of its common equity securities to be effective, and in any other registration statement that it files with the SEC, it need not present selected financial data prescribed by the SEC in its regulations for any period prior to the earliest audited period presented in connection with its initial public offering. To the extent that other companies do not, or cannot, take advantage of the benefits under the JOBS Act, this distinction may make our common stock less attractive to investors. Our election not to opt out of the JOBS Act extended accounting transition period may make our financial statements less easily comparable to the financial statements of other companies.

We are not currently a reporting issuer and may not become one which results in reduced disclosure to investors.

We do not intend to file a Form 8-A promptly after this registration statement becomes effective. We are not currently a reporting issuer and upon this registration statement becoming effective we will be required

to comply only with the limited reporting obligations pursuant to Section 15(d) of the Exchange Act. Until we register our common stock under Section 12 of the Exchange Act, which would occur not later than such time as we list our common stock on the NASDAQ or another national securities exchange, we will not be required to comply with the proxy requirements of Section 14 of the Exchange Act and our directors, officers and 10% stockholders will not be required to report their beneficial ownership of securities to the SEC pursuant to Section 16 of the Exchange Act. These reduced disclosure requirements may make our common stock less attractive to investors.

Provisions contained in our organizational documents, as well as provisions of Delaware law, could delay or prevent a change of control of us, which could adversely affect the price of shares of our common stock.

Our bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions that:

- provide that special meetings of our stockholders generally can only be called by the chairman of the board of directors or the president or by resolution of the board of directors;
- provide our board of directors the ability to issue undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may grant preferred holders super voting, special approval, dividend or other rights or preferences superior to the rights of the holder of common stock;
- provide our board of directors the ability to issue common stock and warrants within the amount of authorized capital;
- provide that, subject to the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of our stockholders and may not be effected by any consent in writing by such stockholders;
- provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, generally must provide timely advance notice of their intent in writing and certain other information not less than 90 days nor more than 120 days prior to the meeting; and
- eliminate the ability of stockholders to act by consent in lieu of a meeting.

These provisions, alone or together, could delay hostile takeovers and changes of control of our company or changes in our management.

As a Delaware corporation, we are also subject to anti-takeover provisions of Delaware law. The Delaware General Corporation Law (the “DGCL”) provides that stockholders are not entitled the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting in the election of directors.

In addition, we are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a public Delaware corporation from engaging in a business combination (as defined in such section) with an “interested stockholder” (defined generally as any person who beneficially owns 15% or more of the outstanding voting stock of such corporation or any person affiliated with such person) for a period of three years following the time that such stockholder became an interested stockholder, unless (i) prior to such time, the board of

directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

In addition, Wisconsin's insurance regulations generally provide that no person may acquire control of us unless the transaction in which control is acquired has been approved by the Wisconsin OCI. The regulations provide for a rebuttable presumption of control when a person owns or has the right to vote more than 10% of the voting securities. In addition, the insurance regulations of other states in which NMIC and/or NMRI One are licensed insurers require notification to the state's insurance department a specified time before a person acquires control of us. If regulators in these states disapprove the change of control, our licenses to conduct business in the disapproving states could be terminated.

Any provision of our certificate of incorporation or bylaws or Delaware law or under the Wisconsin insurance regulation that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of common stock, and could also affect the price that some investors are willing to pay for shares of our common stock. See “*Description of Capital Stock-Certain Anti-Takeover Effects of Provisions of Our Bylaws and Delaware Law*.”

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. 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,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” “intends” and similar words or phrases. Accordingly, these statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described under the caption “*Risk Factors*”, "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* and elsewhere in this prospectus, including the exhibits hereto.

Any or all of our forward-looking statements in this prospectus may turn out to be inaccurate. The inclusion of this forward-looking information should not be regarded as a representation by us, the selling stockholders, any underwriters or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely 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, statements regarding:

- our status as a recently organized corporation and lack of operating history;
- receipt of certificates of authority to act as a mortgage insurer in Florida and Wyoming and, of the states where NMIC has received certificates of authority, approvals of our insurance rates in the state of Washington and policy forms in Alaska and Maryland;
- retention of our existing certificates of authority in states where we have obtained them and our ability to remain a mortgage insurer in good standing in those states;
- our ability to remain a qualified mortgage insurer under the requirements imposed by the GSEs;
- actions of existing competitors and potential market entry by new competitors;
- changes to laws and regulations, including changes that could affect the residential mortgage industry generally or MI in particular;
- 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 MI;
- changes in the regulatory environment;
- our ability to implement our business strategy, including our ability to attract customers, 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;
- failure of risk management or investment strategy;
- claims exceeding our reserves or amounts we had expected to experience;
- failure to achieve the results shown in the financial projections;

- failure to develop, maintain and improve necessary information technology systems or the failure of technology providers to perform;
- ability to recruit, train and retain key personnel; and
- emergence of claim and coverage issues.

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 prospectus. In particular, you should consider the numerous risks described in the “Risk Factors” and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this prospectus. 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. You should, however, review the risk factors we describe in the reports we will file from time to time with the SEC after the date of this prospectus. See “*Where You Can Find More Information.*”

USE OF PROCEEDS

We will not receive any proceeds from the registration of any of our outstanding shares of common stock by our selling stockholders.

DIVIDEND POLICY

As of the date of this prospectus, no dividends on our common stock have been declared or paid, and we do not expect to declare or pay dividends in the near future. In addition, we do not have earnings from which dividends may be paid. In our early years to the extent we have earnings, we intend to retain such earnings to expand our business. Currently, only appreciation in the price of our common stock, which may never occur, will provide a return to investors. We may commence paying dividends at a later date. Any declaration and payment of dividends by our board of directors will depend on many factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal requirements and other factors that our board of directors deems relevant. In addition, we may enter into credit agreements or other debt arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock.

NMIC's ability to pay dividends to NMIH is limited by state insurance laws of the State of Wisconsin, which provide that NMIC may pay out "extraordinary dividends" only if not disapproved by the Wisconsin Commissioner of Insurance. For a further discussion of state insurance regulatory dividend limitations see "*Regulation - State Insurance Regulation.*" Additionally, minimum capital requirements may limit the amount of dividends that NMIC may pay.

Additionally, NMIC has entered into commitments with the Arizona Department of Insurance, the California Insurance Department, the Missouri Department of Insurance, the New York State Department of Financial Services, the Ohio Department of Insurance, and the Texas Commissioner of Insurance not to pay or declare any dividends for the three-year period ending January 15, 2016. NMIC is currently licensed in 48 states and D.C. NMIC may enter into similar commitments with other state insurance departments. Some of these other states may restrict the Company's ability to pay stockholder dividends.

In addition to state dividend limitations, NMIC is restricted from paying any dividends to affiliates or to any holding company until December 31, 2015 by separate agreements with Fannie Mae and Freddie Mac.

OUR HISTORY AND CORPORATE STRUCTURE

Our History

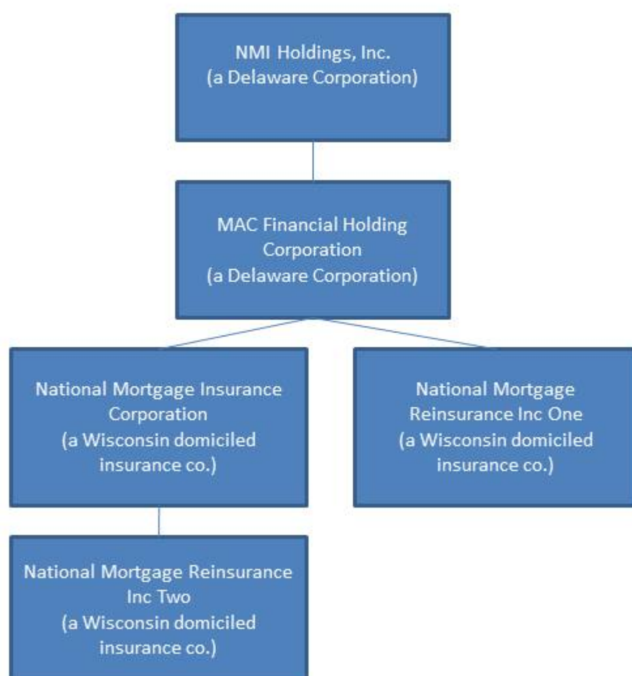
NMI Holdings, Inc. ("NMIH") is a Delaware corporation incorporated on May 19, 2011 for the purpose of building an MI company. To facilitate our time to market, on November 30, 2011, we entered into an agreement with MAC Financial Ltd. to purchase MAC Financial Holding Corporation and its Wisconsin-licensed insurance subsidiaries, which acquisition was completed on April 24, 2012. Prior to its acquisition by NMIH, MAC Financial and its insurance subsidiaries were primarily engaged in start-up related activities such as commencing the initial work on an insurance management system, starting the state licensing process, completing the initial GSE applications and beginning to hire personnel. Prior to acquisition by NMIH, none of MAC Financial's insurance subsidiaries had written any MI. As consideration for the acquisition, MAC Financial Ltd. received 250,000 shares of our common stock, a warrant to purchase 678,295 shares of our common stock and approximately $2.5 million in cash consideration. After completion of the acquisition, MAC Financial Holding Corporation's Insurance subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance One Inc and Mortgage Assurance Reinsurance Two Inc, each a Wisconsin corporation, were renamed National Mortgage Insurance Corporation (“NMIC”), National Mortgage Reinsurance Inc One (“NMRI One”) and National Mortgage Reinsurance Inc Two (“NMRI Two”) respectively.

On April 24, 2012, we also completed a private placement of 55,000,000 shares of our common stock for gross proceeds of $550 million. We received net proceeds of approximately $510 million, after the initial purchaser's discount and placement fees and after our offering expenses. Pursuant to the terms of the offering, we were able to access approximately $32 million to cover operating expenses while the remaining proceeds from the offering were placed in an investment account and the funds could not be accessed by us until we received GSE Approval. Upon receipt of GSE Approval on January 15, 2013 as described below, the funds in the investment account were released to us.

Prior to the completion of the MAC Acquisition on April 24, 2012, our activities were focused on organizational development, capital raising and other start-up related activities. Additionally, for the period from May 19, 2011 through the date of this filing our efforts have been primarily directed toward building the foundation of the Company which would allow us to write mortgage insurance. These efforts included, among other things, attracting an executive management team and other key officers and directors, attracting and hiring staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE Approval. On January 15, 2013, we received GSE Approval. With our GSE Approval, our customers who originate loans insured by NMIC may sell such loans to the GSEs (as of April 1, 2013 for Freddie Mac and as of June 1, 2013 for Fannie Mae). NMIC applied for a certificate of authority in each of the 50 states and D.C. in June 2012 and is currently licensed in 48 states and D.C. We commenced writing MI in April 2013 through NMIC.

Corporate Structure

The following diagram summarizes our corporate structure. Each of our subsidiaries is directly or indirectly wholly-owned by us:



No Current Market for Registrant's Common Equity

There is currently no public market, nor has there ever been a public market, for our common stock. Our stock currently trades on a proprietary trading platform developed by FBR Capital Markets Inc. called the FBR Plus™ System, which provides qualified institutional buyers ("QIBs") access to trading information for companies which have issued restricted securities in private placement transactions exempt from registration pursuant to Rule 144A of the Securities Act. Our securities are not currently eligible for trading on the NASDAQ or New York Stock Exchange because we have less than 400 holders of our common stock. There are currently 53 holders of our common stock. We intend to apply to the OTCBB, through a market maker that is a licensed broker dealer, to allow the listing of our common stock under the symbol "NMIH" upon our becoming a reporting entity under Section 15(d) of the Exchange Act. If our application for quotation on the OTCBB is approved, and a public market for our common stock materializes which results in our common stock being held by 400 or more holders, we intend to apply (assuming we meet all other listing requirements) to list our common stock on the NASDAQ under the symbol "NMIH."

SELECTED CONDENSED HISTORICAL FINANCIAL INFORMATION

The following tables set forth our selected condensed historical financial statements of operations. You should read this information in conjunction with “Summary Selected Historical Consolidated Financial Data,” “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes thereto included elsewhere in this prospectus. References in this prospectus to "Successor" refer to the Company on or after April 24, 2012 and references to "Predecessor" refer to MAC Financial Holding Corporation prior to April 24, 2012.

The summary historical consolidated statements of operations of the Company (Successor entity) are set forth below as of and for the six months ended June 30, 2013 and June 30, 2012, as of and for the year ended December 31, 2012, for the period May 19, 2011 (date of inception) through December 31, 2011 and for the period May 19, 2011 (date of inception) through June 30, 2013. The summary financial information presented is derived from our audited or unaudited interim consolidated financial statements included elsewhere in this prospectus.

We have included the summary historical consolidated statements of operations of our Predecessor entity as of and for the period January 1, 2012 through April 24, 2012 (date of purchase of Predecessor entity), as of and for the year ended December 31, 2011, and for the period from July 6, 2009 (date of inception of Predecessor entity) through April 24, 2012.

We have also included the unaudited pro forma consolidated statement of operations for the year ended December 31, 2012, which combines the Predecessor's consolidated income statement for such period with the Successor's consolidated income statement, which are included elsewhere in this prospectus, giving effect to the MAC Acquisition as if it had occurred on January 1, 2012. Because there was an immaterial level of operations during this pro forma period, totaling approximately $9,000, we do not further discuss the pro forma presentation in this prospectus.

NMIH was formed in May 2011. Prior to the completion of the MAC Acquisition on April 24, 2012, our activities were focused on organizational development, capital raising and other start-up related activities. Additionally, for the period from May 19, 2011 through the date of this filing, our efforts were primarily directed toward building the foundation of the Company which would allow us to write mortgage insurance. These efforts included, among other things, building an executive management team and hiring other key officers and directors and staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE Approval.

In April 2012, NMIH raised net proceeds of approximately $510 million in a private placement of our common stock and completed our acquisition of MAC Financial, a Delaware corporation, and its Wisconsin-licensed subsidiaries, including NMIC. The proceeds from the private placement were and will be primarily used to capitalize our MI subsidiaries and fund our operating expenses until our MI subsidiaries generate positive cash flows. NMIC recently commenced issuing mortgage insurance policies in April 2013. Therefore, our results of operation following our receipt of GSE Approval cannot be meaningfully compared to our operations prior thereto.

CONSOLIDATED STATEMENTS OF OPERATIONS

	SUCCESSOR					PRO FORMA	PREDECESSOR		
	NMI Holdings, Inc. (A Development Stage Company)					NMI Holdings, Inc. (A Development Stage Company)	MAC Financial Holding Corporation (A Development Stage Company)		
	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2012	For the Period May 19, 2011 (inception) to December 31, 2011	For the Period May 19, 2011 (inception) to June 30, 2013	For the Year Ended December 31, 2012	For the Period January 1, 2012 to April 24, 2012	For the Year Ended December 31, 2011	For the Period June 30, 2009 (inception) to April 24, 2012
	(unaudited)	(unaudited)			(unaudited)	(unaudited)			
	(In Thousands, except per share data)					*(In Thousands, except per share data)*	*(In Thousands)*		
Revenues									
Direct premiums written	$ 1	$ —	$ —	$ —	$ 1	$ —	$ —	$ —	$ —
(Increase) decrease in unearned premiums	—	—	—	—	—	—	—	—	—
Net premiums earned	1	—	—	—	1	—	—	—	—
Net investment income	1,817	—	6	—	1,823	6	—	—	—
Other revenue	(599)	—	278	—	(321)	278	—	2	18
Total Revenues	1,219	—	284	—	1,503	284	—	2	18
Expenses									
Payroll and related	13,806	1,829	11,559	—	25,365	11,559	—	334	2,402
Share-based compensation	6,859	1,046	6,115	—	12,974	6,115	—	—	—
Professional fees	5,160	840	4,242	1,248	10,650	4,246	—	21	1,939
Depreciation	1,847	—	3	—	1,850	3	4	14	33
Other	1,773	2,867	5,856	101	7,730	5,863	6	237	1,285
Total Expenses	29,445	6,582	27,775	1,349	58,569	27,786	10	606	5,659
Net loss	$ (28,226)	$ (6,582)	$ (27,491)	$ (1,349)	$ (57,066)	$ (27,502)	$ (10)	$ (604)	$ (5,641)
Share Data									
Basic and diluted loss per share	$ (0.51)	$ (0.33)	$ (0.73)	$ (13,490.00)	$ (1.81)	$ (0.73)			
Book value per share	$ 8.20	$ 9.55	$ 8.81	$ (13,490.00)	$ 8.20	$ 8.81			
Weighted average common	55,565,374	20,126,474	37,909,936	100	31,448,608	37,909,936			
Shares outstanding	55,637,480	55,500,100	55,500,100	100	55,637,480	55,500,100			

CONSOLIDATED BALANCE SHEETS

	SUCCESSOR				PREDECESSOR	
	NMI Holdings, Inc. (A Development Stage Company)				MAC Financial Holding Corporation (A Development Stage Company)	
	June 30, 2013	June 30, 2012	December 31, 2012	December 31, 2011	April 24, 2012	December 31, 2011
	(unaudited)	(unaudited)				
	(In Thousands)				*(In Thousands)*	
Cash and cash equivalents	$ 25,941	$ 502,981	$ 485,855	$ —	$ 17	$ 17
Restricted cash	—	20,830	40,338	—	—	—
Investment securities	427,472	—	4,864	—	—	—
Software and equipment, net	8,786	5,184	7,550	—	2,887	2,891
Other assets	6,751	5,019	4,160	210	12	19
Total Assets	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927
Accounts payable and accrued expenses	$ 6,416	$ 4,156	$ 8,708	$ 1,354	$ 1,467	$ 1,227
Purchase fees and purchase consideration payable	—	—	40,338	—	—	—
Warrant liability	5,921	—	4,842	—	—	—
Other liabilities	133	—	133	205	—	240
Total Liabilities	12,470	4,156	54,021	1,559	1,467	1,467
Total Stockholders' Equity (Deficit)	456,480	529,858	488,746	(1,349)	1,449	1,460
Total Liabilities and Stockholders' Equity	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927

CONDENSED STATEMENTS OF CASH FLOWS

	SUCCESSOR					PREDECESSOR		
	NMI Holdings, Inc. (A Development Stage Company)					MAC Financial Holding Corporation (A Development Stage Company)		
	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2012	For the Period May 19, 2011 (inception) to December 31, 2011	For the Period May 19, 2011 (inception) to June 30, 2013	For the Period January 1, 2012 to April 24, 2012	For the Year Ended December 31, 2011	For the Period July 6, 2009 (inception) to April 24, 2012
	(unaudited)	(unaudited)			(unaudited)			
	(In Thousands)					*(In Thousands)*		
Net Cash Used in Operating Activities	$ (22,939)	$ (4,701)	$ (14,595)	$ (206)	$ (37,740)	$ 240	$ (490)	$ (4,154)
Net Cash Used in Investing Activities	(435,398)	(2,578)	(9,809)	—	(445,207)	—	(90)	(2,920)
Net Cash Provided by Financing Activities	(1,578)	510,260	510,259	206	508,887	(240)	437	7,091
Net (Decrease) Increase in Cash and Cash Equivalents	(459,915)	502,981	485,855	—	25,940	—	(143)	17
Cash and Cash Equivalents, beginning of period	485,855	—	—	—	—	17	160	—
Cash and Cash Equivalents, end of period	$ 25,940	$ 502,981	$ 485,855	$ —	$ 25,940	$ 17	$ 17	$ 17

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the "Selected Historical Consolidated Financial Data," and our financial statements and related notes thereto included elsewhere in this prospectus. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." We are not undertaking any obligation to update any forward-looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made. Therefore no reader of this document should rely on these statements being current as of any time other than the time at which this document is declared effective by the U.S. Securities and Exchange Commission.

Readers are cautioned that meaningful comparability of current period financial information to prior periods is limited. Prior to the completion of the MAC Acquisition on April 24, 2012, we had no sales, underwriting or servicing operations and our activities were limited to fund raising through the private placement of our securities, acquisition due diligence, recruitment of talent, development of our business plan and corporate organization matters. Additionally, the comparability of data prior to the date of the MAC Acquisition is limited because, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations, the assets acquired and liabilities assumed were recorded at fair value at their respective dates of acquisition and do not have a significant resemblance to the assets and liabilities of the Predecessor insurance subsidiaries. Moreover, we raised a considerable amount of cash during the settlement of these acquisitions, we paid off borrowings, and we contributed significant capital to each insurance subsidiary we acquired. All of these actions materially changed the balance sheet composition, liquidity, and capital structure of the acquired entity. We believe that the impact of these acquisitions to our financial condition and operating results is, and will continue to be, significant.

Overview

NMI Holdings, Inc. ("NMIH") was formed in May 2011. Following our formation, we focused our efforts on organizational development, capital raising and other start-up related activities. In November 2011, we entered into a definitive agreement to acquire MAC Financial Holding Corporation and its Wisconsin licensed insurance subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Inc Two, each a Wisconsin corporation, which were renamed National Mortgage Insurance Corporation ("NMIC"), National Mortgage Reinsurance Inc One ("NMRI One") and National Mortgage Reinsurance Inc Two ("NMRI Two"), respectively. In April 2012, we raised net proceeds of approximately $510 million in a private placement of our common stock and completed the acquisition of MAC Financial and its insurance subsidiaries. The proceeds from the private placement were and will be primarily used to capitalize our insurance subsidiaries and fund our operating expenses until our insurance subsidiaries generate positive cash flows.

Through our primary mortgage insurance subsidiary, NMIC, a mono-line MI company, and its affiliated reinsurance companies, NMRI One and NMRI Two, we provide residential MI in the United States. Mortgage insurance provides loss protection to mortgage lenders and investors in the event of borrower default on low down payment residential mortgage loans. By protecting lenders and investors from credit losses, we help

facilitate the availability of mortgages to prospective, primarily first-time, U.S. home buyers, thus promoting homeownership and helping to revitalize our residential communities.

Our business strategy is primarily focused on commencing and growing our MI business by writing high-quality mortgage insurance in the United States. Since the Company's inception, our efforts to build our MI business have included, among other things, building an executive management team and hiring other key officers and directors and staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE approval. In January 2013, Freddie Mac and Fannie Mae each approved NMIC as a qualified MI provider ("GSE Approval"). NMIC works to differentiate itself primarily on prompt and predictable underwriting, thereby aiming to provide lenders with a higher degree of confidence of coverage that such lenders are seeking. As a newly capitalized mortgage insurer, we have the ability to write new business without the burden of risky legacy exposures. Our financial results to date have been primarily driven by expenditures related to our business development activities, and to a lesser extent, by our investment activities. We commenced writing MI on a limited test basis during April 2013.

We discuss the following in turn below:

- the significant conditions and factors that have affected our operating results, including the costs associated with the key start-up activities in which we are engaged and development of our investment portfolio;
- the factors we expect will impact our future results as our mortgage insurance business continues to grow, and certain issues impacting our holding company, NMIH;
- our sources and uses of liquidity and capital resources;
- our operating results, which were primarily driven by our start up activities;
- disclosures related to market risk exposures and off-balance sheet and other contractual arrangements; and
- critical accounting policies that require management to exercise significant judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Factors Affecting Our Operating Results

Operating Expenses from Development Stage Activities

Our expenses for the six months ended June 30, 2013 and June 30, 2012, for the year ended December 31, 2012, and for the period from May 19, 2011 (inception) to June 30, 2013 were $29.4 million, $6.6 million, $27.8 million and $58.6 million, respectively, and consist largely of expenses associated with development stage activities, including payroll and related expenses, share-based compensation and professional fees. The costs that we have incurred to date do not represent the full operations of an operating MI company. We anticipate that, as our insurance writings grow and our sale activities increase, our underwriting expenses in future periods will be considerably higher than in the periods presented to date.

Although we expect our year-over-year expenses to increase significantly as we grow our business, we ultimately expect that the majority of our operating expenses will be relatively fixed in the long term. As our business matures and we deploy the majority of our capital, we are targeting our expense ratio (expenses to premiums written) to fall into a range of 20% to 25%. In our initial periods of operation, our expense ratio is expected to be significantly higher than this range given the low levels of premium written compared to our "fixed" costs customary to operating a mortgage insurance company.

We discuss below the significant development stage activities that have driven our results to date.

Start-up Operations

Since the closing of our private placement, we engaged in the following activities, which culminated in writing mortgage insurance business in April 2013:

- we obtained certificates of authority for NMIC from state insurance regulators to write mortgage insurance in 48 states and the District of Columbia ("D.C.");
- in January 2013, NMIC obtained approvals from the GSEs as a qualified mortgage insurer;
- we made substantial progress in the design, development and implementation of our information technology platform;
- we established customer relationships with mortgage originators; and
- we have attracted and retained our employee base and support systems.

State Licensing

To conduct MI business with many, or potentially all, large, national lenders, we believe NMIC will need to be licensed in all 50 states and D.C. NMIC applied for a certificate of authority in each of the 50 states and D.C. in June 2012. As of the date of this prospectus, NMIC has obtained certificates of authority in 48 states and D.C. NMIC has not yet received certificates of authority in Wyoming or Florida.

NMIC's application for a certificate of authority was not accepted by the Wyoming Insurance Department for formal review due to Wyoming's seasoning requirement. Like many other states, including in 39 in which NMIC is licensed, Wyoming has a statutory seasoning requirement, which requires an applicant for admission to Wyoming to have transacted insurance for two years in its state of domicile prior to being admitted to Wyoming. The Wyoming Insurance Commissioner has the discretion to waive the requirement, however, if he or she finds that the applicant insures against special hazards to property or liability for which, in the Commissioner's opinion, adequate provision is not already made by insurers already authorized in the state. We have requested a waiver under the foregoing provision; however, as of the date hereof, the Wyoming Insurance Commissioner has not granted a waiver to us. We are in the process of preparing documentation that demonstrates that sufficient grounds exist under Wyoming law for the Wyoming Insurance Commissioner to grant our request for a seasoning waiver. If a waiver is granted, this will facilitate formal review of our application and issuance of a Wyoming license.

In Florida, we withdrew NMIC's application for a license in response to a request by Florida's Office of Insurance Regulation ("FL OIR"). With the goal of resolving the FL OIR's concerns as expeditiously as possible, we intend to refile NMIC's application for a certificate of authority in Florida by mid-August 2013.

There can be no assurance as to whether the FL OIR will accept NMIC's revised application as presented or whether FL OIR will require additional documentation and other information in order to proceed with reviewing the application. Although we intend to provide all information requested by the FL OIR, we cannot guarantee that this information will be satisfactory to the FL OIR and cause it to approve our application for a license.

Many states also require approval of NMIC's insurance rates and/or policy forms before it may issue insurance policies in such states. Of the states in which NMIC has received certificates of authority, NMIC currently has effective rates in 47 states and D.C. and effective policy forms in 46 states and D.C. NMIC's application for approval of rates is pending in Washington and its applications for approvals of policy forms are pending in Maryland and Alaska. NMIC must receive approvals of its respective applications in each of these states before it may write MI in such states.

As conditions of obtaining licenses in Alabama, Arizona, California, Missouri, New York, Ohio and Texas, NMIC entered into agreements with the Alabama Department of Insurance ("ALDOI"), Arizona Department of Insurance (“AZDOI”), the California Insurance Department (“CADOI”), the Missouri Department of Insurance (“MODOI”), the New York State Department of Financial Services (“NYDOI”), the Ohio Department of Insurance ("OHDOI") and the Texas Commissioner of Insurance (“TXDOI”). The agreements with the CADOI, MODOI, NYDOI, OHDOI and TXDOI, provide, among other things, that:

- NMIC (i) refrain from paying any dividends; (ii) retain all profits; and (iii) maintain a risk-to-capital ratio not to exceed 20 to 1, for three years from the date of GSE Approval (i.e., until January 15, 2016); and

- certain start-up compensation expenses and equity compensation in the form of stock options and restricted stock units shall not be allocated to or assumed as a cost or expense by NMIC.

In its agreement with the NYDOI, NMIC is required to obtain the NYDOI's prior written approval to significantly deviate from the plan of operations and financial projections that were submitted to the NYDOI in connection with NMIC's license application. In addition, if the lawsuit brought by PMIC's Receiver is determined adversely to any of our officers who are named as defendants in the lawsuit (including our Chief Executive Officer, Chief Financial Officer, Chief Sales Officer and Vice President of Sales Operations, Analytics & Planning), we may be required to remove and replace those officers under the terms of the agreements with the ALDOI, AZDOI, NYDOI and TXDOI, as a condition of NMIC obtaining certificates of authority in those states, as well as under an agreement with the Wisconsin OCI. In connection with NMIC's license applications in California, Missouri and New York, NMIH entered into agreements with the CADOI, MODOI and NYDOI requiring NMIH to contribute capital to NMIC as necessary to maintain NMIC's risk-to-capital ratio at or below 20 to 1 for three years from the date of GSE Approval. NMRI One is also a party to the agreements with the CADOI and OHDOI. Additionally, and as part of the approval process with the GSEs, we are required for the first three years of operations (expiring December 31, 2015) to maintain our risk-to-capital ratio at no greater than 15 to 1. For further discussion of the GSE Approvals, see "*GSE Approvals"*, below.

Capital Position

In addition to the requirement that NMIC adhere to the above minimum capital requirements, as discussed in "*Regulation - State Insurance Regulation"* below, in 16 states, NMIC is also subject to regulatory minimum capital requirements based on its insured risk-in-force. While formulations of this minimum capital may vary in each jurisdiction, the most common measure allows for a maximum permitted risk-to-capital ratio of 25 to 1. As a new entrant to the MI business, our insurance writings to date have been minimal compared

to the volume of insurance we expect to write as our business grows in the near future. As of June 30, 2013, NMIC's risk-in-force was approximately $257,000 on a total of six policies in force. Based on NMIC's reported statutory capital of $200 million at June 30, 2013, NMIC is currently significantly below the contractual and regulatory maximum risk-to-capital thresholds. As our insurance writings grow and our risk-in-force increases, our risk-to-capital ratio will increase and NMIC's risk-to-capital metrics will become more important to an evaluation of its compliance with all of the capital requirements to which it is subject. State insurance regulators and the GSEs are currently examining their respective risk-to-capital ratio requirements to determine whether in light of the recent financial crisis, changes are needed to more accurately assess mortgage insurers' ability to withstand stressful economic conditions. As a result of these stakeholders' ongoing assessments, the capital metrics under which they assess and measure our financial strength may change in the future.

GSE Approvals

As described below in "*Business - Overview of the Private Mortgage Insurance Industry - GSEs"*, the GSEs are the major purchasers of the mortgages underlying new insurance written by mortgage insurers. The GSEs' federal charters generally prohibit them from purchasing low down payment loans without certain forms of credit enhancement, one of which is MI from an entity that they determine to be a qualified mortgage insurer. Consequently, in addition to securing certificates of authority, the ability to successfully commence mortgage insurance operations in the U.S. is largely dependent on obtaining approvals from Fannie Mae and Freddie Mac as a qualified MI provider. Following the Company's private placement in April 2012, NMIC's key focus was to secure approvals from the GSEs. In January 2013, Fannie Mae and Freddie Mac each approved NMIC as a qualified mortgage insurer ("GSE Approval"). We expect that the significant majority of insurance we will write will be for loans sold to the GSEs. With the GSE Approval, our customers who originate loans insured by NMIC may sell such loans to the GSEs (as of April 1, 2013 for Freddie Mac and as of June 1, 2013 for Fannie Mae).

In March 2013, the FHFA announced its 2013 performance goals as part of its Strategic Plan for Fiscal 2013 - 2017 for the GSEs, which includes the goal of contracting the GSEs' dominant presence in the marketplace while simplifying and shrinking certain lines of business. With respect to single family mortgages, the FHFA has set a target of $30 billion of unpaid principal balance in credit-risk sharing transactions in 2013 for both Fannie Mae and Freddie Mac. The FHFA has specified that each GSE must conduct multiple types of risk-sharing transactions to meet this target, which includes expanded MI, credit-linked securities, senior/subordinated securities and other structures. As a new business opportunity for MI companies, we generally believe the FHFA's 2013 strategy for the GSEs will have a beneficial impact on our industry.

As a GSE-qualified MI provider, NMIC is subject to continuing eligibility requirements imposed by the GSEs in both their January 2013 conditional approvals of NMIC, as well as their respective comprehensive mortgage insurer eligibility requirements. For a discussion of the capitalization, operational and reporting conditions to which NMIC is subject in connection with the GSE Approval and the GSEs' eligibility requirements, see "*Regulation - U.S. Mortgage Insurance Laws - GSE Qualified Mortgage Insurer Requirements"*, below.

Development of Our IT Platform

As discussed below in "*Business - Information Technology Systems"*, the success of our business is highly dependent on our ability to effectively and efficiently use technology to electronically conduct business with our customers. Accordingly, we have invested and will continue to invest resources to establish and maintain electronic connectivity with customers and, more generally, in e-commerce and technological advancements. In order to integrate electronically with mortgage lenders we must:

- Establish connectivity with the industry's largest providers of mortgage servicing systems, which automate loan servicing functions such as payment processing, escrow administration, default management, investor accounting, loan modifications, and year-end reporting. We have completed integration with the largest and leading servicing system providers, LPS MSP and Fiserv LoanServ™ , which combined process more mortgages in the United States by dollar volume than any other servicing system, creating significant opportunity to efficiently conduct business with large lenders and aggregators that require this integration;

- Establish connectivity with leading third party providers of loan origination systems, which provide the functionality to automate the mortgage loan origination process, including point of sale support, processing, settlement services, document preparation and tracking, underwriting, closing and funding. We have begun the process of integrating with the leading third-party loan origination systems, and we expect to complete some of these integrations this year, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer®, and Mortgage Builder. By mid-2014, we believe we will be integrated with additional leading third-party loan origination systems.

- Integrate with those lenders that maintain their own proprietary loan origination and servicing systems, recognizing that the time-lines for these integrations are heavily dependent upon the lenders' internal technology resource time-lines and availability. Many lenders require us to engage in their third party review processes before we can conduct integration testing with such lenders. While we are in the process of working through this process with some lenders, no direct lender connectivity has been completed as of the date of this prospectus.

Many of our customers will require us to have the above connectivity in place as a precursor to doing business with them.

A significant component of our technology platform (which we refer to as "AXIS") is an insurance management system (which we refer to as "IMS") we purchased in connection with the MAC Acquisition in April 2012. We have invested and will continue to invest significant resources to develop AXIS to support our MI operations, including policy acquisition, underwriting, premium billing, policy servicing and delinquency and claims management functions. The success of our business will be dependent on our ability to resolve any issues identified with AXIS during development and testing and to timely make any necessary improvements. We recently completed an initial rollout of our IMS policy acquisition and underwriting modules involving over thirty lenders. We believe these modules of the IMS system performed well in this assessment phase. Results were acceptable in all 12 critical areas of system functionality, and customer feedback was positive.

Given the time required to upgrade the policy acquisition and underwriting modules of IMS, we made the business decision during the second quarter of 2013 to pursue the development of new modules to support policy servicing, billing, and delinquency and claims management. This change will require us to provide these services to our customers during the initial period of our business operations using current IMS capabilities and interim applications and manual solutions. As a result of the above change in approach, we are required to reduce the useful life of the IMS modules that support policy servicing, billing, and delinquency and claims management. Reducing the useful life of these modules will have the effect of shortening the amortization period, causing us to record the same amount of amortization expense over a shorter period of time, which was implemented in the current quarter and will continue to amortize over the coming quarters. We expect that these modules will be fully amortized by the end of 2014.

Development of our Customer Base

As discussed below in *"Business - Customers"*, our sales strategy is focused on attracting as customers those mortgage originators that fall into one of two distinct categories of national and regional lenders, which we refer to as "National Accounts" and "Regional Accounts". Before we can begin insuring loans originated by these lenders, they must agree to use NMIC as a mortgage insurance provider. Following an approval by the lender, NMIC issues its master policy to the lender, setting forth the terms and conditions of our MI coverage.

We consider National Accounts to be the 35 largest residential mortgage originators as defined by volume of originations. We plan to service this customer base with a small but specialized team of National Account sales people who have experience sourcing business from this segment. We expect that the National Accounts will purchase MI products from NMIC for loans originated directly through their retail channels, as well as to purchase loans from other originators that have originated loans with NMIC insurance already in place. Our progress with National Accounts includes establishing relationships, working to complete our respective due diligence processes, issuing master polices, responding to information data security assessments and evaluations, mutually evaluating credit policies and parameters and continuing to integrate with the necessary origination and loan servicing systems, as discussed above. To date, 18 of the National Account lenders have agreed to use NMIC as a mortgage insurance provider. While we believe we have favorable relationships with the 18 National Accounts that have indicated they will purchase MI from NMIC, there is no obligation to use NMIC as an MI provider and, as of the date of this prospectus, we have not received any business from these 18 National Accounts. We continue to work with the other 17 National Accounts to engage them as customers.

The Regional Accounts originate mortgage loans on a local or regional level throughout the United States. We intend for our nationwide and regional sales teams to address the Regional Accounts segment of the market, and with the early efforts of these teams, we have been able to attract a small population of lenders in this segment who have agreed to purchase MI from NMIC. Our future efforts will be focused on growing this segment of our customer base. Our ability to make progress penetrating Regional Accounts is primarily dependent on the following three factors:

- Obtaining approval from National Account lenders to be an authorized MI provider enables Regional Accounts to sell loans with insurance from NMIC to those National Accounts. Consequently, these approvals are critical to making inroads with Regional Accounts. As discussed above, 18 of the 35 National Accounts have agreed to use NMIC as an MI provider.

- Achieving connectivity with the largest loan servicing systems. Many of the loan servicers in the industry who sub-service loans originated by Regional Accounts that do not conduct their own servicing operations rely primarily on the two most significant servicing systems, LPS MSP and Fiserv LoanServ™, to subservice these loans. As discussed above in *Development of our IT Platform*, we have completed integration with LPS MSP and Fiserv LoanServ™. Attaining connectivity with these servicing systems is one of the important first steps with respect to Regional Accounts purchasing MI from NMIC.

- Achieving connectivity with leading third-party loan origination systems utilized by Regional Accounts. As discussed above, we have begun the process of integrating with some of the leading providers of automated loan origination systems, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer® and Mortgage Builder. The Regional Accounts who originate loans using these leading third-party loan origination systems will be able to automatically select NMIC as an MI provider within those systems. The progress we have made to date connecting

with these loan origination systems is another significant achievement with respect to our readiness to engage with the Regional Accounts.

Employees

We believe that our growth and future success will depend in large part on the services and skills of our management team and our ability to motivate and retain these individuals and other key personnel. As of July 31, 2013, we had significantly developed our employee base to support our regional and national sales teams, policy acquisition and servicing, IT, and all other back-office functions. Based upon our business plan, we anticipate hiring a substantial number of additional employees during 2013. We currently expect to have approximately 200 total full-time employees by the end of 2013.

New Business Writings

NMIC commenced, on a limited test basis, writing insurance business on April 1, 2013. As of June 30, 2013, we have approximately $257,000 in risk-in-force. Our current insurance in force is approximately $1 million and we have six policies in force. We expect that NMIC's insurance-in-force and risk-in-force will increase over the coming months as our operations continue to mature and we complete the initial test phase of our insurance writing.

During the second fiscal quarter of 2013, NMIC bid on a pool insurance transaction proposed by Fannie Mae. As discussed previously, the FHFA has set targets for reducing the GSEs' mortgage risk in 2013. One of the methods available to the GSEs is to utilize MI companies as insurers of particular groups, or pools, of loans. In July 2013, we were notified that Fannie Mae had selected NMIC for this pool transaction. NMIC entered into an agreement with Fannie Mae, pursuant to which NMIC will insure approximately 22,700 residential mortgage loans with an aggregate unpaid principal balance of approximately $5.46 billion. The effective date of the agreement and the coverage will be September 1, 2013. The agreement has an expected term of 10 years from the coverage effective date.

The initial net risk-in-force to NMIC is approximately $98 million which represents the amount between a deductible payable by Fannie Mae on initial losses and a stop loss, above which, losses are borne by Fannie Mae. In addition, the agreement contains counterparty requirements that specify the amount of capital NMIC will need to maintain to support the agreement, which is equal to the amount of net risk-in-force on this pool. The risk-in-force and the capital we are required to maintain to support this risk will decline over the 10-year term of the agreement as the loans in the pool amortize. NMIC will be paid monthly premiums by Fannie Mae based on a fixed premium rate and the aggregate outstanding unpaid principal balance of loans in the pool. Similar to other monthly products, we will record the premium received on a monthly basis as written premium. In addition, all of the premium will be recorded as earned in the month received, with no unearned premium reserve established.

All of the loans in the pool were originated between July 1 and December 31, 2012. In order for a loan to have been and remain eligible for coverage under the agreement, it must be current as of the coverage effective date and not have had a 30-day delinquency prior to the coverage effective date. The maximum LTV of the loans in the pool is 80% and the weighted average LTV of the loans in the pool is 77%, which is below the typical LTV of low-down payment loans we would expect to insure through our flow channel, which we anticipate will have average LTVs at origination of between 85% and 95%. The average LTV of the loans in the pool was calculated based on the loans' origination values and the unpaid principal balances as of February 1, 2013, the date as of which the bid data was prepared. This pool transaction is unlike a typical pool transaction, in that the loans which make up this particular pool do not have primary MI on them, as the LTVs at origination

were below what would have required MI to be placed at loan origination. The average FICO score at origination of borrowers in the pool is 764 which is considered to be an excellent credit score by the three major credit bureaus. All of the loans in the pool are 30-year, fixed rate mortgages and were made to borrowers whose incomes were fully documented. Based on the foregoing attributes, we believe that NMIC has insured a high quality loan pool. Related premiums will decline over the 10-year term of the agreement as loans in the pool amortize over time.

Development of our Investment Portfolio

Our net investment income for the six months ended June 30, 2013 was approximately $1.8 million compared to $0 for the six months ended June 30, 2012 and approximately $6,000 for the year ended December 31, 2012 and approximately $1.8 million for the period from May 19, 2011 (inception) to June 30, 2013. During the first quarter of 2013, we began investing our cash holdings in fixed income securities which provide a higher yield. We continued to invest our cash holdings in fixed income securities during the second quarter of 2013. As of June 30, 2013, we consider our portfolio to be in conformity with our investment guidelines. The principal factors affecting our investment income include the size of our portfolio and its yield. As measured by amortized cost (which excludes changes in fair market value, such as those resulting from changes in interest rates), the size of our investment portfolio is mainly a function of our initial capital raised, cash generated from (or used in) operations, such as net premiums received, investment earnings, net claim payments and expenses. We currently plan to continue to invest in additional fixed income securities, which will cause our net investment income to increase over prior quarters.

Factors Expected to Affect Results as our Mortgage Insurance Operations Grow

We expect that as our insurance business develops, our results of operations will be affected by the following factors.

Premiums Written and Earned

In our industry, a “book” is a group of loans that an MI company insures in a particular period, normally a calendar year. We set premiums at the time a policy is issued based on our expectations regarding likely performance over the term of coverage.

Premiums written and earned in a year are generally influenced by:

- new insurance written, which is the aggregate principal amount of the mortgages that are insured during a period. Many factors affect new insurance written, including, among others, the volume of low down payment home mortgage originations and the competition to provide credit enhancement on those mortgages, which includes competition from the FHA, other mortgage insurers, lenders or other investors holding mortgages in their portfolios without insurance, piggy-back loans and GSE programs that may reduce or eliminate the demand for MI and other alternatives to MI;

- cancellations, which reduce insurance-in-force. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage rates on our insurance in force. Refinancings are also affected by current home values compared to values when the loans became insured and the terms on which mortgage credit is available. Cancellations also include rescissions, which require us to return any premiums received related to the rescinded policy, and policies canceled due to claim payment, which require us to return any premium received subsequent to the date the insured mortgage defaults. Finally, cancellations are affected by home price appreciation, which may give homeowners the right to cancel the MI on their loans;

- premium rates, which are based on the risk characteristics of the loans insured, the percentage of coverage on the loans, competition from other mortgage insurers, and general industry conditions; and
- premiums ceded under reinsurance agreements.

Losses Incurred

Losses incurred are the current expense that is booked within a particular period to reflect actual and estimated loss payments that we believe will ultimately be made as a result of insured loans that are in default. As explained under "*Critical Accounting Policies*," we do not recognize an estimate of loss expense for loans that are not in default. Losses incurred are generally affected by:

- the state of the economy, including unemployment and housing values, each of which affects the likelihood that borrowers may default on their loans and have the ability to cure such defaults;
- the product mix of insurance-in-force, with loans having higher risk characteristics generally resulting in higher defaults and claims;
- the size of loans insured, with higher average loan amounts tending to increase losses incurred;
- the loan-to-value ratio, with higher average loan-to-value ratios tending to increase losses incurred;
- the percentage of coverage on insured loans, with deeper average coverage tending to increase incurred losses;
- changes in housing values, which affect our ability to mitigate our losses through sales of properties with loans in default as well as borrower willingness to continue to make mortgage payments when the value of the home is below or perceived to be below the mortgage balance;
- higher debt-to-income ratios, which tend to increase incurred losses;
- the rate at which we rescind policies. Because of tighter underwriting standards generally in the mortgage lending industry, we expect that our level of rescission activity, as well as that of the MI industry in general, will be lower than recent rescission activity experienced by the MI industry; and
- the distribution of claims over the life of a book. Historically, the first two to three years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining. Factors, such as persistency of the book, the condition of the economy, including unemployment and housing prices, and others, can affect this pattern. See "*Mortgage Insurance Earnings and Cash Flow Cycle.*"

We expect that losses incurred for the first two to three years of our operations will be relatively low for the following two reasons:

- as stated under "*Losses Incurred*," the typical distribution of claims over the life of a book results in fewer defaults during the first two to three years after loans are originated, usually peaking in years three through six and declining thereafter; and
- we expect that the frequency of claims on our initial books of business should be between 3% and 4% of mortgages insured over the life of the book. For claims that we may receive, we expect the severity of the loss to be between 85% and 95% of the coverage amount. Based on these expectations, we believe that the loss ratio over the life of each book will be between 20% and 25% of earned

premiums. Because we expect the losses on insured mortgages to develop over time, we believe that the reported loss ratio in our first 2-3 years of operation will be less than 10% of earned premiums.

We developed our estimates of the expected frequency and severity of claims based on statutory filings by many of our competitors, which contain historical book year performance. As state-regulated entities, mortgage insurers are required to file actuarial justifications for premium rate changes in many states, many of which are publicly available and include historical information on claim frequency and severity. Historical performance data from similar underwriting, house price, and interest rate periods were compared to today to determine a range of expected performance.

Qualified Residential Mortgage Rule

The Dodd-Frank Act which was enacted by Congress in July 2010 requires a securitizer to retain at least 5% of the risk associated with securitized mortgage loans. In some cases the retained risk may be allocated between the securitizer and the mortgage originator. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In March 2011, federal regulators requested public comments on a proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (or "LTV") of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower's down payment or closing costs, and certain limits on a borrower's debt-to-income ratio. Under the proposed rules, the LTV is to be calculated without consideration of mortgage insurance.

The regulators also requested public comments regarding an alternative QRM definition, which would allow loans with a maximum LTV of 90% and higher debt-to-income ratios than allowed under the proposed QRM definition, and which may also consider mortgage insurance in determining whether the LTV requirement is met. The regulators also requested that the public comments include information that may be used to assess whether the existence of mortgage insurance reduces the risk of default.

Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, under the proposed rule, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The public comment period for the proposed rule expired on August 1, 2011. The MI industry trade group, the Mortgage Insurance Companies of America, or "MICA", as well as other individual MI companies, submitted comments that, among other things, urged regulators to consider a higher LTV for QRMs and recognition of MI for purposes of determining LTV. The impact of the QRM rule on the MI industry depends on, among other things, (i) the final definition of QRM and its requirements for LTV, seller contributions and debt-to-income ratio, (ii) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (iii) whether lenders choose mortgage insurance for non-QRM loans.

Qualified Mortgage Rule

Another regulation required by the Dodd-Frank Act is the ability to repay ("ATR") mortgage rule, which governs the obligation of lenders to determine the borrower's ability to pay when originating a mortgage loan. The Consumer Financial Protection Bureau ("CFPB") issued final regulations on January 10, 2013 and an amendment on May 29, 2013 implementing detailed requirements on how lenders shall establish a borrower's ability to repay a mortgage loan. The ATR rule becomes effective January 10, 2014. A subset of mortgages within the ATR rule are known as "qualified mortgages" ("QMs"). For a mortgage loan to be a QM, the rule

first prohibits certain loan features, such as negative amortization, points and fees in excess of 3% of the loan amount, and terms exceeding 30 years. The rule also establishes underwriting criteria for QMs including that a borrower must have a total debt-to-income ratio of less than or equal to 43%. QMs benefit from a statutory presumption of compliance with the ATR rule, thus limiting the liability of the creditor and assignee of the creditor under the Truth in Lending Act and ATR remedies. Because of the presumption, we anticipate that most loans originated after the ATR rule goes into effect will be QMs.

The rule also provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and so long as they meet the underwriting requirements of the GSEs or those of the U.S. Department of Housing and Urban Development, Department of Veterans Affairs or Rural Housing Service (collectively, “Other Federal Agencies”). The temporary category of QMs that meet the underwriting requirements of the GSEs or the Other Federal Agencies will phase out when the GSEs or the Other Federal Agencies issue their own qualified mortgage rules, if the GSEs' conservatorship ends, and in any case after seven years. We expect that most lenders will be reluctant to make loans that do not qualify as QMs because they will not be entitled to the presumptions about compliance with the ability-to-pay requirements.

The ATR regulation may impact the mortgage insurance industry in several ways. First, the ATR regulation will have a direct impact on establishing a subset of borrowers who can meet the regulatory QM standards and will have a direct effect on the size of the mortgage market in any given year, once the regulations become effective. Second, under the ATR regulation, if the lender requires the borrower to purchase MI, then the MI premiums are included in monthly mortgage costs in determining the borrower's ability to repay the loan. The demand for MI may decrease if, and to the extent that, monthly MI premiums make it less likely that a loan will qualify for QM status, especially if MI alternatives, such as piggy-back loans, are relatively less expensive.

Third, under the ATR regulation, mortgage insurance premiums that are payable at or prior to consummation of the loan are includible in points and fees for purposes of determining QM status unless, and to the extent that, such up-front premiums (“UFP”) are (i) less than or equal to the UFP charged by the FHA, and (ii) are refundable on a *pro rata* basis upon satisfaction of the loan. (The FHA currently charges UFP of 1.75% on all residential mortgage loans, but it has the authority to change its UFP from time to time.) As inclusion of MI premiums towards the 3% cap will reduce the capacity for other points and fees in covered transactions, mortgage originators may be less likely to purchase single premium MI products to the extent that the associated premiums are deemed to be points and fees. As a result, we believe that the ATR rule may increase demand for monthly and annual MI products relative to single premium products.

GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that affect the MI industry. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Since 2011, there have been numerous legislative proposals, including in the current Congressional session, intended

to scale back the GSEs, however, no legislation has been enacted to date. Based on recent improvements in the housing market, Fannie Mae has reported two consecutive quarters of profit, and recently reported that based on net worth of $62.4 billion at March 31, 2013, the company's dividend obligation to Treasury will be $59.4 billion by June 30, 2013.

Competition with FHA

The FHA substantially increased its share of the total combined private and governmental mortgage insurance market beginning in 2008. During 2011, that market share began to gradually decline. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. We believe that the FHA's current premium pricing, when compared to our current premium pricing (and considering the effects of GSE pricing changes), allows us to be competitive with the FHA. We cannot predict, however, the FHA's share of new insurance written in the future due to, among other factors, different loan eligibility terms between the FHA and the GSEs; future increases in guarantee fees charged by the GSEs; changes to the FHA's annual premiums; and the total profitability that may be realized by mortgage lenders from securitizing loans through the Government National Mortgage Association ("Ginnie Mae") when compared to securitizing loans through Fannie Mae or Freddie Mac.

As a result of the foregoing, it is uncertain what role the GSEs, FHA and private capital, including MI, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Most meaningful changes would require Congressional action to implement, and it is difficult to estimate when Congress would take action, and if it did, how long it would take for such action to be final and how long any associated phase-in period may last. Considering the recent financial turnaround or the perceived turnaround of the GSEs, the timing of any of these changes becomes more difficult to assess.

Mortgage Insurance Earnings and Cash Flow Cycle

In general, the majority of any underwriting profit (*i.e.*, the premium revenue minus losses) that a book generates occurs in the early years of the book, with the largest portion of the underwriting profit for that book realized in the first year. The earnings we record and the cash flow we receive varies based on the type of MI product and premium plan our customers select. As discussed in "*Business - Mortgage Insurance - Primary Mortgage Insurance"*, below, we offer monthly, annual and single premium payment plans. We currently expect that the majority of lenders who purchase MI from us will select one of our monthly premium plans.

Factors that Impact Holding Company Operations

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) the payment of certain corporate expenses; (ii) capital support for our mortgage insurance subsidiaries; (iii) potential payments to the IRS; and (iv) the payment of dividends, if any, on its common stock.

Our future capital requirements depend on many factors, including our ability to successfully write new business and establish premium rates at levels sufficient to cover losses. To the extent that the funds generated

by our ongoing operations and initial capitalization are insufficient to fund future operating requirements, we may need to raise additional funds through financings or curtail our growth and reduce our assets.

In order to support a minimum surplus of $150 million and maintain a risk-to-capital ratio under 15 to 1 through December 31, 2015 at NMIC, NMIH may be required to make additional capital contributions to NMIC. NMIH could be required to provide additional capital support for NMIC and our other mortgage insurance subsidiaries if additional capital is required pursuant to insurance laws and regulations, by the GSEs or the rating agencies. As of June 30, 2013, NMIC's statutory capital was approximately $200 million and we had approximately $257,000 in risk-in-force.

Dividends from NMIC and permitted payments under our tax- and expense-sharing arrangements with our subsidiaries are NMIH's principal sources of cash. The expense-sharing arrangements between NMIH and our insurance subsidiaries, as amended, have been approved by applicable state insurance departments, but such approval may be changed or revoked at any time. NMIC's ability to pay dividends to NMIH is subject to various conditions imposed by the GSEs and by insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed “extraordinary” and require insurance regulatory approval. Additionally, under agreements with the GSEs and various state insurance departments, NMIH is not permitted to extract dividends from our insurance subsidiaries until December 31, 2015.

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMI Holdings, Inc., that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or (subject to certain limitations) recent net profits. As of December 31, 2012 NMIH's capital surplus was $488.7 million.

Liquidity and Capital Resources

As a holding company, we expect that our principal sources of liquidity over time will be dividends, expense reimbursements from our insurance subsidiaries and income generated by our investment portfolio. However, the issuances of dividends by our insurance subsidiaries are subject to regulatory approval and are further limited by the GSE Approvals. See “*Dividend Policy*” and “*GSE Approvals*”. We expect primary cash uses will be to fund holding company operating expenses, investment expenses and other costs of our business.

Our MI companies' principal sources of liquidity will be premiums that we receive from policies and income generated by our investment portfolio. Our MI companies' primary liquidity needs include the payment of claims on our MI policies, operating expenses, investment expenses and other costs of our business. See "*Factors Affecting Our Results"*.

As part of our initial capitalization, we raised net proceeds of $510 million. We contributed $210 million to NMIC, whereupon NMIC contributed $10 million to its wholly-owned subsidiary, NMRI Two. In addition, we contributed $10 million to NMRI One.

As of June 30, 2013, the amount of restricted net assets held by our consolidated insurance subsidiaries totaled approximately $210 million of our consolidated net assets of approximately $456 million.

We expect that cash and investments and projected cash flows from operations will provide us with sufficient liquidity to fund our anticipated growth by providing capital to increase our insurance company surplus as well as for payment of operating expenses through 2015, at which point we currently expect to raise additional capital. We expect that as our insurance-in-force grows, the premium revenue we receive will increase. However, if our risk in force or our expenses materially exceed our expectations or our risk-to-capital ratio is expected to exceed 15 to 1, we may have to raise additional capital sooner to support our growth. In

addition, we may raise additional capital to leverage our fixed expenses in order to achieve a return on capital attractive to investors. We expect to leverage and manage our fixed operating expenses so that they grow at a much slower rate than sales over the coming years. As we increase our volume of MI business, we expect to see variable costs increase primarily within underwriting and sales; however, we expect to see only marginal increases in what we consider our fixed cost areas (i.e., management, finance, legal, risk and information technology) as these areas of the business were required to be in place before we could generate revenue. We believe we will not need to incur significant additional fixed costs to be able to successfully service an increased volume of business with our existing structure, thereby growing revenue and producing greater levels of operating profits with marginal increases in such fixed costs. Eventually, we will need to expand our fixed cost structure in order to service an even greater level of business. We may choose to generate additional liquidity through the issuance of a combination of debt or equity securities, as well as financing through borrowing.

Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of approximately 35%. Our holding company files a consolidated U.S. federal income tax return on behalf of itself and its subsidiaries. As we deploy our capital, we plan to invest a portion of our investment portfolio in tax-exempt municipal securities, which investment may have the effect of lowering our effective tax rate below 35%. The effective income tax (benefit) rate on our pre-tax loss was 0% for the six-months ended June 30, 2013 and for the year ended December 31, 2012. During those periods, the benefit from income taxes was eliminated or reduced by the recognition of a valuation allowance. Reconciliation of the federal statutory income tax (benefit) rate to the effective income tax (benefit) rate is as follows:

	For the Six Months Ended June 30, 2013	For the Year Ended December 31, 2012
Federal statutory income tax rate	35.00 %	35.00 %
Loss on Impairment	—	(1.48)
Prior Year Adjustment	—	1.66
Other	(1.00)	(1.00)
Valuation Allowance	(34.00)	(28.00)
Purchase Accounting Adjustment	—	(6.18)
Effective income tax rate	— %	— %

Under current guidance, when evaluating a tax position for recognition and measurement, an entity shall presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The interpretation adopts a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a measurement attribute that is the greatest amount of benefit that is cumulatively greater than 50% likely of being realized. As of December 31, 2012, we had no reserve for unrecognized tax benefits and there was no change during the quarter. We have capitalized all deductible start-up costs and have taken no material uncertain positions in our tax return which would require measurement and recognition under the guidance.

Section 382 of the Internal Revenue Code ("Section 382") imposes annual limitations on a corporation's ability to utilize its net operating losses ("NOLs") if it experiences an “ownership change.” As a result of the MAC Acquisition, $7.3 million of NOLs are subject to annual limitations of $277,000. Net unrealized built-in gains could increase the annual Section 382 limitation. Any unused annual limitation may be carried forward up to 20 years. The NOLs will expire in years 2029 through 2031.

As the Company has limited underwriting operations and premium generation and therefore has no history to provide a basis for reliable future income projections, a valuation allowance of $15.9 million and $8.2 million was recorded at June 30, 2013 and December 31, 2012, respectively, to reflect the amount of the deferred taxes that may not be realized.

Following is a reconciliation of the Company's net deferred income tax liability as of June 30, 2013 and December 31, 2012:

	June 30, 2013	
	Gross	**Tax Effected**
Deferred tax asset:	*(In Thousands)*	
Capitalized start-up costs	$ 44,383	$ 15,090
Net operating loss carry forwards	7,307	2,484
Total gross deferred tax assets	51,690	17,574
Less: valuation allowance	(46,690)	(15,874)
Total deferred tax assets	5,000	1,700
Deferred tax liability:		
Capitalized Software	(5,000)	(1,700)
Intangible Assets	(390)	(133)
Total deferred tax liabilities	(5,390)	(1,833)
Net deferred income tax liability	$ (390)	$ (133)

	December 31, 2012	
	Gross	**Tax Effected**
Deferred tax asset:		*(In Thousands)*
Capitalized start-up costs	$ 21,796	$ 7,411
Net operating loss carry forwards	7,307	2,484
Total gross deferred tax assets	29,103	9,895
Less: valuation allowance	(24,103)	(8,195)
Total deferred tax assets	5,000	1,700
Deferred tax liability:		
Capitalized Software	(5,000)	(1,700)
Intangible Assets	(390)	(133)
Total deferred tax liabilities	(5,390)	(1,833)
Net deferred income tax liability	$ (390)	$ (133)

The net deferred tax liability of $132,600 as of June 30, 2013 is due to the acquisition of indefinite-lived intangibles in the MAC Acquisition for which a benefit has been reflected in the acquired net operating loss carry forwards. The deferred tax liability recorded in connection with the MAC Acquisition effectively increased goodwill that resulted from the transaction.

Our financial statements reflect a valuation allowance with respect to our gross deferred tax assets less capitalized software. If the valuation reserve is reduced at some future date, we would recognize an income tax benefit for accounting purposes in the period in which the reserve is reduced.

Results of Operations

CONSOLIDATED STATEMENTS OF OPERATIONS

	SUCCESSOR					PRO FORMA	PREDECESSOR		
	NMI Holdings, Inc. (A Development Stage Company)					NMI Holdings, Inc. (A Development Stage Company)	MAC Financial Holding Corporation (A Development Stage Company)		
	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2012	For the Period May 19, 2011 (inception) to December 31, 2011	For the Period May 19, 2011 (inception) to June 30, 2013	For the Year Ended December 31, 2012	For the Period January 1, 2012 to April 24, 2012	For the Year Ended December 31, 2011	For the Period June 30, 2009 (inception) to April 24, 2012
	(unaudited)	(unaudited)			(unaudited)	(unaudited)			
	(In Thousands, except per share data)					*(In Thousands, except per share data)*	*(In Thousands)*		
Revenues									
Direct premiums written	$ 1	$ —	$ —	$ —	$ 1	$ —	$ —	$ —	$ —
(Increase) decrease in unearned premiums	—	—	—	—	—	—	—	—	—
Net premiums earned	1	—	—	—	1	—	—	—	—
Net investment income	1,817	—	6	—	1,823	6	—	—	—
Other revenue	(599)	—	278	—	(321)	278	—	2	18
Total Revenues	1,219	—	284	—	1,503	284	—	2	18
Expenses									
Payroll and related	13,806	1,829	11,559	—	25,365	11,559	—	334	2,402
Share-based compensation	6,859	1,046	6,115	—	12,974	6,115	—	—	—
Professional fees	5,160	840	4,242	1,248	10,650	4,246	—	21	1,939
Depreciation	1,847	—	3	—	1,850	3	4	14	33
Other	1,773	2,867	5,856	101	7,730	5,863	6	237	1,285
Total Expenses	29,445	6,582	27,775	1,349	58,569	27,786	10	606	5,659
Net loss	$ (28,226)	$ (6,582)	$ (27,491)	$ (1,349)	$ (57,066)	$ (27,502)	$ (10)	$ (604)	$ (5,641)
Share Data									
Basic and Diluted loss per share	$ (0.51)	$ (0.33)	$ (0.73)	$ (13,490.00)	$ (1.81)	$ (0.73)			
Book value per share	$ 8.20	$ 9.55	$ 8.81	$ (13,490.00)	$ 8.20	$ 8.81			
Weighted average common	55,565,374	20,126,474	37,909,936	100	31,448,608	37,909,936			
Shares outstanding	55,637,480	55,500,100	55,500,100	100	55,637,480	55,500,100			

CONSOLIDATED BALANCE SHEETS

	SUCCESSOR				PREDECESSOR	
	NMI Holdings, Inc. (A Development Stage Company)				MAC Financial Holding Corporation (A Development Stage Company)	
	June 30, 2013	June 30, 2012	December 31, 2012	December 31, 2011	April 24, 2012	December 31, 2011
	(unaudited)	(unaudited)				
	(In Thousands)				(In Thousands)	
Cash and cash equivalents	$ 25,941	$ 502,981	$ 485,855	$ —	$ 17	$ 17
Restricted cash	—	20,830	40,338	—	—	—
Investment securities	427,472	—	4,864	—	—	—
Accrued investment income	2,105	—	—	—	—	—
Goodwill and other intangible assets	3,634	4,702	3,634	—	—	—
Software and equipment, net	8,786	5,184	7,550	—	2,887	2,891
Other assets	1,012	317	526	210	12	19
Total Assets	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927
Accounts payable and accrued expenses	$ 6,416	$ 4,156	$ 8,708	$ 1,354	$ 1,467	$ 1,227
Purchase fees and purchase consideration payable	—	—	40,338	—	—	—
Warrant liability	5,921	—	4,842	—	—	—
Other liabilities	133	—	133	205	—	240
Total Liabilities	12,470	4,156	54,021	1,559	1,467	1,467
Total Stockholders' Equity (Deficit)	456,480	529,858	488,746	(1,349)	1,449	1,460
Total Liabilities and Stockholders' Equity	$ 468,950	$ 534,014	$ 542,767	$ 210	$ 2,916	$ 2,927

Prior to the completion of the MAC Acquisition, our activities were focused on organizational development, capital raising and other start-up related activities. Additionally, for the period from May 19, 2011 through the date of this filing, our efforts were primarily directed toward building the foundation of the Company which would allow us to write MI. These efforts included, among other things, attracting an executive management team and other key officers and directors, attracting and hiring staff, building our operating processes, designing and developing our business and technology applications, environment and infrastructure, and securing state licensing and GSE Approval.

We have funded our operations primarily through funds raised through our private placement offering in which we received net proceeds of approximately $510 million.

We are currently classified as a development stage company. We believe that our designation as such will change at the end of the third fiscal quarter of 2013. During May 2013 we recorded our first premium revenue. For the six months ended June 30, 2013 we have net premiums written and earned of approximately $1,000. All six policies written as of June 30, 2013 are monthly premium plans.

Primary Insurance and Risk in Force

	June 30,	December 31,	
	2013	2012	2011
	(In Thousands)		
Direct Primary Insurance In Force	$ 1,045	$ —	$ —
Direct Primary Risk In Force	$ 257	$ —	$ —

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. We have only written business on a flow basis. New insurance written on a flow basis was approximately $1 million for the first six months of 2013. Risk-in-force as of June 30, 2013 was approximately $257,000.

For the six months ended June 30, 2013, we have no loss reserves. The probability of a default within the first two months of loan age, for loans of the quality we have insured, is not statistically significant. Given that IBNR itself is historically a small percentage of actual reported delinquencies, the probability of an IBNR delinquency is also not statistically significant. We expect to establish a loss reserve as we close the third fiscal quarter of 2013.

We have incurred significant net losses since our inception. Our net loss was $28.2 million and $27.5 million for the six month period ended June 30, 2013 and the year ended December 31, 2012, respectively, compared to a net loss of $6.6 million and $1.3 million for the six month period ending June 30, 2012 and the period ended December 31, 2011, respectively. The primary drivers of the increased net loss between periods were the hiring of management and staff personnel for sales, underwriting and risk operations, information technology, finance and accounting and legal departments and external and professional costs incurred in conjunction with our state licensing and GSE Approval processes. Additionally we entered into a two-year lease in July 2012 for our principal location of operations. These expenses were slightly offset by increased investment income during the six months ending June 30, 2013, as we began investing our cash following GSE Approval in mid-January 2013.

Employee compensation represents the majority of our operating expense, which includes both cash and share-based compensation. As part of our compensation plan, certain employees were granted stock options and restricted stock units. This stock compensation plan was not in place during 2011. As a result, our share-

based compensation expense, was approximately $6.9 million for the six months ended June 30, 2013, $6.1 million for the year-ended December 31, 2012, $1.0 million for the six month period ending June 30, 2012 and $0 for the period ended December 31, 2011. We account for our stock options and restricted stock units under ASC No. 718, *Compensation - Stock Compensation* ("ASC 718"), which requires all compensation expense from share-based payments to be measured and recognized in the financial statements at their grant date fair values.

Our total assets, comprised largely of cash and investments, were $468.9 million and $542.8 million as of June 30, 2013 and December 31, 2012, respectively, compared to total assets of $534.0 million and $0.2 million as of June 30, 2012 and December 31, 2011, respectively. The primary driver of the increase was the capital raise in April 2012. Additionally, we retained approximately $40 million of purchase fees and purchase consideration (related to our private placement and MAC Acquisition) as restricted cash and an off-setting liability until GSE Approval in January 2013, at which time we released the respective funds to FBR and MAC Financial Ltd.

Prior to GSE Approval, we held most of our assets in cash, and our investments consisted of U.S. Treasury Notes, which were purchased for the sole purpose of complying with certain state licensing requests. These states required NMIC to place various amounts on deposit with the states as a prerequisite for obtaining a certificate of authority in those states. Other mortgage guaranty insurers also have placed similar deposits. As of June 30, 2013 and December 31, 2012 we had placed on deposit $6.9 million and $4.9 million respectively, in the form of U.S Treasury Notes and cash.

Our accounts payable and accrued expenses were $6.4 million as of June 30, 2013, $8.7 million at December 31, 2012, $4.2 million at June 30, 2012 and $1.4 million at December 31, 2011. The balance at June 30, 2013 and December 31, 2012 was comprised mostly of accrued bonuses and accrued expenses incurred in the normal course of business compared to the June 30, 2012 and December 31, 2011 balances which consisted of only accrued vendor payments related to start-up costs.

Investment Operations

Upon GSE Approval, we began investing the investment portfolio according to our investment guidelines.

The sectors of our investment portfolio, including cash and cash equivalents, at June 30, 2013 appear in the table below:

		Percentage of Portfolio's Fair Value
1.	Corporate debt securities	52%
2.	U.S. Treasury securities and obligations of U.S. government corporations and agencies	24
3.	Asset-backed securities	15
4.	Cash and cash equivalents	6
5.	Obligations of U.S. states and political subdivisions	3
		100%

The ratings of our investment portfolio at June 30, 2013 are:

Investment Portfolio Ratings

	June 30, 2013
AAA	18%
AA	25
A	57
BBB	—
Investment grade	100%
Below investment grade	—
Total	100%

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at June 30, 2013, and December 31, 2012 are shown below.

June 30, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses (1)	Fair Value
		(In thousands)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 110,631	$ —	$ (1,864)	$ 108,767
Obligations of U.S. states and political subdivisions	12,021	—	(124)	11,897
Corporate debt securities	244,863	137	(6,157)	238,843
Asset-backed securities	69,278	43	(1,356)	67,965
Total fixed-income securities	436,793	180	(9,501)	427,472
Short-term investments	—	—	—	—
Total investment portfolio	$ 436,793	$ 180	$ (9,501)	$ 427,472

December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses (1)	Fair Value
		(In thousands)		
Short-term investments	$ 4,863	$ 1	$ —	$ 4,864
Total investment portfolio	$ 4,863	$ 1	$ —	$ 4,864

There were no investment holdings as of June 30, 2012 or December 31, 2011.

(1) There were no other-than-temporary impairment losses recorded in other comprehensive income at December 31, 2012 and 2011 or at June 30, 2013 and 2012.

June 30, 2013	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ —	$ —
Due after one year through five years	274,591	269,955
Due after five years through ten years	77,143	74,145
Due after ten years	15,781	15,407
Asset-backed securities	69,278	67,965
Total at June 30, 2013	$ 436,793	$ 427,472

December 31, 2012	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 4,863	$ 4,864
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	—	—
Asset-backed securities	—	—
Total at December 31, 2012	$ 4,863	$ 4,864

At June 30, 2013, the investment portfolio had gross unrealized losses of $9.5 million. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

June 30, 2013	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 108,767	$ (1,864)	$ —	$ —	$ 108,767	$ (1,864)
Obligations of U.S. states and political subdivisions	11,897	(124)	—	—	11,897	(124)
Corporate debt securities	214,951	(6,157)	—	—	214,951	(6,157)
Asset-backed securities	61,196	(1,356)	—	—	61,196	(1,356)
Total fixed-income securities	396,811	(9,501)	—	—	396,811	(9,501)
Short-term investments	—	—	—	—	—	—
Total investment portfolio	$ 396,811	$ (9,501)	$ —	$ —	$ 396,811	$ (9,501)

At December 31, 2012 the investment portfolio had no unrealized losses and there were no investment holdings as of June 30, 2012 or December 31, 2011

Net investment income is comprised of the following:

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2012	For the Period May 19, 2011 (inception) to December 31, 2011
		(In thousands)		
Fixed maturities	$ 2,012	$ —	$ 2	$ —
Cash equivalents	1	—	4	—
Other	—	—	—	—
Investment income	2,014	—	6	—
Investment expenses	197	—	—	—
Net investment income	$ 1,817	$ —	$ 6	$ —

Fair Value Measurements

Fair value measurements for items measured at fair value included the following as of June 30, 2013 and 2012 and December 31, 2012:

June 30, 2013	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 corporations and agencies	$ 108,767	$ —	$ —	$ 108,767
Obligations of U.S. states and political subdivisions	—	11,897	—	11,897
Corporate debt securities	—	238,842	—	238,842
Asset-backed securities	—	67,965	—	67,965
Cash and cash equivalents	25,941	—	—	25,941
Total assets	134,708	318,704	—	453,412
Warrant liability	—	—	5,921	5,921
Total liabilities	$ —	$ —	$ 5,921	$ 5,921

June 30, 2012	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)		
Cash and cash equivalents	$ 502,981	$ —	$ —	$ 502,981
Total assets	502,981	—	—	502,981
Total liabilities	$ —	$ —	$ —	$ —

December 31, 2012	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 corporations and agencies	$ 4,864	$ —	$ —	$ 4,864
Cash and cash equivalents	526,194	—	—	526,194
Total assets	$ 531,058	$ —	$ —	$ 531,058
Warrant liabilities	—	—	4,842	4,842
Total liabilities	$ —	$ —	$ 4,842	$ 4,842

There were no transfers of securities between Level 1 and Level 2 during 2013 or 2012.

For assets and liabilities measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the period ended June 30, 2013 and the years ended December 31, 2012 and 2011 is as follows:

	Warrant Liability	
	(In Thousands)	
Balance at December 31, 2012	$	4,842
Change in fair value of warrant liability included in earnings		1,081
Balance at June 30, 2013	$	5,921

	Warrant Liability	
	(In thousands)	
Balance at December 31, 2011	$	—
Initial fair value of warrant liability		5,120
Change in fair value of warrant liability included in earnings		(278)
Balance at December 31, 2012	$	4,842

The fair value of the warrants issued to FBR and MAC Financial Ltd. was estimated on the date of grant using the Black-Scholes option-pricing model, including consideration of any potential additional value associated with pricing protection features. The volatility assumption used, 39.0%, was derived from the historical volatility of the share price of a range of publicly-traded companies with business types similar to ours. No allowance was made for any potential illiquidity associated with the private trading of our shares. We revalue the warrant liability quarterly using a Black-Scholes option-pricing model in combination with a binomial model and a Monte-Carlo simulation model to value the pricing protection features within the warrant. As of June 30, 2013 the assumptions used in the option pricing model were as follows: a common stock price as of June 30, 2013 of $12.00, risk free interest rate of 1.98%, expected life of 7.1 years and a dividend yield of 0%. The loss on fair value during the second quarter is primarily due to an increase in the price of our common stock. The warrants have an exercise price of $10.00. The remaining contractual term on the warrants is approximately 9 years.

There were no assets or liabilities measured at fair value using significant unobservable inputs as of June 30, 2012 or as of December 31, 2011.

Share Based Compensation

The 2012 Stock Incentive Plan (the "Plan") was approved by the Board of Directors (the "Board") on April 16, 2012, and authorized 5.5 million shares be reserved for issuance under the Plan with 3.85 million shares available for stock options and 1.65 million shares available for restricted stock unit grants. Options granted under the Plan are Non-Qualified Stock Options and may be granted to employees, directors and other key persons of the Company. The exercise price per share for the common stock covered by this Plan shall be determined by the Board at the time of grant, but shall not be less than the fair market value on the date of the grant. The term of the stock option grants will be fixed by the Board, but no stock option shall be exercisable more than 10 years after the date the stock option is granted. The vesting period of the stock option grants will also be fixed by the Board at the time of grant and generally is for a three year period.

A summary of option activity in the plan for the six months ended June 30, 2013 and for the year ended December 31, 2012 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Share
Options balance at December 31, 2012	2,546,750	$ 10.00	$ 3.86
Options granted	531,829	11.78	4.56
Less: options forfeited	(10,000)	10.00	3.84
Options balance at June 30, 2013	3,068,579	$ 10.31	$ 3.98

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Share
Options balance at December 31, 2011	—	$ —	$ —
Options granted	2,829,250	10.00	3.87
Less: options forfeited	(282,500)	10.00	3.88
Options balance at December 31, 2012	2,546,750	$ 10.00	$ 3.86

There were no exercises and approximately 658,000 and zero options were exercisable as of June 30, 2013 and December 31, 2012, respectively.

The remaining weighted average contractual life of options outstanding as of June 30, 2013 was 9.1 years. As of June 30, 2013, there was approximately $5.6 million of total unrecognized compensation cost related to non-vested stock options. The remaining weighted average contractual life of options outstanding as of December 31, 2012 was 9.4 years. As of December 31, 2012, there was approximately $6.4 million of total unrecognized compensation cost related to non-vested stock options.

The estimated grant date fair values of the stock options granted during 2013 were calculated using Black-Scholes valuation model based on the following weighted-average assumptions:

- Expected Life - 6 years
- Risk free interest rate - 0.85%
- Dividend yield - 0.00%
- Expected stock price volatility - 39.00%
- Projected forfeiture rates - 1.00%

See "*Critical Accounting Policies - Share-Based Compensation*."

Restricted Stock Units

A summary of restricted stock unit ("RSU") activity in the Plan for the six months ended June 30, 2013 and for the year ended December 31, 2012 is as follows:

	Shares		Weighted Average Grant Date Fair Value per Share
Restricted stock units balance at December 31, 2012	1,429,260	$	7.35
Restricted stock units granted	82,000		11.75
Less: restricted stock units vested	(262,610)		6.79
Less: restricted stock units forfeited	—		—
Restricted stock units balance at June 30, 2013	1,248,650	$	7.64

	Shares		Weighted Average Grant Date Fair Value per Share
Restricted stock units balance at December 31, 2011	—	$	—
Restricted stock units granted	1,666,760		7.35
Less: restricted stock units forfeited	(237,500)		7.35
Restricted stock units balance at December 31, 2012	1,429,260	$	7.35

At June 30, 2013, the 1.2 million shares of restricted stock units outstanding consisted of 0.5 million shares that are subject to both a market and service condition and 0.7 million shares that are subject only to service conditions. At December 31, 2012, the 1.4 million shares of restricted stock units outstanding consisted of 1.2 million shares that are subject to both a market and service condition and 0.2 million shares that are subject only to service conditions. The restricted stock units subject to both a market and service condition vest in one-third increments upon the achievement of certain market price goals and continued service. All other restricted stock units vest in one-half increments on the second and third anniversary date following the grant date and continued service. The fair value of restricted stock units subject to market and service conditions is determined based on a Monte Carlo Simulation model at the date of grant. The fair value of restricted stock units subject only to service conditions are valued at the Company's stock price on the date of grant less the present value of anticipated dividends.

Common Stock Valuations

Prior to our establishment of a public market for our common stock, the fair value of the common stock underlying our stock options was determined by our Board or the compensation committee of our Board, which intended all options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those options on the date of grant. The valuations of our common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The assumptions we used in the valuation model were based on future expectations combined with management judgment. Because there had been no public market for our common stock, our Board, with input from management, exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our common stock as of the date of each option grant, including the following factors:

- the prices of our common stock sold to outside investors in arms-length transactions;
- our operating and financial performance;
- current business conditions and projections;
- our stage of development;
- the hiring of key personnel;

- the likelihood of obtaining the regulatory approvals necessary to write mortgage insurance in all 50 states and Washington D.C.;
- the likelihood of obtaining GSE approvals;
- the history of the company and the introductions of new products and services;
- any adjustment necessary to recognize a lack of marketability for our common stock;
- the market performance of comparable publicly traded companies; and
- the U.S. capital market conditions.

We granted stock options with the following exercise prices between April 24, 2012 and the date of this prospectus:

Option Grant Dates	Number of Shares Underlying Options	Exercise Price Per Share	Common Stock Fair Value Per Share at Grant Date
4/24/2012	1,815,000	$ 10.00	$ 10.00
5/30/2012	604,000	10.00	10.00
11/7/2012	259,000	10.00	10.00
11/8/2012	151,252	10.00	10.00
2/14/2013	513,827	11.75	11.75
5/9/2013	8,000	12.65	12.65
5/15/2013	10,000	12.50	12.50

We granted restricted stock units with the following stock prices between April 24, 2012 and the date of this prospectus:

RSU Grant Dates	Number of Shares Granted	Common Stock Fair Value Per Share at Grant Date
4/24/2012	1,485,000	$ 10.00
5/30/2012	38,000	10.00
11/7/2012	20,000	10.00
11/8/2012	123,760	10.00
2/14/2013	82,000	11.75

In order to determine the fair value of our common stock underlying option and RSU grants prior to our initial public offering, we utilized a combination of two generally accepted approaches: the income approach using the discounted cash flow method, or DCF, and the market-based approach using the comparable company method, as well as observations of recent trading of our common stock within the FBR PLUS™ System. The DCF method estimates enterprise value based on the estimated present value of future net cash flows the business is expected to generate over a forecasted period and an estimate of the present value of cash flows beyond that period, which is referred to as terminal value. The estimated present value is calculated using a discount rate known as the weighted average cost of capital, which accounts for the time value of money and the appropriate degree of risks inherent in the business. The market-based approach considers multiples of financial metrics based on both acquisitions and trading multiples of a selected peer group of companies. These multiples are then applied to our financial metrics to derive a range of indicated values. Once calculated, the discounted cash flow and comparable company methods are then weighted. Estimates of the volatility of our

common stock were based on available information on the volatility of common stock of comparable, publicly traded companies.

Significant factors we and our Board considered in determining the fair value of our common stock at these grant dates include:

April 2012

On April 24, 2012 we completed a private placement of 55,000,000 shares of our common stock for gross proceeds of $550 million or $10.00 per share. Concurrent with the closing of the private placement, board of directors granted 1,815,000 stock options with an exercise price of $10.00 and 1,485,000 RSUs with a fair value of $10.00 per share to employees and Directors. The Board determined the fair value of the underlying common stock to be equal to the price obtained in the private placement.

May 2012 and November 2012

Between May 2012 and November 2012 we observed trading of approximately 4.9 million shares of our common stock within the FBR PLUS™ System with trading prices between $10.00 and $10.50 per share. No trades occurred on May 30, 2012, November 7, 2012 or November 8, 2012 (the dates on which options and RSUs were granted). During this time, we were pursuing approval from the GSEs and insurance licenses in all 50 States and the District of Columbia and had not begun selling insurance. Under the terms of the registration rights agreements we entered into in connection with our April 24, 2012 private placement, we were required to obtain GSE Approval within nine months from the date of the private placement offering memorandum (until January 17, 2013). If GSE Approval was not obtained, the Company would dissolve and distribute the assets to the shareholders. Our strategy had not changed from the initial strategy detailed in the private placement; however, uncertainty remained as to our ability to obtain GSE approval by January 17, 2013. Based on the limited trading of our common stock at or near the private placement per share price and uncertainty as to our ability to obtain GSE approval, we determined the fair value of our common stock at May 30, 2012, November 7, 2012 and November 8, 2012 had not changed from April 24, 2012, and on May 30, 2012, November 7, 2012 and November 8, 2012, the Board granted stock options with an exercise price of $10.00 per share and RSUs with a fair value of $10.00 per share share.

February 2013

Between December 2012 and February 2013, we observed trading of approximately 1.8 million shares of our common stock within the FBR PLUS™ System with trading prices between $10.50 and $12.00 per share. No trades occurred on 2/14/2013. In January 2013, we received GSE approval and all proceeds within our investment accounts became available for operations. Given the receipt of GSE approval, we performed a contemporaneous valuation of our common stock as of February 14, 2013 and determined the fair value of our common stock to be $11.75 per share. Based on this valuation and the factors discussed above, our board of directors granted stock options with an exercise price of $11.75 per share and RSUs with a fair value of $11.75 per share.

May 2013

Between March 2013 and May 2013, we observed trading of approximately 1.5 million shares of our common stock within the FBR PLUS™ System with trading prices between $12.50 and $13.50 per share. In March 2013, we observed trades of $13.00 and $13.50 on the same days that two of our competitors, Radian and MGIC, announced the successful completion of debt and equity offerings of approximately $700 million

and $1 billion, respectively. Our common stock experienced a boost with each of these announcements, indicating renewed investor confidence in our industry. There were no trades of our common stock in April 2013. There was a single trade of our common stock in May 2013. On May 14, 2013, we observed a trade of our common stock in the FBR PLUS™ System at a price of $12.50 per share with a volume of 750,000 shares. The bid ask/spread on our common stock within the FBR PLUS™ System on the date of the option grants was $12.25/$12.75. Based on the trade observed within the FBR PLUS™ System on May 14, 2013 at a price of $12.50 and the recent investments in our industry, we determined the fair value of our common stock to be within the bid/ask spread observed within the FBR PLUS™ Systems on May 9, 2013 and May 15, 2013 and our Board granted stock options with an exercise price of $12.65 per share on May 9, 2013 and $12.50 per share on May 15, 2013.

Predecessor Entity

MAC Financial Holding Corporation, a wholly-owned subsidiary of MAC Financial Ltd., was formed along with its wholly-owned insurance subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Two, (collectively "MAC"), with the intent of offering mortgage insurance to lenders throughout the United States and to the GSEs. MAC was incorporated and licensed without the usual requisite minimum capital and surplus in order to facilitate the lengthy review for qualified insurer status with both Fannie Mae and Freddie Mac.

MAC's net loss was $10,000, $604,000, and $5.6 million from January 1, 2012 through April 24, 2012, the year ended December 31, 2011, and the period from July 6, 2009 (inception) to April 24, 2012, respectively. The net loss of $5.6 million for the period from inception to April 24, 2012 consisted largely of payroll and related expenses, Information Technology ("IT") and professional fees associated with development stage activities primarily focused on developing IMS and capital raising efforts. For the year-ended 2010, MAC had a working capital deficiency which raised substantial doubt about its ability to continue as a going-concern. The net loss of $604,000 for the year ended December 31, 2011 reflects a significant wind-down of development stage activities and IT development efforts, including the termination of all employees, as MAC focused on conserving capital. On November 30, 2011, the Company entered into an agreement with MAC Financial Ltd. to purchase MAC Financial Holding Corporation and its subsidiaries. MAC's results from January 1, 2012 through April 24, 2012 reflect the costs associated with maintaining the entity and its subsidiaries in a minimal capacity until MAC's acquisition could be completed and is not comparative with prior periods.

Quantitative and Qualitative Disclosures about Market Risk

We own and manage a large portfolio of various holdings, types and maturities as a result of (i) our initial capitalization pursuant to which we were required to hold our proceeds in an investment account until we obtained GSE Approval, and (ii) ongoing operations in which claim payments are back-loaded relative to premium revenue. Investment income is one of our primary sources of cash flow supporting operations and claim payments. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance. While our portfolio is exposed to factors affecting markets worldwide, because the company insures loans only in the United States, it is most sensitive to fluctuations in the drivers of U.S. markets.

We manage market risk via a defined investment policy implemented by our Treasury function with oversight from the 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 to the extent that the investment portfolio must 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.

- *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.

Market risk will be measured using reporting by investment type and concentration. Market risk will be measured via segmentation by asset type and maturity, and an interest rate sensitivity analysis will be completed. Market risks inherent in the business that are not fully captured by the quantitative analysis will be highlighted. In addition, material market risk changes that occur from the last reporting period to the current will be discussed. Changes to how risks are managed will also be identified and described.

We did not have any market risk at December 31, 2012. The only investments held were short-term securities. At June 30, 2013, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.73 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 3.73% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.75 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 3.75% in fair value of our fixed income portfolio.

Off-Balance Sheet Arrangements and Contractual Obligations

We had no off-balance sheet arrangements at December 31, 2012. Contractual obligations at December 31, 2012 are summarized in the table that follows.

NMI Holdings, Inc. Contractual Obligations

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligation	$ —	$ —	$ —	$ —	$ —
Long-Term Debt Obligation	—	—	—	—	—
Capital Lease Obligation	—	—	—	—	—
Operating Lease Obligations	1,047,192	631,016	416,176	—	—
Purchase Obligations	2,378,280	1,434,663	943,617	—	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—

Geographic Dispersion

Assuming we are able to obtain all of the necessary licenses and approvals, we plan on writing business in all 50 states and D.C. We intend to build a geographically diverse portfolio without geographic concentrations that might expose the company to undue risk. Risk will be managed by establishing targets and limits for new origination mix and/or portfolio limits. Therefore, aside from the impact of market restrictions (discussed below), we desire that our insurance origination mix by state be consistent with the overall distribution of mortgage insurance originations.

On an ongoing and recurring basis, we plan to evaluate changing market conditions to determine if it is appropriate to establish, tighten, loosen or eliminate lending restrictions established by geographic area. The evaluation is expected to include factors including historical performance and the historical performance of other market participants, forward-looking projections for key risk drivers, estimated impact on loss performance, and existing portfolio concentrations. Consistent with our governance processes, the geographic concentrations will be monitored on an ongoing basis and changes to market restrictions will be reviewed and approved.

Critical Accounting Policies

We use accounting principles and methods that conform to generally accepted accounting principles in the United States ("GAAP"). Where GAAP specifically excludes mortgage insurance we follow general industry practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. These critical accounting policies and estimates are summarized below.

Reserve for Losses and Loss Adjustment Expenses

We are a new company and have only recently commenced transacting mortgage insurance. We do not anticipate a material level of losses (relative to written premiums or stockholder equity) in the first few years of our operations. Our practice will be to establish loss reserves only for loans in default. We do not consider a loan to be in default for loss reserve purposes until we receive notice from the servicer that a borrower has failed to make two (2) regularly scheduled payments and is at least 60 days in default. Default is defined in NMIC's mortgage insurance policies as the failure by a borrower to pay when due an amount equal to the scheduled mortgage payment due under the terms of a loan or the failure by a borrower to pay all amounts due under a loan after the exercise of the due on sale clause of such loan. In addition to reserves on reported defaults, we establish reserves for estimated losses incurred on loans that have been in default for at least 60 days that have not yet been reported to us by the servicers (this is often referred to as "incurred but not reported" or "IBNR").

Consistent with industry accounting practices, for purposes of establishing loss reserves, we consider our MI policies to be short-duration contracts and, as such, we will adhere to the general loss reserving principles contained in ASC Topic 944, *Financial Services* - *Insurance* ("ASC 944"), even though that standard expressly excludes mortgage insurance from its guidance. Like other mortgage insurers, however, we will not establish loss reserves for anticipated future claims on insured loans that are not currently in default.

The establishment of loss and IBNR reserves is subject to inherent uncertainty and will require significant judgment by management. We will establish loss reserves using our best estimates of claim rates, *i.e.*, the percent of loan defaults that ultimately result in claim payments, and claim amounts, *i.e.*, the dollar amounts required to settle claims, to estimate the ultimate losses on loans reported to us as being at least 60 days in default as of the end of each reporting period. We will estimate IBNR by analyzing historical lags in default reporting to determine a specific number of IBNR claims in each reporting period. Our actuary will utilize internal and external data to estimate lags in notice of default reporting. We believe that given recent tightening of GSE guidelines lag times have decreased. Additionally, our estimates of claim rates and claim sizes will be strongly influenced by prevailing economic conditions, for example current rates or trends in unemployment, house price appreciation and/or interest rates, and our best judgment as to the future values or trends of these macroeconomic factors. If prevailing economic conditions deteriorate suddenly and/or unexpectedly, our estimates of loss reserves could be materially understated, which may adversely impact our financial condition and operating results. Because loss and IBNR reserves are based on estimates and judgments, there can be no assurance that even in a stable economic environment, actual claims paid by us will not be substantially different than our loss and IBNR reserves for such claims.

Changes in loss reserves can materially affect our consolidated net income or loss. It is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on reserves and, correspondingly, on operating results. The loss reserving process is complex and subjective and, therefore, our ultimate liabilities may vary significantly from our estimates.

Fair Value Measurements

The following describes the valuation techniques used by us to determine the fair value of financial instruments held as of June 30, 2013 and December 31, 2012:

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 - Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical assets or liabilities;

- Level 2 - Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

- Level 3 - Unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations.

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. We do however perform quality checks and review of the prices received.

Assets classified as Level 3

The warrants held by FBR and MAC Financial Ltd. are valued using a Black-Scholes option- pricing model in combination with a binomial model and Monte-Carlo simulation model used to value the pricing protection features within the warrant. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of the Company's stock price.

ASC 825, *Disclosures about Fair Value of Financial Instruments*, requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

Investment Portfolio

We classify our entire investment portfolio as available-for-sale and report it at fair value. The related unrealized gains or losses, after considering the related tax expense or benefit, are reported as a component of

accumulated other comprehensive income in stockholders' equity. We expect to hold short-term investments with maturities of greater than three and less than 12 months when purchased and will be carried at fair value and to determine any realized gains and losses on sales of investments on a specific-identification basis. We expect that our investment income will consist primarily of interest and dividends. We plan to recognize interest income on an accrual basis and dividend income on preferred stock investments on the date of declaration. Net investment income would represent interest and dividend income, net of investment expenses.

The guidance regarding the recognition and presentation of other-than-temporary impairment, or OTTI, requires that an OTTI of a debt security be separated into two components when there are credit-related losses associated with the impaired debt security for which we assert that we do not have the intent to sell the security, and it is more likely than not that we will not be required to sell the security before recovery of our cost basis. Under this guidance the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (such as changes in interest rates or market conditions) is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that we would have to sell the debt security prior to the anticipated recovery, the decline in fair value below amortized cost is recognized as an OTTI in earnings. In periods after recognition of an OTTI on debt securities, we plan to account for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI are recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected would be accreted or amortized into net investment income.

Each fiscal quarter we expect to perform reviews of our investments in order to determine whether declines in fair value below amortized cost are considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, we may consider several factors including, but not limited to:

- our intent to sell the security and whether it is more likely than not that we would be required to sell the security before recovery;
- extent and duration of the decline;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Under the current guidance, a debt security impairment is deemed other-than-temporary if either it is intended that the security be sold or it is more likely than not that we would be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security.

Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs. Deferred insurance policy acquisition costs arising from each book of business are charged against revenue in the same proportion that the underwriting profit for the period of the charge bears to the total underwriting profit over the life of the policies. The underwriting profit and the life of the policies are estimated and are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. Because our insurance

premiums are earned over time, changes in persistency result in deferred insurance policy acquisition costs being amortized against revenue over a comparable period of time.

If a premium deficiency exists, we reduce the related deferred insurance policy acquisition costs by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the deferred insurance policy acquisition costs balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Premium Deficiency Reserve

After our loss reserves are established, we will perform a premium deficiency calculation each fiscal quarter using best estimate assumptions as of the testing date. Per ASC 944, a premium deficiency reserve shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. The calculation of premium deficiency reserves requires the use of significant judgment and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Assumptions used in calculating the deficiency reserves can be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimate will affect future period earnings. In considering the potential sensitivity of the factors underlying our best estimate of premium deficiency reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on the premium deficiency reserve, should one be needed, and, correspondingly, on our operating results.

Income Taxes

We account for income taxes using the liability method in accordance with ASC Topic 740, *Income Taxes*. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that would result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations. We evaluate the need for a valuation allowance against deferred tax assets on a quarterly basis. In the course of our review, we assess all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits.

Warrants

In conjunction with the MAC Acquisition and funding of our start-up costs, we issued warrants. We account for these warrants to purchase common shares of the Company 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.* These warrants may be settled by us using the physical settlement method or through cash-less-exercises in which shares subject to the warrants are reduced in lieu of cash payment of the exercise price. The exercise

price and the number of warrants are subject to anti-dilution provisions whereby the existing exercise price is adjusted downward and the number of warrants increased for events that may not be dilutive and the adjustment may be in excess of any dilution suffered. As a result, the warrants are classified as a liability. We are required to revalue the warrants at the end of each reporting period and any change in fair value is reported in the statements of operations in the period in which the change occurred. We revalue the warrant liability quarterly using a Black-Scholes option-pricing model in combination with a binomial model and Monte-Carlo simulation model used to value the pricing protection features within the warrant. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of the Company's stock price.

Share-Based Compensation

The Company adopted ASC 718, *Compensation - Stock Compensation* (“ASC 718”). ASC 718 addresses accounting for share-based awards and recognizes compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based payments include restricted stock and stock option grants under the 2012 Stock Incentive Plan. The fair value of stock option grants issued are determined based on an option pricing model which takes into account various assumptions that are subjective. Key assumptions used in the stock option valuation include the expected term of the equity award taking into account the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk-free interest rate for the expected term of the award. Restricted stock grants to employees contain a market and service condition. The fair value of restricted stock grants to employees is determined based on a Monte Carlo Simulation model at the date of grant. Restricted grants to non-employee directors are valued at the Company's stock price on the date of grant less the present value of anticipated dividends. Expense is recognized over the required service period, which is generally a three-year vesting period for the options (vesting in one-third increments per year).

The estimated grant date fair values of the stock options granted during 2013 were calculated using Black-Scholes valuation model based on the following weighted-average assumptions:

- Expected Life - 6 years
- Risk free interest rate - 0.85%
- Dividend yield - 0.00%
- Expected stock price volatility - 39.00%
- Projected forfeiture rate - 1.00%

Expected Stock Price Volatility - is a measure of the amount by which a price has fluctuated or is expected to fluctuate. At the time of grant, the Company's common shares trading history was less than six months which was not sufficient to calculate an expected volatility representative of the volatility over the expected lives of the options. As a substitute for such estimate, the Company used historical volatilities of a set of comparable companies in the industry in which the Company operates.

Risk Free Interest Rate - is the U.S. Treasury rate for the date of the grant having a term approximating the expected life of the option.

Expected Life - is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years.

Projected Forfeiture Rate - is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

Dividend Yield - is calculated by dividing the expected annual dividend by the stock price of the Company at the valuation date.

Restricted Stock Units

The estimated grant date fair values of the restricted stock units granted in 2012 that are subject to both a market and service condition were calculated using a Monte Carlo Simulation model based on the average outcome of 150,000 simulations using the following assumptions:

- Expected Life - 5 years
- Risk free interest rate - 0.86%
- Dividend yield - 0.00%
- Expected stock price volatility - 39.00%
- Projected forfeiture rate - 1.00%

BUSINESS

While we intend to operate our business as described in this prospectus, we are a new company without a significant operating history. As a result of our experience, changes in market conditions and other factors, we may alter certain of our business methods, such as the amount and types of mortgage insurance we underwrite.

General

NMIH is a Delaware corporation that through its subsidiaries provides MI in the United States. In April 2012, we raised net proceeds of approximately $510 million from a private placement of our common stock and also purchased MAC Financial, a Delaware corporation, and its Wisconsin licensed insurance subsidiaries, including Mortgage Assurance Corporation, which we later renamed National Mortgage Insurance Corporation, or "NMIC." The proceeds from the private placement have been and will be primarily used to capitalize our MI subsidiaries and fund our operating expenses until our MI subsidiaries generate positive cash flows.

In January 2013, Fannie Mae and Freddie Mac approved NMIC as a qualified MI provider on loans purchased by the GSEs. With our GSE Approval, our customers who originate loans insured by NMIC may sell such loans to the GSEs (as of April 1, 2013 for Freddie Mac and as of June 1, 2013 for Fannie Mae). Our primary insurance subsidiary, NMIC, requires a certificate of authority, or insurance license, in each state or jurisdiction where we issue insurance policies. We applied for a certificate of authority in each of the 50 states plus the District of Columbia in June 2012. We are currently licensed in 48 states and D.C.

Our principal office is located at 2100 Powell Street, 12th floor, Emeryville, CA 94608. Our main telephone number is (855) 530-NMIC (6642), and our website is www.nationalmi.com.

Our Strategy and Competitive Strengths

We believe the current environment provides an opportune time for a new mortgage insurer with no exposure to the recent financial crisis to enter the market. By entering the market at this time, we believe that we should be well positioned to profit from conservative underwriting standards, improving loss trends and attractive risk adjusted premium pricing levels.

Our business strategy is to become a leading national MI company with our principal focus on writing insurance on high quality, low down payment residential mortgages in the United States. As part of this strategy, our near term objectives include:

- ***Obtaining outstanding certificates of authority, or state insurance licenses, and establishing effective rates and policy forms where required.*** As of the date of this prospectus, NMIC is licensed in 48 states and D.C., has effective rates in 47 states and D.C. and effective policy forms in 46 states and D.C. Our objective is to obtain licenses, effective rates and policy forms in all 50 states and D.C. NMIC's application for a certificate of authority was not accepted by the Wyoming Insurance Department for formal review due to the state's two year statutory seasoning requirement. We are in the process of preparing documentation to submit to the Wyoming Insurance Department to attempt to obtain a waiver of Wyoming's seasoning requirement. In Florida, we withdrew NMIC's application in response to a request by Florida's Office of Insurance Regulation ("FL OIR"). With the goal of resolving the FL OIR's concerns as expeditiously as possible, we intend to refile NMIC's application for a certificate of authority in Florida by mid-August 2013. NMIC's application for approval of rates is pending in Washington and its applications for approvals of policy forms are pending in Maryland and Alaska.

- ***Evaluating risk in a timely fashion on all insured loans.*** We intend to review every loan we insure through both our delegated and non-delegated channels. Through a program we call "Delegated Assurance Review", we plan to conduct a post-close underwriting review of each mortgage insurance policy issued by our customers under their delegated authority. This differs from other MI companies that typically underwrite a sampling of policies originated through their delegated underwriting channels. By underwriting each policy, we believe we can more effectively manage the risk characteristics in our portfolio and provide a high level of confidence to our lenders that valid claims will be paid. We also expect this process will allow us to provide our customers with timely, value-added feedback on the risk characteristics of their loan originations.
- ***Establishing customer relationships.*** In order to develop a diverse customer base of mortgage originators, we believe we will ultimately need to have a sales force of qualified mortgage professionals that generally have well-established relationships with industry leading lenders and significant experience in both MI and mortgage lending. Mortgage insurance is a highly competitive industry and therefore we believe establishing and maintaining relationships with many lending institutions is critical to our success. As of the date of this prospectus, we have made progress with hiring approximately 30% of our target sales force staffing goal.
- ***Attracting and retaining our employee base.*** We believe our Company will be an attractive stable place of employment, given that we are a well-capitalized insurance company that has made significant progress in commencing business in the MI marketplace, allowing us to attract what we believe to be a high-quality talent pool. We have grown from zero employees prior to our capitalization in April 2012 to over 100 employees as of July 31, 2013. We currently expect to have approximately 200 employees by the end of 2013.
- ***Integrating our systems with mortgage lenders, loan servicing systems and leading third-party origination systems.*** Many of our customers will require us to have connectivity or be integrated with one or more of the largest loan servicing and/or leading third-party loan origination systems as a precursor to doing business with them. We have completed integration with two of the largest loan servicing systems, LPS MSP and Fiserv LoanServ™. We have also begun the process of integrating with the leading third-party loan origination systems, and expect to complete some of these integrations this year, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer® and Mortgage Builder. By mid-2014, we believe we will be substantially integrated with the other leading third-party loan origination systems. We will also integrate directly with those lenders that maintain their own, proprietary loan origination and servicing system technologies, recognizing that the time-lines for these integrations are heavily dependent upon the lenders' internal technology resource time-lines and availability.
- ***Continuing development of our enterprise technology platform.*** We seek to continue to develop our enterprise technology platform to support our mortgage insurance operations, including underwriting, premium billing, policy servicing and delinquency and claims management functions. In order to adequately support our mortgage insurance operations, we expect that, when completed and all components are fully integrated, our technology platform will allow us to: (i) obtain applications and supporting documentation from our lenders on an automated basis, thereby enabling lenders to submit insurance applications in an efficient manner and facilitating our risk review, (ii) obtain real-time data on performance of individual insured loans and programs, enabling a transparent and collaborative policy acquisition and underwriting process that should reduce response times, decrease costs and streamline communication with lenders, (iii) provide real-time feedback data for monitoring underwriting guidelines and for communicating to lenders the quality

metrics and performance of the loans we insure, (iv) bill and collect premiums electronically and (v) adjust and settle claims.

We intend to execute the above strategy, by taking advantage of the following competitive strengths:

- ***Availability of capital to support growth***. As a newly capitalized mortgage insurer, we do not have exposure to the losses caused by historical underwriting standards (which we believe to have been less than adequate) and declines in home values experienced during the recent financial crisis. We believe our current capital will support approximately $30 billion of insurance in force ("IIF") while staying within the regulatory guidelines imposed by state insurance departments and the GSEs.

- ***Superior business practices and terms of trade.*** Existing MI companies have rescinded or denied coverage on a significant number of mortgage insurance policies in recent years. We believe this has strained the relationship between a number of the mortgage originators and some existing private mortgage insurers, providing an opportunity for a new entrant to more effectively compete with existing providers. We believe our terms of trade offer a unique approach to rescission relief that sets us apart from other MI companies. Under our master policy, after a borrower has timely made 18 consecutive monthly payments on a loan we insure, we have agreed that we will not rescind or cancel coverage of that loan for borrower fraud or underwriting defects. In addition, upon the borrower attaining 18 full and timely consecutive monthly payments, we have agreed to limitations on our ability to initiate an investigation of fraud or misrepresentation by our insureds or any other party involved in the origination of an insured loan, which we collectively refer to in our master policies as a "First Party." We believe the standard approach by most MI companies is to provide this rescission relief with respect to underwriting defects and investigation of First Party fraud or misrepresentation after 36 months of full and timely consecutive monthly payments. For this and other reasons, we believe the terms of our insurance coverage described in our Master Policy Agreement will be favorably received by our customers, allowing us to gain market share from current providers. In addition, because we review every loan we insure as described above, we believe we are well aligned with the GSEs' desire that MI providers adopt up-front quality control practices that have the effect of giving insureds assurance of coverage after a borrower has timely made 36 months of loan payments.
- ***Experienced management team***. We have assembled a senior management team with extensive experience developing and operating MI companies. Our Chief Executive Officer, Bradley Shuster, was responsible for international operations for PMI Mortgage Insurance Co. ("PMIC"), coordinating both acquisitions in Australia and *de novo* operations in Canada, Europe and Hong Kong. Before leaving PMIC in 2008, Mr. Shuster was responsible for the sale of PMIC's Australian operations to QBE Group for approximately $1.0 billion. In addition to Mr. Shuster, the rest of the Company's executive management team averages over 25 years of mortgage or financial services industry experience. See "*Management - Executive Directors and Officers*."

We believe our strategy and competitive strengths should provide for an efficient deployment of our capital and for strong overall risk management allowing us to operate profitably across market cycles.

Overview of the Private Mortgage Insurance Industry

The MI industry emerged in the United States in the 1880s, and the first laws regulating mortgage insurance were passed in New York in 1904. The industry grew in response to the real estate boom of the 1920s. Following the Great Depression, the federal government began insuring mortgages through the FHA and the VA. The modern MI industry was established in the late 1950's to provide a private market alternative to federal government insurance programs, principally the FHA. MI covers losses of the insured institutions should homeowners default on their residential mortgage loans, up to pre-established coverage levels, reducing the loss to the insured institutions. MI enables consumers, especially first-time homebuyers, to finance homes with less than a 20% down payment, thereby expanding homeownership opportunities. Loans with less than 20% down payments are generally referred to as “low down payment” mortgages or loans.

The MI industry has from time to time experienced catastrophic losses similar to the losses currently being experienced by the existing MI providers. In the past, such losses have followed (i) severe regional recessions and attendant declines in property values in the nation's energy producing states; (ii) the lenders' development of new mortgage products to defer the impact on home buyers of double digit mortgage interest rates, e.g., adjustable rate mortgages with a below market teaser rate; and (iii) changes in federal income tax incentives which initially encouraged the growth of investment in non-owner occupied properties. Prior to the current cycle of such losses, the last time that private mortgage insurers experienced substantial losses of this nature was in the mid-to-late 1980s. The mortgage crisis in recent years had a profound negative effect on the operating results and capital position of the MI industry and some companies were forced into receivership and ceased writing new business.

GSEs

The GSEs are the principal purchasers of the mortgages insured by MI companies, primarily as a result of their governmental mandate to provide liquidity in the secondary mortgage market. Freddie Mac's and Fannie Mae's federal charters generally prohibit the GSEs from purchasing a low down payment loan, unless the loan is insured by a qualified mortgage insurer, the mortgage seller retains at least a 10% participation in the loan or the seller agrees to repurchase or replace the loan in the event of a default. As a result, the nature of the private mortgage insurance industry in the United States is driven in large part by the requirements and practices of the GSEs, which include:

- the level of MI coverage, subject to the requirements of the GSEs' charters (which may be changed by federal legislation) as to when MI is used as the required credit enhancement on low down payment mortgages;

- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require MI;

- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection;

- the availability of different loan purchase programs from the GSEs that allow different levels of MI coverage. For example, the GSEs allow lenders to deliver loans with “standard coverage” from an MI company, or, in exchange for lenders paying higher fees, lower “charter minimum” coverage levels. Historically, the large majority of loans are insured at “standard coverage” levels. If the relationship between the cost of mortgage insurance and the fees charged by the GSEs for various coverage levels changes, lenders may prefer to obtain “charter minimum” coverage levels on their loans;

- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans;

- the terms on which MI coverage can be canceled by the borrower before reaching the cancellation thresholds established by law;

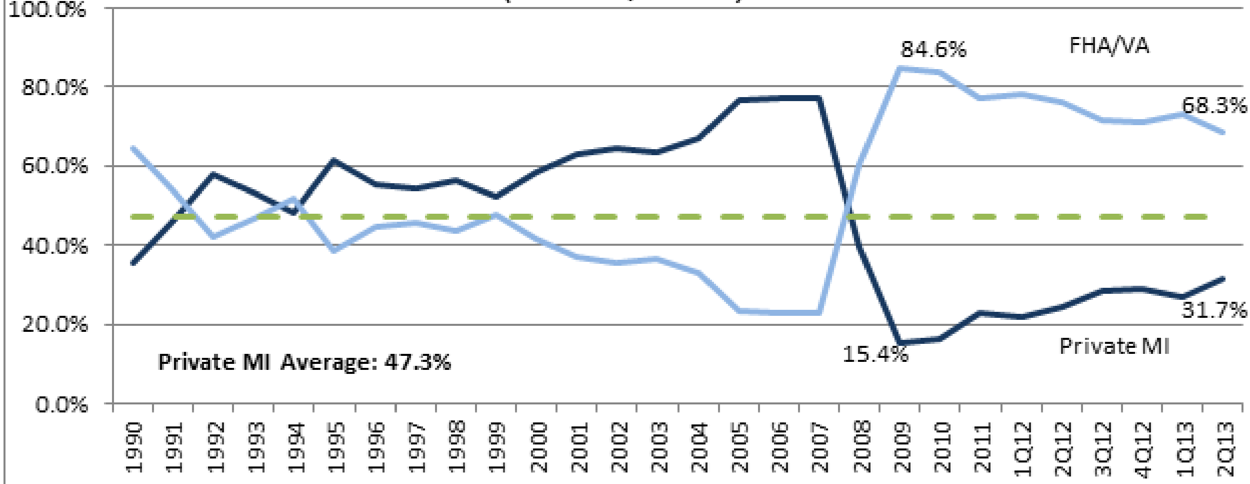
- the terms that the GSEs require to be included in MI policies for loans that they purchase;

- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs; and

- the minimum capital levels required to be maintained by MI companies.

The requirements and practices of the federal regulators that oversee the GSEs and lenders also affect the operating results and financial performance of companies in the MI industry. The FHFA is the conservator of the GSEs. As their conservator, the FHFA has the authority to control and direct the operations of the GSEs. For example, the FHFA has indicated that its 2013 strategic plan for the GSEs includes a target of $30 billion of unpaid principal balance in multiple types of risk-sharing transactions for both Fannie Mae and Freddie Mac, which may include MI. The $30 billion of unpaid principal balance refers to the outstanding loan amount for all loans under consideration in these transactions. As discussed in this prospectus, NMIC has entered into a pool insurance agreement with Fannie Mae, pursuant to which NMIC will insure approximately 22,700 residential mortgage loans with an aggregate unpaid principal balance of approximately $5.46 billion. Based on this transaction, we generally believe the FHFA's 2013 strategy will have a beneficial impact on our business and the MI industry.

In February 2011, the U.S. Department of the Treasury reported its recommendations regarding options for ending the conservatorship of the GSEs, and while it does not provide any definitive timeline for GSE reform,it does recommend substantially reducing the government's footprint in housing finance. Legislation has been proposed in both the House and Senate to replace the GSEs in their role as providing a secondary market outlet through their loan purchase and mortgage guaranty security programs. The legislation currently pending in the US Congress would have differing impacts on the current role of mortgage insurance as credit enhancement. At this time it is impossible to predict the final outcome of this legislation and its impact on the role of mortgage insurance as a credit enhancement.



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HARP: Home Affordable Refinance Program

Mortgage Insurance

Residential MI protects mortgage lenders and investors in the event of borrower default, by reducing and, in some instances, eliminating the resulting credit loss to the insured institution. By mitigating losses as a result of borrower default, mortgage insurance facilitates the origination of “low down payment” mortgages, which are mortgages to borrowers who make down payments of less than 20% of the value of the homes. Mortgage insurance also may reduce the capital that financial institutions are required to hold against insured loans and facilitates the sale of low down payment mortgage loans in the secondary mortgage market, primarily to the GSEs. NMIC’s residential mortgage insurance products will primarily provide first loss protection on loans originated by residential mortgage lenders and sold to the GSEs and, to a lesser extent, on low down payment loans held by portfolio lenders. NMIC offers the two principal types of MI, “primary” and “pool” which we discuss further below. We wrote our first primary insurance policy in April 2013 and have announced that we have entered into a significant pool coverage insurance transaction with Fannie Mae, which will constitute a significant percentage of our risk-in-force until our primary business writings reach a material level. We ultimately expect that most of the insurance that we write in the future will be primary insurance.

Primary Mortgage Insurance

Primary mortgage insurance provides mortgage default protection on individual loans at specified coverage percentages. Primary business is typically offered in one of two ways, either in bulk transactions or on a "flow" basis. Bulk delivery is when more than one loan is insured at a time. Flow originations occur one single loan at a time. We expect to offer primary mortgage insurance products on a flow basis to our customers. Our maximum obligation to an insured with respect to a claim is generally determined by multiplying the coverage percentage selected by the insured by the loss amount on the defaulted loan. The loss amount on an insured loan includes unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale of the property. At the time of a claim, we will typically pay the coverage percentage of the claim amount specified in the primary policy, but have the option to (i) pay 100% of the claim amount and acquire title to the property, or (ii) in the event the property is sold prior to settlement of the

claim, pay the insured's actual loss up to the maximum level of coverage. We expect that most of our primary insurance will be written on first mortgage loans secured by owner occupied single-family homes, which are defined as one-to-four family homes and condominiums. To a lesser extent, we may also write primary insurance on first mortgages secured by non-owner occupied single-family homes, which are referred to in the home mortgage lending industry as investor loans, and on vacation or second homes.

Primary insurance-in-force ("IIF") is the unpaid principal balance of insured loans. Primary risk-in-force ("RIF") is the product of the coverage percentage multiplied by the unpaid principal balance. Lenders that purchase our mortgage insurance select specific coverage levels for insured loans, from the coverage percentages that we offer. For loans sold to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered. For other loans, the lender makes the determination. We expect our risk across all policies written to approximate 25% of the primary insurance in force but will vary between 6% and 35% coverage. We charge higher premium rates to account for the risk of higher coverage percentages, as higher coverage percentages generally result in higher amounts paid per claim.

Depending on the loan and the lender, the premium payments for flow primary mortgage insurance coverage are typically borne by the borrower. Our industry refers to loans having this requirement as borrower paid mortgage insurance ("BPMI"). If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as lender paid mortgage insurance ("LPMI"). In either case, the payment of premium to us is generally the responsibility of the insured. We currently expect that most of our primary insurance written will be BPMI, although this could change in the future.

Our premium rates are based on rates that we have filed with the various state insurance departments. To establish these rates, we use pricing models that assess risk across a spectrum of variables, including coverage percentages, LTV, loan and property attributes, and borrower risk characteristics. Premium rates cannot be changed after the issuance of coverage. Because we believe that over the long term, each region of the United States is subject to similar factors affecting risk of loss on insurance written, we generally utilize a nationally based, rather than a regional or local, premium rate policy for insurance written on a flow basis.

In general, premiums are calculated as basis points of the unpaid principal balance. Our premium plans can be broken down into four distinct types:

- single — all premium is paid upfront and the premium is earned based on published earnings tables which factor in the LTV and loan term;
- annual — premium is paid in advance covering the subsequent 12 months and the premium is earned over the year, with renewals received prior to the expiration of the current coverage;
- monthly — coverage begins on the loan close date and when the premium is received and the lender is billed each month for the next month's coverage; and
- monthly Advantage — coverage begins as of the loan close date, when we receive notice of such close date and the lender is billed for the previous month's coverage every month.

In general, we may not terminate MI coverage except in the event there is non-payment of premiums or certain material violations of NMIC's mortgage insurance policies. Mortgage insurance coverage is renewable at the option of the insured lender, at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, the GSEs' guidelines generally provide that a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower's request when the principal balance of the loan is 80% or less of the property's current value. The federal Homeowners Protection Act of 1998 (“HOPA”) also requires the automatic termination of BPMI on most loans when the LTV ratio (based upon the loan's amortization schedule) reaches 78%, and provides for cancellation of BPMI upon a borrower's request when the LTV ratio (based on the original value of the property) reaches 80%, upon satisfaction of the conditions set forth in the HOPA. In addition, some states impose their own notice and cancellation requirements on mortgage loan servicers.

Pool Insurance

Pool insurance is generally used as an additional “credit enhancement” for certain secondary market mortgage transactions. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if such loan has primary coverage, as well as the total loss on a defaulted mortgage loan which did not have primary coverage. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible. As discussed previously in this prospectus, the FHFA has set goals for the GSEs to engage in $30 billion of risk sharing transactions in 2013. As described above, NMIC was the successful bidder on a pool insurance transaction offered by Fannie Mae. We will be paid monthly insurance premiums by Fannie Mae for assuming net insurance risk of approximately $98 million. This pool transaction is unlike a typical pool transaction, in that the loans which make up this particular pool do not have primary MI on them, as the LTVs at origination are below what would have required MI to be placed. As our primary flow business writings have not yet reached a material level, the risk on this pool transaction will constitute a very large percentage of our total insurance risk in force until our primary flow business writings do reach a material level.

Customers

Our sales strategy is focused on attracting as customers mortgage originators in the United States that fall into two distinct categories, which we refer to as "National Accounts" and "Regional Accounts". We define National Accounts as the 35 largest residential mortgage originators as determined by volume of originations. These National Accounts generally originate loans through their retail channels as well as purchase loans originated by other entities, primarily mortgage originators who we would classify as Regional Accounts, as described below. National Account lenders may sell their loans to the GSEs or private label secondary markets or securitize the loans themselves. We plan to service this customer base with a small but specialized team of National Account sales people who have experience sourcing business from this segment. Our progress with National Accounts includes establishing relationships, working to complete our respective due diligence processes, issuing master polices, responding to information data security assessments and evaluations, mutually evaluating credit policies and parameters and continuing to integrate with the necessary origination and loan servicing systems. To date, 18 of the National Account lenders have agreed to use NMIC as a mortgage insurance provider. While we believe we have favorable relationships with the 18 National Accounts that have indicated they will purchase MI from NMIC, there is no obligation to use NMIC as an MI provider and, as of the date of this prospectus, we have not received any business from these 18 National Accounts. We continue to work with the other 17 National Accounts to engage them as customers.

The Regional Accounts originate mortgage loans on a local or regional level throughout the country. Some of these Regional Accounts have origination platforms that span across multiple regions, however, their primary lending focus is local. They sell the majority of their originations to National Accounts who purchase loans originated by others, but Regional Accounts may also retain loans in their portfolios or sell portions of their production directly to the GSEs. We intend for our nationwide and regional sales teams to address the Regional Accounts segment of the market, and with the early efforts of these teams, we have been able to attract a small population of lenders in this segment who have agreed to purchase MI from NMIC. Our future efforts will be focused on growing this segment of our customer base. Our ability to make progress penetrating Regional Accounts is primarily dependent on the following three factors:

- Obtaining approval from National Account lenders to be an authorized MI provider enables Regional Accounts to sell loans with insurance from NMIC to those National Accounts. Consequently, these approvals are critical to making inroads with Regional Accounts. As discussed above, 18 of the 35 National Accounts have agreed to use NMIC an an MI provider.

- Achieving connectivity with the largest loan servicing systems. Many of the loan servicers in the industry who sub-service loans originated by Regional Accounts that do not conduct their own servicing operations rely primarily on the two most signifcant servicing systems, LPS MSP and Fiserv LoanServ™, to subservice these loans. As discussed above in "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Development of our IT Platform"*, we have completed integration with LPS MSP and Fiserv LoanServ™. Attaining connectivity with these servicing systems is one of the important first steps with respect to Regional Accounts purchasing MI from NMIC.

- Achieving connectivity with leading third-party loan origination systems utilized by Regional Accounts. As discussed above, we have begun the process of integrating with some of the leading providers of automated loan origination systems, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer® and Mortgage Builder. The Regional Accounts who originate loans using these leading third-party loan origination systems will be able to automatically select NMIC as an MI provider within those systems. The progress we have made to date connecting with these loan origination systems is another significant achievement with respect to our readiness to engage with the Regional Accounts.

The GSEs, as major purchasers of conventional mortgage loans in the United Sates, are the primary beneficiaries of our mortgage insurance coverage. Revenues from our customers are expected to be generated in the United States only.

Sales and Marketing and Competition

Sales and Marketing

Our current sales resources are designed to optimize our opportunity in the market as well as balance our expenses effectively. Our current sales force is located throughout the United States to directly sell our mortgage insurance products to lenders. In 2013, we are continuing to build our sales force by hiring qualified mortgage professionals that generally have well-established relationships with industry leading lenders and significant experience in both MI and mortgage lending. NMIC's product development and marketing department has primary responsibility for creating and supporting our MI products. As of the date of this prospectus, we have completed approximately 30% of our sales team hiring efforts, with a target of fully staffing our sales force in the first half of 2014.

Competition

Our competition includes other private mortgage insurers, governmental agencies that sponsor government-backed mortgage insurance programs and alternatives to credit enhancement products, such as piggy-back loans. The MI industry is highly competitive. We compete with other private mortgage insurers based on underwriting guidelines, product features, pricing, customer relationships, name recognition, reputation, the strength of management teams and field organizations, the effective use of technology, innovation in the delivery and servicing of insurance products and our ability to execute.

The U.S. MI industry currently consists of seven active private mortgage insurers, including NMIC, MGIC Investment Corporation (“MGIC”), Radian Guaranty Inc. (“Radian”), United Guaranty Corporation (“UGI”), a division of American International Group, Inc., Genworth Mortgage Insurance (“Genworth”), Essent Guaranty (“Essent”) and CMG Mortgage Insurance Company (“CMG”), the latter of which has solely offered mortgage insurance to credit unions. In February 2013, an insurer domiciled in Bermuda, with mortgage insurance operations in Europe, announced that it had entered into an agreement to purchase CMG. The agreement is subject to numerous closing conditions, including the requirements to obtain approvals from the GSEs and state insurance regulators, as well as other regulatory authorizations. We believe the buyer intends to expand CMG's footprint beyond the credit union mortgage insurance market. In addition, the perceived increase in credit quality of loans that are being insured today, the deterioration of the financial strength ratings of the existing mortgage insurance companies and the possibility of a decrease in the FHA's share of the mortgage insurance market may encourage additional new entrants. During 2011, two mortgage insurers stopped writing new business and, based on public disclosures, these insurers approximated more than 20% of the MI industry volume in the first half of 2011. We believe their new origination market share has since been redistributed among the other MI companies.

We and other private mortgage insurers also compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the VA. These agencies' market share during 2010, 2011 and 2012 was approximately 84%, 77% and 68%, respectively, of low down payment residential mortgages that were subject to governmental and private mortgage insurance. While declining from a high of approximately 85% in 2009, the market share of governmental agencies remains substantially above the low of approximately 23% in 2007, according to statistics reported by Inside Mortgage Finance. As noted above, the combined market share of the FHA and VA has decreased each year since 2010, a trend that we believe has been positive for the MI industry. In our view, this decrease may have been influenced by increases in the cost of FHA insurance in recent years, stricter FHA guidelines, the inability of the borrower to cancel FHA mortgage insurance and the FHA pulling back from the market given its failure to meet its congressionally mandated capital requirements.

In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expanding the authority of their state governments to insure residential mortgages.

Underwriting and Risk Management

To qualify to receive mortgage insurance from us, a lender would first enter into a master policy agreement with us. The master policy sets forth the general terms and conditions of our MI coverage. Our primary mortgage insurance policies are issued through one of two programs:

- non-delegated — we underwrite the insurance application and provide a response to the lender, prior to the loan closing; or

- delegated — if deemed eligible by NMIC, certain loan originators may bind our mortgage insurance coverage following their own underwriting review. Loans submitted through the delegated program must meet certain eligibility rules. The delegated program is only available to customers that have strong underwriting experience. In addition, similar to the non-delegated program, we have processes in place to perform quality assurance reviews of our customers' underwriting of all delegated loans within several months of the loan closing date.

Non-Delegated Program

To obtain mortgage insurance on a loan, a master policyholder submits an insurance application to us, along with the borrower's mortgage application, an appraisal report from an independent, licensed appraiser, borrower credit report, employment and income verification, tax returns from self-employed borrowers, verification of funds sufficient to cover the expected down payment for the loan closing and purchase contract and any other documentation to support loan qualification for mortgage insurance. We do not currently intend to provide primary MI in instances where the lender has waived certain documentation requirements, such as written verification of employment and proof of source of funds for closing. Our underwriters review all materials submitted and render an insurance decision, typically within 24 to 48 hours, depending on the MI application volume.

In addition to our non-delegated underwriter employees located at our corporate headquarters and remotely across the country, we have entered into contracts with third-party service providers under which they will underwrite the mortgage insurance decision on certain loans for NMIC, consistent with NMIC's underwriting guidelines and subject to the terms of the outsourcing agreements. We expect our underwriting vendors will share in the daily underwriting of mortgage insurance applications submitted to us, depending on the volume and with targeted assignments of particular loans to particular vendors, to ensure timely response-times to lenders. These underwriters will follow the same process outlined above that our own employees follow when they render an insurance decision. Any underwriting decisions requiring escalation or a second review will be referred back to NMIC for decision making.

We have processes in place to manage the risk associated with outsourcing a component of our underwriting functions. In collaboration with the vendor's management team, NMIC will assign an employee to be located on-site at the vendor's premises to monitor the vendor's day-to-day underwriting of mortgage insurance decisions. We will also review the qualifications of the vendor's underwriters and will provide system and guideline training to ensure the vendor's underwriting philosophy is consistent with ours. We will perform regular quality control reviews of each vendor's performance, and our agreements with the vendors require them to give us access to the results of their internal quality control reviews. Underwriters with unacceptable performance will be carefully monitored with specific action plans, and our agreements provide for timely replacement with 30 days' notice.

Delegated Program

We plan to permit delegated underwriting with lenders that have a track record of originating quality mortgage loans. The lenders are required to underwrite the loan in accordance with NMIC's approved guidelines. If the lender believes a loan is eligible for mortgage insurance coverage from NMIC, it may bind the insurance coverage in accordance with the delegated authority conferred under our delegated underwriting program, as set forth in the terms of our master policy and related endorsements. In order to bind coverage, the lender must

provide a dataset to us to help demonstrate the loan meets our threshold eligibility rules. In addition, delegated lenders are required to submit a full loan file (which contains all information and documentation required by the traditional underwriting process) to us within 60 days of the coverage effective date, and we will perform a post-close underwriting review of the lender's underwriting decision for each insured loan. This process should provide us with confidence that loans we insure comply with our eligibility criteria and meet our underwriting guidelines. This process also assists us in identifying underwriting defects with lenders that need attention going forward. We believe that our full underwriting file review and quality control process differentiates our delegated underwriting process from the delegated underwriting process historically practiced by the MI industry and provides upfront clarity of coverage to our lenders. If a loan is deemed ineligible through our post-close review, we cancel the insurance certificate and return any premiums we have received.

We will use the third-party underwriting service providers with which we have outsourcing agreements to perform the majority of our post-close reviews of delegated decisions. If one of our service providers determines that a loan is ineligible for coverage, an NMIC underwriting manager will review the results to determine if we agree with our vendor before giving notice of cancellation of coverage to our insured. In addition to this review by an NMIC underwriting manager, NMIC's risk management departments will perform routine quality control reviews of a statistically relevant sample of each service provider's post-close reviews to help ensure that we are receiving the quality of underwriting that we expect from these providers.

Underwriting Guidelines and Risk Management

Our underwriting and risk management guidelines are based on what we believe to be the major factors that impact mortgage credit risk. Such factors include but are not limited to the following:

- the borrower's credit strength, including the borrower's credit history, debt-to-income ratios and cash reserves and the willingness of a borrower with sufficient resources to make mortgage payments when the mortgage balance exceeds the value of the home;
- the loan product, which encompasses the LTV ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property, the purpose of the loan and the interest rate;
- origination practices of lenders;
- the percentage coverage on insured loans;
- the size of loans insured; and
- the condition of the economy, including housing values and employment, in the geographic area in which the property is located.

We believe that, excluding other factors, claim incidence increases:

- for loans with higher LTV ratios compared to loans with lower LTV ratios;
- for loans with higher debt-to-income ratios;
- for loans to borrowers with lower FICO credit scores compared to loans to borrowers with higher FICO credit scores;
- during periods of economic contraction and housing price depreciation, including when these conditions may not be nationwide, compared to periods of economic expansion and housing price appreciation;

- for ARMs when the reset interest rate significantly exceeds the interest rate of loan origination;
- for loans in which the original loan amount exceeds the GSEs' established conforming loan limit compared to loans below that limit; and
- for cash out refinance loans compared to purchase or rate and term refinance loans.

There may be other types of loan characteristics relating to the individual loan or borrower that also affect the risk potential for a loan. In addition, the presence of multiple higher-risk characteristics in a loan materially increases the likelihood of a claim on such a loan unless there are other characteristics to lower the risk.

Exception Policies

As part of our underwriting guidelines, we may establish exception approval procedures that would permit our underwriters to approve MI policies that deviate from our established credit policy guidelines. Any exception would require approval in accordance with our exception approval procedures by a higher level of management. We expect that exception approvals to credit policy guidelines will usually result from overriding conditions, such as an excellent credit profile, significant income, employment stability, or a high net worth. In order to help ensure exceptions are limited to the criteria we set, we plan to generate exception reports that would track the number of exceptions by underwriter and rationale for each exception.

Risk Management

In accordance with established policies and procedures, we seek to identify, assess, monitor and manage the following risks in our MI business: credit risk, market risk and operations risk. Management of these risks is a multifaceted interdepartmental endeavor including specific operational responsibilities and senior management oversight. In addition, our Internal Audit function, which reports to the Audit Committee of our Board and senior management, provides independent ongoing assessments of our operations and risk control environment.

Credit Risk

We protect financial institutions against credit losses resulting from homeowner defaults on low down payment residential mortgage loans. Low down payment lending carries high credit risk because borrowers who encounter financial difficulties may have little equity, if any, (net of transaction costs) in their homes, and are therefore less likely to keep their mortgage payments current or sell the property to avoid foreclosure.

We plan to manage credit risk and portfolio risk-reward characteristics using guidelines, pricing and various risk and operations policies and processes. Important drivers of our credit risk exposure that are monitored and managed by us include but are not limited to:

- Credit risk profile. Our insured loan portfolio's credit risk profile is measured by credit score, loan-to-value, debt-to-income ratio, occupancy type, purpose (e.g., owner-occupied) and other factors. This risk profile is directly impacted by our credit guidelines, pricing and operational quality. The risk profile of our new business is also affected by the mortgage market and macroeconomic conditions. Key drivers include regulatory and/or tax changes affecting the economics of residential mortgage lending; regulatory changes impacting the relative attractiveness of MI to our customers; and consumer attitudes about the relative attractiveness of real estate as an investment; structural changes to the industry made to reduce the role of the federal government (and develop a long-term plan for the GSEs).

- Changes in home prices. A decline in home prices typically makes it more difficult for a borrower to sell or refinance his or her home, generally increasing the likelihood of a default followed by a claim. In addition, a decline in home prices typically increases the severity of any claim we may pay. The inability to sell or refinance homes, due to a decline in home prices, typically leads to an increase in persistency. Conversely, an increase in home prices potentially makes it easier for a borrower to sell or refinance his or her home, decreasing the likelihood of a claim on a loan in default, decreasing the severity of any claim we may pay and decreasing the policy persistency.

- Changes in employment and income, healthcare and divorce. Borrowers able to make only small down payments often have more difficulty weathering financial hardships caused by unemployment or income reductions, or life events involving illness or divorce, because they may not have large amounts of personal savings or available credit. If they do have a significant amount of available credit, they are more likely to increase leverage to levels that prove unsustainable over the long run. Rising unemployment will increase the number of borrowers unable to remain current on their home mortgage and increase the number of new claims. Conversely, as the unemployment rate decreases, portfolio delinquency rates will fall as fewer borrowers become unemployed and those that do are able to find new jobs more quickly.

- Changes in interest rates. Increasing interest rates directly impact the borrower's ability to pay by causing their debt payments to rise. Higher payments on adjustable rate mortgages and other variable rate consumer secured and unsecured debt reduce borrowers' ability to pay and increase the frequency of loss. Conversely, falling interest rates make variable rate consumer debt payments more affordable and reduce loss frequency. Changes in interest rates will also indirectly impact the portfolio's credit risk characteristics through their effect on economic growth rates, the affordability of housing, loan persistency and other factors.

- Regional economic developments. Credit performance in specific geographic regions can vary substantially from the national mean based on the impact of regional developments. These developments may include economic booms or busts in particular industries accounting for a material share of total employment, the impact of natural disasters and other factors.

Credit risk will be measured by reporting with segmentation by key credit risk drivers such as credit score, LTV, occupancy, purpose and vintage. Segmentation will include balances, risk in force, revenue, delinquencies (by default status), losses (claims paid), persistency and reserves. We will also report claim size and severity. We will evaluate bulk and flow business separately. We will assess underwriting quality separately through quality assurance and quality control audits.

We plan to assess the portfolio's risk/reward characteristics, considering both quantitative and qualitative factors. This assessment will include risks inherent in the business that are not fully reflected or yet evident in the numbers. Material changes to the portfolio's credit risk profile that occurred from the last reporting period to the current will be also be discussed, as well as management's forward looking assessments.

Market Risks

We believe that the three primary market risks that we will face as an MI company are:

- Changes in home prices. A decline in home prices typically makes it more difficult for a borrower to sell or refinance his or her home, generally increasing the likelihood of a delinquency followed by a claim. In addition, a decline in home prices typically increases the severity of any claim we

may pay. The inability to sell or refinance homes, due to a decline in home prices, typically leads to an increase in persistency, which for monthly or annual products will mean continued premiums. Conversely, an increase in home prices potentially makes it easier for a borrower to sell or refinance his or her home, decreasing the likelihood of a delinquency followed by a claim, decreasing the severity of any claim we may pay and decreasing the policy persistency and correspondingly reducing premium streams on monthly or annual products.

- Changes in unemployment. Increases in the unemployment rate typically impair a borrower's ability to remain current on his or her home mortgage, increasing the likelihood of a delinquency followed by a claim. Conversely, as the unemployment rate decreases, a borrower's ability to remain current on their home mortgage typically improves, decreasing the likelihood of a delinquency followed by a claim.
- Changes in interest rates. An increase in interest rates typically leads to lower home affordability and less refinancing activity. This may decrease mortgage origination volume thereby reducing the number of low down payment loans available for us to insure. However, an increase in interest rates typically leads to a higher mix of purchase versus refinance activity which results in a higher overall penetration rate of MI. The higher penetration rate is also a result of overall lower total originations during a high interest rate environment. Higher interest rates also typically lead to higher persistency of our MI policies. Conversely, a decrease in interest rates typically leads to an increase in low down payment loans available for us to insure, a decrease in the penetration rate of MI and a decrease in the persistency of MI policies from higher refinance activity.

Operations Risks

We are dependent on our employees, internal processes, vendors and systems to execute our business strategy. Operational risks are inherent in the company's business activities. Management's primary operations risk focus is to manage risks of material significance through operational design, policies and procedures, redundancies and review/audit processes.

Because we are a new company in an industry in transition, the risk of loss due to operational inadequacies or failures is elevated compared to an established company. Operational risk is driven by multiple factors including:

- Process design and execution. New processes and procedures may not appropriately take into account scenarios that were unforeseen or misunderstood. Employees may make mistakes when executing defined processes and procedures.

- Vendor Performance. One component of our strategy is to leverage vendors for key functions including system development, website hosting, insurance approval, underwriting assurance review audits and human resources management, among others. Vendors may overstate their capabilities and/or be unable to meet promised service levels. Mistakes or failures may lead to business disruptions and/or losses.

- System Functionality and Reliability. Systems may not be developed on time, be properly designed, perform as specified or be sufficiently reliable. Utility disruptions may bring systems down for extended periods.

- Damage to Physical Assets and Human Resources. Aside from work-at-home employees residing across the country, our operations and staff are housed in a single building in a shoreline location near

a major earthquake fault. This concentrated exposure leaves us more exposed to natural disasters, vandalism, terrorism and other sources of damage.

- Fraud. Insured institutions may attempt to collect insurance benefits based on fraud and misrepresentation, and employees may attempt to misappropriate company assets.

- Inadequate Internal Controls. Various internal controls have been established to manage operational and other risks. Inadequate internal controls expose us to greater operational risk.

Operational risk reporting will focus on material operations losses and risk profile changes during the current reporting period.

Other Risk Management Practices

Management Risk Committee

We have a management risk committee, comprised of our Chief Executive Officer, Chief Risk Officer, Chief of Insurance Operations and other officers as appropriate, to monitor our underwriting and risk management practices. This committee will also monitor insured portfolio concentrations and portfolio performance. We expect that this committee will continue to include a diverse mix of senior management to ensure that those responsible for execution are balanced with those responsible for oversight. Portfolio performance and adherence to internal controls and procedures is also part of our monthly, quarterly and annual close process.

We expect that GSE-approved products will comprise the substantial majority of our product mix initially. Additional products, material changes to existing products or material changes to underwriting guidelines will have to be approved by the management risk committee prior to release.

Lender Monitoring

We plan to maintain prudent lender approval requirements, including assessing factors related to experienced management, sound operations and a demonstrated record of originating quality loans. We plan to conduct thorough reviews of each prospective client, including reviews of the historical performance of loans originated by the lender and a review of any loan programs outside established underwriting guidelines. We plan to pay special attention to the quality of a lender's underwriting over time as well as its compliance with underwriting guidelines. We intend to evaluate customers' underwriting performance as losses develop and allow only those lenders with a favorable evaluation to utilize the delegated underwriting process.

Concentration Risk

We intend to monitor and manage our concentration of risk through underwriting activities. Key areas of focus are expected to include geography, customer, product type and underwriting mix (e.g., instrument type, property type and borrower employment category). To track the concentration of risk, we plan to generate customized management risk and exposure reports.

Integrated Quality Control Process

We have designed and developed a quality control group that operates separately from the underwriting group to administer our underwriting quality control reviews. The underwriting quality control group will assess non-delegated underwriting completed by both our employee and third-party vendor underwriters, delegated underwriting completed by approved lenders and post-close underwriting reviews of delegated business completed by our third-party vendors.

We intend to perform quality control audits of insured loans identified through random, high risk and targeted selection criteria. In addition, we intend to review loans that default within 12 months of their origination, which we refer to as "early payment defaults" or “EPDs”. Our quality control review is primarily intended to assess the quality of the underwriting decision, including the accuracy and adequacy of the information and documentation used to reach that decision.

A servicing quality control audit will also be established covering our internal insurance servicing and loss mitigation processes. Selection criteria and reporting will be similar to that described above for underwriting quality control. The audit will focus on activities related to beginning and ending coverage, servicing existing coverage, defaults and loss mitigation and claim payment.

We will provide detailed reporting to operations management and summary reporting to senior management. We will also factor information obtained from our quality control process into other risk processes, including underwriter authority delegation, lender monitoring and guideline management.

Servicing

Our Policy Servicing Department is responsible for various servicing activities related to master policy administration, premium billing and payment processing and certificate administration. The department has servicing specialists that are assigned to the majority of our accounts to assist with day-to-day transactions and assist in monitoring the servicer's portfolio to help keep it current and accurate. The department has established policies and procedures that accommodate reporting from and communications with servicers utilizing a variety of different formats.

Defaults and Claims; Loss Mitigation

Defaults and Claims

The claim cycle on MI generally begins with our receipt of notification of a default on an insured loan from the servicer. Default is defined in NMIC's mortgage insurance policies as the failure by a borrower to pay when due a non-accelerated amount equal to the scheduled mortgage payment due under the terms of a loan or the failure by a borrower to pay all amounts due under a loan after the exercise of the due on sale clause of such loan. Generally, the master policies require an insured to notify us of a default no later than 10 days after the borrower becomes three payments in default, although most lenders notify us sooner. We do not consider a loan to be in default for the purposes of reporting defaults and default rates and setting reserves until we receive notice from the servicer that a borrower has failed to pay two regularly scheduled payments and is at least 60 days in default. The incidence of default is affected by a variety of factors, including borrower income, unemployment, divorce and illness, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage.

Claims result from uncured defaults or approved short sales. Whether a claim results from an uncured default depends, in large part, on the borrower's equity in the home at the time of default, the borrower's or the lender's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage and the willingness and ability of the borrower and lender to enter into a loan modification that provides for a cure of the default. Various factors affect the frequency and amount of claims, including local housing prices, employment levels and interest rates. If a default is not cured and we receive a claim, any premium collected from the time of default to time of the claim payment is returned to the servicer along with the claim payment.

Under the terms of our master policy, the lender is required to file a claim for primary insurance with us within 60 days after it has acquired title to the underlying property (typically through foreclosure) or when there has been an approved sale to a third party prior to foreclosure. Across the industry, it has historically taken on average approximately 12 months for a default that is not cured to develop into a paid claim. The rate at which claims are received and paid has slowed in recent years due to various state and lender foreclosure moratoriums and suspensions, servicing delays including as a result of attempts to modify loans, pursuit of mitigation opportunities and a lack of capacity in the court systems.

Within 60 days after a claim has been filed and all documents required to be submitted to us have been delivered, we have the option of either (i) paying the coverage percentage specified for that loan, with the insured retaining title to the underlying property and receiving all proceeds from the eventual sale of the property, or (ii) paying 100% of the insured's loss on the loan in exchange for the lender's conveyance of good and marketable title to the property to us. In the event we exercise the latter option, we will market and sell the property and retain all proceeds.

Claim activity is not evenly spread throughout the coverage period of a book of primary business. Relatively few claims are typically received during the first two years following issuance of coverage on a loan. This is typically followed by a period of rising claims which, based on industry experience, has historically reached its highest level during the period between three and six years after the year of loan origination. Thereafter, the number of claims typically received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including slowing home price appreciation or housing price depreciation and rising unemployment. Persistency of our book, the condition of the economy, including unemployment and other factors can affect the pattern of claim activity. For example, a weak economy can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline.

Another important factor affecting losses is the amount of the average claim paid, which affects the claim amount as a proportion of total RIF, commonly referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan, the coverage percentage on the loan and local market conditions.

Loss Mitigation

Before paying a claim, we plan to review the loan and servicing files to determine the appropriateness of the claim amount. Under our mortgage insurance policies, after a borrower has timely made 18 consecutive monthly payments on a loan we insure, we have agreed that we will not rescind or cancel coverage of that loan for borrower fraud or underwriting defects. In addition, upon the borrower attaining 18 full and timely consecutive monthly payments, we have agreed to limitations on our ability to initiate an investigation of fraud or misrepresentation by our insureds or any other party involved in the origination of an insured loan, which we collectively refer to in our master policies as a "First Party." Our master policy provides that we can reduce or deny a claim if the servicer did not comply with its obligations required by our policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently

pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduce claim amounts by less than the amount of curtailments.

Loss Reserves and Premium Deficiency Reserve

A significant period of time typically elapses between the time when a borrower defaults on a mortgage payment, which is the event triggering a potential future claim payment by us, the reporting of the default to us, the acquisition of the property by the lender (typically through foreclosure) and the eventual payment of the claim related to the uncured default. To recognize the liability for unpaid losses related to outstanding reported defaults, or default inventory, we establish loss reserves in accordance with industry practice, representing the estimated percentage of defaults which will ultimately result in a claim, which is known as the claim rate, and the estimated severity of the claims which will arise from the defaults included in the default inventory.

We will also establish reserves to provide for the estimated costs of settling claims, general expenses of administering the claims settlement process, legal fees and other fees (“loss adjustment expenses”), and for losses and loss adjustment expenses from defaults that we estimate have occurred, but which have not yet been reported to us. We refer to the latter as "IBNR" reserves. Consistent with industry accounting practices, NMIC does not establish loss reserves for estimated potential defaults that have not occurred but that may occur in the future. For a full discussion of our loss reserving policy and process, see *Management's Discussion and Analysis* - *Critical Accounting Policies* - *Reserve for Losses and Loss Adjustment Expenses*.

After our reserves are initially established, we will perform premium deficiency tests at the end of each fiscal quarter using our best estimate assumptions of future losses, expenses and premiums as of the testing date. We would establish a premium deficiency reserve, if necessary, when the net present value of expected future losses and expenses exceeds the net present value of expected future premiums and existing reserves. The evaluation of premium deficiency requires significant judgment by management and depends upon many assumptions, including assumptions regarding future macroeconomic conditions.

Reinsurance

As part of the MAC Acquisition, we acquired NMRI One and NMRI Two to provide reinsurance on policies held by NMIC to the extent they provide coverage in excess of 25% of IIF. Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the indebtedness and as a result the portion of such insurance in excess of 25% must be reinsured. NMIC uses reinsurance provided by NMRI One solely for purposes of compliance with statutory coverage limits. We currently do not expect to utilize NMRI Two for reinsurance. Although we have no current plans to use reinsurance from unaffiliated third-party reinsurers, we may choose to purchase reinsurance coverage in the future to help manage certain risk exposures. Under the terms of the GSE Approvals, if we choose to use third-party reinsurance during the first three years from the date of the GSE Approvals, we are required to obtain the GSEs' prior written consent, and subsequent to the three year period from GSE Approval, may enter into reinsurance arrangements as long as they meet the then applicable GSE Eligibility Requirements.

Information Technology Systems

We utilize and develop technology to support future growth and realize operating efficiencies throughout our enterprise. We have invested in our infrastructure and technology through the acquisition and

implementation of what we expect will be an efficient, scalable platform that supports our business activities and our potential for significant future growth.

We have adopted a technology strategy that utilizes major hardware, software and service providers with substantial industry expertise. We outsource many of our major information technology functions, including the development and operations of our enterprise technology platform, data center hosting and management, email and collaboration and human resource systems. Our data center hosting solution provides server and network support and monitoring. This approach enables our resources and personnel to focus on system enhancements rather than on system operations. We require our hosted centers to be SSAE 16 and SOC 1 compliant, i.e. provide verifications by an objective third party, such as a public accounting firm, that the hosted center has a strict internal control structure in place and is adhering to those strict internal controls.

Our IT Systems Architecture strategy incorporates Cloud (systems connected via the Internet) and Software as a Service (“SaaS”) technology in a number of areas to provide scalability and flexibility. We believe this strategy facilitates access for our lender customers and enables our employees to work remotely in a secure manner.

We employ and support the Mortgage Industry Standards Maintenance Organization (“MISMO”) standard. This is the standard data format used by the MI industry for data consistency throughout the systems process. We expect that application of this standard will make integrating with lenders, the GSEs and other business partners a more streamlined process. As part of our underwriting process, we capture data from each mortgage insurance application, providing us with information for evaluating risks, back-testing expected performance and analyzing default patterns.

We are developing a technology platform, which we refer to as "AXIS", to support our mortgage insurance operations, including underwriting, premium billing, policy servicing and delinquency and claims management functions. In order to adequately support our mortgage insurance operations, we expect that, when completed and all components are fully integrated, our technology platform will allow us to: (i) obtain applications and supporting documentation from our lenders on an automated basis, thereby enabling lenders to submit insurance applications in an efficient manner and facilitating our risk review, (ii) obtain real-time data on performance of individual insured loans and programs, enabling a transparent and collaborative policy acquisition and underwriting process that should reduce response times, decrease costs and streamline communication with lenders, (iii) provide real-time feedback data for monitoring underwriting guidelines and for communicating to lenders the quality metrics and performance of the loans we insure, (iv) bill and collect premiums electronically and (v) adjust and settle claims.

A significant component of AXIS is an insurance management system (which we refer to as "IMS") we purchased in connection with the MAC Acquisition in April 2012. After we acquired IMS, we conducted operating and business analysis and evaluated development efforts, in the pursuit of designing a system that would meet our business requirements. During the second quarter of 2013, we made a business decision that we would pursue the development of new modules to support policy servicing, billing, and delinquency and claims management. This change will require us to provide these services to our customers during the initial period of our business operations using current IMS capabilities and interim applications and manual solutions. As a result of the above change in approach, we reduced the useful life of these components of IMS. Reducing the useful life of these modules will have the effect of shortening the amortization period, causing us to record the same amount of amortization expense over a shorter period of time, which was implemented in the current quarter and will continue to amortize over the coming quarters. We expect that these modules will be fully amortized by the end of 2014.

The success of our business is highly dependent on our ability to effectively and efficiently use technology to electronically conduct business with our customers. Customers require us to provide certain products and services electronically, in a secure manner, via the Internet or electronic data transmission. We will process a significant amount of our new insurance written and claims processing electronically. Accordingly, we are investing resources in establishing and maintaining electronic connectivity with customers and, more generally, in e-commerce and technological advancements.

In order to integrate electronically with mortgage lenders we must:

- Establish connectivity with many of the industry's largest providers of mortgage servicing systems, which automate loan servicing functions such as payment processing, escrow administration, default management, investor accounting, loan modifications, and year-end reporting. We have completed integration with the largest and leading servicing system providers, LPS MSP and Fiserv LoanServ™ , which combined process more mortgages in the United States by dollar volume than any other servicing system, creating significant opportunity to efficiently conduct business with large lenders and aggregators that require this integration;

- Establish connectivity with leading third party providers of loan origination systems, which provide the functionality to automate the mortgage loan origination process, including point of sale support, processing, settlement services, document preparation and tracking, underwriting, closing and funding. We have begun the process of integrating with the leading third-party loan origination systems, and we expect to complete some of these integrations this year, including Ellie Mae Encompass360®, RealEC®, Fiserv EasyLender®, FICS Loan Producer®, and Mortgage Builder. By mid-2014, we believe we will be integrated with the other leading third-party loan origination systems.

- Integrate with those lenders that maintain their own proprietary loan origination and servicing systems, recognizing that the time-lines for these integrations are heavily dependent upon the lenders' internal technology resource time-lines and availability. Many lenders require us to engage in their third party review processes before we can conduct integration testing with such lenders. While we are in the process of working through this process with some lenders, no direct lender connectivity has been completed as of the date of this prospectus.

Many of our customers will require us to have the above connectivity in place as a precursor to doing business with them.

Investment Portfolio

Our investment portfolio and cash and cash equivalents are split between us and our insurance subsidiaries. We contributed approximately $220 million of cash to our insurance subsidiaries, primarily to NMIC. We plan to retain the balance of our cash and investments at the holding company until needed to further capitalize our insurance subsidiaries. We expect to diversify our portfolio across corporate, government and taxable municipal securities of various durations to attempt to minimize the risk of loss resulting from over concentration of assets in specific sectors or securities. Diversification strategies are periodically reviewed. While our portfolio is managed by a third-party investment management company, we maintain control over investment decisions based on our investment policies. Our third-party investment management company is Wells Capital Management, Inc.

Our investment policies and guidelines conform to the Wisconsin Administrative Code 6.20 (5), which imposes investment restrictions on NMIC for the first five years from issuance of its certificate of authority. Additionally, all securities in the portfolio must be U.S. dollar-denominated and have the NAIC '1' or '2' designation or investment grade rating by Moody's, Standard & Poor's or Fitch at time of purchase. Our investment policies and strategies are subject to change depending upon regulatory, economic and market conditions and our existing or anticipated financial condition and operating requirements, including our tax position.

Consistent with Wisconsin law, our investment policies emphasize preservation of capital, as well as total return. Based on our guidelines, our investment portfolio is comprised almost entirely of fixed-income securities, all of which are investment grade and the vast majority rated “A+” or higher. The policy guidelines contain limits on the amount of our credit exposure to any one issue, issuer and type of instrument. We expect to preserve the liquidity of our portfolio through diversification and investment in publicly traded securities. We plan to maintain a level of liquidity commensurate with our perceived business outlook and the expected timing, direction and degree of changes in interest rates. We believe the duration of our portfolio should be somewhat longer than the duration of other public and private mortgage insurers' portfolios, which currently are approximately three years because we believe the claims paid in the early years of our business formation should be relatively low due to the typical MI earnings and cash flow cycle.

Employees

As of July 31, 2013, we had 109 full-time employees. None of our employees are parties to a collective bargaining agreement. We utilize a third-party professional employer organization to manage our human resource and payroll administration and related compliance requirements.

Facilities and Real Estate

We entered into an office facility lease in Emeryville, California, effective July 1, 2012 for a term of two years. This facility is approximately 24,000 square feet, fully furnished and allows for expansion based on near-term projected staffing growth. We do not own or lease any other facilities; however we expect to lease additional office space either in the existing Emeryville, California location or in another location to support our growth.

Legal Proceedings

On August 8, 2012, Germaine Marks, as Receiver, and Truitte Todd, as Special Deputy Receiver, of PMI Mortgage Insurance Co. (“PMI”), an Arizona insurance company in receivership, filed a complaint (the “PMI Complaint”) against the Company, NMIC and certain named individuals, in California Superior Court,

Alameda County. The lawsuit alleges breach of fiduciary duty, breach of loyalty, aiding and abetting breach of fiduciary duty and loyalty, misappropriation of trade secrets, conversion, breach of proprietary information agreement, breach of separation agreement and intentional interference with contractual relations, unfair competition and conspiracy. The lawsuit seeks injunctive relief as well as unspecified monetary damages. We and the individual defendants believe these claims are without merit and have filed an answer denying all allegations and intend to defend ourselves vigorously. If the lawsuit is determined adversely to us, the court could subject us to significant monetary damages and/or prevent NMIC from conducting insurance operations, including obtaining licenses in the two states (Florida and Wyoming) where we do not currently have them. In addition, if the lawsuit is determined adversely to any of our officers who are individual defendants in the lawsuit, we would likely be required to remove and replace those officers under the terms of agreements NMIC and NMIH entered into with each of the Alabama Department of Insurance, Arizona Department of Insurance, the Texas Commissioner of Insurance and the New York State Department of Financial Services, as a condition of NMIC obtaining certificates of authority in those states, as well as under an agreement with the Wisconsin OCI.

On January 30, 2013, a case management conference took place among the parties in the PMI Complaint at which a trial date was set for February 3, 2014. The parties are currently engaged in discovery following the Court's resolution of a number of discovery motions made by defendants and plaintiffs.

Because the litigation and related discovery are at a preliminary stage, we do not have sufficient information to determine or predict the ultimate outcome or estimate the range of possible losses, if any. Accordingly, no provision for litigation losses has been included in our financial statements.

REGULATION

U.S. Mortgage Insurance Laws

GSE Qualified Mortgage Insurer Requirements

Pursuant to their charters, Fannie Mae and Freddie Mac purchase loans insured by entities that they determine to be qualified MI companies. Both Fannie Mae and Freddie Mac have published comprehensive requirements to become and remain a qualified mortgage insurer (the “Eligibility Requirements”). In light of the severe housing and economic downturn that began in mid-2007 and the resulting adverse impact to the MI industry, both Fannie Mae and Freddie Mac believed it was necessary to revise the Eligibility Requirements. Fannie Mae issued new draft requirements dated August 5, 2010 and Freddie Mac issued new draft requirements dated June 30, 2010. Freddie Mac subsequently issued revised draft eligibility requirements dated February 2011. These draft requirements have not yet been finalized, however the FHFA, as regulator and conservator of the GSEs, has announced an intent to achieve uniformity of these requirements among the GSEs and to finalize these requirements in the near term future.

In addition to the Eligibility Requirements, Fannie Mae and Freddie Mac have imposed certain capitalization, operational and reporting conditions in connection with their recent approvals of NMIC as a qualified mortgage insurer. Some of these conditions remain in effect for a three (3) year period from the date of GSE Approval while others do not expressly expire. These conditions require, among other things, that NMIC:

- be initially capitalized in the amount of $200 million and that its affiliate reinsurance companies, NMRI One and NMRI Two, be initially capitalized in the amount of $10 million each;
- maintain minimum capital of $150 million;
- operate at a risk-to-capital ratio not to exceed 15:1 for its first three (3) years and then pursuant to the Eligibility Requirements;
- insure only (i) GSE-eligible loans or (ii) loans that are GSE-eligible, other than as related to loan amount subject to additional portfolio limitation requirements;
- obtain prior written approval to enter into any transaction involving the issuance of insurance on other than an individual loan “flow” basis;
- have and maintain a fully operational business and technology platform;
- not declare or pay dividends to affiliates or to NMIH for its first three (3) years, then pursuant to the Eligibility Requirements;
- not enter into capital support agreements or guarantees for the benefit of, or purchase or otherwise invest in the debt of, affiliates without the prior written approval of the GSEs for its first three (3) years, then pursuant to the Eligibility Requirements;
- not invest in or make loans to affiliates for its first three (3) years, then pursuant to the Eligibility Requirements;
- not enter into reinsurance or other risk share arrangements without the GSEs' prior written approval for its first three (3) years, then pursuant to the Eligibility Requirements; and
- at the direction of one or both of the GSEs, re-domicile from Wisconsin to another state.

The conditional approvals also include certain additional conditions, limitations and reporting requirements that we anticipate will be included in the final Eligibility Requirements, such as limits on costs allocated to NMIC under affiliate expense sharing arrangements, risk concentration, rates of return, requirements to obtain a financial strength rating, provision of ancillary services (i.e., non-insurance) to customers, transfers of underwriting to affiliates, notification requirements regarding change of ownership and new five percent (5%) shareholders, provisions regarding underwriting policies and claims processing as well as certain other obligations.

State Insurance Regulation

Following the acquisition of MAC Financial in April, 2012, we became the owner of a monoline residential mortgage insurance company (NMIC) and two reinsurance companies (NMRI One and NMRI Two) all domiciled in Wisconsin. Our insurance subsidiaries are subject to comprehensive, detailed regulation both by our domiciliary and primary regulator, the Wisconsin Office of the Commissioner of Insurance ("WOCI") and by state insurance departments in each state in which they are licensed. As mandated by state insurance laws, mortgage insurers are generally single-line companies restricted to writing a single type of insurance business, such as MI business. These regulations are principally designed for the protection of our insured policyholders rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business.

In general, state insurance regulation of our subsidiaries' business relates to:

- licenses to transact business;
- policy forms;
- premium rates;
- insurable loans;
- annual and other reports on our financial condition;
- the basis upon which assets and liabilities must be stated;
- requirements regarding contingency reserves;
- minimum capital levels and adequacy ratios;
- reinsurance requirements;
- limitations on the types of investment instruments which may be held in an investment portfolio;
- the size of risks and limits on coverage of individual risks which may be insured;
- special deposits of securities;
- limits on dividends payable; and
- claims handling.

State insurance receivership law, not federal bankruptcy law, would apply to any insolvency or financially hazardous condition of our insurance subsidiaries. The WOCI has substantial authority to issue orders or seek and control a state insurance receivership proceeding to address the insolvency or a financially hazardous condition of an insurance subsidiary. Under Wisconsin law, the WOCI has substantial flexibility to restructure an insurance subsidiary in a receivership proceeding. Generally the WOCI's control of such a

proceeding would make protecting the interests of insurance policyholders a priority over the interests of our insurance holding company or stockholders.

As an insurance holding company, we are registered with the WOCI, the domiciliary state of NMIC, NMRI One and NMRI Two, and must provide certain information to the WOCI on an ongoing basis including insurance holding company annual audited consolidated financial statements. We, as an insurance holding company, and each of our affiliates, are prohibited from engaging in certain transactions with our insurance subsidiaries without submission to, and in some instances, prior approval by applicable insurance departments. Like most states, Wisconsin regulates transactions between domestic insurance companies and their parents or affiliates. Under Wisconsin law all transactions involving us, or an affiliate, and an insurance subsidiary, must conform to certain standards including that the transaction is “reasonable and fair” to the insurance subsidiary. Wisconsin law also provides that reports of certain transactions must be filed with the WOCI at least 30 days before the transaction is entered into and that these transactions may be disapproved by WOCI within that period.

Wisconsin's insurance regulations generally provide that no person may merge with or acquire control (which is defined as possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, by common management or otherwise) of us or our insurance subsidiaries unless the merger or transaction in which control is acquired has been approved by the WOCI. Wisconsin law provides for a rebuttable presumption of control when a person owns or has the right to vote more than 10% of the voting securities of a company. Pursuant to applicable Wisconsin regulations, voting securities include securities convertible into or evidencing the right to acquire securities with the right to vote. For purposes of determining whether control exists, the WOCI may aggregate the direct or indirect ownership of us by entities under common control with one another. Accordingly, any investor that may be deemed to own 10% of our common stock or other securities that are considered to be voting securities, whether separately or through the aggregation of its ownership with that of its affiliates or other third parties whose holdings are required to be aggregated, should consult with its legal advisors to ensure that it complies with applicable requirements of Wisconsin law. In addition, the insurance regulations of certain states require prior notification to the state's insurance department before a person acquires control of an insurance company licensed in such state. An insurance company's licenses to conduct business in those states could be affected by any such change in control. Two of our stockholders own more than 10% of our shares of common stock. Each of these stockholders has filed a disclaimer of control with the WOCI in connection therewith, which the WOCI has not disapproved. Through such acceptance by the WOCI these stockholders are not deemed to be controlling persons under Wisconsin law. (*See also “Certain Anti-Takeover Effects of Provisions of Our Certificate of Incorporation, Bylaws and Delaware Law”)*

Our insurance subsidiaries are subject to Wisconsin statutory requirements as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any 12-month period without regulatory approval by the WOCI is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of the following:

a. The net income of the insurer for the calendar year preceding the date of the dividend or distribution, minus realized capital gains for that calendar year; or

b. The aggregate of the net income of the insurer for the 3 calendar years preceding the date of the dividend or distribution, minus realized capital gains for those calendar years and minus dividends paid or credited and distributions made within the first 2 of the preceding 3 calendar years.

Also under Wisconsin law our insurance subsidiaries may not pay any dividend or distribution before giving at least 30 days' notice to the WOCI, unless, with respect to non-extraordinary dividends, the exception of Section 617.22(3) is applicable. Wisconsin law prohibits our insurance subsidiaries from paying any dividend or distribution unless it is fair and reasonable to the insurance subsidiary. In addition to Wisconsin, other states may limit or restrict our insurance subsidiaries' ability to pay stockholder dividends. For example, California and New York prohibit mortgage insurers licensed in such states from declaring dividends except from undivided profits remaining above the aggregate of their paid-in capital, paid-in surplus and contingency reserves. In addition, it is possible that Wisconsin will adopt revised statutory provisions or interpretations of existing statutory provisions that will be more or less restrictive than those described above or will otherwise take actions that may further restrict the ability of our insurance subsidiaries to pay dividends or make distributions or returns of capital.

Wisconsin law imposes certain additional restrictions on our insurance subsidiaries for the first 5 years after the dates of issuance of their certificates of authority, including:

- The insurance subsidiaries must give the WOCI up to 90 days', rather than 30 days', notice of a proposed dividend.
- The insurance subsidiaries must give the WOCI up to 60 days' notice of any proposed substantive change in their business plans. WOCI may disapprove the proposed changes, and the insurance subsidiaries must conform at all times to their filed business plans.
- The insurance subsidiaries' directors and officers may be disapproved by WOCI.
- The insurance subsidiaries' investments are restricted unless otherwise approved by WOCI.

We believe that we are in compliance with all of the WOCI's regulations.

MI companies licensed in Wisconsin are required to establish contingency loss reserves for purposes of statutory accounting in an amount equal to at least 50% of net earned premiums. These amounts cannot be withdrawn for a period of 10 years, except as permitted by insurance regulations. With regulatory approval, an MI company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year.

Under applicable Wisconsin law, as well as that of 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. Wisconsin has formula-based limits that typically result in limits slightly higher than the 25 to 1 ratio. Our operation plan filed with WOCI and other state insurance departments in connection with NMIC's applications for licensure includes the expectation that we will downstream additional capital if needed so that NMIC does not exceed an 18 to 1 risk-to-capital ratio. After an initial period demonstrates successful NMIC operations, we will seek state insurance department approval, as needed, of an amendment increasing the ratio to Wisconsin's general formula-based limit or 25 to 1, as applicable.

We compute our risk-to-capital ratio on a separate company statutory basis, as well as for our combined insurance operations. The risk-to-capital ratio is our net risk in force divided by our policyholders' position. Our net risk in force will include both primary and pool risk in force, and excludes risk on policies that are currently in default and for which loss reserves have been established. The net risk in force includes direct and assumed risk, less risk ceded and less risk already reserved. Wisconsin requires a mortgage guaranty insurer

to maintain a "minimum policyholder position" as calculated in accordance with the regulations. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and contributions and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet; however for purposes of statutory capital and risk-to-capital ratio calculations, it is included as a capital component.

Most states, including Wisconsin, have anti-inducement and anti-rebate laws applicable to mortgage insurers, which prohibit mortgage insurers from inducing lenders to enter into insurance contracts by offering benefits not specified in the policy, including rebates. For example, Wisconsin prohibits a mortgage insurer from allowing any commission, fee, remuneration, or other compensation to be paid to, or received by, any insured lender, including any subsidiary or affiliate, officer, director, or employee of any insured, any member of their immediate family, any corporation, partnership, trust, trade association in which any insured is a member, or other entity in which any insured or any such officer, director, or employee or any member of their immediate family has a financial interest.

MI premium rates are also subject to state regulation to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses and future trend analysis. The general mortgage default experience may also be considered. Premium rates are subject to review and challenge by state regulators.

Statutory Accounting

The statutory financial statements of NMIC, known as MAC Assurance Corporation prior to January 2012, are presented on the basis of accounting practices prescribed or permitted by the WOCI.

The WOCI 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 the Wisconsin Insurance Statutes. The National Association of Insurance Commissioners' (“NAIC”) *Accounting Practices and Procedures* manual, in the version currently in effect, (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. As of June 30, 2013, the Company did not have any balances or transactions that were affected by these differences. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

The statutory basis statements of our insurance subsidiaries determine those subsidiaries' ability to make dividend payments to our holding company, NMIH. The insurance subsidiaries had no net income and capital and surplus that created differences between NAIC SAP and practices prescribed and permitted by the State of Wisconsin.

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

COMBINED STATUTORY BALANCES		Net Loss		Surplus (Deficit)		Contingency Reserve
				(In Thousands)		
Six months ended June 30, 2013	$	(13,025)	$	210,013	$	1
Six months ended June 30, 2012	$	(21)	$	220,000	$	—
Twelve months ended December 31, 2012	$	(18)	$	220,004	$	—
Period from May 19, 2011 to December 31, 2011	$	(598)	$	(1,450)	$	—

Licensing Process Overview

To conduct MI business with many, or potentially all, large, national lenders, we believe NMIC will need to be licensed in all 50 states and D.C. NMIC requires a certificate of authority, or insurance license, in each state or jurisdiction in which it issues insurance policies. As discussed above in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"*, NMIC is currently licensed in 48 states and D.C., and it has not yet received certificates of authority in Wyoming or Florida.

Other U.S. Regulation

Certain federal laws directly affect private mortgage insurers. Private mortgage insurers are impacted indirectly by federal legislation and regulation affecting mortgage originators and lenders, purchasers of mortgage loans, such as the GSEs, and governmental insurers such as the FHA and VA. For example, changes in federal housing legislation and other laws and regulations that affect the demand for private MI may have a material adverse effect on us. Federal legislation provides the FHA with greater flexibility in establishing new products and temporarily increases the maximum loan amount that the FHA may insure, in some cases up to $729,750 in “high-cost” areas. Further legislation that increases the number of persons eligible for FHA or VA mortgages could have a material adverse effect on our ability to compete with the FHA or VA.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 amended certain provisions of the Truth In Lending Act ("TILA"), the Real Estate Settlement Procedures Act ("RESPA"), and the Exchange Act that may have a significant impact on the Company's business prospects. The CFPB, a Federal agency created by the Dodd-Frank Act, is charged with implementation and enforcement of these provisions. The CFPB recently published its final ability to repay rule defining Qualified Mortgages (QM) and Federal Banking Regulators are in the process of finalizing a rule on Qualified Residential Mortgages (QRM) both of which are discussed further below. The CFPB also recently published residential mortgage servicing rules providing amendments to Regulation Z (TILA) and Regulation X (RESPA).

Legislation has been proposed in both the House and Senate to replace the GSEs in their role as providing a secondary market outlet through their loan purchase and mortgage guaranty security programs. The legislation currently pending in the US Congress would have differing impacts on the current role of mortgage insurance as credit enhancement. At this time it is impossible to predict the final outcome of this legislation and its impact on the role of mortgage insurance as a credit enhancement, including the elimination of the requirement altogether, and thereby materially affect our ability to compete, demand for our products and the profitability of our business.

In addition, mortgage origination and servicing transactions are subject to compliance with various federal and state consumer protection laws, including RESPA, the Equal Credit Opportunity Act, the Fair Housing Act, the Truth in Lending Act, the Homeowners Protection Act of 1998, the Fair Credit Reporting Act of 1970 (“FCRA”), the Fair Debt Collection Practices Act and others. Among other things, these laws and their implementing regulations prohibit payments for referrals of settlement service business, require fairness and

non-discrimination in granting or facilitating the granting of credit, govern the circumstances under which companies may obtain and use consumer credit information, and define the manner in which companies may pursue collection activities, require disclosures of the cost of credit and provide for other consumer protections. The application of certain of these laws may depend on whether charges for credit insurance are included in determining whether the loan charges exceed a specified level that triggers application of the consumer protections.

Implications of and Elections Under the JOBS Act

As a company that had gross revenues of less than $1 billion during its last fiscal year, we are an “emerging growth company,” as defined in the JOBS Act (an “EGC”). We will retain that status until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1,000,000,000 (as indexed for inflation in the manner set forth in the JOBS Act) or more; (ii) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement under the Securities Act; (iii) the date on which we have, during the previous 3-year period, issued more than $1,000,000,000 in non-convertible debt; or (iv) the date on which we are deemed to be a “large accelerated filer,” as defined in Rule 12b-2 under the Exchange Act or any successor thereto. We expect to retain our status as an EGC through the remainder of this year. We believe that there is a substantial possibility that our ability to take advantage of any of the JOBS Act elections will cease at year end 2014, depending in large part on the market value of our equity at that time, as we believe that we will no longer meet all of the requirements to be considered an EGC at that point.

As an EGC, we are relieved from certain significant requirements:

- we are exempted from compliance with Section 404(b) of Sarbanes-Oxley, which otherwise would have required our auditors to attest to and report on our internal control over financial reporting;
- we are not required to comply with any new or revised financial accounting standard until such date as a private company (i.e., a company that is not an “issuer” as defined by Section 2(a) of Sarbanes-Oxley) is required to comply with such new or revised accounting standard. As a result, our financial statements may not be comparable with another public company which is neither an ECG nor an ECG which has opted out of using the extended transition period;
- we may elect to not comply with Item 402 of Regulation S-K, which requires extensive quantitative and qualitative disclosure regarding executive compensation, but instead disclose the more limited information required of a “smaller reporting company”;
- in the event that we register our common stock under Section 12 of the Exchange Act, the JOBS Act will also exempt us from the following additional compensation-related disclosure provisions that were imposed on U.S. public companies pursuant to the Dodd-Frank Act: (i) the advisory vote on executive compensation required by Section 14A(a) of the Exchange Act, (ii) the requirements of Section 14A(b) of the Exchange Act relating to stockholder advisory votes on “golden parachute” compensation, (iii) the requirements of Section 14(i) of the Exchange Act as to disclosure relating to the relationship between executive compensation and our financial performance, and (iv) the requirement of Section 953(b)(1)of the Dodd-Frank Act, which will require disclosure as to the relationship between the compensation of the Company's chief executive officer and median employee pay.

Since we are not required, among other things, to file reports under Section 13 of the Exchange Act or to comply with certain provisions of Sarbanes-Oxley and the Dodd-Frank Act and certain provisions and reporting requirements of or under the Securities Act and the Exchange Act or to comply with new or revised

financial accounting standards as long as we are an EGC, the JOBS Act has the effect of reducing the amount of information that we are required to provide for the foreseeable future.

Further, section 102(b)(1) of the JOBS Act provides that, as an EGC, the Company need not present more than 2 years of audited financial statements in order for a registration statement with respect to an initial public offering of its common equity securities to be effective, and in any other registration statement that it files with the SEC, it need not present selected financial data prescribed by the SEC in its regulations for any period prior to the earliest audited period presented in connection with its initial public offering.

In addition, since we are not currently a reporting company and do not intend to become a reporting company in the immediate term after effectiveness of this registration statement, we will not be required to comply with the proxy requirements of Section 14 of the Exchange Act and our officers, directors and 10% stockholders will not be required to file reports under Section 16(a) of the Exchange Act. Until we register our common stock under Section 12 of the Exchange Act, which we would do in connection with the listing of our common stock on NASDAQ or another national securities exchange (but not in connection with the quotation of our stock on the OTCBB), stockholders will have further limited access to information about us.

Qualified Mortgage Regulations

Another regulation required by the Dodd-Frank Act is the ability to repay ("ATR") mortgage rule, which governs the obligation of lenders to determine the borrower's ability to pay when originating a mortgage loan. The Consumer Financial Protection Bureau (“CFPB”) issued final regulations on January 10, 2013 and an amendment on May 29, 2013 implementing detailed requirements on how lenders shall establish a borrower's ability to repay a mortgage loan. The ATR rule becomes effective January 10, 2014. A subset of mortgages within the ATR rule are known as "qualified mortgages" ("QMs"). For a mortgage loan to be a QM, the rule first prohibits certain loan features, such as negative amortization, points and fees in excess of 3% of the loan amount, and terms exceeding 30 years. The rule also establishes underwriting criteria for QMs including that a borrower must have a total debt-to-income ratio of less than or equal to 43%. QMs benefit from a statutory presumption of compliance with the ATR rule, thus limiting the liability of the creditor and assignee of the creditor under the Truth in Lending Act and ATR remedies. Because of the presumption, we anticipate that most loans originated after the ATR rule goes into effect will be QMs.

The rule also provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and meet the underwriting requirements of the GSEs or those of the U.S. Department of Housing and Urban Development, Department of Veterans Affairs or Rural Housing Service (collectively, “Other Federal Agencies”). The temporary category of QMs that meet the underwriting requirements of the GSEs or the Other Federal Agencies will phase out when the GSEs or the Other Federal Agencies issue their own qualified mortgage rules, if the GSEs' conservatorship ends, and in any case after seven years. We expect that most lenders will be reluctant to make loans that do not qualify as QMs because they will not be entitled to the presumptions about compliance with the ability-to-pay requirements.

The ATR regulation may impact the mortgage insurance industry in several ways. First, the ATR regulation will have a direct impact on establishing a subset of borrowers who can meet the regulatory QM standards and will have a direct effect on the size of the mortgage market in any given year once the regulations become effective. Second, under the ATR regulation, if the lender requires the borrower to purchase MI, then the MI premiums are included in monthly mortgage costs in determining the borrower's ability to repay the loan. The demand for MI may decrease if, and to the extent that, monthly MI premiums make it less likely

that a loan will qualify for QM status, especially if MI alternatives, such as piggy-back loans, are relatively less expensive than MI.

Third, under the ATR regulation, mortgage insurance premiums that are payable at or prior to consummation of the loan are includible in points and fees for purposes of determining QM status unless, and to the extent that, such up-front premiums ("UFP") are (i) less than or equal to the UFP charged by the FHA, and (ii) are automatically refundable on a *pro rata* basis upon satisfaction of the loan. (The FHA currently charges UFP of 1.75% on all residential mortgage loans, but it has the authority to change its UFP from time to time.) As inclusion of MI premiums towards the 3% cap will reduce the capacity for other points and fees in covered transactions, mortgage originators will be less likely to purchase single premium MI products to the extent that the associated premiums are deemed to be points and fees. As a result, we believe that the ATR rule may increase demand for monthly and annual MI products relative to single premium products.

Qualified Residential Mortgage Regulations

The Dodd-Frank Act generally requires an issuer of an asset-backed security or a person who organizes and initiates an asset-backed transaction (a "securitizer") to retain at least 5% of the risk associated with securitized mortgage loans, although in some cases the retained risk may be allocated between the securitizer and the mortgage originator. This risk-retention requirement does not apply to mortgage loans that are QRMs or that are insured or guaranteed by the FHA or other specified federal agencies. In March 2011, federal regulators issued the proposed risk-retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum LTV of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower's down payment or closing costs and certain limits on a borrower's debt-to-income ratio. Under the proposed rules, the LTV is to be calculated without consideration of any MI. By exempting QRMs from the risk-retention requirement, the cost of securitizing these mortgages would be reduced, thus providing a market incentive for the origination of loans that are exempt from the risk-retention requirement. If the final rule on QRMs does not give consideration to MI in computing LTV, the attractiveness of MI may be reduced.

The regulators also requested public comments regarding an alternative QRM definition, which would allow loans with maximum LTVs of 90% and higher debt-to-income ratios than allowed under the proposed QRM definition, and which may also consider MI in determining whether the LTV requirement is met. The regulators also requested that the public comments include information that may be used to assess whether the use of MI reduces the risk of default. The public comment period for the proposed rule expired on August 1, 2011. The MI industry trade group, the Mortgage Insurance Companies of America, or "MICA", as well as other individual MI companies, submitted comments that, among other things, urged regulators to consider a higher LTV for QRMs and recognition of MI for purposes of determining LTV.

Under the proposed rule, because of the capital support provided by the U.S. government, the GSEs satisfy the Dodd-Frank Act risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans. In addition, an equivalent guaranty provided by a limited-life regulated entity that has succeeded to the charter of a GSE and that is operating under specified direction and control of the FHFA would satisfy the risk-retention requirements, provided that the entity is operating with capital support from the U.S. government. However, if a GSE or successor limited-life regulated entity began to operate in another manner, then the guaranty provided by the GSE or such other entity may not satisfy the risk-retention requirements. Changes in final regulations regarding treatment of GSE guaranteed mortgage loans, or changes in the conservatorship or capital support provided to the GSEs by the U.S. government, could impact the manner in which the risk-retention rules apply to GSE securitizations and our business. Depending on, among other

things, (i) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio and (ii) to what extent, if any, the presence of MI would allow for a higher LTV in the definition of QRM, the number of mortgage loans that are QRMs may be limited.

Mortgage Servicing Rules

The Dodd-Frank Act amended and expanded upon mortgage servicing requirements under TILA and RESPA. The CFPB was required to amend Regulation Z (TILA) and Regulation X (RESPA) to conform these regulations to the statutory requirements. The CFPB issued final regulations on January17, 2013 implementing these detailed new mortgage servicing requirements. These rules are scheduled to become effective in January 2014. Included within these rules are new or enhanced requirements for handling escrow accounts, responding to borrower assertions of error and inquiries from borrower, special handling of loans that are in default, and loss mitigation in the event of borrower default. A provision of the required loss mitigation procedures prohibits the loan holder or servicer from commencing foreclosure until 120 days after the borrower's delinquency. Complying with the new rules could cause the servicing of mortgage loans to become more burdensome and costly than it is today. As to servicing of mortgage loans covered by our insurance policies, these rules could contribute to delays in realization upon collateral and have an adverse impact on resolution of claims.

Homeowners Protection Act of 1998

HOPA provides for the automatic termination, or cancellation upon a borrower's request, of private MI upon satisfaction of certain conditions. HOPA requires that lenders give borrowers certain notices with regard to the automatic termination or cancellation of mortgage insurance. These provisions apply to borrower-paid MI for purchase money, refinance and construction loans secured by the borrower's principal dwelling. FHA and VA loans are not covered by HOPA. Under HOPA, automatic termination of MI would generally occur when the mortgage is first scheduled to reach an LTV of 78% of the home's original value, assuming that the borrower is current on the required mortgage payments. A borrower who has a “good payment history,” as defined by HOPA, may generally request cancellation of MI when the LTV is first scheduled to reach 80% of the home's original value or when actual payments reduce the loan balance to 80% of the home's original value, whichever occurs earlier. If MI coverage is not canceled at the borrower's request or by the automatic termination provision, the mortgage servicer must terminate MI coverage by the first day of the month following the date that is the midpoint of the loan's amortization, assuming the borrower is current on the required mortgage payments.

Real Estate Settlement Procedures Act of 1974

RESPA will apply to most residential mortgages insured by us. MI generally may be considered to be a “settlement service” for purposes of RESPA under applicable regulations. Subject to limited exceptions, RESPA prohibits persons from giving or accepting anything of value in connection with the referral of a settlement service. RESPA authorizes the CFPB to bring civil enforcement actions, and also provides for criminal penalties and private rights of action. RESPA also affects how we structure ancillary services that we may provide to our customers, if any, including underwriting services and risk-share arrangements. RESPA, in addition, imposes various duties and obligations on mortgage servicers.

Home Mortgage Disclosure Act of 1975

Most originators of mortgage loans are required to collect and report data relating to a mortgage loan applicant's race, nationality, gender, marital status, and census tract to HUD or the Federal Reserve under the Home Mortgage Disclosure Act of 1975 (“HMDA”). Mortgage insurers are not required pursuant to any law or regulation to report HMDA data, although, under the laws of several states, mortgage insurers are currently

prohibited from discriminating on the basis of certain classifications. Certain mortgage insurers have, through the Mortgage Insurance Companies of America (“MICA”), an industry trade group, entered voluntarily into an agreement with the Federal Financial Institutions Examinations Council to report the same data on loans submitted for insurance as is required for most mortgage lenders under HMDA. Although not a MICA member, NMIC intends to comply with the terms of this agreement.

SAFE Act (Mortgage Loan Originator Licensing)

The SAFE Act requires mortgage loan originators to be licensed and/or registered with the Nationwide Mortgage Licensing System and Registry (the "Registry"). The Registry is a database established by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators. Among other things, the database was established to support the licensing of mortgage loan originators by each state. As part of this licensing and registration process, loan originators who are employees of institutions other than depository institutions or certain of their subsidiaries that are regulated by a Federal banking agency, must generally be licensed under the SAFE Act guidelines enacted by each state in which they engage in loan originator activities and registered with the Registry. The SAFE Act generally prohibits employees of a depository institution (including certain of their subsidiaries that are regulated by a Federal banking agency) from originating residential mortgage loans without first registering with the Registry and maintaining that registration. We do not believe that the SAFE Act applies to our employees and/or contractors who review loan files in connection with underwriting mortgage insurance applications for the purpose of making mortgage insurance decisions. If, however, the SAFE Act is interpreted to apply to our underwriters or other employees or contractors, we would take steps to comply, which would increase the Company's costs.

Privacy and Information Security

The Gramm-Leach-Bliley Act of 1999, or GLB, imposes privacy requirements on financial institutions, including obligations to protect and safeguard consumers’ nonpublic personal information and records, and limitations on the re-use of such information. Federal regulatory agencies have issued the Interagency Guidelines Establishing Information Security Standards (Security Guidelines), and interagency regulations regarding financial privacy (Privacy Rule) implementing sections of GLB. The Security Guidelines establish standards relating to administrative, technical and physical safeguards to ensure the security, confidentiality, integrity, and the proper disposal of consumer information. The Privacy Rule limits a financial institution’s disclosure of nonpublic personal information to unaffiliated third parties unless certain notice requirements are met and the consumer does not elect to prevent or “opt out” of the disclosure. The Privacy Rule also requires that privacy notices provided to customers and consumers describe the financial institutions’ policies and practices to protect the confidentiality and security of the information. With respect to NMIC, GLB is enforced by the U.S. Federal Trade Commission (“FTC”) and state insurance regulators. Many states have enacted legislation implementing GLB and establishing information security regulation. Many states have enacted privacy and data security laws which impose compliance obligations beyond GLB, including obligations to protect social security numbers and provide notification in the event that a security breach results in a reasonable belief that unauthorized persons may have obtained access to consumer nonpublic information.

Fair Credit Reporting Act

The Fair Credit Reporting Act of 1970, as amended, or FCRA, imposes restrictions on the permissible use of credit report information. FCRA has been interpreted by some FTC staff to require mortgage insurance companies to provide “adverse action” notices to consumers in the event an application for mortgage insurance is declined on the basis of a review of the consumer’s credit. We intend to provide such notices when required.

MANAGEMENT

Directors and Executive Officers

Directors

The following table sets forth information regarding the members who serve on our board of directors as of the date of this prospectus. The business address of each of our directors listed below is c/o NMI Holdings, Inc., 2100 Powell Street, 12th Floor, Emeryville, CA.

Name	Age	Position with NMIH
Bradley M. Shuster	58	Chairman of the Board, President and Chief Executive Officer
Michael Embler	46	Director
James G. Jones	64	Director
Michael Montgomery	58	Director
John Brandon Osmon	37	Director
James H. Ozanne	69	Director
Steven L. Scheid	60	Lead Director

Bradley M. Shuster, *Chairman of the Board, President and Chief Executive Officer*

Mr. Shuster currently serves as Chairman of our Board and our Chief Executive Officer, positions he has held since 2012. With Mr. Shuster's extensive experience developing and operating MI companies and insurance industry background, we believe he is qualified to serve as Chairman of our Board and as our Chief Executive Officer. From 2008 to 2011, Mr. Shuster has held various consulting positions assisting private investors with evaluating opportunities in the insurance industry. Mr. Shuster was an executive of The PMI Group, Inc. (“PMI”) from 2003 to 2008, where he served as president of International and Strategic Investments and chief executive officer of PMI Capital Corporation. Prior to that, he served as PMI's executive vice president of Corporate Development and senior vice president, treasurer and chief investment officer. Mr. Shuster was responsible for PMI's international operations, coordinating both acquisitions and de novo operations in diverse markets including Australia, Canada, Europe and Hong Kong. Prior to leaving PMI, Mr. Shuster was instrumental in the sale of PMI's Australian operations to QBE Group, a global insurance company, for approximately $1 billion. Before joining PMI in 1995, Mr. Shuster was a partner at Deloitte LLP, where he served as partner-in-charge of Deloitte's Northern California Insurance Practice and Mortgage Banking Practice. He holds a B.S. from The University of California, Berkeley and an M.B.A. from The University of California, Los Angeles.

Michael Embler, *Director*

Mr. Embler has served on our Board since July 2012. Mr. Embler has over 20 years of experience in investments and financial markets. Mr. Embler also serves on the boards of CIT Group (from 2009) and The Corlears School (from 2008), a non-profit institution. Previously, he was on the boards of Abovenet, Inc. (2003-2012), Dynegy Inc. (2011-2012), Kindred Healthcare (2001-2008), and Grand Union Company (1999-2000). Mr. Embler served as the chief investment officer of Franklin Mutual Advisers LLC, an asset management subsidiary of Franklin Resources, Inc., overseeing approximately $60 billion in assets and 25 investment professionals. He joined Franklin in 2001 and retired from Franklin Mutual in 2009. Prior to serving as chief investment officer, he managed the firm's distressed investing strategy. Previously, from October 1992 until May 2001, he was with Nomura Holdings America. In his role as managing director from

2000 until 2001, Mr. Embler managed a team which invested a proprietary fund focused on distressed and other event-driven corporate investments. Mr. Embler received a B.S. in economics from the State University of New York at Albany and earned an M.B.A. in finance from George Washington University. Based on Mr. Embler's extensive financial industry background, we believe he is qualified to serve on the Board.

James G. Jones, *Director*

Mr. Jones has served on our Board since July 2012. He has been the Chairman and Chief Executive Officer of AccountNow, Inc., a leading internet prepaid card issuer, since January, 2010. Mr. Jones also serves as an independent director on the boards of Advanced Payment Solutions (from 2004), Bora Payment Systems (from 2009), and Community Lend (from 2008), and has previously served on the boards of Visa USA, E- Loan, Inc., BA Merchant Services, DebtMarket, Residential Capital, LLC, and Bank of America, NA. Previously in his career, he has held senior executive positions for major banks and financial services companies. From May 1992 to September 2000, Mr. Jones served as the group executive vice president for consumer credit and subsequently as president of direct banking at Bank of America. He was a vice chairman at Providian Financial Services from September 2000 to June 2003. He was a senior executive vice president with Universal Savings Bank from November 2004 until March 2006. He subsequently served as chief executive officer of Aegis Mortgage from October 2006 to February 2007, after which he served as the chief executive officer at GMAC Residential Capital, a major participant in US residential finance, from February 2007 to August 2008. Mr. Jones also directed consumer finance business lines at Citicorp (1974 to 1978), Crocker National Bank (1978 to 1983) (including mortgage servicing), and Wells Fargo (1983 to 1992) (including residential finance). Mr. Jones holds a B.A. in psychology from Washburn University, an M.A. in industrial psychology from the University of Nebraska at Omaha and an M.B.A. from the University of Kansas. With Mr. Jones' more than 35 years of executive experience in commercial banking, consumer lending, payment processing and related financial services, we believe he is qualified to serve on our Board.

Michael Montgomery, *Director*

Mr. Montgomery has served on our Board since July 2012. He has served on the boards of directors for numerous regulated entities, including FDIC-insured banks, mortgage origination companies, mortgage servicing companies, broker dealers and investment advisers. Mr. Montgomery was a member of the boards of directors of Barclays Bank Delaware from 2005 until 2012 and of Barclays Capital Inc. and Barclays Group US, Inc. from 2002 until 2012. In April 2013, Mr. Montgomery joined Glendon Capital Management as its chief compliance officer. From July 2010 until April 2013, Mr. Montgomery served as chief compliance officer of Barclays Asset Management Group LLC. Previously, Mr. Montgomery served as chief executive officer of Barclays Group US, Inc. the top-tier U.S. holding company for Barclays from 2003 until 2010, and has significant experience as an audit committee member. From July 2006 to July 2010, he served as chief administrative officer of Mortgage Origination and Servicing at Barclays Capital, a position in which he managed mortgage origination and servicing activities and coordinated the underwriting, production, warehousing and servicing functions with its New York-based asset securitization business. From 1998 until 2000, Mr. Montgomery served as chief financial officer for Deutsche Bank Securities Inc. He served in various positions at Goldman Sachs & Co. from 1987 to 1998, including as vice-president of UK Regulatory Reporting, vice-president of Subsidiary Accounting, vice-president and director of Regulatory Reporting and chief financial officer of Goldman Sachs Canada. Mr. Montgomery has also previously held operating roles as chief financial officer and chief administrative officer and has served on several industry-wide committees for the Securities Industry Association, the Bond Market Association and the Public Securities Association. Mr. Montgomery earned a B.A. in economics and French literature from the University of Virginia and a J.D. from

Georgetown University Law Center. Mr. Montgomery has over 26 years of experience working at global commercial and investment banks, and we believe he is qualified to serve on our Board.

John Brandon Osmon, *Director*

Mr. Osmon has served on our Board since July 2012. He has nearly 15 years of experience in structured finance, consumer and mortgage credit, and we believe he is qualified to serve on our Board. Mr. Osmon is a managing director at Hayman Capital Management, LP, where he is responsible for the firm's investments in mortgage-backed securities. Prior to joining Hayman in September 2007, Mr. Osmon served as a senior vice president at Countrywide Financial Corporation from January 2005 until September 2007, where he managed the company's asset-backed commercial paper programs and secured warehouse lines of credit. His responsibilities included structuring the company's facilities, legal documentation and rating agency negotiations. Mr. Osmon also assisted in liquidity forecasting at Countrywide. Previously, from September 2000 until January 2005, Mr. Osmon managed the conduit finance, securitization modeling and derivatives groups at AmeriCredit Corp. He was also responsible for modeling all current and prospective term securitizations at AmeriCredit and assisted in structuring the company's short-term asset-backed financing programs. Mr. Osmon received a B.A. in Business Administration with a concentration in finance from the University of Texas.

James H. Ozanne, *Director*

Mr. Ozanne has served on our Board since the Company's inception in 2012. With over 40 years of experience in the financial services industry, including senior level executive positions at several leasing, rental, and consumer finance businesses, we believe Mr. Ozanne is qualified to serve on our Board. Since 2012, Mr. Ozanne has been a director of United Rentals, Inc. He has been a director of ZBB Energy, a manufacturer of specialized batteries and alternative energy electrical equipment, since 2011. From 2007 to 2012, he served as lead director of RSC Holdings, Inc., a nationwide equipment rental company. From 1989 to 2009 he served as a director of Financial Security Assurance Holdings Ltd., a provider of guaranty insurance on municipal bonds and other public finance projects. Mr. Ozanne was also a director at Distributed Energy Systems Corp., a company that created and delivered wind and hydrogen power solutions from 2002 to 2009. From 1983 to 1989, Mr. Ozanne served as executive vice president of GE Capital Corporation and was responsible for the consumer finance and operating lease/asset management business units. He served as chief executive officer and chief financial officer of North American Car Corporation, the railcar leasing subsidiary of Flying Tiger Lines, from 1975 to 1983. Mr. Ozanne holds a B.S. from DePaul University and is a director of the Appalachian Mountain Club.

Steven L. Scheid, *Lead Director*

Mr. Scheid has served as a member of our Board since the Company's inception in 2012. A veteran financial industry executive with over 30 years of experience, Mr. Scheid has a deep expertise in finance, retail strategies, risk management and investment services and is qualified to serve on our Board. He has served on the board of Blue Nile Company, an online retailer of diamonds and fine jewelry, since 2007. Mr. Scheid formerly served on the boards of Janus Capital Group Inc., a global investment firm, from 2002 to 2012 and The PMI Group, Inc. from 2002 to 2009. Mr. Scheid was previously a partner at Strategic Execution Group, a consulting firm, from, 2007 to 2012. He served as the chairman of Janus Capital Group Inc. until 2012 and also served as the company's chief executive officer from 2004 to 2006. Mr. Scheid was an operating partner at Thoma Bravo, LLC, a private equity firm from 2008 to 2011. From 1996 to 2002, Mr. Scheid served in multiple senior executive positions for Charles Schwab Corporation. He was vice chairman of the Charles Schwab Corporation and president of the Schwab Retail Group. Prior to these roles, Mr. Scheid served as

Schwab's chief financial officer and was the chief executive officer of Charles Schwab Investment Management. He served as the Federal Reserve Bank of San Francisco's representative on the Federal Advisory Council in Washington, D.C. from September 2000 to February 2002. Mr. Scheid is a certified public accountant and holds a B.S. in accounting from Michigan State University.

Executive Officers

The following table sets forth information regarding our executive officers as of the date of this prospectus. The business address of each of our executive officers listed below is c/o NMI Holdings, Inc., 2100 Powell Street, 12th Floor, Emeryville, CA.

Name	**Age**	**Position with NMIH**
Bradley M. Shuster	58	Chairman of the Board, President and Chief Executive Officer
John (Jay) M. Sherwood, Jr.	44	Executive Vice President and Chief Financial Officer
Glen S. Corso	62	General Counsel and Secretary
Patrick L. Mathis	53	Executive Vice President, Chief Risk Officer
Claudia J. Merkle	54	Executive Vice President, Chief Insurance Operations Officer
Stan Pachura	59	Executive Vice President, Chief Information Officer
Peter C. Pannes	48	Executive Vice President, Chief Sales Officer

Bradley M. Shuster, *Chairman of the Board, President and Chief Executive Officer*

Mr. Shuster's biography is included under "—Directors" above.

John (Jay) M. Sherwood, Jr., *Executive Vice President and Chief Financial Officer*

Mr. Sherwood has served as our Executive Vice President and Chief Financial Officer since 2012. Mr. Sherwood previously was a managing director at Eastbourne Capital Management, L.L.C., a private investment manager, from 2005 to 2010. In that role, he assisted in managing a $3 billion equity hedge fund and helped to grow the firm's assets through successful investments and by expanding its investor base. Prior to that, Mr. Sherwood served as managing director at Robertson Stephens Investment Management and, subsequently, RS Investments, a mutual fund manager, from 1995 to 2005, where he was a securities analyst and co-portfolio manager of two mutual funds. From 1993 to 1995, Mr. Sherwood was a staff accountant and senior auditor for Deloitte LLP. He holds a B.A. from the University of California, Los Angeles.

Glen S. Corso, *Executive Vice President, General Counsel*

Mr. Corso has served as our Executive Vice President and General Counsel since 2012. Prior to NMIH, Mr. Corso co-founded and served as managing director for Mortgage Banking Initiatives, Inc., a public policy group with a client base of independent mortgage banking companies from 2009 to 2012. His work involved lobbying, regulatory analysis and communications. Previously, Mr. Corso served as group senior vice president, public policy at PMI from 2006 to 2008. He directed the firm's global government relations, public relations, and housing advocacy efforts. Earlier in his career, Mr. Corso held other executive positions at PMI, heading capital management, investor relations and public relations from 1998-2006. He is a member of the bars of the District of Columbia, Maryland and Texas. Mr. Corso holds a B.S. from the University of Notre Dame and a J.D. from Catholic University School of Law.

Patrick Mathis, *Executive Vice President, Chief Risk Officer*

Mr. Mathis has served as our Executive Vice President and Chief Risk Officer since 2012. He oversees and manages risk and internal audit for NMIH. He has over 25 years of experience in the insurance, mortgage and financial industries, including executive level positions in the areas of risk and credit management. Prior to NMIH, Mr. Mathis served as senior vice president, head of credit risk management for PMI Mortgage Insurance Co., ("PMIC") from January 2009 to May 2012. In that capacity, he managed loss reserving, credit policy formulation and quality control for PMIC underwriters as well as for loans underwritten by customers on a delegated basis. Previously, from January 2005 to December 2008, Mr. Mathis served as senior vice president, chief risk officer at PMI Capital Corporation. In that role, he held oversight responsibility for international mortgage insurance subsidiaries in Australia, Europe, Hong Kong and Canada. Earlier in his career, Mr. Mathis held executive roles in credit and insured portfolio management at XL Capital Assurance and MBIA, Inc. Mr. Mathis holds a B.A. from the University of North Carolina-Chapel Hill and an M.B.A. from the University of Texas-Austin.

Claudia J. Merkle, *Executive Vice President, Chief of Insurance Operations*

Ms. Merkle has served as our Executive Vice President and Chief of Insurance Operations since 2013. Ms. Merkle joined NMIH in May 2012 as its Senior Vice President of Underwriting Fulfillment and Risk Operations. In her current role, she oversees insurance operations, underwriting fulfillment, risk operations, policy and default servicing and quality assurance. A seasoned mortgage industry executive, Ms. Merkle draws on 25 years of experience in mortgage banking, mortgage insurance, business development and operations. Prior to NMIH, Ms. Merkle served as vice president of national and regional accounts, risk and operations at PMIC, from 1996 to 2012. She has held previous executive leadership positions within the mortgage banking and mortgage insurance industries, including both national and regional business development, operations and risk management. Earlier in her career, Ms. Merkle served as vice president, regional manager at Meridian Mortgage, from 1990 to 1996, managing retail mortgage originations. She also held roles at Wachovia Bank in training, retail mortgage origination, underwriting, operations and Community Reinvestment Act lending. Ms. Merkle holds a B.S. in management from the Wharton School of Business, University of Pennsylvania.

Stan Pachura, *Executive Vice President, Chief Information Officer*

Mr. Pachura has served as our Executive Vice President and Chief Information Officer since 2012. He provides creative and operational direction for the Company's information technology platform, which supports the Company's innovative and strategic vision. He is a seasoned executive with over 30 years of managerial and technical experience in the banking, mortgage banking and mortgage insurance industries. Prior to NMIH, Mr. Pachura was senior vice president and chief information officer for PMIC from 2008 to 2012. In that role, he was responsible for all information technology functions for PMIC, including internal information services, e-commerce, and customer technology activities. Prior to that, he served as PMIC's senior vice president and chief technology officer from 2005 to 2008, during which he managed and directed all database, network and data center operations for the corporation. During his tenure at PMIC, Mr. Pachura also held other key roles, including in customer technology licensing, internet e-business, mergers and acquisitions, business intelligence and infrastructure and operations. Previously, Mr. Pachura was a manager with Key Services Inc./Goldome Realty Credit Corp. from 1983 to 1995 and an information systems consultant with Dataware, Inc. from 1973 to 1983. Mr. Pachura is president of the board of directors for the Greater Bay Area Chapter of the Juvenile Diabetes Research Foundation (JDRF).

Peter C. Pannes, *Executive Vice President, Chief Sales Officer*

Mr. Pannes has served as our Executive Vice President and Chief Sales Officer since 2012. He oversees sales and marketing at NMIH and is responsible for business development strategy and execution, including marketing and product development and sales operations and analytics. Mr. Pannes has 24 years of experience in the mortgage insurance and banking industries and has held executive positions at leading mortgage insurance companies. Prior to NMIH, Mr. Pannes served in various executive positions at PMIC. From 2006 until 2011, he led the mortgage insurance production team as PMIC's senior vice president of field sales and national accounts, and from late 2004 to 2006, he was vice president of field sales and oversaw a number of select national accounts. Previously, from 2000 to 2004, Mr. Pannes served as senior vice president and general manager at CMG Mortgage Insurance Company ("CMG"), a joint venture between PMIC and CUNA Mutual Group. At CMG, he originally held leadership positions in sales and production. In subsequent assignments, Mr. Pannes was responsible for CMG's operations, loss mitigation, underwriting, claims and servicing. Late in 2011, Mr. Pannes was asked to temporarily return to CMG to rebuild and repair operational inefficiencies. In that role, he was responsible for servicing, claims, operations, and credit policy. He held this position for 6 months before joining NMIH. Mr. Pannes also held management committee, finance committee (intermittently), and board of director positions for CMG from 2005 until his departure in 2012. Mr. Pannes holds a B.S. in purchasing and materials management from Arizona State University and has completed post-graduate business courses at the University of Chicago and Northwestern University's Kellogg School of Management. He is a graduate of the Mortgage Bankers Association School of Mortgage Banking.

Board of Directors

The number of members of our board of directors (the "Board") will be determined from time to time by resolution of the Board. Our Board currently consists of seven members. All of the directors other than Mr. Shuster qualify as independent directors under the corporate governance standards of the NASDAQ. Each member of our Board serves a one-year term or until his successor has been elected and qualified.

Although most actions taken by our Board require approval by a majority of the directors present at a meeting at which a quorum is present, our bylaws provide that certain actions taken by us must be approved by a unanimous vote of all of the non-employee directors, unless such actions have otherwise been approved by the holders of a majority of the outstanding shares of our common stock. These actions include (i) incurrence by us of liabilities in a single transaction or series of transactions in excess of $10 million (other than the writing of mortgage insurance policies in the ordinary course of business); (ii) entry by us into an employment agreement with any individual (other than Messrs. Shuster, Sherwood and McCourt) that provide for compensation, taken in the aggregate, in excess of the compensation provided for in the employment agreement of Mr. Sherwood as described in "Compensation - Employment Agreements and Letter Agreements - Employment Agreement with John (Jay) M. Sherwood, Jr.," excluding for these purposes the bonuses Mr. Sherwood received on achievement of GSE Approval, and will receive upon filing and effectiveness of the registration statement of which this prospectus forms a part; and (iii) issuances of equity to our employees, directors or consultants other than issuances pursuant to the 2012 Stock Incentive Plan. This provision will terminate at such time as our common stock begins trading on a national securities exchange.

Committees of the Board of Directors

The Board has four committees: Audit; Compensation; Nominating and Governance; and Risk. Information regarding these committees is provided below.

Audit Committee

The members of the Audit Committee are Messrs. Embler, Montgomery and Osmon, each of whom qualifies as an “independent” director as defined under the applicable rules and regulations of the NASDAQ. Mr. Embler is the chairperson of the Audit Committee and each member of the Audit Committee also serves as a "financial expert" to our Audit Committee, as that term is defined in SEC rules.

The Audit Committee is responsible for, among other things, monitoring:

- the integrity of the financial statements of the Company;
- the independent auditor's qualifications and independence;
- the performance of the Company's internal audit function and independent auditors;
- the Company's system of disclosure controls and system of internal controls over financial reporting; and
- the Company's compliance with legal and regulatory requirements.

Compensation Committee

The members of the Compensation Committee are Messrs. Ozanne, Embler and Scheid, each of whom qualifies as an “independent” director as defined under the applicable rules and regulations of the NASDAQ. Mr. Ozanne is the chairperson of the Compensation Committee.

The Compensation Committee is responsible for, among other things:

- overseeing our executive compensation program, including approving corporate goals relating to compensation for our Chief Executive Officer and other senior executives and determining the annual compensation of our Chief Executive Officer and other senior executives;
- reviewing and approving the compensation policy recommended by management with respect to other employees;
- determining, subject to ratification by our independent directors, the compensation of our independent directors; and
- preparing the Compensation Committee Report and reviewing the Compensation Discussion and Analysis included in our proxy statements.

Nominating and Governance Committee

The members of the Nominating and Governance Committee are Messrs. Scheid, Ozanne and Jones, each of whom qualifies as an “independent” director under our Corporate Governance Guidelines and the applicable rules and regulations of the NASDAQ. Mr. Scheid is the chairperson of our Nominating and Governance Committee.

The Nominating and Governance Committee is responsible for, among other things:

- identifying individuals qualified to become Board members, and recommending to the Board nominees for election for the next annual meeting of stockholders;

- reviewing the qualifications and independence of the members of the Board and its committees on a regular periodic basis;

- recommending to the Board corporate governance guidelines and reviewing such guidelines, as well as the Nominating and Governance Committee charter to confirm that they remain consistent with sound corporate governance practices and with any legal requirements;

- leading the Board in its annual review of the Board's performance; and

- recommending committee assignments for members of the Board.

Risk Committee

The members of the Risk Committee are Messrs. Jones, Montgomery and Osmon, each of whom qualifies as an “independent” director as defined under the applicable rules and regulations of the NASDAQ. Mr. Jones is the chairperson of our Risk Committee.

The Risk Committee is responsible for oversight of management's operation of the Company's mortgage insurance business and the management of the Company's investment portfolio, including, among other things:

- discussing, reviewing and monitoring the Company's mortgage insurance products, including premium rates, underwriting guidelines and returns;

- reviewing and approving the Company's investment policy;

- reviewing the mortgage insurance operating environment, including the state of local and regional housing markets, competitive forces affecting the Company and the Company's relationships with residential mortgage lenders and investors; and

- assisting the Board in its oversight of the Company's risk management policies, procedures and processes.

Code of Business Conduct and Ethics

Our Board has adopted a code of business conduct and ethics (the “Code of Ethics”) that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. If we amend or grant any waiver from a provision of our Code of Ethics that applies to our executive officers, we will publicly disclose such amendment or waiver on our website and as required by applicable law, including by filing a Current Report on Form 8-K.

COMPENSATION

Summary Compensation Table

The following summary compensation table sets forth information regarding the compensation paid, awarded to or earned during the fiscal year ended December 31, 2012 for our Chief Executive Officer and our two other most highly compensated executive officers who were serving as executive officers on December 31, 2012. In addition, we provide summary compensation data for James R. McCourt, an additional officer who would have qualified as one of our two most highly compensated executive officers but for the fact that his employment status changed, as described below, and he was no longer serving as an executive officer on December 31, 2012. Throughout this section, these four officers are referred to as our "named executive officers."

Name and Principal Position	Year	NMIH Pre-Capitalization Consulting Fee(1)	Salary	Bonus(2)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Bradley M. Shuster, President and Chief Executive Officer	2012	$226,323	$163,692	$452,623	$5,041,575	$3,521,100	—	—	$9,405,313
Jay M. Sherwood, Chief Financial Officer	2012	$226,323	$163,692	$301,749	$2,520,788	$1,760,550	—	—	$4,973,102
Stanley M. Pachura, Chief Information Officer	2012	$32,129	$163,692	$198,023	$95,060	$683,520	—	—	$1,172,424
James R. McCourt, VP of Administration (3)	2012	$131,000	$163,692	$68,580	$840,263	$586,850	—	—	$1,790,385

(1) The named executive officers were paid as consultants to the Company prior to its capitalization. Amounts shown include consulting fees earned during 2011 and 2012. The entire amounts shown were paid in 2012 upon capitalization.

(2) Bonus amounts were earned in 2012 but paid in 2013.

(3) In April 2012, Mr. McCourt entered into a letter agreement with the Company to serve as its Executive Vice President of Insurance Operations and Chief Risk Officer. At that time, Mr. McCourt was issued 151,250 stock options and 123,750 restricted stock units ("RSUs"). In October 2012, the Company and Mr. McCourt mutually agreed to terminate his April 2012 letter agreement and enter into a new letter agreement pursuant to which Mr. McCourt began serving as the Company's VP of Administration. In connection with the change to his terms of employment, Mr. McCourt forfeited 131,250 of his stock options and 113,750 of his RSUs. The values shown for Mr. McCourt's stock and option awards were calculated based on their values, as of the date of the grants, without giving effect to the forfeitures. As of December 31, 2012, Mr. McCourt held 10,000 RSUs valued at $67,900 and 20,000 option awards valued at $77,600.

Employment Agreements and Letter Agreements

In connection with our Private Placement, we entered into agreements with Messrs. Shuster, Sherwood, Pachura and McCourt. The following is a summary of the material terms of each such agreement.

Employment Agreement with Bradley M. Shuster

We entered into an employment agreement with Mr. Shuster, pursuant to which he serves as our President and Chief Executive Officer. The term of the employment agreement began on the closing of the Private Placement and ends three years from the date of GSE Approval (which occurred in January 2013), or, if later, two years following a "change in control" (which is substantially the same as the definition in the 2012 Stock Incentive Plan as set forth below) unless terminated earlier pursuant to the terms of the employment agreement. For the period between the closing of the Private Placement and the GSE Approval, Mr. Shuster was paid a base salary of $20,000 per month. Since the GSE Approval, Mr. Shuster's annual base salary has been $600,000, and he will be eligible for an annual cash bonus, with a target annual bonus opportunity of 100% of his annual base salary and a guaranteed minimum of 50% of his base salary for the year during which the GSE Approval was achieved, as well as lump sum cash bonuses of (i) $300,000 upon the achievement of the GSE Approval (which was paid to Mr. Shuster in January 2013), (ii) $300,000 upon the filing of this registration statement registering the resale of the registrable shares and (iii) $300,000 upon the effectiveness of such registration

statement, in each case within a specified time period. In addition, during the employment period, Mr. Shuster will receive employee benefits on a basis no less favorable than those provided to our other senior executives. We also granted Mr. Shuster certain equity awards under his employment agreement pursuant to our 2012 Stock Incentive Plan, which are described and quantified below under the heading "*Equity Awards Granted to Named Executive Officers*." In addition, Mr. Shuster is eligible to receive certain severance benefits, including enhanced severance benefits in the event of a termination of employment within two years following a "change in control."

Employment Agreement with John (Jay) M. Sherwood, Jr.

We entered into an employment agreement with Mr. Sherwood, pursuant to which he serves as our Chief Financial Officer. The term of the employment agreement began on the closing of the Private Placement and ends three years from the date of the GSE Approval, or, if later, two years from the "change in control" unless terminated earlier pursuant to the terms of the employment agreement. For the period between the closing of the Private Placement and the GSE Approval, Mr. Sherwood was paid a base salary of $20,000 per month. Since the GSE Approval, Mr. Sherwood's annual base salary has been $400,000, and he will be eligible for an annual cash bonus, with a target annual bonus opportunity of 100% of his annual base salary and a guaranteed minimum of 50% of his base salary for the year during which the GSE Approval is achieved, as well as lump sum cash bonuses of (i) $200,000 upon the achievement of the GSE Approval (which was paid to Mr. Sherwood in January 2013), (ii) $200,000 upon the filing of this registration statement registering the resale of the registrable shares and (iii) $200,000 upon the effectiveness of such registration statement, in each case within a specified time period. In addition, during the employment period, Mr. Sherwood will receive employee benefits on a basis no less favorable than those provided to our other senior executives. We also granted Mr. Sherwood certain equity awards under his employment agreement pursuant to our 2012 Stock Incentive Plan, which are described and quantified below under the heading "*Equity Awards Granted to Named Executive Officers.*" In addition, Mr. Sherwood is eligible to receive certain severance benefits, including enhanced severance benefits in the event of a termination of employment within two years following a "change in control."

Letter Agreement with Stanley Pachura

We entered into a letter agreement with Mr. Pachura, pursuant to which he serves as our Chief Information Officer, for a three-year term that commenced upon the closing of the Private Placement. For the period between the closing of the Private Placement and the GSE Approval, Mr. Pachura was paid a base salary of $20,000 per month. Since the GSE Approval, Mr. Pachura's annual base salary has been $350,000, and he will be eligible for an annual cash bonus, with a target annual bonus opportunity of 75% of his annual base salary and a guaranteed minimum of 50% of his annual base salary for the year during which the GSE Approval is achieved, as well as a lump sum cash bonus of $100,000 upon the achievement of the GSE Approval (which was paid to Mr. Pachura in January 2013). We also granted Mr. Pachura certain equity awards under his employment agreement pursuant to our 2012 Stock Incentive Plan, which are described and quantified below under the heading "*Equity Awards Granted to Named Executive Officers*." In addition, Mr. Pachura is eligible to receive certain severance benefits, including enhanced severance benefits in the event of a termination of employment within one year following a "change in control".

Letter Agreement with James R. McCourt

In connection with the Private Placement, we entered into a letter agreement with Mr. McCourt, which was subsequently superseded in October 2012 by a new letter agreement, pursuant to which he serves as our Vice President of Administration. For the period between the closing of the Private Placement and the GSE Approval, Mr. McCourt was paid a base salary of $20,000 per month. Since the GSE Approval, Mr. McCourt's

annual base salary has been $200,000, and he is eligible for an annual cash bonus, with a target annual bonus opportunity of 35% of his annual base salary and a guaranteed minimum of 50% of his annual base salary for the year during which the GSE Approval is achieved, as well as a lump sum cash bonus equal to $125,000 upon the achievement of the GSE Approval (which was paid to Mr. McCourt in January 2013). We also granted Mr. McCourt certain equity awards under his employment agreement pursuant to our 2012 Stock Incentive Plan (some of which were subsequently forfeited), which are described and quantified below under the heading "*Equity Awards Granted to Named Executive Officers.*"

Equity Awards Granted to Named Executive Officers

As disclosed above, in connection with the closing of the Private Placement, we granted equity awards to Messrs. Shuster, Sherwood, Pachura and McCourt. Mr. Shuster was granted stock options with respect to 907,500 shares of our Class A common stock and 742,500 RSUs, Mr. Sherwood was granted stock options with respect to 453,750 shares of our Class A common stock and 371,250 RSUs, Mr. Pachura was granted stock options with respect to 178,000 shares of our Class A common stock and 14,000 RSUs and Mr. McCourt was granted stock options with respect to 151,250 shares of our Class A common stock and 123,750 RSUs. Mr. McCourt subsequently forfeited a portion of the awards granted in connection with the closing of the Private Placement and holds stock options with respect to 20,000 shares of our Class A common stock and 10,000 RSUs. All of the RSUs were initially granted with performance vesting conditions, but in February 2013 the awards were amended to provide that two-thirds of the RSUs continue to vest based on performance conditions and one-third of the RSUs vest solely based on the passage of time. The equity awards granted to our named executive officers (as amended to provide for time vesting of certain RSUs) will generally be subject to the following minimum vesting conditions (in each case, generally subject to continued service through the applicable vesting date):

- 100% of the outstanding RSU grants vest as follows:

  Performance Vesting RSUs ("performance shares"), i.e. two-thirds of grant
  - 33.3% of the performance shares will vest when our stock price equals or exceeds $12.50 for 30 days;[1]
  - 33.3% of the performance shares will vest when our stock price equals or exceeds $14.00 for 30 days; and
  - 33.3% of the performance shares will vest when our stock price equals or exceeds $16.00 for 30 days.

[1] Our securities trade in the FBRPlus™ system. As of April 5, 2013, the average trading price of our securities in the FBRPlus™ system over the prior 30-day trading period equaled or exceeded $12.50 per share. As a result, the first tranche of performance shares issued to our named executive officers vested on April 5, 2013.

  Time Vesting RSUs ("time-vested shares"), i.e. one-third of grant
  - 50% of the time-vested shares will vest on the second anniversary of the grant date; and
  - 50% of the time-vested shares will vest on the third anniversary of the grant date.

- 100% of the stock option grants vest as follows:

  - 33.3% of the stock options will vest on the first anniversary of the grant date;
  - 33.3% of the stock options will vest on the second anniversary of the grant date; and
  - 33.3% of the stock options will vest on the third anniversary of the grant date.

Stock price for determining the vesting of performance shares will be determined as follows: (i) if our common stock is actively traded on a nationally recognized securities exchange, the average closing price on such exchange for a consecutive 30-day trading period, (ii) if our common stock is actively traded over-the-counter, the average of the closing bid price over a consecutive 30-day trading period ("30-day average"), (iii) if trades of our common stock are reported on the FBR Plus™ System, the average sales price so reported over a consecutive 30-day trading period and (iv) if not determined as described in (i), (ii) or (iii) above, as determined by the Board or a committee thereof pursuant to the procedures specified pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

While the vesting of the equity awards granted to our named executive officers generally requires continued service through the applicable vesting date, in some instances the vesting of such equity awards will be accelerated upon a termination of employment or a change in control. For a further description of the treatment of equity upon certain qualifying terminations of employment or a change in control see "*Potential Payments upon Termination or Change in Control*" below.

Annual Bonus Plan

In order to have a significant percentage of our executive officer compensation be performance based we have established an annual bonus program with the payment of bonuses based upon the achievement of Company performance goals. For 2012, the overriding performance goal was the achievement of GSE Approval in the nine month time frame set forth in the offering memorandum issued in connection with our Private Placement. In recognition of the successful, and timely, achievement of the GSE Approval and operating expenses coming in under budget during the GSE Approval process, management recommended, and the Board approved, payment of bonuses to our named executive officers at 110% of target.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding outstanding equity interests held by each of our named executive officers as of December 31, 2012:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable (#) (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested) ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (4)
Bradley M. Shuster	—	907,500	—	10.00	4/24/22	—	—	742,500	$7,981,875
Jay M. Sherwood	—	453,750	—	10.00	4/24/22	—	—	371,250	$3,990,938
Stanley M. Pachura	__	178,000	—	10.00	5/30/22	__	__	14,000	$150,500
James R. McCourt(5)	__	20,000	—	10.00	4/24/22	__	—	10,000	$107,500

(1) Represents stock options that vest (subject to continued employment on the vesting date) as follows:

- 33.3% vest on the first anniversary of the grant date;

- 33.3% vest on the second anniversary of the grant date; and
- 33.3% vest on the third anniversary of the grant date.

(2) The per share exercise price is equal to the price of a share of our common stock in our Private Placement.
(3) Represents RSUs. As explained above under the heading - *Equity Awards Granted to Certain Named Executive Officers*, as of December 31, 2012, 100% of the RSUs were performance shares. In February 2013, the RSU awards were amended so that two-thirds of the grant are performance shares and one-third are time-vested shares.
(4) There is currently no public market for our common stock, and therefore we do not have a public valuation for our security. Our securities trade in the FBRPlus™ system. To determine the value of unearned shares that have not vested, we used the 30-day average for the 30-day trading period ending on December 31, 2012 of $10.75 per share.
(5) In 2012, Mr. McCourt was originally issued 151,250 stock options and 123,750 RSUs. In October 2012, Mr. McCourt forfeited 131,250 of his stock options and 113,750 of his RSUs.

Other Compensation Programs and Practices

Retirement Plans and Other Benefit Plans

We do not currently offer retirement plans, although it is our intent to initiate a qualified defined contribution retirement plan in 2014.

Perquisites

There were no perquisites paid in 2012, as base compensation for the named executive officers was limited during the period prior to GSE Approval. In lieu of a perquisite program in 2013, the Board approved payment of flat dollar amounts to our named executive officers, except Mr. McCourt, which will be added to their base salaries in 2013. In the ordinary course, perquisites generally represent an immaterial component of our executive officers' compensation and typically provide executive officers with a range of market competitive perquisites such as auto leasing, financial planning, tax preparation, estate planning, health assessments and club memberships. Effective May 1, 2013, NMI has included in the compensation of each named executive officer, except Mr. McCourt, a fixed amount ranging from $30,000 to $38,400, annually, as consideration for market competitive perquisites to be used at the discretion of the executive officer.

Potential Payments upon Termination or Change in Control

Termination of Employment without Cause or Resignation with Good Reason

Shuster and Sherwood Employment Agreements

If the employment of either Mr. Shuster or Mr. Sherwood is terminated (i) by us without “cause” or (ii) by the executive for “good reason” (each, a “Qualifying Termination”) during the employment period (but not within two years following a “change in control”), (a) subject to his execution (other than upon his death) and non-revocation of a release of claims against us and our affiliated entities (a “termination release”), he will be entitled to be paid a lump sum cash amount equal to the sum of (1) any earned but unpaid base salary and target annual bonus for a prior award period (other than any portion of such target annual bonus that was previously deferred which shall instead be paid in accordance with the applicable deferral arrangement) and (2) his annual base salary immediately prior to the date of the Qualifying Termination and (3) his target annual bonus for the year of termination and (b) he will remain eligible to receive 50% of his bonuses related to the effectiveness of this shelf registration statement. In addition, under the terms of their 2012 equity grants under the 2012 Stock Incentive Plan, upon a Qualifying Termination, all of the outstanding stock options and time-vested shares (no time-vested shares were held by our named executive officers as of December 31, 2012) held by Mr. Shuster or Mr. Sherwood immediately vest and become exercisable, and the performance shares held by the executive remain outstanding until the 10th anniversary of the date of grant and vest upon the achievement of the specified stock price targets. In addition, upon a Qualifying Termination, Mr. Shuster and Mr. Sherwood would be entitled to any accrued and unpaid benefits, including accrued paid-time off and the timely payment

of any amounts due and payable under any of our plans, programs, policies or practices (collectively the “Accrued Benefits”).

For the purposes of the employment agreements with Messrs. Shuster and Sherwood, “cause” generally means the (i) executive's continued failure to perform substantially his duties, (ii) executive's willful material misconduct or willful neglect in the performance of his duties, (iii) executive's willful failure to adhere to lawful clear directions of the person to whom he reports (or, in the case of Mr. Shuster, the Board), willful failure to adhere to our material written policies or to devote substantially all of his business time and efforts to the Company, (iv) executive becoming subject to an action taken by a regulatory body or a self-regulatory organization that impairs the executive from performing his duties to the Company, (v) executive's indictment or formal admission to or plea of guilty or *nolo contendere* to a charge of commission of a felony or any crime involving serious moral turpitude or (vi) willful breach of any material terms of the employment agreement, subject in certain cases to notice and opportunity to cure.

For the purposes of the employment agreements with Messrs. Shuster and Sherwood, “good reason” generally means (i) a material diminution of annual base salary, (ii) a material diminution in position, authority, duties or responsibilities, (iii) any relocation of the executive's principal place of business to a location that is more than 30 miles from the executive's principal place of business prior to such relocation other than the initial relocation in connection with the establishment of our headquarters or (iv) any material breach by us of the employment agreement, subject in certain cases to notice and opportunity to cure.

Pachura Letter Agreement

Under the terms of Mr. Pachura's letter agreement, if he becomes subject to a Qualifying Termination during his employment period (but not within one year following a change in control), subject to his execution of a termination release, he will be entitled to be paid a lump sum cash amount equal to the sum of (i) any earned but unpaid base salary and target annual bonus for a prior award period (other than any portion of such target annual bonus that was previously deferred) and (ii) one times the sum of (a) his annual base salary immediately prior to the date of the Qualifying Termination and (b) his target annual bonus for the year of termination. In addition, upon a Qualifying Termination, Mr. Pachura would be entitled to any Accrued Benefits.

For the purposes of Mr. Pachura's letter agreement, “cause” generally means his (i) willful or gross neglect in the performance of his employment duties, (ii) plea of guilty or *nolo contendere* to, or conviction for, the commission of a felony, (iii) conduct that is injurious to the Company, or an act of fraud, embezzlement, misrepresentation or breach of a fiduciary duty against the Company, (iv) breach of any nondisclosure, non-solicitation or noncompetition obligation owed to the Company, or (v) failure to follow instructions of our Board or his direct superior. As defined in Mr. Pachura's letter agreement, “good reason” generally means (i) a material reduction of his annual base salary or (ii) any relocation of his primary place of employment to a location that is more than 50 miles from the Company's headquarters.

Termination of Employment For Cause or Resignation without Good Reason

With respect to Messrs. Shuster and Sherwood, upon a termination of employment for “cause” or the executive's resignation of employment without “good reason,” the executive is entitled to payment of accrued and unpaid base salary as of the date of termination of employment, any target annual bonus for a prior award period to the extent not paid (other than any portion of such target annual bonus that was previously deferred which shall instead be paid in accordance with the applicable deferral arrangement) and any Accrued Benefits. All unvested equity awards will be forfeited following a termination of employment for “cause” or the executive's resignation of employment without “good reason.”

Termination of Employment due to Death or Disability

Upon a termination of employment due to death or disability, our named executive officers are entitled to payment of accrued and unpaid base salary, as of the date of termination of employment, and Accrued Benefits. All unvested equity awards will be forfeited following a termination of employment due to death or disability.

Change in Control

The employment agreements with Messrs. Shuster and Sherwood each provide for enhanced severance payments upon a termination of employment by us without “cause” or by the executive with “good reason” within two years following a change in control. In the event of such a Qualifying Termination in connection with a change in control, subject to the execution of a termination release, each of Mr. Shuster and Mr. Sherwood would be entitled to a lump sum cash amount equal to (i) any earned but unpaid base salary and target annual bonus for a prior award period (other than any portion of such target annual bonus that was previously deferred which shall instead be paid in accordance with the applicable deferral arrangement) and (ii) three times the sum of (a) his annual base salary immediately prior to the date of the Qualifying Termination plus (b) his target annual bonus for the year of termination of employment.

The letter agreement with Mr. Pachura provides for enhanced severance payments upon a termination of employment by us without “cause” or by Mr. Pachura with “good reason” within one year following a change in control. In the event of such a Qualifying Termination in connection with a change in control, subject to the execution of a termination release, Mr. Pachura would be entitled to a lump sum cash amount equal to (i) any earned but unpaid base salary and target annual bonus for a prior award period (other than any portion of such target annual bonus that was previously deferred) and (ii) one and one-half times the sum of (a) his annual base salary immediately prior to the date of the Qualifying Termination plus (b) his target annual bonus for the year of termination of employment.

In addition, under our 2012 Stock Incentive Plan, all outstanding stock options and time-vested shares (no time-vested shares were held by our named executive officers as of December 31, 2012) granted to our named executive officers will immediately vest and become exercisable upon a “change in control,” and our Compensation Committee will determine whether outstanding performance shares held by our named executive officers vest based on the attainment of the stock price goals at the time of the “change in control.”

A “change in control” is generally deemed to occur upon:

- the acquisition by any individual, entity or group of “beneficial ownership” (pursuant to the meaning given in Rule 13d-3 under the Exchange Act) of 35% or more (on a fully diluted basis) of either (i) the outstanding shares of our common stock or (ii) the combined voting power of our then outstanding voting securities, with each of the foregoing subject to certain customary exceptions;

- the replacement of a majority of the directors that constituted our Board as of the closing of the Private Placement by directors whose appointment or election is not endorsed by at least two-thirds of the directors on the Board as of the closing of the Private Placement, subject to certain exceptions;

- approval by our stockholders of our complete dissolution or liquidation; or

- a merger of the Company, the sale or disposition by the Company of all or substantially all of our assets or any other business combination of the Company with any other corporation, other than any merger or business combination which would result in (i) the voting securities of the Company outstanding immediately prior to the transaction continuing to represent at least 50% of the total voting power of the Company or such surviving entity outstanding immediately after such transaction, (ii) no person (other than any employee benefit plan sponsored or maintained by the surviving company) becoming the “beneficial owner,” directly or indirectly, of 35% or more of the total voting power of the parent company (or, if there is no parent company, the surviving company) and (iii) members of the Board as of the execution of the initial agreement providing for the transaction constituting at least two-thirds of the members of the board of directors of the parent company (or, if there is no parent company, the surviving company) following the consummation of the transaction.

The following table reflects the estimated payments to our named executive officers that may be made upon a termination of employment, a Qualifying Termination of employment (occurring within two years of a change in control for Messrs. Shuster or Sherwood or within one year of a change in control for Mr. Pachura) or a change in control without the termination of a named executive officer's employment. The estimated payments in the table are calculated based on the assumption that the hypothetical termination of employment and/or the hypothetical change in control each occurred on December 31, 2012. There is currently no public market for our common stock, and therefore we do not have a public valuation for our security. Our securities trade in the FBRPlus™ system. To determine the value of our shares on December 31, 2012, we used the 30-day average for the thirty-day trading period ending on December 31, 2012, which was $10.75 per share.

Name	Scenario	Cash Severance ($)(11)	Stock Option Vesting ($)(12)	Restricted Stock Unit Vesting ($)(13)	Benefits ($)	Total ($)
	Voluntary Resignation (no Good Reason)	0(1)	0	0	0(2)	0
	Qualifying Termination	$1,200,000(3)	$680,625 (4)	0 (5)	0 (2)	$1,880,625
	Involuntary Termination for Cause	0(1)	0	0	0(2)	0
	Qualifying Termination Following Change in Control	$3,600,000(6)	$680,625(7)	0 (8)	0 (2)	$4,280,625
Bradley M. Shuster	No Termination Following Change in Control	0	$680,625 (7)	0 (8)	0	$680,625
	Voluntary Resignation (no Good Reason)	0(1)	0	0	0(2)	0
	Qualifying Termination	$800,000(3)	$340,313 (4)	0 (5)	0 (2)	$1,140,313
	Involuntary Termination for Cause	0(1)	0	0	0(2)	0
	Qualifying Termination Following Change in Control	$2,400,000 (6)	$340,313 (7)	0 (8)	0 (2)	$2,740,313
Jay M. Sherwood	No Termination Following Change in Control	0	$340,313 (7)	0 (8)	0	$340,313
Stanley M. Pachura	Voluntary Resignation (no Good Reason)	0	0	0	0	0
	Qualifying Termination	$612,500(9)	0	0	0(2)	$612,500
	Involuntary Termination for Cause	0	0	0	0	0
	Qualifying Termination Following Change in Control	$918,750(10)	$133,500(7)	0(8)	0(2)	$1,052,250
	No Termination Following Change in Control	0	$133,500(7)	0(8)	0	$133,500

(1) Under the terms of Messrs. Shuster’s and Sherwood’s respective Employment Agreements, each would be entitled to be paid his respective annual base salary in effect at the time of termination and any target annual bonus for a prior award period, both to the extent not previously paid (other than any deferred portion of such target annual bonus).

(2) Under the terms of their respective employment arrangements, each would be entitled to be paid the amounts of any Accrued Benefits through the date of termination to the extent not previously paid or provided.

(3) As provided in Messrs. Shuster’s and Sherwood’s respective Employment Agreements, amount includes the sum of (i) Mr. Shuster’s or Mr. Sherwood’s annual base salary plus (ii) his 2012 target annual bonus, which was 100% of the annual base salary. Further, upon a Qualifying Termination at December 31, 2012, Messrs. Shuster and Sherwood would have remained eligible to receive in the future 50% of the GSE Approval bonus and 50% of the bonuses payable upon the filing and effectiveness of this registration statement.

(4) With a Qualifying Termination, any outstanding stock options that were not then exercisable and vested would have become fully exercisable and vested at the date of termination.

(5) With a Qualifying Termination, unvested RSUs (100% of which were performance shares at December 31, 2012) would have remained outstanding and subject to vesting upon the later of (i) GSE approval or (ii) the achievement of the applicable stock price goals.

(6) As provided in Messrs. Shuster’s and Sherwood’s respective Employment Agreements, amount includes three times the sum of (i) Mr. Shuster’s or Mr. Sherwood’s annual base salary plus (ii) his 2012 target annual bonus, which was 100% of the annual base salary. Further, upon a Qualifying Termination at December 31, 2012 following a change in control, Messrs. Shuster and Sherwood would have remained eligible to receive in the future 50% of the GSE Approval bonus and 50% of the bonuses payable upon the filing and effectiveness of this registration statement.

(7) Upon a change in control, any outstanding stock options that were not then exercisable and vested would have become fully exercisable and vested immediately.

(8) Vesting of RSUs (100% of which were performance shares at December 31, 2012) following a change in control shall be determined by the Compensation Committee of the Board based upon the Committee’s determination regarding the extent the stock price goals with respect to the performance shares have been met.

(9) As provided in Mr. Pachura’s letter agreement, amount includes the sum of (i) Mr. Pachura’s annual base salary plus (ii) his 2012 target annual bonus, which was 75% of the annual base salary.

(10) As provided in Mr. Pachura’s letter agreement, amount includes one and one-half times the sum of (i) Mr. Pachura’s annual base salary plus (ii) his 2012 target annual bonus, which was 75% of the annual base salary.

(11) Under any of the hypothetical scenarios, Mr. McCourt would not have been entitled to receive cash severance payments.

(12) Upon a change in control, with or without a termination, Mr. McCourt’s outstanding stock options that were not exercisable and vested would have become fully exercisable and vested immediately. At $10.75 per share, the cash value of Mr. McCourt’s options at December 31, 2012 was $15,000.

(13) Upon a change in control, with or without a termination, vesting of Mr. McCourt’s outstanding RSUs (100% of which were performance shares at December 31, 2012) would have been subject to the same conditions as described in note (8) above.

2012 Director Compensation

Following the closing of our Private Placement on April 24, 2012, the Company's non-employee directors were Robert E. Dean, A. John Gambs, III, James H. Ozanne and Steven L. Scheid. In July 2012, in accordance with the Company's amended and restated bylaws, the Board passed a resolution to increase the

number of directors from five to seven. On July 16, 2012, the Company held a Special Meeting of Stockholders to elect four directors ("special election") to fill two vacancies and two open positions as a result of Messrs. Dean and Gambs standing for reelection. Following the special election, the shareholders elected Michael Embler, James G. Jones, Michael Montgomery and John Brandon Osmon to serve on the Board until the 2013 Annual Meeting of Stockholders, and Messrs. Dean and Gambs ceased to be Board members.

In 2012, we paid each of our non-employee directors a quarterly cash retainer of $16,250. In addition, the non-employee directors received a grant of stock options and RSUs in connection with the closing of our Private Placement or their commencing service on the Board, as applicable. Mr. Dean and Mr. Gambs forfeited their stock option and RSU awards in connection with their ceasing to be members of the Company's Board, and those options and RSUs were redistributed in equal parts to Messrs. Embler, Jones, Montgomery and Osmon. Going forward, each non-employee director will generally receive an annual cash retainer of $65,000, paid quarterly, and an annual equity award with a grant date fair value of $50,000, for total projected annual compensation of $115,000 for his or her services as a member of the Board. No individual meeting fees are paid for either Board meetings or committee meetings, whether in person or by telephone.

Compensation for non-employee directors during 2012 was as follows:

Name	**Fees earned or paid in cash ($)**	**Stock awards ($)**(4)	**Option awards ($)**(4)	**Non-equity incentive plan compensation ($)**	**Change in pension value and nonqualified deferred compensation earnings ($)**	**All other compensation ($)**	**Total ($)**
Robert E. Dean(1)	$115,000	$618,750(5)	$293,425(5)	—	—	—	$1,027,175
Michael Embler(2)	$32,500	$309,400	$144,824	—	—	—	$486,724
A. John Gambs, III(1)	$115,000	$618,750(5)	$293,425(5)	—	—	—	$1,027,175
James G. Jones(2)	$32,500	$309,400	$144,824	—	—	—	$486,724
Michael Montgomery(2)	$32,500	$309,400	$144,824	—	—	—	$486,724
John Brandon Osman(2)	$32,500	$309,400	$144,824	—	—	—	$486,724
James H. Ozanne(3)	$48,750	$618,750	$293,425	—	—	—	$960,925
Steven L. Scheid(3)	$48,750	$618,750	$293,425	—	—	—	$960,925

(1) To compensate Messrs. Dean and Gambs for their overall contribution to the Board and the Company prior to their departures in July 2012, we paid each of them $16,250 during their Board membership and an additional $98,750 upon the Company's receipt of GSE Approval.
(2) Michael Embler, James G. Jones, Michael Montgomery and John Brandon Osmon were elected to the Company's Board of Directors on July 17, 2012.
(3) James H. Ozanne and Steven L. Scheid have been members of the Company's Board since its capitalization on April 24, 2012.
(4) The stock options and RSUs granted to each non-employee director in 2012 vest in two equal 50% installments on each of the second and third anniversary of the date of grant. As of December 31, 2012, each of Messrs. Ozanne and Scheid held stock options with respect to 75,625 shares of our common stock and 61,875 RSUs and each of Messrs. Embler, Jones, Montgomery and Osmon held stock options with respect to 37,813 shares of our common stock and 30,940 RSUs.
(5) Each of Mr. Dean and Mr. Gambs forfeited their stock options and RSUs in connection with their ceasing to be members of the Company's Board. The value of their stock and option awards are presented without giving effect to the forfeitures and prior to their redistribution to Messrs. Embler, Jones, Montgomery and Osmon.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the director and executive officer compensation arrangements discussed above, the following is a summary of material provisions of various transactions we have entered into with our executive officers, directors (including nominees), 5% or greater stockholders and any of their immediate family members or entities affiliated with them since January 1, 2012. We believe the terms and conditions set forth in such agreements are reasonable and customary for transactions of this type.

Registration Rights Agreements

Concurrently with the consummation of the private placement of our Class A common stock in April 2012 (the “Private Placement”), we entered into a Registration Rights Agreement for the benefit of our stockholders with respect to our common stock sold in the Private Placement. Under the terms of the Registration Rights Agreement, we agreed, at our expense, to file with the SEC within six months following receipt of the GSE Approval the shelf registration statement, of which this prospectus forms a part, registering the resale of shares of our common stock sold in the Private Placement, plus any additional shares of common stock issued in respect thereof whether by share dividend, share distribution, share split or otherwise. We further agreed to cause such shelf registration statement to be declared effective by the SEC as soon as practicable but in any event after the initial filing of such shelf registration statement.

If the shelf registration statement has not been declared effective by the SEC, or the registrable shares have not been listed for trading on the NYSE or NASDAQ on the date that is the earlier of six months after the filing of the shelf registration statement or 12 months after the date of the GSE Approval (the “Trigger Date”), the Registration Rights Agreement and our bylaws require us to call a special meeting of our stockholders for the purpose of considering and voting on the removal of our directors then in office and electing the successors of any directors so removed (the "Special Election Meeting"). The Special Election Meeting must occur as soon as reasonably practicable following the Trigger Date but in no event more than 45 days after the Trigger Date. The Special Election Meeting is described in further detail under "Description of Capital Stock—Certain Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws and Delaware Law—Special Meetings of Stockholders."

In addition, pursuant to the Registration Rights Agreement, if the Company proposes to file a registration statement providing for an initial public offering of our Class A common stock, we are required to provide written notice to each stockholder holding registrable shares following the filing of any such registration statement (the “IPO Registration Statement”). Such stockholders have “piggy-back” registration rights that permit them to have shares of common stock owned by them included in the IPO Registration Statement upon written notice to us within the prescribed time limit. Each such stockholder's ability to register shares under the IPO Registration Statement is subject to the terms of the Registration Rights Agreement. The managing underwriter(s) may under certain circumstances limit the number of shares owned by such stockholders that are included in an initial public offering, but the managing underwriter(s) may not reduce such stockholders below 25% of the total shares of common stock to be sold under the IPO Registration Statement.

Stockholders holding registrable shares who elect to include their shares of our common stock for resale on the IPO Registration Statement will not be able to sell their shares of our common stock for a period of up to 30 days before and 180 days following the effective date of the IPO Registration Statement (subject to potential limited extensions). Stockholders holding registrable shares who do not elect, despite their right to do so under the Registration Rights Agreement, to include their shares of our common stock for resale on the IPO Registration Statement will not be able to sell their shares of our common stock for a period of up to 60 days following the effective date of the IPO Registration Statement.

We entered into similar registration rights agreements with MAC Financial Ltd., who acquired shares of our common stock and a warrant exercisable for shares of our common stock in connection with our acquisition of MAC Financial and to FBR Capital Markets & Co., who acquired shares of our common stock in our private placement and hold a warrant exercisable for shares of our common stock. These registration rights agreements provide for up to three demand registrations as well as for piggy-back registration rights.

Sale of Shares to Our Chief Executive Officer and Chief Financial Officer

In April, 2012, we sold 250,000 shares of Class B non-voting common stock to Messrs. Shuster and Sherwood for nominal consideration. These shares automatically converted into shares of Class A common stock upon receipt of GSE Approval. Messrs. Shuster and Sherwood will not be able to sell any of these shares or any of our other equity securities until 180 days following the effective date of any IPO Registration Statement (subject to potential limited extensions), if we were to choose to file one in connection with an initial public offering.

Agreements with FBR Capital Markets & Co. and its Affiliates

Engagement Letter; Right of First Refusal

In connection with the Private Placement, we entered into an engagement letter with FBR Capital Markets & Co. In the Private Placement, FBR Capital Markets & Co. received a discount and placement fee of approximately 7% and reimbursement of its out-of-pocket expenses (including legal fees and expenses) totaling approximately $40 million and including amounts discussed in *Line of Credit* below. Under this engagement letter we granted FBR Capital Markets & Co. the right of first refusal for two years following the completion of the Private Placement to serve as (i) lead underwriter and sole bookrunner in connection with any initial public offering or subsequent public offering of equity or debt securities or other capital markets financing and sole placement agent in any private offering of equity or debt securities or other capital markets financing, (ii) agent in connection with the exercise of warrants or options in the Company and (iii) dealer-manager with respect to any self-tender by the Company, and to reimburse FBR Capital Markets & Co. for its out-of-pocket expenses (including legal fees and expenses) incurred in connection with any of these transactions. In connection with any of these subsequent transactions, the compensation of FBR Capital Markets & Co. will be determined by agreement between the Company and FBR Capital Markets & Co. based on compensation customarily paid to leading investment banks acting in such capacities in similar transactions; provided that the FBR Capital Markets & Co.'s share of the compensation with respect to any capital raising shall not be less than 7% for any initial public offering (with FBR Capital Markets & Co. receiving no less than 60% of the total economics of the underwriting group), 6% for other offerings of equity and 4% with respect to offerings of debt.

Line of Credit

On August 19, 2011, in connection with the acquisition of MAC Financial and the Private Placement, FBR Capital Markets LT, Inc. granted us a line of credit up to an aggregate principal amount of $1.5 million to support legal, accounting and others costs associated with our formation and the capitalization. Under the terms of the line of credit, FBR Capital Markets LT, Inc., made loans to us for legal, accounting and other costs associated with our formation and capitalization, as approved by FBR Capital Markets LT, Inc.

The line of credit was available until April 24, 2012 (the “Availability Period”). We were permitted at any time prior to the termination of the Availability Period, upon written notice to prepay any loan plus accrued interest thereon without premium. Amounts borrowed and repaid by us could not be reborrowed. Interest accrued on the outstanding principal amount of each loan at an interest rate of 14.0%, payable in arrears on

the last business day of every month (with our right to defer the payment of interest and such deferred interest bearing interest at the 14% rate, compounded monthly). At the expiration of the Availability Period, the line of credit terminated, and we repaid the principal then outstanding together with accrued interest thereon in cash to FBR Capital Markets LT, Inc. The maximum amount outstanding under the line of credit was approximately $540,000 and we paid a total of approximately $13,000 in interest thereunder.

In addition, as part of the consideration for granting the line of credit, we issued to FBR Capital Markets LT, Inc. the FBR Warrant. FBR Capital Markets LT, Inc. subsequently assigned the FBR Warrant to FBR Capital Markets & Co.

FBR & Co, an affiliate of FBR Capital Markets LT, Inc., was the controlling stockholder of the Company prior to the closing of the Private Placement, and two employees of one or more affiliates of FBR Capital Markets LT, Inc. were among the officers and were the sole directors of the Company prior to the closing of the Private Placement. These individuals resigned as directors and officers of the Company, effective upon closing of the Private Placement.

Statement of Policy Regarding Transactions with Related Persons

We have adopted a written policy concerning related party transactions. Pursuant to this policy, our directors and director nominees, executive officers and holders of more than five percent of our common stock, including their immediate family members, will not be permitted to enter into a related party transaction with us in excess of $120,000 without the consent of our Audit Committee. Any request for us to enter into such a transaction, where any such party has a direct or indirect material interest, subject to certain exceptions, will be required to be presented by management to our Audit Committee, which will review and approve or disapprove such proposed transaction.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND SELLING STOCKHOLDERS

The following table sets forth information about the beneficial ownership of our Class A common stock as of July 31, 2013 for:

- each person known to us to be the beneficial owner of more than five percent of our Class A common stock;
- each named executive officer;
- each of our directors;
- all of our named executive officers and directors as a group; and
- each selling stockholder.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o NMI Holdings, Inc., 2100 Powell Street, 12th Floor, Emeryville, California 94608. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of Class A common stock that they beneficially own, subject to applicable community property laws. We have based our calculation of the percentage of beneficial ownership on 55,637,480 shares of our Class A common stock outstanding as of July 31, 2013. There are currently no shares of our Class B common stock issued and outstanding.

In computing the number of shares of Class A common stock beneficially owned by a person and such person's percentage of ownership of all outstanding shares, we deemed as owned and outstanding for such person those shares of Class A common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of July 31, 2013 or RSUs held by that person that are currently vested or will vest within 60 days of July 31, 2013. We, however, did not deem such shares as outstanding for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner	Total Shares of Class A Common Stock Beneficially Owned		Total Shares of Class A Common Stock that maybe sold	Total Shares of Class A Common Stock Beneficially Owned if All Shares are Sold
	Number	%	Number	%
Executive Officers and Directors:				
Bradley M. Shuster (1)	634,269	1.1%	250,000	—%
John M. Sherwood (2)	446,475	*	250,000	—
Stanley M. Pachura (3)	62,445	*	—	—
James R. McCourt (4)	7,883	*	—	—
Michael Embler	—	*	—	—
James G. Jones	—	*	—	—
Michael Montgomery	—	*	—	—
John Brandon Osmon	—	*	—	—
James H. Ozanne (5)	10,000	*	10,000	—
Steven L. Scheid (6)	10,000	*	10,000	—

All named executive officers and directors as a group (10 persons)	1,171,072		520,000	
Greater than 5% Stockholders:				
Claren Road Asset Management LLC (7)	7,000,000	12.6	7,000,000	—
Blue Mountain Capital Management LLC (8)	6,933,670	12.5	6,933,670	—
Hayman Capital Management, LP (9)	5,496,500	9.9	5,496,500	—
Perry Corporation Investment Manager (10)	4,000,000	7.2	4,000,000	—
Amici Capital LLC (11)	3,626,000	6.5	3,626,000	—
CI Investments Inc. (12)	2,850,000	5.1	2,850,000	—
Other Selling Stockholders:				
DB Holdings (New York), Inc. (13)	2,100,000	3.8	2,100,000	—
Waterstone Capital Management, LP (14)	2,050,000	3.7	2,050,000	—
Barclays Bank PLC (15)	2,000,000	3.6	2,000,000	—
EJF Capital LLC (16)	1,863,750	3.3	1,863,750	—
BlueCrest Capital (17)	1,925,000	3.5	1,925,000	—
Thornburg (18)	1,761,500	3.2	1,761,500	—
Stone Lion Capital LLC (19)	1,325,000	2.4	1,325,000	—
Invesco Canada, LTD (20)	1,250,000	2.2	1,250,000	—
Vertex One Asset Management Inc. (21)	641,000	1.2	641,000	—
R&D Bauer Ventures, LP (22)	600,000	1.1	600,000	—
Great American Life Insurance Company (23)	600,000	1.1	600,000	—
V3 Capital Management, LP (24)	535,000	1.0	535,000	—
FJ Capital Management LLC (25)	500,000	*	500,000	—
Sandler O'Neil Asset Management, LLC (26)	450,000	*	450,000	—
Maximus Partners, L.P. (27)	400,000	*	400,000	—
BulwarkBay Investment Group LLC (28)	360,000	*	360,000	—
FBR Capital Markets & Co. (29)	314,120	*	314,120	—
J. Goldman and Co L.P. (30)	300,000	*	300,000	—
Dialectic Capital Management (31)	300,000	*	300,000	—
Watershed Asset Management, LLC (32)	300,000	*	300,000	—
Great American Insurance Company (33)	300,000	*	300,000	—
Millennium International Management LP (34)	240,000	*	240,000	—
Amber Mountain Trading (35)	220,000	*	220,000	—
John C. Goff (36)	200,000	*	200,000	—
James P. Barrow	200,000	*	200,000	—
Visium Asset Management, LP (37)	175,000	*	175,000	—
Philip J. and Colleen Hempleman	150,000	*	150,000	—
Raptor Capital Management LP (38)	150,000	*	150,000	—
Napier Park Mortgage/Credit Opportunity Master Fund Ltd. (39)	150,000	*	150,000	—
Skylands Capital (40)	100,000	*	100,000	—
Calm Waters Partnership (41)	100,000	*	100,000	—
William Black (42)	100,000	*	100,000	—
Peter Lawrence Keane	30,000	*	30,000	—
John P. Harloe	25,000	*	25,000	—
Reiss Capital Management LLC (43)	25,000	*	25,000	—
Eric Sippel (44)	10,000	*	10,000	—

Arthur John Gambs III (45)	5,000	*	5,000	—
Joseph C. Kavanagh	1,600	*	1,600	—
Douglas S. Carson	500	*	500	—
Total	52,834,712		52,183,640	

* Represents less than 1% beneficial ownership

(1) Represents 250,000 shares held in the Shuster Family Trust of which Mr. Shuster and his wife are co-trustees and beneficiaries, 81,769 vested performance shares and 302,500 vested stock options.

(2) Represents 250,000 shares held in the Sherwood Revocable Trust of which Mr. Sherwood and his wife are co-trustees and beneficiaries, 45,225 vested performance shares and 151,250 vested stock options.

(3) Represents 3,111 vested performance shares and 59,334 vested stock options.

(4) Represents 1,216 vested performance shares and 6,667 vested stock options.

(5) Represents 10,000 shares held in the Susan A. Ozanne Trust of which Mr. Ozanne and his wife are co-trustees and beneficiaries.

(6) Represents 10,000 shares held in the Scheid Family Trust of which Mr. Scheid and his wife are co-trustees and beneficiaries.

(7) Represents 2,100,000 shares of Class A Common Stock held by Claren Road Credit Opportunities Master Fund, Ltd. and 4,900,000 shares of Class A Common Stock held by Claren Road Credit Master Fund, Ltd (the "Funds"). The Funds are Cayman Island private investment vehicles. Claren Road Asset Management, LLC ("Claren Road") serves as investment manager for the Funds. Four natural persons, Messrs. Brian Riano, Sean Fahey, John Eckerson and Albert Marino (collectively, the "Founders") own 45% of Claren Road. The Founders are responsible for the day to day management and control of Claren Road and direct the investment making authority of the Funds. Through various entities, the Carlyle Group ("Carlyle") owns the remaining 55% of Claren Road, but has no investment discretion with respect to the Funds. The address of the Funds and Claren Road is 900 Third Avenue, 29th Floor, New York, NY 10022.

(8) Represents (i) 3,603,708 shares held by Blue Mountain Credit Alternatives Master Fund L.P. ("BM Credit Alternatives"), (ii) 1,565,973 shares held by BlueMountain Long/Short Credit Master Fund L.P. ("BM Long/Short Credit"), (iii) 632,189 shares held by BlueMountain Distressed Master Fund L.P. ("BM Distressed"), (iv) 504,189 shares held by BlueMountain Timberline Ltd. ("BM Timberline"), (v) 378,629 shares held by BlueMountain Kicking Horse Fund L.P. ("BM Kicking Horse"), and (vi) 248,982 shares held by BlueMountain Long/Short Credit and Distressed Reflection Fund, a sub-fund of AAI BlueMountain Fund PLC ("AAI", together with BM Credit Alternatives, BM Long/Short Credit, BM Distressed, BM Timberline and BM Kicking Horse, the "BlueMountain Funds"). The members of the Investment Committee of BlueMountain Capital Management, LLC, the investment manager of the BlueMountain Funds, exercise voting and dispositive power over the shares held by the BlueMountain Funds. The members of such investment committee are Andrew Feldstein, Stephen Siderow, Alan Gerstein, Michael Liberman, Bryce Markus, Derek Smith, David Rubenstein, Peter Greatrex and Jes Staley. The address of BM Credit Alternatives, BM Long/Short Credit, BM Distressed, BM Timberline and BM Kicking Horse is c/o Maples Corporate Services Limited, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands KYI-1104. The address of AAI is Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland.

(9) Represents (i) 5,324,300 shares held by Hayman Capital Master Fund, LP ("Master Fund") and (ii) 172,200 shares held by LAMP Hayman Capital Fund ("LAMP HCM"). Hayman Capital Management, LP ("HCM") is the managing general partner of Master Fund and has the authority to vote proxies on behalf of Master Fund and has discretionary investment authority over the portfolio held by Master Fund. HCM is the investment manager to LAMP HCM and has the authority to vote proxies on behalf of LAMP Funds (IRE) 1 Public Limited Company ("LAMP") and has discretionary authority over the portfolio held by LAMP. LAMP Funds (Ire) plc. is the controlling entity of LAMP. Hayman Investment LLC is the general partner of HCM and is a holder of a limited partnership interest in HCM. The Bass Family Revocable Trust and the Bass Descendants Trust Nos. 1 and 2 are each holders of the limited partnership interest in HCM. J Kyle Bass and Mary Kathryn Bass and their minor children are beneficiaries of these trusts. Hayman Offshore Management, Inc. is the administrative general partner of Master Fund. J Kyle Bass is the sole shareholder of Hayman Offshore Management, Inc. The address for HCM, Master Fund, Hayman Investment LLC and LAMP HCM is 2101 Cedar Springs Drive, Suite 1400, Dallas, Texas, 75201. The address for LAMP Funds (Ire) plc. is 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

(10) Represents (i) 2,810,800 shares held by Perry Partners International Master, Inc. ("PPIM") and (ii) 1,189,200 shares held by Perry Partners L.P. ("PPLP"). Perry Corp. serves as the investment manager to PPIM and has voting and investment power over the shares held by PPIM. Perry Corp. serves as the general partner of PPLP and has voting and investment power over the shares held by PPLP. Richard C. Perry is the President and sole stockholder of Perry Corp. The address of Perry Corp., PPIM and PPLP is c/o Perry Capital LLC, 767 Fifth Avenue, 19th Floor, New York, New York, 10153.

(11) Represents (i) 1,794,177 shares held by Amici Offshore, Ltd. ("Offshore"), (ii) 1,157,233 shares held by Amici Qualified Associates, L.P. ("Qualified Associates"), (iii) 388,921 shares held by Amici Associates, LP ("Associates") and (iv) 285,669 shares held by The Collectors' Fund L.P. ("Collectors"). Amici Capital, LLC ("Amici Capital") is a registered investment advisor acting on behalf of Offshore, Qualified Associates, Associates and Collectors and has voting and dispositive power over the shares owned by Offshore, Qualified Associates, Associates and Collectors. CF Advisors, LLC is the general partner of Qualified Associates, Associates and Collectors. Paul E. Orlin and A. Alex Porter are the managing members of Amici Capital and of CF Advisors, LLC. The address for Offshore, Qualified Associates, Associates, Collectors and Amici Capital, LLC is 666 5th Avenue, Suite 3403, New York, New York 10103.

(12) Represents (i) 903,400 shares held by Signature Income & Growth Fund, (ii) 560,400 shares held by Signature Select Canadian Fund, (iii) 363,750 shares held by Signature Select Canadian Corporate Class, (iv) 335,150 shares held by Signature Canadian Balanced Fund, (v) 169,700 shares held by CI Signature Balanced Fund, (vi) 157,000 shared held by Signature Dividend Fund, (vii) 87,900 shares held by CI Global Fund, (viii) 137,700 shares held by Signature Global Income & Growth Fund, (ix) 74,800 shares held by Signature Dividend Corporate Class, (x) 29,100 shares held by Signature Select Global Fund and (xi) 18,500 shares held by CI Global Corporate Class (collectively, the "CI Funds"). (xii) 12,600 shares held by CI Signature Canadian Equity Plus. CI Investments Inc. is the manager of each of the CI Funds. Eric Bushell, John Hadwen and Goshen Benzaquen are employees of Signature Global Asset Management an internal business unit of CI Investments Inc., and together with CI Investments Inc. share voting and dispositive power over the shares held by the CI Funds. The address of the CI Funds is 2 Queen Street East, 20th Floor, Toronto, Ontario, Canada, M5C 3G7.

(13) Ray Costa and R. Mikel Curreri are the managing directors of DB Holdings (New York) Inc. and share voting and dispositive power over the shares held by DB Holdings (New York) Inc. The address for DB Holdings (New York) Inc. is 60 Wall Street, 3rd Floor, New York, New York, 10005.

(14) Represents (i) 1,502,200 shares held by Waterstone Market Neutral Master Fund Ltd., (ii) 279,400 shares held by Waterstone Offshore AD Fund, LTD, (iii) 179,600 shares held by Water-stone Market Neutral MAC 51 Ltd., (iv) 50,000 shares held by Waterstone Quarry Master Fund, LTD. f/k/a Waterstone Distressed Opportunities Fund, Ltd. and (v) 38,800 shares held by Prime Capital Master SPC – GOT WAT MAC Segregated Portfolio (collectively, the "Waterstone Funds"). Shawn Bergerson, the Chief Executive Officer of Waterstone Capital Management, LP, has voting and investment power over the shares held by the Waterstone Funds. The address for each of the Waterstone Funds is c/o Waterstone Capital Management, LP, 2 Carlson Park-way, Suite 260, Plymouth, Minnesota, 55447.

(15) The address for Barclays Bank PLC. is 745 7th Avenue, 16th Floor, New York, New York, 10019.

(16) The reported securities are directly owned by EJF Debt Opportunities Master Fund LP (the "Fund"). EJF Debt Opportunities GP is the general partner of the Fund, with EJF Capital LLC as the general partner's sole member. Emanuel J Friedman is the Chief Executive Officer of EJF Capital, LLC, and has voting and investment power over the reported securities. The address of the Fund is 2107 Wilson Blvd, Suite 410, Arlington, VA 22201.

(17) Represents (i) 1,319,000 shares held of record by BlueCrest Multi Strategy Credit Master Fund Limited ("Multi Strategy") and (ii) 606,000 shares held of record by BlueCrest Capital International Master Fund Limited ("International"). Multi-Strategy and International are the legal and beneficial owners of the securities held by them and control the voting rights associated with those shares. However, pursuant to an investment management agreement entered in by each of Multi-Strategy and International with BlueCrest Capital Management LLP, each of Multi-Strategy and International has delegated to BlueCrest Capital Management LLP investment and voting power and it has the power to appoint certain of its affiliates or non-affiliates to carry out such investment and/or voting power with respect to the securities held by Multi-Strategy and International, respectively. BlueCrest Capital Management LLP is ultimately owned by its principals and majority controlled by Michael Platt. The address for Multi Strategy, International and BlueCrest Capital Management LLP is c/o BlueCrest Capital Management (New York) LP is 9 West 57th St., 12th Floor, New York, New York 10019.

(18) Represents (i) 1,689,500 shares held by Thornburg Value Fund and (ii) 72,000 shares held by Thornburg Partners Fund, L.P. Thornburg Investment Management, Inc. serves as investment advisor to Thornburg Value Fund and to Thornburg Partners Fund, L.P. and has voting and in-vestment power over the shares held by Thornburg Value Fund and Thornburg Partners Fund, L.P. Garrett Thornburg holds 100% of the voting shares of Thornburg Investment Management, Inc. The address of each of Thornburg Value Fund, Thornburg Partners Fund, L.P. and Thorn-burg Investment Management, Inc. is 2300 North Ridgetop Road, Santa Fe, New Mexico, 87506.

(19) Represents (i) 1,025,000 shares held by Stone Lion Portfolio L.P. and (ii) 300,000 shares held by Permal Stone Lion Fund Ltd. Stone Lion Capital Partners L.P. serves as investment advisor to Stone Lion Portfolio L.P. and of Permal Stone Lion Fund Ltd. and has voting and investment power over the shares held by Stone Lion Portfolio L.P. and Permal Stone Lion Fund Ltd. Stone Lion Capital Partners L.P. is controlled by Alan Mintz and Gregory Hanley. The address of Stone Lion Portfolio L.P., Permal Stone Lion Fund Ltd., and Stone Lion Capital Partners L.P. is. 555 Fifth Avenue, 18th Floor, New York, New York, 10017.

(20) Represents (i) 1,206,800 shares held by Invesco Select Canadian Equity Fund, (ii) 22,700 shares held by Invesco Select Canadian Equity Class and (iii) 20,500 shares held by GWL Canadian Value Fund (collectively, the "Invesco Funds"). Invesco Canada Ltd., a wholly owned subsidiary of Invesco, Ltd., is the manager of Invesco Select Canadian Equity Fund and Invesco Select Canadian Equity Class and the sub-advisor of GWL Canadian Value Fund. Invesco Canada Ltd. has voting and dispositive power over the shares held by each of the Invesco Funds. Each of the Invesco Funds is a publicly held entity. The address for the Invesco Funds is c/o Invesco Canada Ltd., 5140 Yonge Street, Suite 800, Toronto, Ontario, Canada, M2N 6X7.

(21) Represents 641,000 shares held by Investor Company 5J5505D. Vertex One Asset Management Inc. serves as portfolio advisor to Investor Company 5J5505D and has voting and investment power over the shares held by Investor Company 5J5505D. John Thiessen, Matthew Wood and Jeff McCord serve as directors of Vertex One Asset Management. The address of Vertex One Asset Management Inc. is #1920 – 1177 W. Hastings St, Vancouver, British Columbia, V6E 2K3.

(22) RBDB Interests, LLC is the general partner of R&D Bauer Ventures, LP. The stockholders of RBDB Interests, LLC are Charles D. Bauer and the Ruth Bauer 2001 Management Trust. Charles D. Bauer is the President of RBDB Interests, LLC and has voting and dispositive power over the shares held by R&D Bauer Ventures, LP. The address of R&D Bauer Ventures, LP and RBDB Interests, LLC is 4400 Post Oak Pkwy, No. 2160, Houston, Texas, 77027.

(23) The address of Great American Life Insurance Company is 301 East Fourth Street, Cincinnati, Ohio 45202.

(24) Represents (i) 409,275 shares held by V3 Realty Partners, L.P. and (ii) 125,725 shares held by V3 Trading Vehicle, LLC (together, the "V3 Partnerships"). V3 Capital Management, LP is the investment manager of the V3 Partnerships and has voting and dispositive power over the shares held by the V3 Partnerships. V3 Capital Advisors, LLC is the general partner to the V3 Partnerships. Charles Fitzgerald is the controlling member of V3 Capital Management, L.P. The address of the V3 Partnerships and V3 Capital Management, L.P. is 400 Park Avenue, Suite 1430, New York, New York, 10022.

(25) Represents 500,000 shares held by Bridge Equities IV, LLC. FJ Capital Management, LLC is the investment manager of Bridge Equities IV, LLC. Bridge Equities IV, LLC has retained voting and dispositive power over the shares but can delegate this authority to FJ Capital Management, LLC. The address of FJ Capital Management, LLC and Bridge Equities IV, LLC is 1313 Dolley Madison Blvd., Suite 306, McLean, Virginia, 22101.

(26) Represents (i) 178,663 shares held by Malta Hedge Fund II, L.P. ("Malta Fund II"), (ii) 102,047 shares held by Malta MLC Fund, L.P. ("Malta MLC"), (iii) 58,824 shares held by Malta Offshore, Ltd. ("Malta Offshore"), (iv) 52,000 shares held by SOAM SPV I, LLC, (v) 31,482 shares held by Malta Hedge Fund, L.P. ("Malta Fund"), (vi) 20,656 shares held by Malta MLC Offshore, Ltd. ("Malta MLC Offshore") and (vii) 6,328 shares held by Malta Partners, L.P. ("Malta Partners") (collectively, the "Sandler Funds"). Sandler O'Neill Asset Management, LLC is the investment manager for Malta Fund II, Malta MLC, Malta Offshore, Malta Fund, Malta MLC Offshore and Malta Partners. SOAM Holdings, LLC is the general partner of Malta Fund II, Malta MLC, Malta Fund and Malta Partners. Terry Maltese is the managing member of SOAM Holdings, LLC and of Sandler O'Neill Asset Management, LLC. Each of Sandler O'Neill Asset Management, LLC, SOAM Holdings, LLC and Terry Maltese has voting and investment power over each of Malta Fund II, Malta MLC, Malta Fund and Malta Partner. Each of Sandler O'Neill Asset Management, LLC and Terry Maltese has voting and investment power over Malta Offshore and Malta MLC Offshore. Terry Maltese has voting and investment power over SOAM SPV I, LLC. Mr. Maltese disclaims beneficial ownership in the above listed shares to the extent of his pecuniary interest therein. The address of each of the Sandler Funds is c/o Sandler O'Neill Asset Management, 150 East 52nd Street, 30th Floor, New York, New York, 10022.

(27) M.D. Sass Investors Services, Inc. is the investment manager of M.D. Sass Maximus Partners, L.P. and has voting and dispositive power over the shares held by M.D. Sass Maximus Partners, L.P. Martin Sass and Hugh Lamle control M.D. Sass Investors Services, Inc. The address of M.D. Sass Maximus Partners, L.P. and M.D. Sass Investors Services, Inc. is 1185 Avenue of the Americas, 18th Floor, New York, New York 10036.

(28) The reported securities are directly owned by BulwarkBay Credit Opportunities Master Fund Ltd. (the "Fund") which is managed by BulwarkBay Investment Group LLC (the "Manager"). The Manager may be deemed to beneficially own the shares directly held by the Fund by virtue of its ability to control the disposition and vote of the shares pursuant to the investment management agreement. Craig Carlozzi is the sole managing member of the Manager and may also be deemed to have investment discretion over the shares by virtue of his ability to control the Manager. Each of the Manager and Craig Carlozzi disclaims beneficial ownership of these reported securities except to the extent of its pecuniary interest therein. The address of the Manager and Mr. Carlozzi is 15 Broad Street, Boston, MA 02109. The address of the Fund is 89 Nexus Way, Camana Bay, KY1-9007, Grand Cayman, Cayman Islands.

(29) Represents (i) 250 shares held by FBR Capital Markets & Co. and (ii) 313,870 shares underlying a warrant held by FBR Capital Markets & Co.. FBR was the initial purchaser and placement agent in the initial private offering in April 2012. Voting and investment control over the shares held by FBR is exercised by the Investment Committee of FBR & Co. The members of the Investment Committee responsible for such voting and investment control are: Richard J. Hendrix, Bradley J. Wright and James C. Neuhauser, each of whom disclaims beneficial ownership of the shares. No single member of the Investment Committee has the sole capacity to act on behalf of the Investment Committee. The address of the stockholders is 1001 Nineteenth Street North, Suite 1100, Arlington, Virginia 22209.

(30) The reported securities are held by J. Goldman Master Fund, L.P., which is managed by J. Goldman & Co. L.P.. The address of J. Goldman Master Fund, L.P. is Palm Grove House, Box 438, Road Town, Tortola, BVI. J. Goldman & Co., L.P. is 510 Madison Avenue, 26th Floor, New York, NY 10022.

(31) Represents 98,142 shares of Class A Common Stock held by Dialectic Capital Partners LP and 201,585 shares of Class A Common Stock held by Dialectic Onshore Ltd (the "Funds"). These securities may be deemed to be beneficially owned by (i) Dialectic Capital Management LLC by virtue of its role as the investment manager of such Funds, (ii) John Fichthorn by virtue of his role as a managing member of Dialectic Capital Management LLC and (iii) Luke Fichthorn by virtue of his role as a managing member of Dialectic Capital Management LLC. Each of the foregoing disclaims beneficial ownership of the Securities except to the extent of his or its pecuniary interest therein, and this statement shall not be deemed an admission that such reporting person is the beneficial owner of the securities for the purpose of Section 16 of the Securities Exchange Act of 1934, as amended, or for any other purpose. The address for the Funds is 875 Third Avenue, 15th Floor, New York, NY 10022.

(32) Represents (i) 240,277 shares held by Watershed Capital Partners (Offshore) Master Fund, L.P. ("Fund I") and (ii) 59,723 shares held by Watershed Capital Partners (Offshore) Master Fund II, L.P. ("Fund II"). WS Partners, L.L.C. is the general partner of Fund I and Fund II and Watershed Asset Management, L.L.C. is the investment manager of Fund I and Fund II. WS Partners, L.L.C. and Watershed Asset Management, L.L.C. share voting or dispositive power over the shares held by Fund I and Fund II. Meridee A. Moore is the Senior Managing Member and Q. Munir Alam is the Managing Member of WS Partners, L.L.C. and of Watershed Asset Management, L.L.C. The address of Fund I, Fund II, WS Partners, L.L.C. and Watershed Asset Management, L.L.C. is c/o Watershed Asset Management, One Maritime Plaza, Suite 1525, San Francisco, California 94111.

(33) The address of Great American Insurance Company is 301 East Fourth Street, Cincinnati, Ohio 45202.

(34) As of the close of business on June 10, 2013, the Selling Stockholder, ICS Opportunities, Ltd., an exempted limited company organized under the laws of the Cayman Islands ("ICS Opportunities"), beneficially owned 240,000 shares of Class A Common Stock. Millennium International Management LP, a Delaware limited partnership ("Millennium International Management"), is the investment manager to ICS Opportunities and may be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Millennium International Management GP LLC, a Delaware limited liability company ("Millennium International Management GP"), is the general partner of Millennium International Management and may also be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Millennium Management LLC, a Delaware limited liability company ("Millennium Management"), is the general partner of the 100% shareholder of ICS Opportunities and may be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Israel A. Englander, a United States citizen ("Mr. Englander"), is the managing member of Millennium International Management GP and Millennium Management. Consequently, Mr. Englander may also be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. The foregoing should not be construed in and of itself as an admission by Millennium International Management, Millennium International Management GP, Millennium Management or Mr. Englander as to beneficial ownership of the securities owned by ICS Opportunities. The address for ICS Opportunities is c/o Millennium International Management LP, 666 Fifth Avenue, 8th Floor, New York, NY 10103.

(35) Lawrence Bernstein has voting or investment power over the reported securities. The address of Amber Mountain Trading Company LLC and Lawrence Bernstein is 100 E. Huron Street, St #4002, Chicago, IL, 60611.

(36) Represents (i) 55,000 shares of Class A Common Stock held by John C. Goff, (ii) 30,000 shares of Class A Common Stock held by Goff Family Investments, LP, of which Goff Capital, Inc. (“Goff Capital”) is the general partner with John C. Goff as its sole shareholder, (iii) 100,000 shares of Class A Common Stock held by John C. Goff 2010 Family Trust, of which John C. Goff is the trustee and primary beneficiary, (iv) 15,000 shares of Class A Common Stock held by Kulik Partners, LP, of which Kulik GP, LLC is the general partner (the "LLC"). John C. Goff and Keith B. Ohnmeis are the managers of the LLC, each of whom owns a 50% interest in the LLC. The address for Goff Family Investments, LP, John C. Goff 2010 Family Trust and Kulik Partners, LP is 500 Commerce St., Suite 700, Fort Worth, TX 76102.

(37) Catalyst Investment Management Co., LLC and Visium Asset Management, LP share voting and investment power over the shares held by Visium Catalyst Credit Master Fund, Ltd. JG Asset, LLC is the general partner of Visium Asset Management, LP. Jacob Gottlieb is the managing member of JG Asset, LLC. Visium Catalyst Event IM, LLC and Visium Catalyst Credit IM, LLC are the controlling entities of Catalyst Investment Management Co., LLC. Visium Asset Management, LP, Francis X. Gallagher and Peter A. Drippé are the members of Visium Catalyst Event IM, LLC. Visium Asset Management, LP, Bradley Levie and The Levie Family Trust U/A/D/ January 30, 1998 are the members of Visium Catalyst Credit IM, LLC. The address of each of Catalyst Investment Management Co., LLC, Visium Catalyst Credit Master Fund, Ltd., Visium Catalyst Event IM, LLC, and Visium Catalyst Credit IM, LLC is c/o Visium Asset Management, LP, 888 Seventh Avenue, 22nd Floor, New York, New York 10019.

(38) Represents (i) 90,393 shares held by The Raptor Evolution Fund LP (“REFLP”), (ii) 46,982 shares held by The Raptor Evolution Fund Offshore LP (“REFOLP”), and (iii) 12,625 shares held by Permal Raptor Ltd. (“PR Ltd.” and together with REFLP and REFOLP, the “Raptor Funds”). Raptor Capital Management LP serves as the investment advisor to the Raptor Funds and has voting and investment power over the shares held by the Raptor Funds. Raptor Evolution Fund GP LLC is the general partner of each of REFLP and REFOLP. James Pallotta is the sole stockholder of Raptor Evolution Fund GP LLC. The address of the Raptor Funds, Raptor Capital Management LP and Raptor Evolution Fund GP LLC is 280 Congress St., Floor 12, Boston, Massachusetts, 02219.

(39) Napier Park Global Capital LLC is the general partner of Napier Park Mortgage/Credit Opportunity Master Fund Ltd. (the "Fund"). John Dortman, Jim O’Brien and Citibank N.A. are the members of Napier Park Global Capital LLC (the "LLC"). Vikram Khullar is the portfolio manager of the Fund. The LLC and Vikram Khullar have voting and dispositive power over the shares held by the Fund. The address of Fund and the LLC is 399 Park Avenue, New York, New York 10022.

(40) Represents (i) 54,700 shares held by Harbour Holdings, Ltd. and (ii) 45,300 shares held by Sky-lands Special Investment LLC. Skylands Capital, LLC, has voting and investment power over the shares held by Harbour Holdings, Ltd. Skylands Special Investment LLC. Charles A. Paquelet controls Skylands Capital, LLC. The address of each of Harbour Holdings, Ltd. and Skylands Special Investment LLC is c/o Skylands Capital, LLC, 1200 N. Mayfair Road, Suite 250, Milwaukee, Wisconsin, 53226.

(41) Calm Waters Partnership (“Calm Waters”) is a private investment partnership. Richard S. Strong is the managing partner of Calm Waters. The address of Calm Waters is 115 S. 84th Street, Suite 200, Milwaukee WI 53214.

(42) The reported securities are held by Consector Partners Master Fund LP, of which Consector Advisors LLC (the “LLC”) is the general partner. William Black is the managing member of the LLC, who has the voting and dispositive power over the shares. The address of Consector Partners Master Fund LP is 712 Fifth Avenue, 8th Floor, New York, NY 10019.

(43) Richard Reiss, Jr. is the Managing Member of Reiss Capital Management LLC and has sole voting and dispositive power over the shares held by Reiss Capital Management LLC. The address of Reiss Capital Management LLC is 152 West 57th Street, 46th Floor, New York, New York, 10019.

(44) The reported securities are held in the Sippel Farb Family Trust, of which Eric Sippel and Debra Farb are the trustees and have joint voting and investment power.

(45) The reported securities are held in the Gambs Family Trust, of which Arthur John Gambs III and his wife, Paula R. Gambs, are co-trustees.

DESCRIPTION OF CAPITAL STOCK

The following descriptions include summaries of the material terms of our second amended and restated certificate of incorporation and amended and restated bylaws. Because it is a summary, it may not contain all the information that is important to you. Reference is made to the more detailed provisions of, and the descriptions are qualified in their entirety by reference to, the second amended and restated certificate of incorporation and amended and restated by-laws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus is a part, and applicable law.

General

Our certificate of incorporation authorizes us to issue 250,000,000 shares of our common stock, $0.01 par value per share, 250,000 shares of Class B non-voting common stock, $0.01 par value per share, and 10,000,000 shares of preferred stock, $0.01 per share.

Prior to the April 2012 private placement, we issued all 250,000 authorized shares of our Class B non-voting common stock to Messrs. Shuster and Sherwood for nominal consideration. Upon receipt of GSE Approval, each share of Class B non-voting common stock issued and outstanding was automatically converted into, and became entitled to the rights set forth herein, or that otherwise may exist at law, associated with, one fully paid and non-assessable share of Class A common stock without any action by the holder or by us. Pursuant to our certificate of incorporation, the shares of Class B non-voting common stock that have been converted have been retired and may not be reissued.

As of July 31, 2013, 55,637,480 shares of our common stock were outstanding. No shares of Class B non-voting common stock are outstanding, and we do not currently intend to issue any such shares in the future. In addition, no shares of preferred stock are outstanding.

Common Stock

Voting Power

Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Class A common stock possess all voting power for the election of our directors and all other matters requiring stockholder action. Each holder of our Class A common stock is entitled to one vote for each share on all matters to be voted upon by the stockholders, and there are no cumulative voting rights. Except as otherwise provided by law, our certificate of incorporation or our bylaws or in respect of the election of directors, all matters to be voted on by our stockholders must be approved by a majority of the shares present in person or by proxy at the meeting and entitled to vote on the subject matter. In the case of an election of directors, where a quorum is present a plurality of the votes cast shall be sufficient to elect each director.

Dividends

Holders of common shares are entitled to receive ratably the dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. See “Dividend Policy.” In no event will any stock dividends or stock splits or combinations of stock be declared or made on the Class A common stock or Class B non-voting common stock unless the shares of Class A common stock and Class B non-voting common stock at the time outstanding are treated equally and identically; provided that, in the event of a dividend on common shares, shares of Class A common stock will only be entitled to receive shares of Class A common stock and shares of Class B non-voting common stock will only be entitled to receive shares of

Class B non-voting common stock.

Liquidation

If we liquidate, dissolve or wind-up, (i) the rights of the holders of any outstanding shares of preferred stock will first be satisfied; and (ii) thereafter, the holders of the Class A common stock will be entitled to receive all of our remaining assets of whatever kind available for distributions to such holders. Holders of the Class B non-voting common stock will not be entitled to receive any of our assets of whatever kind on a voluntary or involuntary liquidation, dissolution or winding up.

Preemptive or Other Rights

Holders of our common stock have no preemptive or conversion rights or other subscription rights (other than the Participation Right described below) and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate in the future.

Participation Right

Our certificate of incorporation provides that, in the event that we seek to raise additional capital through a sale of equity securities (as well as rights, options or warrants to purchase equity securities or securities that may be or become convertible or exchangeable into or exercisable for equity securities) at any time until our common stock begins trading on a national securities exchange, subject to the terms and conditions set forth in our certificate of incorporation, each holder of common stock, subject to the following proviso, will have the right (the “Participation Right”) to purchase its *pro rata* share of such equity securities in any such capital raise, on the terms and conditions of such capital raise; provided that the Participation Right will only apply to stockholders holding at least 1% of our outstanding common stock on the record date set by our Board for determining such stockholders, which record date shall be at least 15 days prior to the closing of such capital raise. Shareholders having the Participation Right will have 10 days after notice is given to them to determine whether to exercise this right. Any shares purchased pursuant to the Participation Right will constitute Registrable Shares (as defined in the Registration Rights Agreement). The Participation Right will not apply to any issuances in a registered public offering or any issuances pursuant to the 2012 Stock Incentive Plan.

Preferred Stock

Our certificate of incorporation authorizes our Board to issue and to designate the terms of one or more new classes or series of preferred stock. The rights with respect to a class or series of preferred stock may be greater than the rights attached to our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our Board determines the specific rights attached to that class or series of preferred stock.

Certain Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws and Delaware Law

Special Meetings of Stockholders

Our bylaws generally provide that special meetings of our stockholders may be called only by the Chairman of the Board, the president or by resolution of the Board. Stockholders are not permitted to call a special meeting or require our Board to call a special meeting, except that the Special Election Meeting may

be called (if not called by the Board) by holders of at least 5% of the outstanding common stock if the registration statement of which this prospectus forms a part has not been declared effective, or the shares of our common stock have not become listed on the NYSE or the NASDAQ, within the earlier of six months after we filed such registration statement and 12 months following the receipt of GSE Approval. The Special Election Meeting may be called solely for the purposes of: (i) considering and voting upon proposals to remove each of our then-serving directors and (ii) electing such number of directors as there are then vacancies on our Board (including any vacancies created by the removal of any director at the Special Election Meeting). Nominations of individuals for election to our Board at the Special Election Meeting may only be made (a) by or at the direction of our Board or (b) upon receipt by us of a written notice of any holder or holders of shares of Class A common stock entitled to cast, or direct the casting of, at least 5% of all the votes entitled to be cast at the Special Election Meeting, which notice must contain certain information as specified in our bylaws and be delivered to us within 15 days after delivery of the notice of the Special Election Meeting.

At any special meeting of our stockholders, only such business will be conducted as has been specified in the notice of meeting given by or at the direction of our Board or otherwise properly brought before the special meeting by or at the direction of our Board.

No Cumulative Voting

The DGCL provides that stockholders are not entitled to the right to cumulative voting in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting in the election of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our bylaws provide that stockholders seeking to bring business before a meeting of stockholders, or to nominate candidates for election as directors at a meeting of stockholders (other than the Special Election Meeting), must provide timely notice of their intent in writing. To be timely, a stockholder's notice must be delivered to our principal executive offices no fewer than 90 days nor more than 120 days prior to the meeting. Our bylaws will also specify certain requirements as to the form and content of a stockholder's notice, including the stockholder's ownership of the Company, synthetic equity transactions engaged in by the stockholder related to the Company, any proxies or voting agreements pursuant to which such stockholder has a right to vote shares of the Company, any stock borrowing agreements entered into by the stockholder related to the Company, any performance related fees the stockholder is entitled to based on changes in the value of the stock of the Company and any other information that would be required to be made in connection with a solicitation of proxies by such stockholder pursuant to Section 14(a) of the Exchange Act. Our bylaws also include that such stockholder provide information concerning each item of business proposed by the stockholder and individuals nominated for election as a director, as applicable. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.

No Stockholder Action by Written Consent

Our certificate of incorporation provides that, subject to the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of our stockholders and may not be effected by any consent in writing by such stockholders.

Stockholder-Initiated Bylaw Amendments

Our bylaws may be adopted, amended, altered or repealed by stockholders only upon approval of at least two-thirds of the voting power of all the then outstanding shares of our common stock; provided that the bylaws relating to the Special Election Meeting may only be amended by holders of at least 75% of the outstanding Registrable Shares (as defined in the Registration Rights Agreement). Additionally, our bylaws may be amended, altered or repealed by the Board by a majority vote.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock (other than shares of Class B non-voting common stock that have been converted to shares of Class A common stock (*see -General*, *above*) are available for future issuances without stockholder approval, subject to applicable stock exchange rules, and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Section 203 of the DGCL

We are subject to Section 203 of the DGCL. Subject to certain exceptions, Section 203 of the DGCL prohibits a public Delaware corporation from engaging in a business combination (as defined in such section) with an "interested stockholder" (defined generally as any person who beneficially owns 15% or more of the outstanding voting stock of such corporation or any person affiliated with such person) for a period of three years following the time that such stockholder became an interested stockholder, unless: (i) prior to such time the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock of such corporation outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (a) by persons who are directors and also officers of such corporation and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to such time, the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

Limitation of Liability and Indemnification Matters

As permitted by the DGCL, we have adopted provisions in our certificate of incorporation that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law, and we may advance expenses to our directors, officers and employees in connection with a legal proceeding, subject to limited exceptions. As permitted by the DGCL, our certificate of incorporation provides that:

- we will indemnify our directors and officers to the fullest extent permitted by the DGCL, subject to limited exceptions; and
- we may purchase and maintain insurance on behalf of our current or former directors, officers, employees or agents against any liability asserted against them and incurred by them in any such capacity, or arising out of their status as such.

In addition, we have entered into indemnification agreements with certain of our directors pursuant to which each such director will be indemnified as described above (or furnished contribution by us if indemnification is unavailable) and will be advanced costs and expenses subject to delivery of an undertaking to repay any advanced amounts if it is ultimately determined that such director is not entitled to indemnification for such costs and expenses.

Listing

We intend to apply to the OTCBB, through a market maker that is a licensed broker dealer, to allow the trading of our common stock under the symbol “NMIH” upon our becoming a reporting entity under Section 15(d) of the Exchange Act. If our application for quotation on the OTCBB is approved, and a public market for our common stock materializes which results in our common stock being held by 400 or more holders, we intend to apply (assuming we meet all other listing requirements) to list our common stock on the NASDAQ under the symbol “NMIH.”

Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no established public market for our common stock, and we cannot predict the effect, if any, that sales of shares or availability of any shares for sale will have on the market price of our common stock prevailing from time to time. Issuances or sales of substantial amounts of our common stock, or the perception that such issuances or sales could occur, could cause the market price of our common stock to decline significantly and make it more difficult for us to raise additional capital through a future sale of securities.

All of the 52,183,640 shares of our common stock sold by the selling stockholders in this offering will be freely tradable without restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act, which will be subject to the resale limitations of Rule 144. The remaining outstanding shares of our common stock will be deemed to be "restricted securities" as that term is defined in Rule 144. Subject to certain contractual restrictions, including the lock-up agreements described below, holders of restricted shares will be entitled to sell those shares in the public market if and when they qualify for an exemption from registration under Rule 144 or any other applicable exemption under the Securities Act.

Rule 144

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders), will be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year will be entitled to sell those shares without regard to the provisions of Rule 144.

A person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then-outstanding shares of our common stock or the average weekly trading volume of our common stock during the four calendar weeks preceding such sale. Such sales are also subject to certain manner of sales provisions, notice requirements and the availability of current public information about us.

Form S-8 Registration Statement

In addition to the issued and outstanding shares of our common stock, we intend to file a registration statement on Form S-8 to register an aggregate of 5,500,000 million shares of our common stock reserved for issuance under our incentive programs. That registration statement will become effective upon filing, and shares of our common stock covered by such registration statement are eligible for sale in the public market immediately after the effectiveness of such registration statement (unless held by affiliates), subject to certain lock-up agreements entered into by our executive officers in conjunction with our private placement.

Registration Rights Agreements

As described under "Certain Relationships and Related Party Transactions—Registration Rights Agreement," pursuant to the Registration Rights Agreement, if the Company proposes to file a registration statement providing for an initial public offering of our Class A common stock, we are required to provide written notice to each stockholder holding registrable shares following the filing of any such registration

statement (the “IPO Registration Statement”). Such stockholders have “piggy-back” registration rights that permit them to have shares of common stock owned by them included in the IPO Registration Statement upon written notice to us within the prescribed time limit. Each such stockholder's ability to register shares under the IPO Registration Statement is subject to the terms of the Registration Rights Agreement. The managing underwriter(s) may under certain circumstances limit the number of shares owned by such stockholders that are included in an initial public offering, but the managing underwriter(s) may not reduce such stockholders below 25% of the total shares of common stock to be sold under the IPO Registration Statement.

Stockholders holding registrable shares who elect to include their shares of our common stock for resale on an IPO Registration Statement will not be able to sell their shares of our common stock for a period of up to 30 days before and 180 days following the effective date of the IPO Registration Statement (subject to potential limited extensions). Stockholders holding registrable shares who do not elect, despite their right to do so under the Registration Rights Agreement, to include their shares of our common stock for resale on the IPO Registration Statement will not be able to sell their shares of our common stock for a period of up to 60 days following the effective date of the IPO Registration Statement.

We entered into similar registration rights agreements with MAC Financial Ltd., who acquired shares of our common stock and a warrant exercisable for shares of our common stock in connection with our acquisition of MAC Financial Holding Corporation and to FBR Capital Markets & Co., who acquired shares of our common stock in our private placement and hold a warrant exercisable for shares of our common stock. These registration rights agreements provide for up to three demand registrations as well as for piggy-back registration rights.

MATERIAL U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a general discussion of material U.S. federal income tax considerations with respect to the ownership and disposition of shares of our common stock applicable to non-U.S. holders who acquire such shares in this offering. This discussion is based on current provisions of the Code, U.S. Treasury regulations promulgated thereunder, judicial opinions, published positions of the IRS and other applicable authorities in effect as of the date hereof, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term “non-U.S. holder” means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes, a partnership or any of the following:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia, or a non-U.S. corporation treated as such;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds shares of our common stock, the tax treatment of a person treated as a partner will generally depend on the status of the partner and the activities of the partnership. Persons that for U.S. federal income tax purposes are treated as partners in a partnership holding shares of our common stock should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

This discussion assumes that a non-U.S. holder holds shares of our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income taxation that may be important to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances, nor does it address any aspects of the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010, any U.S. federal estate and gift taxes, any U.S. alternative minimum taxes or any state, local or non-U.S. taxes. This discussion may not apply, in whole or in part, to particular non-U.S. holders in light of their individual circumstances or to holders subject to special treatment under the U.S. federal income tax laws (such as insurance companies, tax-exempt organizations, holders who acquired our common stock pursuant to the exercise of employee stock options or otherwise as compensation, financial institutions, brokers or dealers in securities, traders in securities that elect mark-to-market treatment, “controlled foreign corporations,” “passive foreign investment companies,” non-U.S. holders that hold our common stock as part of a straddle, hedge, conversion transaction or other integrated investment and certain U.S. expatriates). Accordingly, prospective investors should consult with their own tax advisors regarding the U.S. federal, state, local, non-U.S. income and other tax considerations of acquiring, holding and disposing of shares of our common stock.

THIS SUMMARY IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK. PROSPECTIVE HOLDERS OF OUR COMMON STOCK SHOULD CONSULT WITH THEIR TAX ADVISORS REGARDING THE TAX

CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF ANY STATE, LOCAL, FOREIGN INCOME AND OTHER TAX LAWS) OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK.

Dividends

In general, any distributions we make to a non-U.S. holder with respect to its shares of our common stock that constitute a dividend for U.S. federal income tax purposes will be subject to U.S. withholding tax at a rate of 30% of the gross amount (a reduced rate prescribed by an applicable income tax treaty) unless the dividends are effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and, if an income tax treaty applies, are attributable to a permanent establishment of the non-U.S. holder within the United States). A distribution will constitute a dividend for U.S. federal income tax purposes to the extent of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Any distribution not constituting a dividend will be treated first as reducing the adjusted basis in the non-U.S. holder's shares of our common stock and, to the extent it exceeds the adjusted basis in the non-U.S. holder's shares of our common stock, as gain from the sale or exchange of such stock.

Dividends effectively connected with a U.S. trade or business (and, if an income tax treaty applies, attributable to a U.S. permanent establishment) of a non-U.S. holder generally will not be subject to U.S. withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements. Instead, such dividends generally will be subject to U.S. federal income tax on a net income basis, in the same manner as if the non-U.S. holder were a resident of the United States. A non-U.S. holder that is a foreign corporation may be subject to an additional branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty) on its "effectively connected earnings and profits," subject to certain adjustments.

Gain on Sale or Other Disposition of Common Stock

In general, a non-U.S. holder will not be subject to U.S. federal income tax or, subject to the discussion below under the heading "Backup Withholding, Information Reporting and Other Reporting Requirements," withholding tax on any gain realized upon the sale or other disposition of shares of our common stock unless:

- the gain is effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment of such non-U.S. holder);
- the non-U.S. holder is an individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are satisfied; or
- we are or have been a U.S. real property holding corporation (a "USRPHC") for U.S. federal income tax purposes at any time within the shorter of the five-year period ending on the date of the disposition and the non-U.S. holder's holding period of our common stock and certain other conditions are satisfied. We believe that we are currently not, and we do not anticipate becoming, a USRPHC.

Gain that is effectively connected with the conduct of a trade or business in the United States generally will be subject to U.S. federal income tax, net of certain deductions, at regular U.S. federal income tax rates. If the non-U.S. holder is a foreign corporation, the branch profits tax described above also may apply to such effectively connected gain. An individual non-U.S. holder who is subject to U.S. federal income tax because the non-U.S. holder was present in the United States for 183 days or more during the year of sale or other disposition of our common stock will be subject to a flat 30% tax on the gain derived from such sale or other disposition, which may be offset by U.S. source capital losses.

Backup Withholding, Information Reporting and Other Reporting Requirements

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to, and the tax withheld with respect to, each non-U.S. holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information may be made available under the provisions of a specific tax treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established.

U.S. backup withholding tax (currently, at a rate of 28%) is imposed on certain payments to persons that fail to furnish the information required under the U.S. information reporting rules. Dividends paid to a non-U.S. holder generally will be exempt from backup withholding if the non-U.S. holder provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption.

Under U.S. Treasury regulations, the payment of proceeds from the disposition of our common stock by a non-U.S. holder effected at a U.S. office of a broker generally will be subject to information reporting and backup withholding unless the beneficial owner, under penalties of perjury, certifies, among other things, its status as a non-U.S. holder or otherwise establishes an exemption. Information reporting will also apply if a non-U.S. holder sells its shares of our common stock through a foreign broker deriving more than a specified percentage of its income from U.S. sources or having certain other connections to the United States, unless such broker has documentary evidence in its records that such non-U.S. holder is a non-U.S. person (and the payor does not have actual knowledge or reason to know that such holder is a U.S. person as defined under the Internal Revenue Code) and certain other conditions are met, or such non-U.S. holder otherwise establishes an exemption. The payment of proceeds from the disposition of our common stock by a non-U.S. holder effected at a non-U.S. office of a broker generally will not be subject to backup withholding and information reporting, except as noted below. In the case of proceeds from a disposition of our common stock by a non-U.S. holder effected at a non-U.S. office of a broker that is:

- a U.S. person;
- a “controlled foreign corporation” for U.S. federal income tax purposes;
- a foreign person 50% or more of whose gross income from certain periods is effectively connected with a U.S. trade or business; or
- a foreign partnership if at any time during its tax year (a) one or more of its partners are U.S. persons who, in the aggregate, hold more than 50% of the income or capital interests of the partnership or (b) the foreign partnership is engaged in a U.S. trade or business.

Information reporting will apply unless the broker has documentary evidence in its records that the owner is a non-U.S. holder and certain other conditions are satisfied, or the beneficial owner otherwise establishes an exemption (and the broker has no knowledge or reason to know to the contrary). Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

Backup withholding is not an additional income tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder generally can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, or refunded, provided that the required information is furnished to the IRS in a timely manner. Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

Withholdable Payments to Foreign Financial Entities and Other Foreign Entities

Under recently enacted legislation and administrative guidance, a U.S. federal withholding tax of 30% generally will be imposed on certain payments made to a “foreign financial institution” (as specifically defined under these rules) unless such institution enters into an agreement with the U.S. tax authorities to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). Under the legislation and administrative guidance, a U.S. federal withholding tax of 30% generally also will be imposed on certain payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying its direct and indirect U.S. owners. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. These withholding taxes would be imposed on dividends paid with respect to our common stock after December 31, 2013 to, and on gross proceeds from the sales or other dispositions of our common stock after December 31, 2016 by, foreign financial institutions or non-financial entities (including in their capacity as agents or custodians for beneficial owners of our common stock) that fail to satisfy the above requirements. Prospective non-U.S. holders should consult with their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of our common stock by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (“Similar Laws”), and entities whose underlying assets are considered to include “plan assets” of such plans, accounts and arrangements (each, a “Plan”).

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an “ERISA Plan”) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and Section 4975 of the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in our common stock of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code (which also applies to IRAs that are not considered part of an employee benefit plan) prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Whether or not our underlying assets were deemed to include “plan assets,” as described below, the acquisition and/or holding of our common stock by an ERISA Plan with respect to which we or certain of our affiliates is or becomes a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the United States Department of Labor (the “DOL”) has issued prohibited transaction class exemptions, or “PTCEs,” that may apply to the acquisition and holding of shares of our common stock. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption from the

prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided, further, that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Plan Asset Issues

ERISA and the regulations (the "Plan Asset Regulations") promulgated under ERISA by the DOL generally provide that when an ERISA Plan acquires an equity interest in an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the Investment Company Act of 1940 (the "1940 Act"), the ERISA Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that less than 25% of the total value of each class of equity interest in the entity is held by "benefit plan investors" as defined in Section 3(42) of ERISA (the "25% Test") or that the entity is an "operating company," as defined in the Plan Asset Regulations.

For purposes of the Plan Asset Regulations, (i) a "publicly offered security" is a security that is (a) "freely transferable," (b) part of a class of securities that is "widely held" (*i.e.*, held by 100 investors that are independent of the issuer and of one another) and (c) (x) sold to the Plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act of 1933 and the class of securities to which such security is a part is registered under the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year of the issuer during which the offering of such securities to the public has occurred, or (y) is part of a class of securities that is registered under Section 12 of the Exchange Act; and (ii) an "operating company" includes an entity that is primarily engaged, directly or through a majority-owned subsidiary or subsidiaries, in the production or sale of a product or service, other than the investment of capital.

We expect that by the time this prospectus becomes effective that we will qualify as an "operating company" for purposes of the Plan Asset Regulations.

Plan Asset Consequences

If our assets were deemed to be "plan assets" under ERISA, this would result, among other things, in (i) the application of the prudence and other fiduciary responsibility standards of ERISA to investments made by us, and (ii) the possibility that certain transactions in which we might seek to engage could constitute "prohibited transactions" under ERISA and the Code.

PLAN OF DISTRIBUTION

We are registering the shares covered by this prospectus to permit the selling stockholders to conduct public secondary trading of these shares from time to time after the date of this prospectus. We will not receive any of the proceeds of the sale of the shares offered by this prospectus. The aggregate proceeds to the selling stockholders from the sale of the shares will be the purchase price of the shares less any discounts and commissions. Each selling stockholder reserves the right to accept and, together with their respective agents, to reject, any proposed purchases of shares to be made directly or through agents.

The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock offered by this prospectus on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling the shares offered by this prospectus:

- ordinary brokerage transactions and transactions in which the broker dealer solicits purchasers;
- block trades in which the broker dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker dealer as principal and resale by the broker dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- broker dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

In connection with these sales, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions that in turn may:

- engage in short sales of shares of the common stock in the course of hedging their positions;
- sell shares of the common stock short and deliver shares of the common stock to close out short positions;
- loan or pledge shares of the common stock to broker-dealers or other financial institutions that in turn may sell shares of the common stock;
- enter into option or other transactions with broker-dealers or other financial institutions that require the delivery to the broker-dealer or other financial institution of shares of the common stock, which the broker-dealer or other financial institution may resell under the prospectus; or
- enter into transactions in which a broker-dealer makes purchases as a principal for resale for its own account or through other types of transactions.

Prior to the date of this prospectus, there was not a public market for our shares. Because all of the shares offered under this prospectus are being offered by the selling stockholders, we cannot currently determine the price or prices at which our shares may be sold under this prospectus.

Broker dealers engaged by the selling stockholders may arrange for other brokers dealers to participate in sales. Broker dealers may receive commissions or discounts from the selling stockholders (or, if any broker dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

To our knowledge, there are currently no plans, arrangements or understandings between any selling stockholder and any underwriter, broker-dealer or agent regarding the sale of the shares by the selling stockholders.

We intend to apply to the OTCBB, through a market maker that is a licensed broker dealer, to allow the trading of our common stock under the symbol "NMIH" upon our becoming a reporting entity under Section 15(d) of the Exchange Act. If our application for quotation on the OTCBB is approved, and a public market for our common stock materializes which results in our common stock being held by 400 or more holders, we would then intend to apply (assuming we meet all other listing requirements) to list our common stock on the NASDAQ under the symbol "NMIH." However, we can give no assurances as to the development of liquidity or any trading market for the common stock.

There can be no assurance that any selling stockholder will sell any or all of the common stock under this prospectus. Further, we cannot assure you that any such selling stockholder will not transfer, devise or gift the common stock by other means not described in this prospectus. In addition, any common stock covered by this prospectus that qualifies for sale under Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than under this prospectus. The common stock covered by this prospectus may also be sold to non-U.S. persons outside the U.S. in accordance with Regulation S under the Securities Act rather than under this prospectus. The common stock may be sold in some states only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification is available and complied with.

The selling stockholders and any other person participating in the sale of the common stock will be subject to the Exchange Act. The Exchange Act rules include, without limitation, Regulation M, which may limit the timing of purchases and sales of any of the common stock by the selling stockholders and any other such person. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the common stock to engage in market-making activities with respect to the particular common stock being distributed. This may affect the marketability of the common stock and the ability of any person or entity to engage in market-making activities with respect to the common stock.

We have agreed to indemnify the selling stockholders against certain liabilities, including liabilities under the Securities Act.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the common stock to the public, including the payment of federal securities law and state blue sky registration fees, except that we will not bear any underwriting discounts or commissions or transfer taxes relating to the sale of shares of our common stock.

ADDITIONAL INFORMATION

Legal Matters

The validity of our common stock and other certain legal matters will be passed upon for us by Wachtell, Lipton, Rosen & Katz, New York, New York.

Experts

We have included the consolidated financial statements of NMI Holdings, Inc. (Successor entity) as of and for the six months ending June 30, 2013 and June 30, 2012, as of and for the year ended December 31, 2012, as of December 31, 2011, for the period May 19, 2011 (date of inception of successor entity) through December 31, 2011 and for the period May 19, 2011 (date of inception of successor entity) through June 30, 2013. We have also included the financial statements of our Predecessor entity, MAC Financial Holding Corporation, as of and for the period from January 1, 2012 through April 24, 2012 (date of purchase of Predecessor entity), as of and for the year ended December 31, 2011, and for the period from July 6, 2009 (date of inception of Predecessor entity) through April 24, 2012. These financial statements have been so included in reliance on the reports of BDO USA, LLP, an independent registered certified public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to our common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to us and our common stock, reference is made to the registration statement and the exhibits and any schedules filed therewith. Statements contained in this prospectus as to the content of any contract or other document referred to are not necessarily complete and in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by such reference. A copy of the registration statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a result of this offering, we will become subject to the reporting requirements of the Exchange Act. We will fulfill our obligations with respect to such requirements by filing periodic reports and other information with the SEC. We intend to furnish our stockholders with annual reports containing consolidated financial statements certified by an independent public accounting firm.

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CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2013	December 31, 2012
Assets		
Investments, available-for-sale, at fair value:		
Fixed maturities (amortized cost of $436,793,468 and $0 as of June 30, 2013 and December 31, 2012, respectively)	$ 427,471,707	$ —
Short-term investments	—	4,864,206
Total investment portfolio	427,471,707	4,864,206
Cash and cash equivalents	25,940,653	485,855,418
Accrued investment income	2,104,728	—
Prepaid expenses	956,727	416,861
Restricted cash	—	40,338,155
Goodwill and other intangible assets	3,634,197	3,634,197
Software and equipment, net	8,786,020	7,550,095
Other assets	55,579	108,802
Total Assets	$ 468,949,611	$ 542,767,734
Liabilities		
Accounts payable and accrued expenses	$ 6,416,042	$ 8,707,573
Placement fees payable	—	38,305,405
Purchase consideration payable	—	2,032,750
Warrant liability	5,921,276	4,841,765
Deferred tax liability	132,600	132,600
Total Liabilities	12,469,918	54,020,093
Commitments and Contingencies		
Shareholders' Equity		
Common stock - Class A shares, $0.01 par value, 55,637,480 and 55,250,100 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively (250,000,000 shares authorized)	556,375	552,501
Common stock - Class B shares, $0.01 par value, 0 shares issued and outstanding as of June 30, 2013 and 250,000 shares issued and outstanding (250,000 authorized) as of December 31, 2012	—	2,500
Additional paid-in capital	522,312,405	517,032,619
Accumulated other comprehensive (loss) income	(9,321,761)	559
Deficit accumulated during the development phase	(57,067,326)	(28,840,538)
Total Shareholders' Equity	456,479,693	488,747,641
Total Liabilities and Shareholders' Equity	$ 468,949,611	$ 542,767,734

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC. (A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Period from May 19, 2011 (inception) to June 30
	2013	2012	2013	2012	2013
Revenues					
Direct premiums written	$ 1,037	$ —	$ 1,037	$ —	$ 1,037
(Increase) decrease in unearned premium	—	—	—	—	—
Net premiums earned	1,037	—	1,037	—	1,037
Net investment income	1,406,902	—	1,816,789	—	1,822,614
Realized investment gains	452,359	—	480,709	—	480,709
Loss from change in fair value of warrant liability	(1,114,619)	—	(1,079,511)	—	(801,707)
Total Revenues	745,679	—	1,219,024	—	1,502,653
Expenses					
Payroll and related	7,596,718	1,829,327	13,806,018	1,829,327	25,364,932
Share-based compensation	3,845,748	1,045,881	6,859,073	1,045,881	12,974,433
Depreciation and amortization	1,787,656	—	1,846,748	—	1,849,665
Professional fees	1,579,374	354,499	2,669,853	438,755	5,044,546
Information technology	1,188,904	—	2,126,819	—	2,999,272
Travel and related costs	288,240	172,782	702,868	196,868	1,428,332
Rent and office expenses	211,415	26,838	312,809	26,838	545,801
Accounting and auditing	133,137	44,225	261,979	44,225	578,349
Board of Directors fees and related costs	97,500	486,834	195,000	486,834	1,083,012
State licensing fees and related costs	21,382	154,938	52,868	154,938	236,228
Consulting fees	14,520	90,000	101,081	357,419	2,024,808
Finance fees and interest expense	—	1,619,569	—	1,628,635	1,632,364
Loss on impairment	—	—	—	—	1,200,000
Other	255,167	371,430	510,696	372,430	1,608,237
Total Expenses	17,019,761	6,196,323	29,445,812	6,582,150	58,569,979
Net Loss	$ (16,274,082)	$ (6,196,323)	$ (28,226,788)	$ (6,582,150)	$ (57,067,326)
Share Data					
Basic and Diluted loss per share	$ (0.29)	$ (0.15)	$ (0.51)	$ (0.33)	$ (1.81)
Weighted average common shares	55,629,932	40,252,847	55,565,374	20,126,474	31,448,608
Other Comprehensive Loss (net of tax)					
Unrealized holding loss for the period included in accumulated other comprehensive income	(10,209,583)	—	(9,322,320)	—	(9,321,761)
Other Comprehensive Loss (net of tax)	(10,209,583)	—	(9,322,320)	—	(9,321,761)
Total Comprehensive Loss	$ (26,483,665)	$ (6,196,323)	$ (37,549,108)	$ (6,582,150)	$ (66,389,087)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Common stock							
	Class A		Class B					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Phase	Total
Period from year-ended December 31, 2011								
Balance, December 31, 2011	100	$ 1	—	$ —	$ —	$ —	$ (1,348,825)	$ (1,348,824)
Issuance of Class A shares of common stock	55,000,000	550,000	—	—	508,419,759	—	—	508,969,759
Issuance of Class B shares of common stock	—	—	250,000	2,500	—	—	—	2,500
Issuance of common stock related to acquisition of subsidiaries	250,000	2,500	—	—	2,497,500	—	—	2,500,000
Share-based compensation expense	—	—	—	—	6,115,360	—	—	6,115,360
Change in unrealized investment gains	—	—	—	—	—	559	—	559
Net loss	—	—	—	—	—	—	(27,491,713)	(27,491,713)
Balance, December 31, 2012	55,250,100	$ 552,501	250,000	$ 2,500	$517,032,619	$ 559	$(28,840,538)	$488,747,641
Period from May 19, 2011 (inception) to June 30, 2013								
Balance, May 19, 2011	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of Class A shares of common stock	55,137,480	551,375	—	—	506,840,472	—	—	507,391,847
Issuance of Class B shares of common stock	—	—	250,000	2,500	—	—	—	2,500
Conversion of Class B shares of common stock into Class A shares of common stock	250,000	2,500	(250,000)	(2,500)	—	—	—	—
Issuance of common stock related to acquisition of subsidiaries	250,000	2,500	—	—	2,497,500	—	—	2,500,000
Share-based compensation expense	—	—	—	—	12,974,433	—		12,974,433
Change in unrealized investment gains	—	—	—	—	—	(9,321,761)	—	(9,321,761)
Net loss	—	—	—	—	—	—	(57,067,326)	(57,067,326)
Balance, June 30, 2013	55,637,480	$ 556,375	—	$ —	$522,312,405	$(9,321,761)	$(57,067,326)	$456,479,693
For the six months ended June 30, 2013								
Balance, December 31, 2012	55,250,100	$ 552,501	250,000	$ 2,500	$517,032,619	$ 559	$(28,840,538)	$488,747,641
Issuance of Class A shares of common stock	137,380	1,374	—	—	(1,579,287)	—	—	(1,577,913)
Conversion of Class B shares of common stock into Class A shares of common stock	250,000	2,500	(250,000)	(2,500)	—	—	—	—
Share-based compensation expense	—	—	—	—	6,859,073	—	—	6,859,073
Change in unrealized investment gains	—	—	—	—	—	(9,322,320)	—	(9,322,320)
Net loss	—	—	—	—	—	—	(28,226,788)	(28,226,788)
Balance, June 30, 2013	55,637,480	$ 556,375	—	$ —	$522,312,405	$(9,321,761)	$(57,067,326)	$456,479,693

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Period from May 19, 2011 (inception) to June 30, 2013
Cash Flows from Operating Activities			
Net loss	$ (28,226,788)	$ (6,582,150)	$ (57,067,326)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	6,859,073	1,045,881	12,974,433
Warrants issued in connection with line of credit	—	1,619,569	1,619,569
Loss from change in fair value of warrant liability	1,079,511	—	801,707
Realized investment gains	(480,709)	—	(480,709)
Loss on impairment	—	—	1,200,000
Depreciation and other amortization	2,712,532	—	2,715,449
Accrued investment income	(2,104,728)	—	(2,110,553)
Changes in operating assets and liabilities:			
Prepaid expenses	(539,866)	(63,477)	(956,727)
Other assets	53,223	(43,095)	(51,773)
Accounts payable and accrued expenses	(2,291,531)	(677,317)	3,615,072
Net Cash Used in Operating Activities	(22,939,283)	(4,700,589)	(37,740,858)
Cash Flows from Investing Activities			
Purchase of short-term investments	(509,964)	—	(5,371,592)
Purchase of fixed maturities	(552,174,473)	—	(552,174,473)
Proceeds from maturity of short-term investments	5,375,000	—	5,375,000
Proceeds from sale of fixed maturities	114,994,540	—	114,994,540
Purchase of software and equipment	(3,082,672)	(77,764)	(5,529,176)
Acquisition of subsidiaries	—	(2,500,000)	(2,500,000)
Net Cash Used in Investing Activities	(435,397,569)	(2,577,764)	(445,205,701)
Cash Flows from Financing Activities			
Payments on line of credit	—	(205,318)	—
Taxes paid related to net share settlement of equity awards	(1,577,913)	—	(1,577,913)
Issuance of common stock	—	510,465,124	510,465,125
Net Cash (Used in) Provided by Financing Activities	(1,577,913)	510,259,806	508,887,212
Net (Decrease) Increase in Cash and Cash Equivalents	(459,914,765)	502,981,453	25,940,653
Cash and Cash Equivalents, beginning of period	$ 485,855,418	$ 1	$ —
Cash and Cash Equivalents, end of period	25,940,653	502,981,454	25,940,653
Supplemental Disclosures of Cash Flow Information			
Restricted Cash	—	20,830,488	40,338,155
Noncash Financing Activities			
Conversion of Class B shares of common stock into Class A shares of common stock	2,500	—	2,500
Acquisition of subsidiaries			
Warrants issued in connection with acquisition of subsidiaries	$ —	$ 3,500,000	$ 3,500,000
Common stock issued in connection with acquisition of subsidiaries	—	2,500,000	2,500,000

See accompanying notes to consolidated financial statements.

1. Organization

NMI Holdings, Inc. (A Development Stage Company) ("the Company"), a Delaware corporation, was formed in May 2011 with the intention of providing private mortgage guaranty insurance. From May 2011 through March 2013, the Company's activities were limited to raising capital, seeking to acquire the assets and approvals necessary to become a private mortgage guaranty insurance provider and hiring personnel. In April 2013, the Company, through its primary insurance subsidiary, began writing it's first mortgage insurance policies. The accompanying consolidated financial statements include the accounts of NMI Holdings, Inc. and its wholly-owned subsidiaries, National Mortgage Insurance Corporation ("NMIC"), previously named Mortgage Assurance Corporation, National Mortgage Reinsurance Inc One ("NMI Re One"), previously named Mortgage Assurance Reinsurance Inc One, and National Mortgage Reinsurance Inc Two ("NMI Re Two"), previously named Mortgage Assurance Reinsurance Inc Two.

On November 30, 2011, the Company entered into an agreement with MAC Financial Ltd. to acquire MAC Financial Holding Corporation and its subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Inc Two, for approximately $8.5 million in cash, common stock and warrants plus the assumption of approximately $1.3 million in liabilities ("MAC Acquisition"). In addition, the Company incurred $0.1 million in tax liabilities as a result of the acquisition of certain indefinite-lived intangibles. The acquisition was completed in April 2012.

In April 2012, the Company offered 55.0 million shares of common stock at an issue price of $10.00 per share. Gross proceeds from the offering were $550.0 million. Net proceeds from the offering, after an approximate 7% underwriting fee and other offering expenses, were approximately $510.3 million. The fee was escrowed for the benefit of FBR Capital Markets and Co. ("FBR"). The escrow account was released to FBR upon the Company's receipt of approval from Federal National Home Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") ("GSE Approval"). An additional $1.5 million in offering expenses were paid upon GSE approval in January 2013.

Under the terms of the offering, the Company had nine months from the date of its last offering memorandum (until January 17, 2013) to obtain GSE Approval ("GSE Approval Deadline"). The Company was approved as an eligible mortgage guaranty insurer by Freddie Mac and Fannie Mae, on January 15, 2013 and January 16, 2013, respectively, subject to maintaining certain conditions.

2. Basis of Presentation and Summary of Accounting Principles

Basis of Presentation

The accompanying consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All material intercompany accounts have been eliminated. The accounts of the Company and its subsidiaries are maintained in US dollars. The preparation of financial statements in accordance with generally accepted accounting principles 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.

Cash and Cash Equivalents

The Company considers items such as certificates of deposit and money market funds with original maturities of 90 days or less to be cash equivalents.

The Company had approximately $40.3 million in restricted cash as of December 31, 2012. The restricted cash balance was comprised of two escrow accounts that were initially funded on April 24, 2012 with an agreement that the funds would be released upon GSE Approval. The restricted cash was payable to FBR and MAC Financial Ltd. and was released from escrow on January 23, 2013. There was no restricted cash as of June 30, 2013.

Investments

The Company has designated its investment portfolio as available-for-sale and is reported at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive (loss) income in shareholders' equity. Realized investment gains and losses are reported in income based upon specific identification of securities sold.

Purchases and sales of investments are recorded on a trade date basis. Net investment income is recognized when earned and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees and other expenses. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

Each quarter the Company evaluates the investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, the Company considers several factors including, but not limited to:

- the Company's intent to sell the security or whether it is more likely than not that the Company will be required to sell the security before recovery;
- severity and duration of the decline in fair value;
- the financial condition of the issuer;
- failure of the issuer to make scheduled interest or principal payments;
- recent credit downgrades of the applicable security or the issuer below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Under the current guidance, a debt security impairment is deemed other than temporary if (1) the Company either intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery or (2) the Company does not expect to collect cash flows sufficient to recover the amortized cost basis of the security. In the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is more likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as other-than-temporary impairment ("OTTI") with the amount related to other factors recognized in accumulated other comprehensive income or loss, net of tax. In periods after recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted into net investment income. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

Revenue Recognition

In the mortgage insurance industry, a “book” is a group of loans that an MI ("Mortgage Insurance") company insures in a particular period, normally a calendar year. The Company sets premiums at the time a policy is issued based on the Company's expectations regarding likely performance over the term of coverage. The policies the Company writes are guaranteed renewable contracts at the policyholders option on a single, annual or monthly premium basis. The Company

has no ability to reunderwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on industry experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided. Upon cancellation of a policy, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the policyholder. The actual return of premium for all periods affects premiums written and earned. For the six months ended June 30, 2013 we have net premiums written and earned of approximately one thousand dollars. All six policies written to date are monthly premium plans and were non-refundable.

Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred policy acquisition costs ("DAC"). For each book year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. As the Company has written minimal policies as of June 30, 2013, the Company's policy acquisition costs were less than $1,000.

Business Combinations, Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired from a business combination. In accordance with Accounting Standards Codification ("ASC") 350, *Intangibles - Goodwill and Other*, the Company will test goodwill for impairment during the third quarter each year or more frequently if the Company believes indicators of impairment exist. The Company has not identified any impairments of goodwill through June 30, 2013.

The Company's intangible assets consist of state licenses and GSE applications and have indefinite lives. The Company tests indefinite-lived intangible assets for impairment during the fourth quarter of each year or more frequently if the Company believes indicators of impairment exist. The Company does not believe that the indefinite-lived intangible assets were impaired as of June 30, 2013.

Software and Equipment

Software and equipment are stated at cost, less accumulated amortization and depreciation. Amortization and depreciation are calculated using the straight-line method over the estimated useful lives of the respective assets ranging typically from 3 to 7 years, unless factors indicate a shorter useful life. During the second quarter of 2013, the Company conducted an analysis on the existing Insurance Management System ("IMS") which was acquired in connection with the "MAC" acquisition and evaluated development efforts, in the pursuit of designing a system that would meet the Company's business requirements. Based on that analysis, the Company made the business decision during the second quarter of 2013 to pursue the development of new modules (i.e. policy servicing, billing and delinquency and claims management) to support these business functions. As a result of the change in approach, the Company reduced the useful life of these components of IMS and shortened the amortization period to a range of 7 and 18 months. Amortization of software and depreciation of equipment will commence the beginning of the month following the placement of the asset into use by the Company.

Warrants

The Company accounts for warrants to purchase common shares of the Company issued to FBR and MAC Financial Ltd. in conjunction with the line of credit and stock purchase agreement, respectively, in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470-20 *Debt with Conversion and Other Options* and ASC 815-40 *Derivatives and Hedging - Contracts in Entity's Own Equity.* These warrants may be settled by the Company using the physical settlement method or through cash-less-exercises in which shares subject to

the warrants are reduced in lieu of cash payment of the exercise price. The exercise price and the number of warrants are subject to anti-dilution provisions whereby the existing exercise price is adjusted downward and the number of warrants increased for events that may not be dilutive and the adjustment may be in excess of any dilution suffered. As a result, the warrants are classified as a liability. The Company is required to revalue the warrants at the end of each reporting period and any change in fair value is reported in the statements of operations in the period in which the change occurred. The fair value of the warrants is calculated using a Black-Scholes option-pricing model in combination with a binomial model and a Monte-Carlo simulation model used to value the pricing protection features within the warrant.

Stock-Based Compensation

The Company adopted ASC 718, *Compensation - Stock Compensation* ("ASC 718"). ASC 718 addresses accounting for share-based awards and recognizes compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based payments include restricted stock and stock option grants under the 2012 Stock Incentive Plan. The fair value of stock option grants issued are determined based on an option pricing model which takes into account various assumptions that are subjective. Key assumptions used in the stock option valuation include the expected term of the equity award taking into account the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk-free interest rate for the expected term of the award. Restricted stock grants to employees contain a market condition and/or service condition. The fair value of restricted stock grants to employees with a market condition is determined based on a Monte Carlo Simulation model at the date of grant. Restricted grants to employees with a service condition and restricted grants to non-employee directors are valued at the Company's stock price on the date of grant less the present value of anticipated dividends.

Offering and Incorporation Expenses

Offering expenses incurred in connection with the capitalization of the Company were recorded as a reduction of paid-in-capital at closing. These costs include certain investment banking fees, legal fees, printer fees and audit fees. Any incorporation and organizational expenses not related to the raising of capital are expensed as incurred and are included in the statement of operations.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with FASB ASC Topic 740 - *Income Taxes*. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations.

The Company evaluates the need for a valuation allowance against its deferred tax assets on a quarterly basis. In the course of its review, the Company assesses all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits. Uncertain tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. There are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Recent Accounting Developments

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an Accounting Standards Update addressing the reporting of reclassifications out of accumulated other comprehensive income. The Update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company expects this guidance to affect financial statement disclosures but not to have an impact on the Company's results of operations, financial position or liquidity.

Recent Accounting Standards Updates Adopted

Nonpublic Entity Disclosures about Financial Instruments

In February 2013, the FASB issued an Accounting Standards Update clarifying the intended scope of the disclosures required by Update 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments clarify that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The amendments were effective upon issuance. The adoption of this guidance in February 2013 did not have any effect on the Company's results of operations, financial position or liquidity.

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued an Accounting Standards Update clarifying that the scope of Update 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance in January 2013 did not have any effect on the Company's results of operations, financial position or liquidity.

Reclassifications

Certain items in the financial statements as of December 31, 2012 and for the periods ending June 30, 2012 and for the period from May 19, 2011 (inception) to June 30, 2013 have been reclassified to conform to the current year's presentation. There was no effect on net income previously reported.

3. Common Stock Offering

The Company entered into a purchase/placement agreement with FBR on April 17, 2012 and sold an aggregate of 55,000,000 common shares resulting in net proceeds of $510.3 million. As part of the agreement, the Company placed approximately 93.3% (or $476.2 million) of the net proceeds to the Company from this offering into investment accounts established for the purpose of investing such proceeds on a short-term basis, prior to approval from at least one of the GSEs, to be a qualified mortgage guaranty insurance provider to the GSE. As stated in the Certificate of Incorporation, this amount was not to be disbursed (used for operating activities) until the earlier of (i) receipt by the Company of GSE

Approval or (ii) the liquidation of the Company. Approximately $34.6 million of the net proceeds were available for paying the cash portion of the MAC Acquisition and to pay off the FBR loan. The remaining balance of $31.8 million was placed in an operating account for the purpose of funding the Company's operations through the time of GSE Approval.

The initial purchaser's discount and placement fee of $38.3 million was comprised of $19.5 million in common stock and $18.8 million in cash. On October 24, 2012 FBR sold the aforementioned common stock and proceeds of $19.5 million were retained in an escrow account until the Company received GSE Approval.

In January 2013, following GSE Approval, the escrow funds were released to FBR (its initial purchasers' discount and placement fees from the escrow account) and to MAC for the cash portion of the MAC Acquisition.

4. Acquisition of MAC

On November 30, 2011, the Company entered into an agreement with MAC Financial Ltd. to acquire MAC Financial Holdings Corporation and its wholly-owned subsidiaries (collectively "MAC"). The agreement closed shortly after the closing of the common stock offering described above. Under the agreement, the total initial consideration paid for MAC was $8.5 million which consists of $2.5 million in cash, $2.5 million in the Company's common stock, and warrants to acquire the Company's common stock valued at $3.5 million. The consideration (net of expenses paid on MAC's behalf) was held in an escrow account until the Company received GSE Approval, upon which time it was released to MAC Financial Ltd. The total purchase consideration was allocated to the acquired assets and liabilities as follows:

April 24, 2012		
Current assets	$	52,159
Intangibles		1,590,000
Capitalized software		5,000,000
Goodwill		3,244,197
Subtotal		9,886,356
Current liabilities and deferred tax liabilities		(1,386,356)
Estimated fair value of net assets acquired	$	8,500,000

Pursuant to the terms of the stock purchase agreement, the Company assumed approximately $1.3 million of MAC's existing liabilities, which relate to outstanding payment obligations under its vendor contracts with CDW, LLC, Milliman, Inc., and Intellect/SEEC, Inc. and incurred $0.1 million in tax liabilities as a result of the acquisition of certain indefinite-lived intangibles. All other liabilities which existed at closing are the obligation of MAC Financial Ltd. and either have been or will be paid out of their cash consideration, which was held in an escrow account until GSE Approval. As of June 30, 2013 and December 31, 2012, the total amount of cash held in escrow (net of expenses paid on MAC's behalf) was $0 and $2 million, respectively.

Included in the acquired intangibles of $1.6 million are operational manuals valued at $1.2 million which at the time of acquisition, were a key deliverable in the Company's GSE application and were expected to be placed in service following GSE approval. Subsequently, the processes and procedures underlying the operational manuals have been reengineered to be substantially different as defined by the Company's current management. Therefore, at December 31, 2012 the Company determined the carrying value of operational manuals would not be recovered and the manuals could not be sold and would be disposed, and as a result, assessed the fair value at zero and recognized a loss on impairment of $1.2 million in the fourth quarter of 2012.

5. Investments

As of June 30, 2013, there were approximately $6.9 million of cash and investments in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
As of June 30, 2013				
U.S. Treasury securities and obligations of U.S. government agencies	$ 110,631,440	$ —	$ (1,864,206)	$ 108,767,234
Municipal bonds	12,021,248	—	(124,238)	11,897,010
Corporate debt securities	244,862,545	136,832	(6,156,901)	238,842,476
Asset-backed securities	69,278,235	42,856	(1,356,104)	67,964,987
Total fixed income securities	$ 436,793,468	$ 179,688	$ (9,501,449)	$ 427,471,707
Total Investments	$ 436,793,468	$ 179,688	$ (9,501,449)	$ 427,471,707

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
As of December 31, 2012				
Short-term investments	$ 4,863,647	$ 559	$ —	$ 4,864,206
Total Investments	$ 4,863,647	$ 559	$ —	$ 4,864,206

Aging of Unrealized Losses

All of the unrealized losses as of June 30, 2013 were aged less than six months. There were no unrealized losses as of December 31, 2012.

Scheduled Maturities as of June 30, 2013

	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due after one through five years	274,591,021	269,955,281
Due after five through ten years	77,143,348	74,144,445
Due after ten years	15,780,864	15,406,994
Asset-backed securities	69,278,235	67,964,987
Total Investments	$ 436,793,468	$ 427,471,707

All investments held at December 31, 2012 had a scheduled maturity of one year or less.

Net Realized Investment Gains on Investments

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	For the Period from May 19, 2011 (inception) to June 30, 2013
Corporate Bond	$ 487,759	$ 516,109	$ 516,109
U.S. Treasury Securities and Obligations of U.S. governments agencies	(15,659)	(15,659)	(15,659)
Asset-backed security	(19,741)	(19,741)	(19,741)
Total Net Realized Investment Gains	$ 452,359	$ 480,709	$ 480,709

There were no realized investment gains or losses for the three and six months ended June 30, 2012.

6. Fair Value Disclosures

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as at June 30, 2013 and December 31, 2012:

The Company 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 - Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 - Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

Level 3 - Unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations.

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. The Company has not made any adjustments to the prices obtained from the independent pricing sources.

Assets classified as Level 3

The warrants held by FBR and MAC Financial Ltd. and are valued using a Black-Scholes option-pricing model. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of the Company's stock price. Any potential value associated with pricing protection features are assessed using internal models and management estimation.

ASC 825, "Disclosures about Fair Value of Financial Instruments", requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of June 30, 2013 and December 31, 2012:

Assets and Liabilities at Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
As of June 30, 2013				
U.S. Treasury securities and obligations of U.S. government and agencies	$ 108,767,234	$ —	$ —	$ 108,767,234
Municipal bonds	—	11,897,010	—	11,897,010
Corporate debt securities	—	238,842,476	—	238,842,476
Asset-backed securities	—	67,964,987	—	67,964,987
Cash and cash equivalents	25,940,653	—	—	25,940,653
Total assets	$ 134,707,887	$ 318,704,473	$ —	$ 453,412,360
Warrant liability	—	—	5,921,276	5,921,276
Total liabilities	$ —	$ —	$ 5,921,276	$ 5,921,276

Assets and Liabilities at Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
As of December 31, 2012				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,864,206	$ —	$ —	$ 4,864,206
Cash and cash equivalents	526,193,573	—	—	526,193,573
Total assets	$ 531,057,779	$ —	$ —	$ 531,057,779
Warrant liability	—	—	4,841,765	4,841,765
Total liabilities	$ —	$ —	$ 4,841,765	$ 4,841,765

The following is a rollforward of Level 3 liabilities measured at fair value for the six months ended June 30, 2013:

Six Months Ended June 30, 2013		Total Fair Value Measurements
Level 3 Instruments Only		**Warrant Liability**
Balance, January 1, 2013	$	4,841,765
Change in fair value of warrant liability included in earnings		1,079,511
Balance, June 30, 2013	$	5,921,276

Period from May 19, 2011 (inception) to June 30, 2013		Total Fair Value Measurements
Level 3 Instruments Only		**Warrant Liability**
Balance, May 19, 2011	$	—
Initial fair value of warrant liability		5,119,569
Change in fair value of warrant liability included in earnings		801,707
Balance, June 30, 2013	$	5,921,276

The fair value of the warrants issued to FBR and MAC Financial Ltd. was estimated on the date of grant using the Black-Scholes option-pricing model, including consideration of any potential additional value associated with pricing protection features. The volatility assumption used, 39.0%, was derived from the historical volatility of the share price of a range of publicly-traded companies with similar types of business to that of the Company. No allowance was made for any potential illiquidity associated with the private trading of the Company's shares. The Company revalues the warrant liability quarterly using a Black-Scholes option-pricing model in combination with a binomial model and a Monte-Carlo simulation model used to value the pricing protection features within the warrant. As of June 30, 2013 the assumptions used in the option pricing model were as follows: a common stock price as of June 30, 2013 of $12.00, risk free interest rate of 1.98%, expected life of 7.1 years and a dividend yield of 0%.

The carrying value of other selected assets on our consolidated balance sheet approximates fair value.

7. Software and Equipment

Software and equipment consist primarily of capitalized software purchased in connection with the MAC Acquisition which had a fair value of $5 million at the date of acquisition. Software and equipment, net, as of June 30, 2013 and December 31, 2012, consist of the following:

As of June 30, 2013		
Software	$	10,251,653
Equipment		384,032
Less accumulated amortization and depreciation		(1,849,665)
Software and equipment, net	$	8,786,020
As of December 31, 2012		
Software	$	7,268,439
Equipment		284,573
Less accumulated amortization and depreciation		(2,917)
Software and equipment, net	$	7,550,095

Amortization and depreciation expense for the three and six month period ended June 30, 2013 was $1.8 million and $1.8 million respectively. There was no amortization and depreciation expense for the three and six months ended June 30, 2012. During the second quarter of 2013, the Company conducted an analysis on the existing Insurance Management System ("IMS") which was acquired in connection with the "MAC" acquisition. Based on that analysis, the Company made the business decision during the second quarter of 2013 to pursue the development of new modules (i.e. policy servicing, billing and delinquency and claims management) to support these business functions. As a result of the change in approach, during the second quarter the Company reduced the useful life of these components of IMS and shortened the amortization period to a range of 7 and 18 months.

8. Intangible Assets

Intangible assets consist of identifiable intangible assets purchased in connection with the Company's acquisition. Intangible assets, net, as of June 30, 2013 and December 31, 2012, consist of the following:

As of June 30, 2013 and December 31, 2012			Expected Lives
State licenses	$	260,000	Indefinite
GSE Approvals		130,000	Indefinite
Total Intangible assets	$	390,000	

The Company tests intangibles, other than goodwill, for impairment in the fourth quarter each year or more frequently if the Company believes indicators of impairment exist. Goodwill is tested for impairment in the third quarter each year or more frequently if the Company believes indicators of impairment exist. At the time of acquisition, the operational manuals were a key deliverable in the Company's GSE application and were expected to be placed in service following GSE approval. Subsequently, the processes and procedures underlying the operational manuals have been reengineered to be substantially different as defined by the Company's current management. Therefore, at December 31, 2012 the Company determined the carrying value of operational manuals would not be recovered and the manuals could not be sold and would be disposed, and as a result, assessed the fair value at zero and recognized a loss on impairment of $1.2 million. No impairments of indefinite-lived intangibles were identified as of June 30, 2013.

9. Commitments and Contingencies

GSE Approvals

Fannie Mae and Freddie Mac have imposed certain capitalization, operational and reporting conditions in connection with their recent approvals of NMIC as a qualified mortgage insurer. Some of these conditions remain in effect for a three (3) year period from the date of GSE Approval while others do not expressly expire. These conditions require, among other things, that NMIC:

- be initially capitalized in the amount of $200 million and that its affiliate reinsurance companies, NMRI One and NMRI Two, be initially capitalized in the amount of $10 million each;
- maintain minimum capital of $150 million;
- operate at a risk-to-capital ratio not to exceed 15:1 for its first three (3) years and then pursuant to the Eligibility Requirements;
- insure only (i) GSE-eligible loans or (ii) loans that are GSE-eligible, other than as related to loan amount subject to additional portfolio limitation requirements;
- obtain prior written approval to enter into any transaction involving the issuance of insurance on other than an individual loan “flow” basis;
- have and maintain a fully operational business and technology platform;

- not declare or pay dividends to affiliates or to NMIH for its first three (3) years, then pursuant to the Eligibility Requirements;
- not enter into capital support agreements or guarantees for the benefit of, or purchase or otherwise invest in the debt of, affiliates without the prior written approval of the GSEs for its first three (3) years, then pursuant to the Eligibility Requirements;
- not invest in or make loans to affiliates for its first three (3) years, then pursuant to the Eligibility Requirements;
- not enter into reinsurance or other risk share arrangements without the GSEs' prior written approval for its first three (3) years, then pursuant to the Eligibility Requirements; and
- at the direction of one or both of the GSEs, re-domicile from Wisconsin to another state.

The conditional approvals also include certain additional conditions, limitations and reporting requirements that the Company anticipates will be included in the final Eligibility Requirements, such as limits on costs allocated to NMIC under affiliate expense sharing arrangements, risk concentration, rates of return, requirements to obtain a financial strength rating, provision of ancillary services (i.e., non-insurance) to customers, transfers of underwriting to affiliates, notification requirements regarding change of ownership and new five percent (5%) shareholders, provisions regarding underwriting policies and claims processing as well as certain other obligations.

In addition to the conditions noted above, the Company's insurance subsidiary, NMIC entered into risk-to-capital agreements with certain state insurance regulators. See Note 14. Statutory Financial Information.

Office Lease

The Company entered into an office facility lease effective July 1, 2012 for a term of two years.

Management expects that, in the normal course of business, as of June 30, 2013 future minimum lease payments under this lease to be as follows:

Years ending December 31,		
2013	$	411,768
2014		416,176
Totals	$	827,944

There was rent expense, related to this lease, of approximately $186 thousand, and $268 thousand for the three and six months ended June 30, 2013. There was no rent expense for the the three and six months ended June 30, 2012.

10. Income Taxes

Following is a reconciliation of the Company's net deferred income tax asset as of June 30, 2013 and December 31, 2012:

	June 30, 2013	
	Gross	Tax Effected
Deferred tax asset:		
Capitalized start-up costs	$ 44,382,751	$ 15,090,135
Net operating loss carry forwards	7,307,344	2,484,497
Total gross deferred tax assets	51,690,095	17,574,632
Less: valuation allowance	46,690,095	15,874,632
Total deferred tax assets	5,000,000	1,700,000
Deferred tax liability:		
Capitalized Software	(5,000,000)	(1,700,000)
Intangible Assets	(390,000)	(132,600)
Total deferred tax liabilities	(5,390,000)	(1,832,600)
Net deferred income tax liability	$ (390,000)	$ (132,600)

	December 31, 2012	
	Gross	Tax Effected
Deferred tax asset:		
Capitalized start-up costs	$ 21,796,012	$ 7,410,644
Net operating loss carry forwards	7,307,344	2,484,497
Total gross deferred tax assets	29,103,356	9,895,141
Less: valuation allowance	24,103,356	8,195,141
Total deferred tax assets	5,000,000	1,700,000
Deferred tax liability:		
Capitalized Software	(5,000,000)	(1,700,000)
Intangible Assets	(390,000)	(132,600)
Total deferred tax liabilities	(5,390,000)	(1,832,600)
Net deferred income tax liability	$ (390,000)	$ (132,600)

The Company has a net deferred tax liability of $132.6 thousand as a result of the acquisition of indefinite-lived intangibles in the MAC Acquisition for which a benefit has been reflected in the acquired net operating loss carry forwards. The tax liability incurred at the acquisition is recorded as an increase in Goodwill.

Section 382 imposes annual limitations on a corporation's ability to utilize its NOL's if it experiences an "ownership change." As a result of the MAC Acquisition, $7.3 million of NOL's are subject to annual limitations of $277 thousand. Net unrealized built-in gains could increase the annual Section 382 limitation. Any unused annual limitation may be carried forward up to 20 years. The NOLs will expire in years 2029 through 2031.

As the Company has just recently begun insurance operations and has no history to provide a basis for reliable future income projections, a valuation allowance of $15.9 million and $8.2 million was recorded at June 30, 2013 and December 31, 2012, respectively, to reflect the amount of the deferred tax asset that may not be realized.

11. Stock Compensation

The 2012 Stock Incentive Plan (the "Plan") was approved by the Board of Directors (the "Board") on April 16, 2012, and authorized 5.5 million shares be reserved for issuance under the Plan with 3.85 million shares available for stock options and 1.65 million shares available for restricted stock grants. Options granted under the Plan are Non-Qualified Stock Options and may be granted to employees, directors and other key persons of the Company. The exercise price per share for the common stock covered by this Plan shall be determined by the Board at the time of grant, but shall not

be less than the fair market value on the date of the grant. The term of the stock option grants will be fixed by the Board, but no stock option shall be exercisable more than 10 years after the date the stock option is granted. The vesting period of the stock option grants will also be fixed by the Board at the time of grant and generally are for a three year period.

A summary of option activity in the plan during the period ending June 30, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Options balance at December 31, 2012	2,546,750	$ 3.86
Options granted	531,829	4.56
Less: Options forfeited	(10,000)	3.84
Options balance outstanding at June 30, 2013	3,068,579	$ 3.98

As of June 30, 2013 there were no exercises and 658,424 options were exercisable.

The remaining weighted average contractual life of options outstanding as of June 30, 2013 was 9.1 years. As of June 30, 2013, there was approximately $5.6 million of total unrecognized compensation cost related to non-vested stock options.

The Company accounts for stock options under ASC No. 718, *Compensation - Stock Compensation* ("ASC 718"), which requires all share-based payments to be recognized in the financial statements at their fair values. To measure the fair value of stock options granted, the Company utilizes the Black-Scholes options pricing model. Expense is recognized over the required service period, which is generally the three-year vesting period of the options (vesting in one-third increments per year).

The estimated grant date fair values of the stock options granted during 2013 were calculated using Black-Scholes valuation model based on the following assumptions:

Expected life	6.00 years
Risk free interest rate	0.85%
Dividend yield	0.00%
Expected stock price volatility	39.00%
Projected forfeiture rates	1.00%

Expected Price Volatility - is a measure of the amount by which a price has fluctuated or is expected to fluctuate. At the time of grant, the Company's common shares trading history was less than six months which was not sufficient to calculate an expected volatility representative of the volatility over the expected lives of the options. As a substitute for such estimate, the Company used historical volatilities of a set of comparable companies in the industry in which the Company operates.

Risk-Free Interest Rate - is the U.S. Treasury rate for the date of the grant having a term approximating the expected life of the option.

Expected Lives - is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years.

Forfeiture Rate - is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

Dividend Yield - is calculated by dividing the expected annual dividend by the stock price of the Company at the valuation date.

A summary of restricted stock unit activity in the plan during the period ending June 30, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Restricted Stock balance at December 31, 2012	1,429,260	$ 7.35
Restricted Stock Units Granted	82,000	11.75
Less: Restricted Stock Units Vested	(262,610)	6.79
Less: Restricted Stock Units Forfeited	—	$ —
Restricted Stock balance outstanding at June 30, 2013	1,248,650	$ 7.76

In February 2013, the Board of Directors approved a modification to the vesting terms of approximately 400,000 outstanding and unvested restricted stock units held by employees of the Company. The modification to the vesting terms removed the market condition leaving the restricted stock units subject to a service condition only. The modification resulted in a change in the period over which compensation costs are recognized and prospective recognition of incremental compensation cost, measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and relevant valuation inputs at the modification date.

At June 30, 2013, the 1.2 million shares of restricted stock outstanding consisted of 0.5 million shares that are subject to both a market and service condition and 0.7 million shares that are subject only to service conditions. The restricted stock units subject to both a market and service condition vest in one-third increments upon the achievement of certain market price goals and continued service. Restricted stock units vest in one-half increments on the second and third anniversary date following the grant date and continued service or in one-third increments on the first, second and third anniversary date following the grant date and continued service. The fair value of restricted stock units subject to market and service conditions is determined based on a Monte Carlo Simulation model at the date of grant. The fair value of restricted stock units subject only to service conditions are valued at the Company's stock price on the date of grant less the present value of anticipated dividends.

The estimated grant date fair values of the restricted stock units granted in 2012 that are subject to both a market and service condition were calculated using a Monte Carlo Simulation model based on the average outcome of 150,000 simulations using the following assumption:

Expected life	5.00 years
Risk free interest rate	0.86%
Dividend yield	0.00%
Expected stock price volatility	39.00%
Projected forfeiture rates	1.00%

The remaining weighted average contractual life of RSUs outstanding as of June 30, 2013 was 4.5 years. As of June 30, 2013, there was approximately $6.4 million of total unrecognized compensation cost related to non-vested restricted stock units.

On April 5, 2013 approximately 263,000 restricted stock units containing a market condition vested resulting in an acceleration of compensation expense of approximately $1.1 million in the second quarter of 2013.

12. Line of Credit and Related Warrants

As of December 31, 2011, in connection with the funding of the Company prior to executing the offering, FBR granted an uncommitted line of credit up to an aggregate principal amount of $1.5 million to support legal, accounting and others costs associated with the formation and the capitalization of the Company.

As part of the consideration for granting the line of credit, upon successful common stock offering on April 24, 2012, the Company agreed to issue warrants to FBR having an aggregate value equal to three times the amount of the outstanding line of credit balance. Each warrant gave the holder thereof the right to purchase one share of common stock at an exercise price equal to $10.00. Accordingly, FBR was issued approximately 314,000 warrants with an aggregate fair value of approximately $1.6 million. These warrants were measured at fair value and recorded as a finance fee with an offsetting charge to liabilities. As the line of credit was paid off on April 24, 2012, the debt discount was fully amortized as of April 24, 2012.

Upon exercise of these warrants, the amounts will be reclassified from warrant liability to additional paid-in capital.

The Company is required to revalue the warrants at the end of each reporting period and any change in fair value is reported in the statements of operations as "Gain (Loss) from change in fair value of warrant liability" in the period in which the change occurred. The fair value of the warrants is calculated using a Black-Scholes option-pricing model in combination with a binomial model and a Monte-Carlo simulation model used to value the pricing protection features within the warrant. The change in fair value for the six months ended June 30, 2013 amounted to $1,079,511.

13. Litigation

On August 8, 2012, Germaine Marks, as Receiver, and Truitte Todd, as Special Deputy Receiver, of PMI Mortgage Insurance Co. ("PMI"), an Arizona insurance company in receivership, have filed a complaint ("the PMI Complaint") against the Company, National Mortgage Insurance Corporation and certain named individuals. The litigation is at an early stage of review and evaluation and the Company has filed an answer to PMI's complaint denying all allegations.

On January 30, 2013, a case management conference took place among the parties in the PMI Complaint. The conference resulted in the setting of a trial date on February 3, 2014. The parties are now engaged in discovery, primarily document production as well as interrogatories and requests for admissions.

Because the litigation and related discovery are at a preliminary stage, the Company does not have sufficient information to determine or predict the ultimate outcome or estimate the range of possible losses, if any. Accordingly, no provision for litigation losses has been included in the financial statements.

14. Statutory Financial Information

The Company's insurance subsidiaries, NMIC, NMI Re One and NMI Re Two, file financial statements in conformity with statutory basis accounting principles ("SAP") prescribed or permitted by the Wisconsin Office of the Commission of Insurance ("OCI"). Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). The 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.

Prescribed and permitted practices generally vary in some respects from accounting principles generally accepted in the United States of America ("GAAP"). The principal differences between these accounting practices and GAAP are as follows: (1) acquisition expenses incurred in connection with acquiring new business are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) under SAP there are limitations on the net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss adjustment expense ceded to reinsurers are reported as a deduction of the related reserve rather than as an asset as would be required under GAAP; (4) under statutory accounting practices, fixed maturity investments are generally valued at amortized

cost. Under GAAP, those investments are considered to be available-for-sale and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

NMIC's principal regulator is the Wisconsin OCI. Under applicable Wisconsin law, as well as that of 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to the risk-in-force (Risk to Capital or "RTC") in order for the mortgage insurer to continue to write new business. The Company refers to these requirements as the "RTC requirement." While formulations of minimum capital may vary in each jurisdiction that has such a requirement, the most common measure applied allows for a maximum permitted RTC ratio of 25 to 1. Wisconsin and certain other states, including California and Illinois, apply a substantially similar requirement referred to as minimum policyholders position.

Additionally, as a condition of GSE Approval, the Company has agreed with Fannie Mae and Freddie Mac to limit NMIC's RTC ratio to no greater than 15 to 1 and to maintain total statutory capital of at least $150 million for a three year period ending on January 15, 2016. After that date, NMIC agreed to comply with the risk-to-capital ratios that are imposed in the GSEs' then existing eligibility requirements. As part of the Company's state licensing process, NMIC entered into risk-to-capital agreements with the California Insurance Department, the Missouri Department of Insurance, the New York State Department of Financial Services, the Ohio Department of Insurance and the Texas Commissioner of Insurance. These agreements require NMIC to maintain a risk-to-capital ratio not to exceed 20 to 1 until January 15, 2016.

As of December 31, 2012 none of the Company's insurance subsidiaries had written any business, had no risk-in-force and therefore had no ratios. As of June 30, 2013 the Company had approximately $257 thousand in risk-in-force and approximately $200 million in statutory capital. Given the small amount of risk the Company's insurance subsidiary has written to-date in comparison to its statutory capital available, NMIC's RTC ratio is less than 1:1, significantly below the limits established with the GSEs and state insurance departments.

NMI Holdings, Inc. is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMI Holdings, Inc., that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or (subject to certain limitations) recent net profits. As of December31, 2012 NMI Holdings, Inc.'s capital surplus was $488.7 million.

As of June 30, 2013, the amount of restricted net assets held by the Company's consolidated insurance subsidiaries totaled $210 million of consolidated net assets of $456 million. In addition, as part of the GSE commitments, NMI Holdings, Inc. agreed to maintain at least $150 million in capital at NMIC.

15. Subsequent Events

On July 31, 2013, the Company announced that its primary insurance subsidiary, NMIC, has agreed to insure an amount approximating $5 billion in residential mortgages in its first risk transfer transaction with Fannie Mae. The effective date of the agreement and the coverage will be September 1, 2013.

The transaction constitutes "Pool insurance" which is generally used as an additional "credit enhancement" for certain secondary market mortgage transactions. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if such loan has primary coverage, as well as the total loss on a defaulted mortgage loan which did not have primary coverage. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible. NMIC was the successful bidder on a pool insurance transaction offered by Fannie Mae. This pool deal is unlike a general pool policy, in that the loans which make up this particular pool do not have primary MI on them, as the LTV's are below what would require MI to be placed at loan origination. NMIC will be paid monthly insurance premiums by Fannie Mae for assuming net insurance risk of approximately $98 million. As primary flow business writings have not yet reached a material level, the risk on this pool transaction will constitute very large percentage of the Company's total insurance risk in force until primary flow business writings reach a material level.

The Company has performed subsequent events procedures through August 9, 2013 which was the date the financial statements were available for issuance.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

NMI Holdings, Inc.
(A Development Stage Company)
Emeryville, CA

We have audited the accompanying consolidated balance sheets of NMI Holdings, Inc. (A Development Stage Company) as of December 31, 2012 and 2011 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2012, the period from May 19, 2011 (inception) to December 31, 2011 and the period from May 19, 2011 (inception) to December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NMI Holdings, Inc. (A Development Stage Company) at December 31, 2012 and 2011, and the results of its operations and its cash flows for the year ended December 31, 2012, the period from May 19, 2011 (inception) to December 31, 2011 and the period from May 19, 2011 (inception) to December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

February 14, 2013

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
Assets		
Investments, available-for-sale, at fair value	$ 4,864,206	$ —
Cash - Operating Account	14,516,951	1
Cash - Investment Account	471,338,467	—
Prepaid expenses	416,861	182,500
Restricted Cash	40,338,155	—
Goodwill and other intangible assets	3,634,197	—
Software and equipment, net	7,550,095	—
Other assets	108,802	27,257
Total Assets	$ 542,767,734	$ 209,758
Liabilities		
Accounts payable and accrued expenses	$ 8,707,573	$ 1,353,264
Placement fees payable	38,305,405	—
Purchase consideration payable	2,032,750	—
Line of credit	—	205,318
Warrant liability	4,841,765	—
Deferred tax liability	132,600	—
Total Liabilities	54,020,093	1,558,582
Commitments and Contingencies		
Shareholders' Equity (Deficit)		
Common stock - Class A shares, $0.01 par value, 55,250,100 and 100 shares issued and outstanding as of December 31, 2012 and 2011, respectively (250,000,000 shares authorized)	552,501	1
Common Stock - Class B shares, $0.01 par value, 250,000 and 0 shares issued and outstanding as of December 31, 2012 and 2011, respectively (250,000 authorized)	2,500	—
Additional paid-in capital	517,032,619	—
Accumulated other comprehensive income	559	—
Deficit accumulated during the development phase	(28,840,538)	(1,348,825)
Total Shareholders' Equity (Deficit)	488,747,641	(1,348,824)
Total Liabilities and Shareholders' Equity	$ 542,767,734	$ 209,758

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC. (A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME	**Year Ended December 31, 2012**	**Period from May 19, 2011 (inception) to December 31, 2011**	**Period from May 19, 2011 (inception) to December 31, 2012**
Revenues			
Net investment income	$ 5,825	$ —	$ 5,825
Gain from change in fair value of warrant liability	277,804	—	277,804
Total Revenues	283,629	—	283,629
Expenses			
Payroll and related	11,558,914	—	11,558,914
Share-based compensation	6,115,360	—	6,115,360
Business development	—	82,152	82,152
Professional fees	1,815,992	558,701	2,374,693
Consulting fees	1,284,372	639,355	1,923,727
Accounting and auditing	266,370	50,000	316,370
Rent and office expenses	232,992	—	232,992
Travel and related costs	725,464	—	725,464
Information technology	875,370	—	875,370
Finance fees and interest expense	1,628,635	3,729	1,632,364
Board of Directors fees and related costs	888,012	—	888,012
State licensing fees and related costs	183,360	—	183,360
Loss on impairment	1,200,000	—	1,200,000
Other	1,000,501	14,888	1,015,389
Total Expenses	27,775,342	1,348,825	29,124,167
Net Loss	$ (27,491,713)	$ (1,348,825)	$ (28,840,538)
Share Data			
Basic and Diluted loss per share	$ (0.73)	$ (13,490.00)	$ (0.76)
Weighted average common shares	55,500,100	100	37,909,940
Other Comprehensive Income (net of tax)			
Unrealized holding gains for the period included in accumulated other comprehensive income	559	—	559
Other Comprehensive Income (net of tax)	559	—	559
Total Comprehensive Income (Loss)	$ (27,491,154)	$ (1,348,825)	$ (28,839,979)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

	Common stock							
	Class A		Class B					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Deficit Accumulated During the Development Phase	Total
Period from May 19, 2011 (inception) to December 31, 2011								
Balance, May 19, 2011	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of common stock	100	1	—	—	—	—	—	1
Net loss	—	—	—	—	—	—	(1,348,825)	(1,348,825)
Balance, December 31, 2011	100	1	—	—	—	—	(1,348,825)	(1,348,824)
For the Year Ended December 31, 2012								
Balance, December 31, 2011	100	1	—	—	—	—	(1,348,825)	(1,348,824)
Issuance of Class A common stock	55,000,000	550,000	—	—	508,419,759	—	—	508,969,759
Issuance of Class B common stock	—	—	250,000	2,500	—	—	—	2,500
Issuance of common stock related to acquisition of subsidiaries	250,000	2,500	—	—	2,497,500	—	—	2,500,000
Share-based compensation expense	—	—	—	—	6,115,360	—	—	6,115,360
Change in unrealized investment gains	—	—	—	—	—	559	—	559
Net loss	—	—	—	—	—	—	(27,491,713)	(27,491,713)
Balance, December 31, 2012	55,250,100	552,501	250,000	2,500	517,032,619	559	(28,840,538)	488,747,641
Period from May 19, 2011 (inception) to December 31, 2012								
Balance, May 19, 2011	—	—	—	—	—	—	—	—
Issuance of Class A common stock	55,000,100	550,001	—	—	508,419,759	—	—	508,969,760
Issuance of Class B common stock	—	—	250,000	2,500	—	—	—	2,500
Issuance of common stock related to acquisition of subsidiaries	250,000	2,500	—	—	2,497,500	—	—	2,500,000
Share-based compensation expense	—	—	—	—	6,115,360	—	—	6,115,360
Change in unrealized investment gains	—	—	—	—	—	559	—	559
Net loss	—	—	—	—	—	—	(28,840,538)	(28,840,538)
Balance at December 31, 2012	55,250,100	$ 552,501	250,000	$ 2,500	$517,032,619	$ 559	$(28,840,538)	$488,747,641

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC. (A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS	For the Year Ended December 31, 2012	Period From May 19, 2011 (inception) to December 31, 2011	For the Period from May 19, 2011 (inception) to December 31, 2012
Cash Flows from Operating Activities			
Net loss	$ (27,491,713)	$ (1,348,825)	$ (28,840,538)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	6,115,360	—	6,115,360
Warrants issued in connection with line of credit	1,619,569	—	1,619,569
Gain from change in fair value of warrant liability	(277,804)	—	(277,804)
Loss on impairment	1,200,000	—	1,200,000
Depreciation	2,917	—	2,917
Accrued investment income	(5,825)	—	(5,825)
Changes in operating assets and liabilities:			
Prepaid expense	(234,361)	(182,500)	(416,861)
Other assets	(77,739)	(27,257)	(104,996)
Accounts payable and accrued expenses	4,553,339	1,353,264	5,906,603
Net Cash Used in Operating Activities	(14,596,257)	(205,318)	(14,801,575)
Cash Flows from Investing Activities			
Purchase of short-term investment	(4,861,628)	—	(4,861,628)
Purchase of software and equipment	(2,446,504)	—	(2,446,504)
Acquisition of subsidiaries	(2,500,000)	—	(2,500,000)
Net Cash Used in Investing Activities	(9,808,132)	—	(9,808,132)
Cash Flows from Financing Activities			
Proceeds from (Payments on) line of credit	(552,657)	205,318	(347,339)
Issuance of common stock	510,812,463	1	510,812,464
Net Cash Provided by Financing Activities	510,259,806	205,319	510,465,125
Net Increase in Cash and Cash Equivalents	485,855,417	1	485,855,418
Cash and Cash Equivalents, beginning of period	1	—	—
Cash and Cash Equivalents, end of period	$ 485,855,418	$ 1	$ 485,855,418
Supplemental Disclosures of Cash Flow Information			
Restricted Cash	$ 40,338,155	$ —	$ 40,338,155
Noncash Financing Activities			
Acquisition of subsidiaries			
Warrants issued in connection with acquisition of subsidiaries	$ 3,500,000	$ —	$ 3,500,000
Common stock issued in connection with acquisition of subsidiaries	$ 2,500,000	$ —	$ 2,500,000

See accompanying notes to consolidated financial statements.

1. Organization

NMI Holdings, Inc. (A Development Stage Company) ("the Company"), a Delaware corporation, was formed in May 2011 with the intention of providing private mortgage guaranty insurance. From May 2011, the Company's activities were limited to raising capital, seeking to acquire the assets and approvals necessary to become a private mortgage guaranty insurance provider and hiring personnel. The accompanying consolidated financial statements include the accounts of NMI Holdings, Inc. and its wholly-owned subsidiaries, National Mortgage Insurance Corporation ("NMIC"), previously named Mortgage Assurance Corporation, National Mortgage Reinsurance Inc One ("NMI Re One"), previously named Mortgage Assurance Reinsurance Inc One, and National Mortgage Reinsurance Inc Two ('NMI Re Two"), previously named Mortgage Assurance Reinsurance Inc Two.

On November 30, 2011, the Company entered into an agreement with MAC Financial Ltd. to acquire MAC Financial Holding Corporation and its subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Inc Two, for approximately $8.5 million in cash, common stock and warrants plus the assumption of approximately $1.3 million in liabilities ("MAC Acquisition"). In addition, the Company incurred $0.1 million in tax liabilities as a result of the acquisition of certain indefinite-lived intangibles. The acquisition was completed in April 2012.

In April 2012, the Company offered 55.0 million shares of common stock at an issue price of $10.00 per share. Gross proceeds from the offering were $550.0 million. Net proceeds from the offering, after an approximate 7% underwriting fee and other offering expenses, were approximately $510.3 million. This fee has been escrowed for the benefit of FBR Capital Markets and Co. ("FBR"). The escrow account will be released to FBR upon the Company's receipt of approval from either the Federal National Home Mortgage Association ("Fannie Mae') or the Federal Home Loan Mortgage Corporation ("Freddie Mac") ("GSE Approval"). An additional $1.5 million in offering expenses are payable upon GSE approval.

The Company had nine months from the date of its last offering memorandum (until January 17, 2013) to obtain GSE Approval ("GSE Approval Deadline"). On January 16, 2013 the Company was approved as an eligible mortgage guaranty insurer by Fannie Mae and Freddie Mac, subject to maintaining certain conditions. See Note 15. Subsequent Events.

2. Basis of Presentation and Summary of Accounting Principles

Basis of Presentation

The accompanying consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All material intercompany accounts have been eliminated. The accounts of the Company and its subsidiaries are maintained in US dollars. The preparation of financial statements in accordance with generally accepted accounting principles 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.

Cash and Cash Equivalents

The Company considers items such as certificates of deposit and money market funds with original maturities of 90 days or less to be cash equivalents.

The Company has approximately $40.3 million in restricted cash as of December 31, 2012. The restricted cash balance is comprised of two escrow accounts that were funded on April 24, 2012. The cash is payable to FBR and MAC Financial Ltd. upon obtaining GSE Approval. In the event GSE Approval is not obtained, the restricted cash is returned to the Company. See Note 15. Subsequent Events.

Investments

The Company has designated its investment portfolio as available-for-sale which is comprised of short-term investments with a maturity of less than 12 months when purchased and are carried at fair value.

Business Combinations, Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired from a business combination. In accordance with Accounting Standards Codification ("ASC") 350, *Intangibles - Goodwill and Other*, the Company will test goodwill for impairment during the third quarter each year or more frequently if the Company believes indicators of impairment exist. The Company does not believe that goodwill was impaired at December 31, 2012.

All intangible assets, except for state licenses and GSE applications, have finite lives. Amortization for finite life intangible assets is computed using the straight-line method over estimated useful lives of 3 years. State licenses and GSE applications have an indefinite useful life and are tested for impairment each year. The Company's amortization policy states that amortization of intangible assets will commence subsequent to the placement of the asset into use by the Company. As the assets have not been placed into use as of and for the year ending December 31, 2012, there was no amortization expense. The Company tests intangibles for impairment during the fourth quarter each year or more frequently if the Company believes indicators of impairment exist. At December 31, 2012, the Company determined that the carrying value of certain finite lived intangibles exceeds the fair value and is not recoverable and recognized a loss on impairment of $1.2 million. The Company does not believe that the indefinite-lived intangible assets were impaired at December 31, 2012.

Software and Equipment

Software and equipment are stated at cost, less accumulated amortization and depreciation. Amortization and depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets ranging from 3 to 7 years. Amortization of software and depreciation of equipment will commence subsequent to the placement of the asset into use by the Company.

Warrants

The Company accounts for warrants to purchase common shares of the Company issued to FBR and MAC Financial Ltd. in conjunction with the line of credit and stock purchase agreement, respectively, in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470-20 *Debt with Conversion and Other Options* and ASC 815-40 *Derivatives and Hedging - Contracts in Entity's Own Equity.* These warrants may be settled by the Company using the physical settlement method or through cash-less-exercises in which shares subject to the warrants are reduced in lieu of cash payment of the exercise price. The exercise price and the number of warrants are subject to anti-dilution provisions whereby the existing exercise price is adjusted downward and the number of warrants increased for events that may not be dilutive and the adjustment may be in excess of any dilution suffered. As a result, the warrants are classified as a liability. The Company is required to revalue the warrants at the end of each reporting period and any change in fair value is reported in the statements of operations in the period in which the change occurred. The fair value of the warrants is calculated using a Black-Scholes model in combination with a binomial model and Monte-Carlo simulation model used to value the pricing protection features within the warrant.

Stock-Based Compensation

The Company adopted ASC 718, *Compensation - Stock Compensation* ("ASC 718"). ASC 718 addresses accounting for share-based awards and recognizes compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based payments include restricted stock and stock option grants under

the 2012 Stock Incentive Plan. The fair value of stock option grants issued are determined based on an option pricing model which takes into account various assumptions that are subjective. Key assumptions used in the stock option valuation include the expected term of the equity award taking into account the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk-free interest rate for the expected term of the award. Restricted stock grants to employees contain a market and service condition. The fair value of restricted stock grants to employees is determined based on a Monte Carlo Simulation model at the date of grant. Restricted grants to non-employee directors are valued at the Company's stock price on the date of grant less the present value of anticipated dividends.

Offering and Incorporation Expenses

Offering expenses incurred in connection with the capitalization of the Company were recorded as a reduction of paid-in-capital at close. These costs include certain investment banking fees, legal fees, printer fees and audit fees. Any incorporation and organizational expenses not related to the raising of capital are expensed as incurred and are included in the statement of operations.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with FASB ASC Topic 740 - *Income Taxes*. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations.

The Company evaluates the need for a valuation allowance against its deferred tax assets on a quarterly basis. In the course of its review, the Company assesses all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits. Uncertain tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. There are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Recent Accounting Standards Updates Adopted

Impairment of Indefinite-Lived Intangible Assets

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, updating guidance on indefinite-lived intangible assets impairment. Under the new guidance, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company elected to early adopt the amendments for the fiscal year beginning January 1, 2012. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

Intangibles - Goodwill and Other: Testing Goodwill for Impairment

In September 2011, the FASB issued updated guidance (ASU 2011-08) on goodwill impairment that gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs. Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The FASB provided a sample list of events and circumstances that an entity can consider in performing its qualitative assessment. Under the amended guidance, an entity has the option to bypass the qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test and may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Presentation of Comprehensive Income

In June 2011, the FASB issued updated guidance (ASU 2011-05) to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders' equity. The updated guidance requires that all non-owner changes in shareholders' equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for the period ending September 30, 2012. Early adoption is permitted. The adoption of this guidance in June 2012 did not have any effect on the Company's financial position or liquidity.

Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in US GAAP and IFRS

In May 2011, the FASB issued updated guidance (ASU 2011-04) that addresses the objective of the FASB and the International Accounting Standards Board ("IASB") to develop common requirements for measuring and for disclosing information about fair value measurements with US GAAP and International Financial Reporting Standards ("IFRS"). The FASB and the IASB worked together to ensure that fair value has the same meaning in US GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same (except for minor differences in wording and style). The FASB and the IASB concluded that this guidance will improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The guidance explains how to measure fair value. This updated guidance does not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The updated guidance is effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreement

In April 2011, the FASB amended its guidance on accounting for repurchase agreements (ASU 201103). The amendments simplify the accounting by eliminating the requirement that the transferor demonstrate it has adequate collateral to fund substantially all the cost of purchasing replacement assets. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met; (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred, (ii) repurchase or redemption date before maturity at a fixed or determinable price, and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance is effective on a

prospective basis for interim and annual reporting periods beginning on or after December 15, 2011, early adoption is prohibited. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued Accounting Standards Update 2010-26, to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

The updated guidance is effective on either a retrospective or prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity as the Company has yet to commence writing premiums.

Recent Accounting Standards Updates Not Yet Adopted

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, requiring an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The disclosure requirements apply to financial instruments and derivative instruments that are either offset in accordance with ASC Section 210-20-45 or Section 815-10-45, or subject to an enforceable master netting arrangement or similar agreement. The ASU requires entities to disclose in tabular format certain quantitative information separately for assets and liabilities, including but not limited to: gross amounts of those recognized assets and liabilities; amounts offset to determine the net amounts presented in the statement of financial position; net amounts presented in the statement of financial position; and amounts subject to an enforceable master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. We expect this guidance to affect financial statement disclosures but not to have an impact on the Company's results of operations, financial position or liquidity.

Reclassifications

Certain items in the financial statements as of and for the period ending December 31, 2011 have been reclassified to conform to the current year's presentation. There was no effect on net income previously reported.

3. Common Stock Offering

The Company entered into a purchase/placement agreement with FBR on April 17, 2012 and sold an aggregate of 55,000,000 common shares resulting in net proceeds of $510.3 million. As part of the agreement, the Company placed approximately 93.3% (or $476.2 million) of the net proceeds to the Company from this offering into investment accounts established for the purpose of investing such proceeds on a short-term basis, prior to approval from at least one of the GSEs, to be a qualified mortgage guaranty insurance provider to the GSE. As stated in the Certificate of Incorporation, this amount is not disbursed (used for operating activities) until the earlier of (i) receipt by the Company of GSE Approval or (ii) the liquidation of the Company. Approximately $34.6 million of the net proceeds was available for paying the cash portion of the MAC Acquisition and to pay off the FBR loan. The remaining balance of $31.8 million was placed in an operating account for the purpose of funding the Company's operations through the time of GSE Approval. Upon receipt of GSE Approval, all proceeds within the Company's investment accounts will be available for operational purposes.

The initial purchaser's discount and placement fee of $38.3 million was comprised of $19.5 million in common stock and $18.8 million in cash. On October 24, 2012 FBR sold the aforementioned common stock and proceeds of $19.5 million were retained in the escrow account. The cash is maintained in the escrow account until the Company receives GSE Approval. Upon receipt of GSE Approval, FBR will receive its initial purchasers' discount and placement fees from the escrow account. If GSE Approval is not obtained, FBR's initial purchasers' discount and placement fee is deposited into the Company's investment account and the Company would dissolve and distribute the assets to the shareholders. See Note 15. Subsequent Events.

4. Acquisition of MAC

On November 30, 2011, the Company entered into an agreement with MAC Financial Ltd. to acquire MAC Financial Holdings Corporation and its wholly-owned subsidiaries (collectively "MAC").The agreement closed shortly after the closing of the common stock offering described above. Under the agreement, the total initial consideration paid for MAC was $8.5 million which consists of $2.5 million in cash, $2.5 million in the Company's common stock, and warrants to acquire the Company's common stock valued at $3.5 million. In addition, the Company assumed approximately $1.3 million in liabilities and incurred $0.1 million in deferred tax liabilities. The consideration (net of expenses paid on MAC's behalf) is held in an escrow account until such time as the Company receives GSE Approval. Upon receipt of GSE Approval, all consideration will be released to MAC Financial Ltd.

The total purchase consideration was allocated to the acquired assets and liabilities as follows:

April 24, 2012		
Current assets	$	52,159
Intangibles		1,590,000
Capitalized software		5,000,000
Goodwill		3,244,197
Subtotal		9,886,356
Current liabilities and deferred tax liabilities		(1,386,356)
Estimated fair value of net assets acquired	$	8,500,000

Pursuant to the terms of the stock purchase agreement, the Company assumed approximately $1.3 million of MAC's existing liabilities, which relate to outstanding payment obligations under its vendor contracts with CDW, LLC, Milliman, Inc., and Intellect/SEEC, Inc. and incurred $0.1 million in tax liabilities as a result of the acquisition of certain indefinite-lived intangibles. All other liabilities which existed at closing are the obligation of MAC Financial Ltd. and either have been or will be paid out of their cash consideration, which is currently being held in an escrow account until GSE Approval. As of December 31, 2012, the total amount of cash held in escrow (net of expenses paid on MAC's behalf) was approximately $2.0 million. See Note 15. Subsequent Events.

5. Available-for-Sale Investments

As of December 31, 2012, the Company had $4.9 million in short-term investments in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
As of December 31, 2012				
U.S. Treasury securities and obligations of U.S. government agencies	$ 4,863,647	$ 559	$ —	$ 4,864,206
Total Investments	$ 4,863,647	$ 559	$ —	$ 4,864,206

There were no investments held at December 31, 2011.

Aging of Unrealized Losses

There were no unrealized losses as of December 31, 2012 and December 31, 2011.

Scheduled Maturities

All investments have scheduled maturities of one year or less.

Net Investment Income

	Year Ended December 31, 2012	Period from May 19, 2011 (inception) to December 31, 2012
U.S. Treasury securities and obligations of U.S. government agencies	$ 2,019	$ 2,019
Cash equivalents	3,806	3,806
Total Net Investment Income	$ 5,825	$ 5,825

6. Fair Value Disclosures

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 - Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 - Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

Level 3 - Unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations.

ASC 825, "Disclosures about Fair Value of Financial Instruments", requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value. The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as at December 31, 2012.

Short-Term Investments

The fair value of short-term investments is determined using unadjusted quoted market prices for identical securities.

Warrants

The warrants held by FBR and MAC Financial Ltd. are valued using a Black-Scholes option-pricing model in combination with a binomial model and a Monte-Carlo simulation model used to value the pricing protection features within the warrant. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of the Company's stock price.

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2012:

	Fair Value Measurements Using			
Assets and Liabilities at Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**
As of December 31, 2012				
U.S. Treasury securities and obligations of U.S. government agencies	$ 4,864,206	$ —	$ —	$ 4,864,206
Cash and cash equivalents (including restricted cash)	526,193,573	—	—	526,193,573
Total assets	$ 531,057,779	$ —	$ —	$ 531,057,779
Warrant liability	—	—	4,841,765	4,841,765
Total liabilities	$ —	$ —	$ 4,841,765	$ 4,841,765

The following is a roll forward of Level 3 liabilities measured at fair value for the year ended December 31, 2012:

	Total Fair Value Measurements
Year Ended December 31, 2012	
Level 3 Instruments Only	**Warrant Liability**
Balance, January 1, 2012	$ —
Initial fair value of warrant liability	5,119,569
Change in fair value of warrant liability included in earnings	(277,804)
Balance, December 31, 2012	$ 4,841,765

The carrying value of other selected assets on our consolidated balance sheet approximates fair value.

The fair value of the warrants issued to FBR and MAC Financial Ltd. was estimated on the date of grant using the Black-Scholes option-pricing model, including consideration of any potential additional value associated with pricing protection features. The volatility assumption used, 39.0%, was derived from the historical volatility of the share price of a range of publicly-traded companies with similar types of business to that of the Company. No allowance was made for any potential illiquidity associated with the private trading of the Company's shares. The other initial assumptions in the option-pricing model were as follows: risk free interest rate of 2.00%, expected life of 10 years and a dividend yield of 0%.

7. Software and Equipment

Software and equipment consist primarily of capitalized software purchased in connection with the MAC Acquisition which had a fair value of $5 million at the date of acquisition. Software and equipment, net, as of December 31, 2012, consist of the following:

Software	$	7,268,439
Equipment		284,573
Less accumulated depreciation		(2,917)
Software and equipment, net	$	7,550,095

Depreciation expense for the year ended December 31, 2012 and the period from May 19, 2011 (inception) through December 31, 2012 was $2,917. There was no depreciation expense for the period ended December 31, 2011.

8. Intangible Assets

Intangible assets consist of identifiable intangible assets purchased in connection with the Company's acquisition. Intangible assets, net, as of December 31, 2012, consist of the following:

			Expected lives
State licenses	$	260,000	Indefinite
GSE Applications		130,000	Indefinite
Operational manuals		1,200,000	3 years
		1,590,000	
Less loss on impairment		(1,200,000)	
Intangible assets, net	$	390,000	

The Company tests intangibles for impairment in the fourth quarter each year or more frequently if the Company believes indicators of impairment exist. At the time of acquisition, the operational manuals were a key deliverable in the Company's GSE application and were expected to be placed in service following GSE approval. Subsequently, the processes and procedures underlying the operational manuals have been reengineered to be substantially different as defined by the Company's current management. Therefore, at December 31, 2012 the Company determined the carrying value of operational manuals would not be recovered and the manuals could not be sold and would be disposed, and as a result, assessed the fair value at zero and recognized a loss on impairment of $1.2 million. The Company does not believe that the indefinite-lived intangible assets were impaired at December 31, 2012. There were no intangible assets as of December 31, 2011.

9. Commitments and Contingencies

Office Lease

The Company entered into an office facility lease effective July 1, 2012 for a term of two years. This facility is fully furnished and allows for expansion based on projected staffing growth. However, under the terms of the agreement, the Company, if unable to obtain GSE Approval by March 15, 2013, may elect to terminate the lease by giving written notice to the landlord. The lease will then terminate (as if by expiration) on March 31, 2013. The Company prepaid rent of approximately $246,000 for the period July 1, 2012 through March 31, 2013. See Note 15. Subsequent Events.

Management expects that, in the normal course of business, future minimum lease payments under this lease to be as follows:

Years ending December 31,		
2013		631,016
2014		411,768
Totals	$	1,042,784

There was rent expense, related to this lease, of approximately $164,000 for the year ended December 31, 2012.

10. Income Taxes

Following is a reconciliation of the Company's net deferred income tax asset as of December 31, 2012:

	December 31, 2012	
	Gross	Tax Effected
Deferred tax asset:		
Capitalized start-up costs	$ 21,796,012	$ 7,410,644
Net operating loss carry forwards	7,307,344	2,484,497
Total gross deferred tax assets	29,103,356	9,895,141
Less: valuation allowance	(24,103,356)	(8,195,141)
Total deferred tax assets	5,000,000	1,700,000
Deferred tax liability:		
Capitalized Software	(5,000,000)	(1,700,000)
Intangible Assets	(390,000)	(132,600)
Total deferred tax liabilities	(5,390,000)	(1,832,600)
Net deferred income tax liability	$ (390,000)	$ (132,600)

The net deferred tax liability of $132,600 is due to the acquisition of indefinite-lived intangibles in the MAC Acquisition for which a benefit has been reflected in the acquired net operating loss carry forwards. The tax liability incurred at the acquisition is recorded as an increase in Goodwill.

Section 382 imposes annual limitations on a corporation's ability to utilize its NOL's if it experiences an "ownership change." As a result of the MAC Acquisition, $7.3 million of NOL's are subject to annual limitations of $277 thousand. Net unrealized built-in gains could increase the annual Section 382 limitation. Any unused annual limitation may be carried forward up to 20 years. The NOLs will expire in years 2029 through 2031.

As the Company has just recently begun operations and has no history to provide a basis for reliable future income projections, a valuation allowance of $8.2 million was recorded at December 31, 2012 to reflect the amount of the deferred taxes that may not be realized.

11. Stock Compensation

The 2012 Stock Incentive Plan (the "Plan") was approved by the Board of Directors (the "Board") on April 16, 2012, and authorized 5.5 million shares be reserved for issuance under the Plan with 3.85 million shares available for stock options and 1.65 million shares available for restricted stock grants. Options granted under the Plan are Non-Qualified Stock Options and may be granted to employees, directors and other key persons of the Company. The exercise price per share for the common stock covered by this Plan shall be determined by the Board at the time of grant, but shall not be less than the fair market value on the date of the grant. The term of the stock option grants will be fixed by the Board, but no stock option shall be exercisable more than 10 years after the date the stock option is granted. The vesting period of the stock option grants will also be fixed by the Board at the time of grant and generally are for a three year period.

A summary of option activity in the plan during 2012 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Share
Options balance at December, 31, 2011	—	$ —	$ —
Options Granted	2,829,250	10.00	3.87
Less: Options Forfeited	(282,500)	10.00	3.88
Options balance outstanding at December 31, 2012	2,546,750	$ 10.00	$ 3.86

There were no exercises and no options were exercisable as of December 31, 2012.

The remaining weighted average contractual life of options outstanding as of December 31, 2012 was 9.4 years. As of December 31, 2012, there was approximately $6.4 million of total unrecognized compensation cost related to non-vested stock options.

The Company accounts for stock options under ASC No. 718, *Compensation - Stock Compensation* ("ASC 718"), which requires all share-based payments to be recognized in the financial statements at their fair values. To measure the fair value of stock options granted, the Company utilizes the Black-Scholes options pricing model. Expense is recognized over the required service period, which is generally a three-year vesting period for the options (vesting in one-third increments per year).

The estimated grant date fair values of the stock options granted during 2012 were calculated using Black-Scholes valuation model based on the following weighted-average assumptions:

Expected life	6.00 years
Risk free interest rate	1.03%
Dividend yield	0.00%
Expected stock price volatility	39.00%
Projected forfeiture rates	1.00%

Expected Price Volatility - is a measure of the amount by which a price has fluctuated or is expected to fluctuate. At the time of grant, the Company's common shares trading history was less than six months which was not sufficient to calculate an expected volatility representative of the volatility over the expected lives of the options. As a substitute for such estimate, the Company used historical volatilities of a set of comparable companies in the industry in which the Company operates.

Risk-Free Interest Rate - is the U.S. Treasury rate for the date of the grant having a term approximating the expected life of the option.

Expected Lives - is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns.

The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years.

Forfeiture Rate - is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

Dividend Yield - is calculated by dividing the expected annual dividend by the stock price of the Company at the valuation date.

A summary of restricted stock unit activity in the plan during 2012 is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Restricted Stock balance at December, 31, 2011	—	$ —
Restricted Stock Units Granted	1,666,748	7.35
Less: Restricted Stock Units Forfeited	(237,500)	7.35
Restricted Stock balance outstanding at December 31, 2012	1,429,248	$ 7.35

At December 31, 2012, the 1.4 million shares of restricted stock outstanding consisted of 1.2 million shares that are subject to both a market and service condition and 0.2 million shares that are subject only to service conditions. The restricted stock units subject to both a market and service condition vest in one-third increments upon the achievement of certain market price goals and continued service. All other restricted stock units vest in one-half increments on the second and third anniversary date following the grant date and continued service. The fair value of restricted stock units subject to market and service conditions is determined based on a Monte Carlo Simulation model at the date of grant. The fair value of restricted stock units subject only to service conditions are valued at the Company's stock price on the date of grant less the present value of anticipated dividends.

The estimated grant date fair values of the restricted stock units granted in 2012 that are subject to both a market and service condition were calculated using a Monte Carlo Simulation model based on the average outcome of 150,000 simulations using the following assumption:

Expected life	5.00 years
Risk free interest rate	0.86%
Dividend yield	0.00%
Expected stock price volatility	39.00%
Expected forfeiture rate	1.00%

The remaining weighted average contractual life of RSUs outstanding as of December 31, 2012 was 8.2 years. As of December 31, 2012, there was approximately $7.8 million of total unrecognized compensation cost related to non-vested restricted stock units.

12. Line of Credit and Related Warrants

As of December 31, 2011, in connection with the funding of the Company prior to executing the offering, FBR granted an uncommitted line of credit up to an aggregate principal amount of $1.5 million to support legal, accounting and others costs associated with the formation and the capitalization of the Company.

As part of the consideration for granting the line of credit, upon the successful common stock offering on April 24, 2012, the Company agreed to issue warrants to FBR having an aggregate value equal to three times the amount of the outstanding line of credit balance. Each warrant gave the holder thereof the right to purchase one share of common stock at an exercise price equal to $10.00. Accordingly, FBR was issued approximately 314,000 warrants with an aggregate fair value of approximately $1.6 million. These warrants were measured at fair value and recorded as a finance fee with an offsetting charge to liabilities. The line of credit was paid off on April 24, 2012 and the debt discount was fully amortized as of December 31, 2012. The warrants will be cancelled if the Company does not receive GSE Approval. See Note 15. Subsequent Events.

Upon exercise of these warrants, the amounts will be reclassified as additional paid-in capital.

The Company is required to revalue the warrants at the end of each reporting period and any change in fair value is reported in the statements of operations in the period in which the change occurred. The fair value of the warrants is

calculated using a Black-Scholes model in combination with a binomial model and Monte-Carlo simulation model used to value the pricing protection features within the warrant.

13. Litigation

On August 8, 2012, Germaine Marks, as Receiver, and Truitte Todd, as Special Deputy Receiver, of PMI Mortgage Insurance Co. ("PMI"), an Arizona insurance company in receivership, have filed a complaint against the Company, National Mortgage Insurance Corporation and certain named individuals. The litigation is at an early stage of review and evaluation and the Company has filed an answer to PMI's complaint denying all allegations. Because the litigation and related discovery are in an early stage, the Company does not have sufficient information to determine or predict
the ultimate outcome or estimate the range of possible losses, if any. Accordingly, no provision for litigation losses has been included in the accompanying financial statements.

14. Statutory Financial Information

The Company's insurance subsidiaries, NMIC, NMI Re One and NMI Re Two, file financial statements in conformity with statutory basis accounting principles ("SAP") prescribed or permitted by the Wisconsin Office of the Commission of Insurance ("OCI"). Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). The 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.

Prescribed and permitted practices generally vary in some respects from accounting principles generally accepted in the United States of America ("GAAP"). The principal differences between these accounting practices and GAAP are as follows: (1) acquisition expenses incurred in connection with acquiring new business are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) under SAP there are limitations on the net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss adjustment expense ceded to reinsurers are reported as a deduction of the related reserve rather than as an asset as would be required under GAAP; (4) under statutory accounting practices, fixed maturity investments are generally valued at amortized cost. Under GAAP, those investments are considered to be available-for-sale and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

In addition, mortgage guaranty insurers are required to establish a special contingency reserve from unassigned surplus, with annual contributions equal to the greater of (1) 50% of net earned premiums or (2) minimum policyholders' position divided by seven. The purpose of this reserve is to protect policyholders against the effects of adverse economic cycles. After 120 months, the matured portion of the reserve is released to unassigned funds. The Wisconsin Administrative Code allows withdrawals from the reserve in any year to the extent that incurred losses and loss adjustment expenses (LAE) exceed 35% of earned premiums. Additionally, in order to receive a tax benefit for the deduction of the additions to the statutory contingency reserve, NMIC must purchase U.S. government issued tax and loss bonds in the amount equal to the tax benefit. These non-interest-bearing bonds are held in investments for the purpose of maintaining the statutory liability for ten years or until such time as the contingency reserve is released back into surplus. Under GAAP, there is no contingency reserve.

The insurance subsidiaries' ability to pay dividends to its parent are limited by state insurance laws of the State of Wisconsin. Wisconsin law provides that the Company may pay dividends without the prior approval of the Wisconsin Commissioner of Insurance in an amount, when added to other shareholder distributions made in the prior 12 months, not to exceed the lesser of (a) 10% of the insurer's surplus as regards to policyholders as of the prior December 31, or (b) its net income (excluding realized capital gains) for the twelve month period ending December 31 of the immediately preceding calendar year. In determining net income, an insurer may carry forward net income from the previous calendar

years that has not already been paid out as a dividend. Additionally, minimum capital requirements may limit the amount of dividend that the Company may pay.

The Company is in the process of applying for licenses in all other states and the District of Columbia. Some of these other states may restrict the Company's ability to pay shareholder dividends. See Note 15. Subsequent Events.

For the year ended December 31, 2012, none of the Company's insurance subsidiaries have paid dividends. As of December 31, 2012 none of our insurance subsidiaries had written any business and therefore had no risk ratios. Given this fact our RTC requirements are not meaningful.

NMI Holdings, Inc. is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMI Holdings, Inc., that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or (subject to certain limitations) recent net profits. As of December 31, 2012 NMIH's capital surplus was $488.7 million.

As of December 31, 2012, we had not entered into agreements that would have restricted our assets. Subsequent to the balance sheet date, the amount of restricted net assets held by our consolidated insurance subsidiaries totaled $220.0 million of our consolidated net assets of $488.7 million. In addition, as part of the GSE commitments, we agreed to maintain at least $150 million in capital at NMIC

The Statutory and GAAP equity and net income of the Company's insurance and reinsurance subsidiaries were as follows:

	NMIC	NMI Re One	NMI Re Two
Statutory Capital and Surplus		*(Dollars In Thousands)*	
As at December 31, 2012	$ 210,004	$ 10,000	$ 10,000
Statutory Net Income (Loss)			
For the Year Ended December 31, 2012	$ (18)	$ —	$ —

15. Subsequent Events

On January 16, 2013 the Company was approved as an eligible mortgage guaranty insurer by Fannie Mae and Freddie Mac, subject to maintaining certain conditions. Along with their approval, Fannie Mae and Freddie Mac have indicated that they will be ready to accept loans insured by the Company in the second quarter of 2013. Both GSEs will be communicating directly to lenders regarding the timing and process.

Upon receipt of GSE approval, the 250,000 shares of Class B Non-Voting Common Stock outstanding were immediately converted into 250,000 shares of Class A Common Stock.

Pursuant to the purchase/placement agreement with FBR dated April 17, 2012 and the stock purchase agreement with MAC Financial Ltd., the Company executed the release of all consideration held in escrow on January 23, 2013.

In addition to state dividend limitations, the Company is restricted from paying any dividends to affiliates or to any holding company until December 31, 2015 by separate agreement with the GSE's.

On January 30, 2013, a case management conference took place among the parties in the complaint brought forth by Germaine Marks, as Receiver, and Truitte Todd, as Special Deputy Receiver, of PMI Mortgage Insurance Co., an Arizona insurance company in receivership, against the Company, National Mortgage Insurance Corporation and certain named individuals. The conference resulted in the setting of a trial date on February 3, 2014.

The Company has performed subsequent events procedures through February 14, 2013, which was the date the financial statements were available for issuance.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

MAC Financial Holding Corporation
(A Development Stage Company)
Emeryville, CA

We have audited the accompanying consolidated balance sheets of MAC Financial Holding Corporation (A Development Stage Company) as of April 24, 2012 and December 31, 2011 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the periods from January 1, 2012 to April 24, 2012, July 6, 2009 (inception) to April 24, 2012, the year ended December 31, 2011, and the period from July 6, 2009 (inception) to December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MAC Financial Holding Corporation at April 24, 2012 and December 31, 2011, and the results of its operations, changes in shareholders' equity, and its cash flows for the periods from January 1, 2012 to April 24, 2012, July 6, 2009 (inception) to April 24, 2012, the year ended December 31, 2011, and the period from July 6, 2009 (inception) to December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

June 14, 2013

MAC FINANCIAL HOLDING CORPORATION (A Development Stage Company)

CONSOLIDATED BALANCE SHEETS		April 24, 2012		December 31, 2011
Assets				
Cash and cash equivalents	$	16,705	$	16,842
Prepaid expenses		12,474		18,620
Receivable from affiliate		200		200
Property and equipment, net of accumulated depreciation		7,647		11,927
Capitalized software costs		2,879,078		2,879,078
Total Assets	$	2,916,104	$	2,926,667
Liabilities				
Accounts payable	$	1,466,766	$	1,227,006
Note payable		—		239,760
Total Liabilities		1,466,766		1,466,766
Commitments and Contingencies				
Shareholders' Equity				
Common stock - $0.01 par value, 1,000 shares issued		10		10
Additional paid-in capital		7,090,510		7,090,510
Deficit accumulated during the development phase		(5,641,182)		(5,630,619)
Total Shareholders' Equity		1,449,338		1,459,901
Total Liabilities and Shareholders' Equity	$	2,916,104	$	2,926,667

See accompanying notes to consolidated financial statements.

MAC FINANCIAL HOLDING CORPORATION (A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS	**Period from January 1, 2012 to April 24, 2012**	**Period from July 6, 2009 (inception) to April 24, 2012**	**Year Ended December 31, 2011**	**Period from July 6, 2009 (inception) to December 31, 2011**
Revenues				
Service income	$ —	$ 17,989	$ 1,738	$ 17,989
Investment income	—	17	—	17
Total Revenues	—	18,006	1,738	18,006
Expenses				
Payroll and benefits	—	2,401,828	333,927	2,401,828
Information technology	4,280	1,252,263	13,515	1,247,983
Legal and professional fees	—	724,805	21,124	724,805
Travel and related items	—	192,678	14,877	192,678
Rent and utilities	—	160,654	28,000	160,654
Operating licenses and fees	—	58,651	1,077	58,651
General and administrative	6,283	868,309	193,554	862,026
Total Expenses	10,563	5,659,188	606,074	5,648,625
Net loss	$ (10,563)	$ (5,641,182)	$ (604,336)	$ (5,630,619)

See accompanying notes to consolidated financial statements.

MAC FINANCIAL HOLDING CORPORATION (A Development Stage Company)

Consolidated Statements of Changes in Shareholders' Equity	Common Stock $0.01 Par		Additional Paid-in Capital	Deficit Accumulated During the Development Phase	Total
	Shares	Amount			
Period from July 6, 2009 (inception) to December 31, 2011					
Balance, July 6, 2009	—	$ —	$ —	$ —	$ —
Issuance of Class A common stock	1,000	10	—	—	10
Capital contributions	—	—	7,090,510	—	7,090,510
Net loss	—	—	—	(5,630,619)	(5,630,619)
Balance, December 31, 2011	1,000	10	7,090,510	(5,630,619)	1,459,901
For the Year Ended December 31, 2011					
Balance, December 31, 2010	1,000	10	6,893,896	(5,026,283)	1,867,623
Capital contributions	—	—	196,614	—	196,614
Net loss	—	—	—	(604,336)	(604,336)
Balance, December 31, 2011	1,000	10	7,090,510	(5,630,619)	1,459,901
Period from July 6, 2009 (inception) to April 24, 2012					
Balance, July 6, 2009	—	—	—	—	—
Issuance of Class A common stock	1,000	10	—	—	10
Capital contributions	—	—	7,090,510	—	7,090,510
Net loss	—	—	—	(5,641,182)	(5,641,182)
Balance, April 24, 2012	1,000	10	7,090,510	(5,641,182)	1,449,338
For the Period Ended April 24, 2012					
Balance, December 31, 2011	1,000	10	7,090,510	(5,630,619)	1,459,901
Net loss	—	—	—	(10,563)	(10,563)
Balance, April 24, 2012	1,000	$ 10	$ 7,090,510	$ (5,641,182)	$ 1,449,338

See accompanying notes to consolidated financial statements.

MAC FINANCIAL HOLDING CORPORATION (A Development Stage Company)

Consolidated Statements of Cash Flows	Period from January 1, 2012 to April 24, 2012	Period from July 6, 2009 (inception) to April 24, 2012	Year Ended December 31, 2011	Period from July 6, 2009 (inception) to December 31, 2011
Cash Flows from Operating Activities				
Net loss	$ (10,563)	$ (5,641,182)	$ (604,336)	$ (5,630,619)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	4,280	32,898	13,515	28,618
Changes in operating assets and liabilities:				
Accounts receivable	—	—	10,477	—
Prepaid expense	6,146	(12,474)	158,893	(18,620)
Payable to affiliate	—	(200)	(200)	(200)
Accounts payable and accrued expenses	239,760	1,466,766	(68,280)	1,227,006
Net Cash Provided by (Used in) Operating Activities	239,623	(4,154,192)	(489,931)	(4,393,815)
Cash Flows from Investing Activities				
Purchase of software and equipment	—	(40,545)	—	(40,545)
Capitalized software charges	—	(2,879,078)	(89,878)	(2,879,078)
Net Cash Used in Investing Activities	—	(2,919,623)	(89,878)	(2,919,623)
Cash Flows from Financing Activities				
Proceeds from common stock and capital contributions	—	7,090,520	196,614	7,090,520
(Payments on) proceeds from note payable	(239,760)	—	239,760	239,760
Net Cash (Used in) Provided by Financing Activities	(239,760)	7,090,520	436,374	7,330,280
Net (Decrease) Increase in Cash and Cash Equivalents	(137)	16,705	(143,435)	16,842
Cash and Cash Equivalents, beginning of period	16,842	—	160,277	—
Cash and Cash Equivalents, end of period	$ 16,705	$ 16,705	$ 16,842	$ 16,842

See accompanying notes to consolidated financial statements.

1. Organization

MAC Financial Holding Corporation (A Development Stage Company) ("the Company") was organized in Delaware on July 6, 2009, and is a wholly-owned subsidiary of MAC Financial Ltd., a Bermuda holding company. The Company's wholly-owned subsidiaries include Mortgage Assurance Corporation, ("MAC"), a Wisconsin insurance company, Mortgage Assurance Reinsurance Inc. One ("MARI One") a Wisconsin insurance company and Mortgage Assurance Reinsurance Inc. Two ("MARI Two") a Wisconsin insurance company. In 2012, the MAC insurance subsidiaries were renamed. See Note 7. Subsequent Events.

MAC received a Certificate of Authority from Wisconsin's Office of the Commissioner of Insurance ("OCI") to conduct a mortgage insurance business. However, to commence operations Certificates of Authority are required in each jurisdiction in which MAC wishes to conduct business and the approval as a qualified mortgage insurer by the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC", FNMA and FHLMC, collectively, the "GSEs") is also required.

Certain states require that when coverage on individual loans exceeds 25%, such excess coverage be reinsured by another mortgage insurer, who may be an affiliate. Such reinsurance may be provided by a domestic or off-shore wholly-owned reinsurance company formed specifically for this purpose. The Company has determined that initially it will meet this requirement through two wholly-owned domestic reinsurers, MARI One and MARI Two. These two companies were formed in January, 2010 and received a Certificate of Authority from the Wisconsin OCI in March, 2010. The Company had not commenced writing mortgage insurance business as of April 24, 2012.

On November 30, 2011, NMI Holdings, Inc. ("NMI") agreed to acquire from MAC Financial Ltd. all of the outstanding equity interest of the Company and its three wholly-owned subsidiaries for approximately $8.5 million. The completion of the acquisition was subject to NMI raising at least $500 million in a private placement offering as well as other customary closing conditions. The equity interest of the Company and the cash consideration was held in escrow until such time as NMI received approval from at least one of the GSEs to be a qualified mortgage insurance provider. See Note 7. Subsequent Events. Upon receipt of GSE approval, all consideration was released to MAC Financial Ltd. and the equity interest of the Company was released to NMI.

2. Basis of Presentation and Summary of Accounting Principles

Basis of Presentation

The accompanying financial statements include the results of the Company and its wholly-owned subsidiaries. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany accounts have been eliminated. The accounts of the Company and its subsidiaries are maintained in US dollars. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers items such as certificates of deposit and money market funds with original maturities of 90 days or less to be cash equivalents.

Software and Equipment

The Company capitalizes costs incurred during the application development stage related to software developed for internal use and for which it has no substantive plan to market externally in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985 - *Software*. Capitalized costs are amortized beginning at such time as the software is ready for its intended use on a straight-line basis over the estimated

useful life of the asset, which is generally three to seven years. The software has not been placed in service as of April 24, 2012. All other information technology costs are expensed as incurred.

Software and equipment are carried at cost, less accumulated amortization and depreciation. Amortization of software and depreciation on equipment are calculated using the straight-line method over the estimated useful lives of three to five years.

Revenue Recognition

The Company recognizes revenue as services are performed.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with FASB ASC Topic 740 - *Income Taxes*. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations.

The Company evaluates the need for a valuation allowance against its deferred tax assets on a quarterly basis. In the course of its review, the Company assesses all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits. Uncertain tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. There are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Recent Accounting Standards Updates Adopted

Impairment of Indefinite-Lived Intangible Assets

In July 2012, the FASB issued Accounting Standards Update (“ASU”) 2012-02, updating guidance on indefinite-lived intangible assets impairment. Under the new guidance, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company elected to early adopt the amendments for the fiscal year beginning January 1, 2012. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

Intangibles - Goodwill and Other: Testing Goodwill for Impairment

In September 2011, the FASB issued updated guidance (ASU 2011-08) on goodwill impairment that gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs.

Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The FASB provided a sample list of events and circumstances that an entity can consider in performing its qualitative assessment. Under the amended guidance, an entity has the option to bypass the qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test and may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Presentation of Comprehensive Income

In June 2011, the FASB issued updated guidance (ASU 2011-05) to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders' equity. The updated guidance requires that all non-owner changes in shareholders' equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for the period ending September 30, 2012. Early adoption is permitted. The adoption of this guidance in January 2012 did not have any effect on the Company's financial position or liquidity.

Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in US GAAP and IFRS

In May 2011, the FASB issued updated guidance (ASU 2011-04) that addresses the objective of the FASB and the International Accounting Standards Board (“IASB”) to develop common requirements for measuring and for disclosing information about fair value measurements with US GAAP and International Financial Reporting Standards (“IFRS”). The FASB and the IASB worked together to ensure that fair value has the same meaning in US GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same (except for minor differences in wording and style). The FASB and the IASB concluded that this guidance will improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The guidance explains how to measure fair value. This updated guidance does not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The updated guidance is effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreement

In April 2011, the FASB amended its guidance on accounting for repurchase agreements (ASU 2011-03). The amendments simplify the accounting by eliminating the requirement that the transferor demonstrate it has adequate collateral to fund substantially all the cost of purchasing replacement assets. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met; (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred, (ii) repurchase or redemption date before maturity at a fixed or determinable price, and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance is effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011, early adoption is prohibited. The adoption of this guidance in January 2012 did not have any effect on the Company's results of operations, financial position or liquidity.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued Accounting Standards Update 2010-26, to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

The updated guidance is effective on either a retrospective or prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity as the Company has yet to commence writing premiums.

Recent Accounting Standards Updates Not Yet Adopted

Nonpublic Entity Disclosures about Financial Instruments

In February 2013, the FASB issued an Accounting Standards Update clarifying the intended scope of the disclosures required by Update 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments clarify that the requirement to disclose “the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)” does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. We expect this guidance to affect financial statement disclosures but not to have an impact on the Company's results of operations, financial position or liquidity.

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued an Accounting Standards Update clarifying that the scope of Update 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. We expect this guidance to affect financial statement disclosures but not to have an impact on the Company's results of operations, financial position or liquidity.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an Accounting Standards Update (the “Update”) addressing the reporting of reclassifications out of accumulated other comprehensive income. The Update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2013. Early adoption is permitted. We expect this guidance to affect financial statement disclosures but not to have an impact on the Company's results of operations, financial position or liquidity.

Reclassifications

Certain items in the financial statements as of and for the period ending December 31, 2011 have been reclassified to conform to the current year's presentation. There was no effect on net income previously reported.

3. Notes Payable

In December of 2010, MAC secured a loan from the Wisconsin Department of Commerce in the amount of $250,000. The loan requires interest only payments for the first year and amortizes over the following two years in a fixed monthly installment of $10,640, commencing on January 1, 2012, which includes principal and interest. A final installment is

due December 1, 2013, which shall include all remaining principal and interest. The interest rate is 2% with a 2% origination fee. MAC received the entire $250,000 advance in January 2011. During the year, the Company violated a provision of the agreement, under which it was required to retain a certain number of employees in Wisconsin. The penalty for this violation is an incremental increase in the interest rate. The maximum penalty under the agreement for this violation is 4%. As of December 31, 2011, the balance due on the loan was $239,760. On April 24, 2012, the balance due on the loan was paid in full by NMI and the Company recorded a liability in Accounts Payable which will be settled upon successful completion of NMI's acquisition of the Company. See Note 7. Subsequent Events.

4. Income Taxes

The deferred tax assets consist mainly of a net operating loss. A full valuation reserve has been provided because the “more likely than not” standard for recognition of deferred tax assets has not been met. The Company has net operating loss carryforwards, after giving effect to timing differences, of approximately $7.3 million at December 31, 2011 and April 24, 2012 that will begin to expire December 31, 2029. Such carryforward may be utilized over the next twenty years to reduce taxable income and resulting income taxes.

5. Commitments and Contingencies

Facilities

The Company's current home office lease which expired on April 30, 2010 had been extended on a month by month basis through May 31, 2011. The rental expense was $28,000 for the year ended December 31, 2011. There was no rent expense for the period ended April 24, 2012.

Information Technology

In 2009 MAC had entered into contracts to (i) develop a data capture and transmission system to receive applications from its customers, (ii) develop an insurance management system to underwrite and produce commitments for applications, invoice commitments (including renewals) and store data in a data base, (iii) develop a financial reporting system, including investment management, and (iv) develop a web site. At December 31, 2011 and April 24, 2012 the Company has contingent commitments outstanding of approximately $280,000.

Intellect SEEC License Fee Accrual

On January 13, 2010, MAC requested the payment of license fees to Intellect SEEC related to the development of the Company's Insurance Management System be delayed. The license payment schedule was originally due as follows:

Due Date		
December 31, 2009	$	250,000
January 30, 2010		200,000
March 31, 2010		550,000
	Total $	1,000,000

Per an amended agreement between MAC and Intellect SEEC signed on February 2, 2010, Intellect SEEC agreed to delay the license fee payment to as follows:

a) $700,000 to be paid 10 days after obtaining the funding required for Government Sponsored Entity (“GSE”) approval
b) $300,000 to be paid upon completion of deployment of the Insurance Management System and user acceptance testing

See Note 7. Subsequent Events.

6. Statutory Financial Information

The Company's insurance subsidiaries, MAC, MARI One and MARI Two, file financial statements in conformity with statutory basis accounting principles (“SAP”) prescribed or permitted by the Wisconsin Office of the Commission of Insurance (“OCI”). Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (“NAIC”). The 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.

Prescribed and permitted practices generally vary in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The principal differences between these accounting practices and GAAP are as follows: (1) acquisition expenses incurred in connection with acquiring new business are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) under SAP there are limitations on the net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss adjustment expense ceded to reinsurers are reported as a deduction of the related reserve rather than as an asset as would be required under GAAP; (4) under statutory accounting practices, fixed maturity investments are generally valued at amortized cost. Under GAAP, those investments are considered to be available-for-sale and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

In addition, mortgage guaranty insurers are required to establish a special contingency reserve from unassigned surplus, with annual contributions equal to the greater of (1) 50% of net earned premiums or (2) minimum policyholders' position divided by seven. The purpose of this reserve is to protect policyholders against the effects of adverse economic cycles. After 120 months, the matured portion of the reserve is released to unassigned funds. The Wisconsin Administrative Code allows withdrawals from the reserve in any year to the extent that incurred losses and loss adjustment expenses (LAE) exceed 35% of earned premiums. Additionally, in order to receive a tax benefit for the deduction of the additions to the statutory contingency reserve, NMIC must purchase U.S. government issued tax and loss bonds in the amount equal to the tax benefit. These non-interest-bearing bonds are held in investments for the purpose of maintaining the statutory liability for ten years or until such time as the contingency reserve is released back into surplus. Under GAAP, there is no contingency reserve.

The insurance subsidiaries' ability to pay dividends to its parent are limited by state insurance laws of the State of Wisconsin. Wisconsin law provides that the Company may pay dividends without the prior approval of the Wisconsin Commissioner of Insurance in an amount, when added to other shareholder distributions made in the prior 12 months, not to exceed the lesser of (a) 10% of the insurer's surplus as regards to policyholders as of the prior December 31, or (b) its net income (excluding realized capital gains) for the twelve month period ending December 31 of the immediately preceding calendar year. In determining net income, an insurer may carry forward net income from the previous calendar years that has not already been paid out as a dividend. Additionally, minimum capital requirements may limit the amount of dividend that the Company may pay.

For the year ended December 31, 2011 and the period ending April 24, 2012, none of the Company's insurance subsidiaries have paid dividends.

See Note 7. Subsequent Events.

7. Subsequent Events

Acquisition by NMI

On April 24, 2012, NMI Holdings, Inc. (“NMI”) closed an agreement with MAC Financial Ltd. to acquire MAC Financial Holdings Corporation and its wholly-owned subsidiaries (collectively the “Company”).The agreement closed shortly after the closing of a common stock offering by NMI. Under the agreement, the total initial consideration paid for MAC

was $8.5 million which consists of $2.5 million in cash, $2.5 million in the NMI's common stock, and warrants to acquire NMI's common stock valued at $3.5 million. In addition, NMI assumed approximately $1.3 million in liabilities. Following the common stock offering by NMI, NMI paid off the entire outstanding balance of the loan from the Wisconsin Department of Commerce and paid the $700,000 and the $300,000 of obligations for the license fees to Intellect SEEC related to the development of the Company's Insurance Management System. The consideration (net of expenses paid on MAC's behalf) was held in an escrow account until such time as NMI receives GSE Approval. On January 15 and January 16, 2013, NMI was approved as an eligible mortgage guaranty insurer by Freddie Mac and Fannie Mae, respectively. On January 23, 2013, all consideration was released to MAC Financial Ltd.

As a result of the acquisition of the Company by NMI, MAC Financial Holdings Corporation and its wholly-owned subsidiaries became the primary subsidiary of NMI Holdings, Inc. Subsequent to the acquisition, the MAC insurance subsidiaries, MAC, MARI One and MARI Two were renamed. MAC was renamed to National Mortgage Insurance Corporation (“NMIC”). Mortgage Assurance Reinsurance Inc. One (“MARI One”) was renamed to National Mortgage Reinsurance Inc One (“NMRI One”) and Mortgage Assurance Reinsurance Two (“MARI Two”) was renamed to National Mortgage Reinsurance Inc Two (“NMRI Two”).

Capitalization of the Company

On June 29, 2012, NMI capitalized the following insurance companies:

National Mortgage Insurance Corporation - $210.0 million
National Mortgage Reinsurance Inc One - $10.0 million

Also, on June 29, 2012, NMIC capitalized its direct, wholly-owned subsidiary as follows:

National Mortgage Reinsurance Inc Two - $10.0 million

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement dated August 23, 2012, by and among the Company and NMI. Under this agreement, each of the parties mutually agrees to file a consolidated federal income tax return for 2012 and subsequent tax years, with NMI as the direct tax payer. The tax liability of each insurer that is party to the agreement is limited to the amount of liability it would incur if it filed a separate tax return. All settlements under this agreement between NMI and any insurer that is party to the agreement shall be made within 30 days of the filing of the applicable federal corporate income tax return with the Internal Revenue Service (“IRS”), including subsequent amended filings and IRS adjustments, except when a refund is due to an insurer, in which case payment shall be made to the insurer within 30 days after NMI's receipt of the applicable tax refund. The agreement was not in effect as of December 31, 2011.

Cost Allocation Agreement

The Company entered into a cost allocation agreement on August 1, 2012 by and among the Company and NMI. All of the parties to the agreement may provide any of the following services to anyone in the agreement including general management, underwriting, customer service, claims processing, legal, accounting and actuarial services. The agreement was not in effect as of December 31, 2011 and as such, no costs had been allocated via this agreement.

The Cost Allocation Agreement was amended on January 9, 2013, retroactive to August 1, 2012, such that all parties to the Agreement agreed that no costs would be allocated from NMI to any party to the Agreement until such time as GSE approval was received. Additionally, the parties agreed that all bonus payments based on GSE approval, as well as bonus payments paid or accrued prior to June 30, 2013 are to be allocated solely to NMI.

Organizational Examination

The Wisconsin OCI completed an Organizational Examination of NMIC on September 27, 2012. The period under exam was June 30, 2009 through June 30, 2012. The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners' Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks.

The Examination did not result in any recommendations. The Examination did not make any reclassification of or adjustments to balances reported by the NMIC. The Company has no orders or restrictions of any kind on its certificate of authority in Wisconsin. The stipulation and order issued by the OCI in connection with the licensure of the Company that prohibited NMIC from transacting insurance business was rescinded based on the findings of this Examination.

Litigation

On August 8, 2012, the Receiver and Special Deputy Receiver of PMI Mortgage Insurance Co. (“PMI”), an insolvent mortgage insurance company located in Walnut Creek, CA, filed an unverified complaint (“the PMI Complaint”) in California Superior Court against NMI, NMIC and certain named individuals. The litigation is at an early stage of review and evaluation and NMI has filed an answer to PMI's complaint denying all allegations. Because the litigation and related discovery are in an early stage, the Company does not have sufficient information to determine or predict the ultimate outcome or estimate the range of possible losses, if any. Accordingly, no provision for litigation losses has been included in the accompanying financial statements.

On January 30, 2013, a case management conference took place among the parties in PMI Complaint. The conference resulted in the setting of a trial date on February 3, 2014.

On April 25, 2013 a hearing was held on several motions filed by the parties to the PMI Complaint. The Court partially granted a defense motion and dismissed two of the six counts cited by the defendants. The court also ordered the plaintiffs to more specifically describe the trade secrets alleged in the plaintiff's complaint and ordered plaintiff's discovery efforts stayed until June 13, 2013.

On June 13, 2013, a hearing was held to resolve certain discovery disputes. No definitive ruling was issued. The Company believes the case is without merit and intends to vigorously defend against all claims. Our strategy remains the same and the litigation and related discovery are still in an early stage.

GSE Approval

On January 16, 2013, NMIC was approved as an eligible mortgage guaranty insurer by Fannie Mae and Freddie Mac, subject to maintaining certain conditions. Along with their approval, Fannie Mae and Freddie Mac have indicated that they will be ready to accept loans insured by the Company in the second quarter of 2013. The GSEs will be communicating directly to lenders regarding the timing and process.

Licensing

On June 27, 2012, NMIC's Expansion Application to obtain licenses in all states outside of Wisconsin was accepted into the Review of Electronic Application Coordination and Processing (“REACAP”) process by the NAIC. As of June 14, 2013, NMIC has been approved in 48 states and the District of Columbia.

The Company has considered subsequent events through June 14, 2013.

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell these securities or our solicitation of your offer to buy these securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or the affairs of the Company have not changed since the date of this prospectus.

PROSPECTUS

52,183,640 Shares

NMI Holdings, Inc.

Class A Common Stock

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of the Class A common stock being registered. All amounts, except the SEC registration fee, are estimates.

SEC registration fee	$	85,414.18
FINRA fee and expenses		98,579.32
Transfer agent and registrar fees and expenses		—
Printing fees and expenses		—
Legal fees and expenses		80,485.08
Accounting fees and expenses		50,028.00
Blue Sky fees and expenses		68,510.00
Miscellaneous		—
Total	$	383,016.58

Item 14. Indemnification of Directors and Officers.

Section 102(b)(7) of the DGCL permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (regarding, among other things, the payment of unlawful dividends or unlawful stock purchases or redemptions), or (iv) for any transaction from which the director derived an improper personal benefit. Our amended and restated certificate of incorporation provides for such limitation of liability.

Section 145(a) of the DGCL empowers a corporation to indemnify any director, officer, employee or agent, or former director, officer, employee or agent, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of such person's service as a director, officer, employee or agent of the corporation, or such person's service, at the corporation's request, as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding; provided that such director or officer acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation; and, with respect to any criminal action or proceeding, provided that such director or officer had no reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees) actually and

reasonably incurred in connection with the defense or settlement of such action or suit; provided that such director or officer acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such director or officer shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such director or officer is fairly and reasonably entitled to indemnity for such expenses that the court shall deem proper. Notwithstanding the preceding sentence, except as otherwise provided in our amended and restated by-laws, we shall be required to indemnify any such person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by any such person was authorized by our Board.

In addition, our second amended and restated certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent authorized by law. We are also expressly required to advance certain expenses to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors and officers for some liabilities. We believe that these indemnification provisions and the directors' and officers' insurance are useful to attract and retain qualified directors and executive officers.

Item 15. Recent Sales of Unregistered Securities.

In the three years preceding the filing of this registration statement, we have issued the following securities:

On August 9, 2011, in connection with our formation, we issued 100 shares of our common stock to FBR & Co. for nominal consideration. This issuance was made in reliance upon the exemption from registration under Section 4(2) of the Securities Act, including the safe harbor established by Regulation D, for transactions by issuers not involving a public offering.

On March 7, 2012, we issued 250,000 shares of our Class B non-voting common stock, which upon receipt of GSE Approval automatically converted into our Class A common stock, in the aggregate to our founders, Messrs. Shuster and Sherwood for $2,500. These issuances were made in reliance upon the exemption from registration under Section 4(2) of the Securities Act, including the safe harbor established by Regulation D, for transactions by an issuer not involving a public offering.

On April 24, 2012, we issued an aggregate of 55,000,000 shares of our Class A common stock for net consideration of approximately $510 million in cash. FBR Capital Markets & Co. was initial purchaser and placement agent for the shares. The aggregate discount and placement agent fees were approximately $40 million. This issuance was made in reliance upon the exemption from registration under Rule 144 A, Section 4(2) of the Securities Act, including the safe harbor established by Regulation D, for transactions by issuers not involving a public offering and Regulation S.

On April 24, 2012, as part of the consideration for the line of credit it granted to us to pay for costs associated with our formation and capitalization, including some of the expenses of the private offering described in the preceding paragraph, we issued to FBR Capital Markets LT, Inc. a warrant to purchase up to 313,870 shares of our Class A common stock (the "FBR Warrant"). FBR Capital Markets LT, Inc. subsequently assigned the FBR Warrant to FBR Capital Markets & Co. This issuance was made in reliance upon the exemption from registration under Section 4(2) of the Securities Act, including the safe harbor established by Regulation

D, for transactions by issuers not involving a public offering. The debt held by FBR Capital Markets LT, Inc. was issued in reliance upon the exemption from registration under Section 4(2) of the Securities Act.

On April 24, 2012, as part of the consideration for our acquisition of the equity interest of MAC Financial Holding Corporation, we issued to MAC Financial Ltd. (i) an aggregate of 250,000 shares of our Class A common stock and (ii) a warrant to purchase up to 678,295 shares of our Class A common stock. These issuances were made in reliance upon the exemption from registration under Section 4(2) of the Securities Act, including the safe harbor established by Regulation D, for transactions by issuers not involving a public offering.

We granted certain of our employees and directors 1,511,260 restricted shares of our common stock (net of forfeitures) and options to purchase an aggregate of 3,068,579 shares of our common stock (net of forfeitures) under the NMI Holdings, Inc. 2012 Stock Incentive Plan. These grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701 promulgated thereunder inasmuch as they were offered and sold under written compensatory benefit plans and otherwise in compliance with the provisions of Rule 701.

Item 16. Exhibits and Financial Statements Schedules.
(a) Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated November 30, 2011, between NMI Holdings, Inc. and MAC Financial Ltd.†
2.2	Amendment to Stock Purchase Agreement, dated April 6, 2012, between NMI Holdings, Inc. and MAC Financial Ltd.†
3.1	Second Amended and Restated Certificate of Incorporation#
3.2	Amended and Restated By-Laws#
4.1	Specimen Class A common stock certificate#
4.2	Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets & Co., dated April 24, 2012#
4.3	Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012#
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#
4.5	Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets & Co. dated June 13, 2013#
4.6	Warrant No. 2 to Purchase Common Stock of NMI Holdings, Inc. issued to MAC Financial Ltd., dated April 24, 2012#
5.1	Opinion of Wachtell, Lipton, Rosen & Katz*
10.1	NMI Holdings, Inc. 2012 Stock Incentive Plan#
10.2	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and Chief Financial Officer#
10.3	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management#
10.4	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Directors#
10.5	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer#
10.6	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management#
10.7	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors#
10.8	Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated March 6, 2012 and Amendment, dated April 24, 2012#
10.9	Amendment to Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated April 24, 2012#
10.10	Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated March 6, 2012 and Amendment, dated April 24, 2012#
10.11	Amendment to Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated April 24, 2012#
10.12	Letter Agreement by and between NMI Holdings, Inc. and Stanley M. Pachura, dated April 26, 2012#
10.13	Form of Indemnification Agreement between NMI Holdings, Inc. and certain of its directors#

Exhibit Number	Description
10.14	Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately $5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01+
21.1	Subsidiaries of NMI Holdings, Inc.#
23.1	Consent of BDO USA, LLP dated August 9, 2013†
23.2	Consent of BDO USA, LLP dated August 9, 2013†
23.3	Consent of Wachtell, Lipton, Rosen & Katz (included in Exhibit 5.1)*
24.1	Power of Attorney#
99.1	Conditional Approval Letter, dated January 15, 2013, from Freddie Mac to National Mortgage Insurance Corporation†
99.2	Conditional Approval Agreement, dated January 16, 2013, by and among Federal National Mortgage Association, NMI Holdings, Inc. and National Mortgage Insurance Corporation†

Previously filed.
† Filed herewith.
* To be filed by amendment.
+ Application has been made to the Securities and Exchange Commission for confidential treatment of certain provisions of this exhibit. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules

No schedules to financial statements are required to be filed herewith.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933, as amended;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser: each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions,

or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Emeryville, California on August 9, 2013.

NMI HOLDINGS, INC.
(Registrant)

By: /s/ Bradley M. Shuster
Name: Bradley M. Shuster
Title: Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Bradley M. Shuster Bradley M. Shuster	Chairman, President and Chief Executive Officer (Principal Executive Officer)	August 9, 2013
/s/ John (Jay) M. Sherwood, Jr. John (Jay) M. Sherwood, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	August 9, 2013
* Steven L. Scheid	Director	August 9, 2013
* James G. Jones	Director	August 9, 2013
* John Brandon Osmon	Director	August 9, 2013
* Michael Montgomery	Director	August 9, 2013
* Michael Embler	Director	August 9, 2013
* James H. Ozanne	Director	August 9, 2013
*By: /s/ Bradley M. Shuster	Attorney-in-Fact	August 9, 2013

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10.5	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer#
10.6	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management#
10.7	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors#
10.8	Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated March 6, 2012 and Amendment, dated April 24, 2012#
10.9	Amendment to Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated April 24, 2012#
10.10	Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated March 6, 2012 and Amendment, dated April 24, 2012#
10.11	Amendment to Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated April 24, 2012#
10.12	Letter Agreement by and between NMI Holdings, Inc. and Stanley M. Pachura, dated April 26, 2012#
10.13	Form of Indemnification Agreement between NMI Holdings, Inc. and certain of its directors#

Exhibit Number	Description
10.14	Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately $5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01+
21.1	Subsidiaries of NMI Holdings, Inc.#
23.1	Consent of BDO USA, LLP dated August 9, 2013†
23.2	Consent of BDO USA, LLP dated August 9, 2013†
23.3	Consent of Wachtell, Lipton, Rosen & Katz (included in Exhibit 5.1)*
24.1	Power of Attorney#
99.1	Conditional Approval Letter, dated January 15, 2013, from Freddie Mac to National Mortgage Insurance Corporation†
99.2	Conditional Approval Agreement, dated January 16, 2013, by and among Federal National Mortgage Association, NMI Holdings, Inc. and National Mortgage Insurance Corporation†

Previously filed.
† Filed herewith
* To be filed by amendment.
+ Application has been made to the Securities and Exchange Commission for confidential treatment of certain provisions of this exhibit. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

STOCK PURCHASE AGREEMENT

dated as of

November 30, 2011

by and among

NMI HOLDINGS, INC.

and

MAC FINANCIAL LTD.

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "**Agreement**") is entered into as of November 30, 2011, by and among NMI Holdings, Inc., a Delaware corporation (the "**Buyer**"), and MAC Financial Ltd., a Bermuda exempted company (the "**Seller**").

RECITALS

WHEREAS, the Seller holds all of the capital stock of MAC Financial Holding Corporation (the "**Purchased Subsidiary**");

WHEREAS, the Seller wishes to sell and the Buyer wishes to purchase the MAC Financial Holding Corporation Shares (the "**Purchased Shares**") upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Boards of Directors and Stockholders of the Buyer and the Seller have each approved this Agreement and deemed it advisable for the Buyer and the Seller, respectively, to enter into this Agreement; and

WHEREAS, the Buyer and the Seller desire to make certain representations, warranties, covenants and agreements in connection with the sale and purchase of the Purchased Shares and related transactions and also to prescribe certain conditions to the sale and purchase of the Purchased Shares and related transactions as specified herein.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual representations, covenants and agreements hereinafter set forth, the adequacy and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

SALE AND PURCHASE OF SHARES

1.1 Certain Terms. Certain capitalized terms used in this Agreement have the definitions assigned to them in Article X.

1.2 Sale and Purchase of the Purchased Shares. Subject to the terms and conditions of this Agreement, at the Closing, the Seller shall sell, convey, assign, transfer and deliver to the Buyer, and the Buyer shall purchase, free and clear of all Encumbrances, all right, title and interest of the Seller in and to the Purchased Shares.

ARTICLE II

PURCHASE PRICE, CLOSING AND RELATED MATTERS

2.1 Purchase Price. In consideration of the sale and purchase of the Purchased Shares and subject to the terms and conditions of this Agreement (the aggregate amount payable by the Buyer to the Seller under this Section 2.1, the "**Purchase Price**"):

(a) The Buyer shall deliver to the Seller on the Closing Date (i) the number of shares of common stock of Buyer, par value $0.01 per share ("**NMI Common Stock**") and Additional Securities, if any, equivalent to $2,500,000 divided by the Common Stock Sale Price and (ii) the number of NMI Warrants equivalent to $3,500,000 divided by the Warrant Purchase Price ((i) and (ii) collectively, the "**Equity Consideration**").

(b) The Buyer shall instruct the Escrow Agent to release to the Seller cash payable by wire transfer of immediately available funds to the Seller's Account, within three (3) Business Days of receipt by the Buyer of GSE Approval, an amount equal to $2,500,000 (the "**Cash Consideration**") less (i) any amounts reimbursed to the Seller by the Buyer in respect of Seller Operating Expense; (ii) 100% of the cost incurred by the Buyer to purchase the D&O Policies; (iii) 50% of the cost incurred by the Buyer to purchase the Indemnification Insurance Policy; and (iv) any amounts for which the Buyer has set off rights pursuant to Section 9.2(e) hereof (the "**Escrowed Cash Consideration**").

2.2 Closing. The purchase and sale provided for in this Agreement and payment of the consideration described in Section 2.1(a) shall take place at a closing (the "**Closing**") to be held at the offices of Wachtell, Lipton, Rosen & Katz, located at 51 West 52nd Street, New York, New York at 10:00 a.m. (local time) on the third (3rd) Business Day following the date on which all conditions set forth in Articles VI and VII (other than conditions that relate to actions to be taken, or documents to delivered, at the Closing) have been satisfied or waived by the party or parties entitled to the benefit thereof in their sole discretion, or at such other time, date and place as the parties may agree (the "**Closing Date**").

2.3 Closing Deliveries.

(a) At or prior to the Closing, the Seller shall deliver to the Buyer:

(i) certificates evidencing the Purchased Shares to the extent that such Purchased Shares are in certificate form, duly endorsed in blank or with stock powers duly executed in proper form for transfer, and with any required stock transfer stamps affixed thereto (the "**Share Certificates**"), to be held by the Escrow Agent until receipt of GSE Approval;

(ii) evidence that the Seller has, at the Seller's expense and without cost or other adverse consequence to the Buyer, sent all notices, made all filings and obtained all Consents and Orders required in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby;

(iii) all Ancillary Agreements to which the Seller is a party, dated the Closing Date and duly executed by the Seller;

(iv) a certificate dated the Closing Date executed by the President or Chief Executive Officer or other authorized officer of the Seller certifying as to the satisfaction of each of the conditions set forth in Article VI (other than Section 6.3);

(v) a certificate dated the Closing Date executed by the Secretary of the Seller certifying as to the director, stockholder and other resolutions authorizing the Transaction Documents;

(vi) good standing certificates for the Seller, the Purchased Subsidiary and each of its Subsidiaries dated within five (5) days prior to the Closing Date from its jurisdiction of organization;

(vii) evidence of the release of all Encumbrances on the Purchased Shares, if any;

(viii) all documents obtained by the Seller pursuant to Section 6.4;

(ix) duly executed certificates, on behalf of the Purchased Subsidiary and each of its Subsidiaries, of non-United States real property interest status, reasonably acceptable to the Buyer, substantially in the form specified in Treasury Regulations Sections 1.1445-2(c)(3) and 1.897-2(h)(2); and

(x) such other agreements, certificates, instruments and documents as the Buyer may reasonably request in order to fully consummate the transactions contemplated by and carry out the purposes and intent of this Agreement.

(b) At or prior to the Closing, the Buyer shall deliver to the Seller:

(i) the Equity Consideration, which Equity Consideration is to be held by the Escrow Agent until receipt by the Buyer of GSE Approval;

(ii) evidence that the Escrowed Cash Consideration has been placed in the Escrow Account (the Escrowed Cash Consideration, together with any interest thereon, the "**Escrowed Cash**" and, together with the Equity Consideration, the "**Escrowed Amount**");

(iii) evidence that the Buyer has, at the Buyer's expense and without cost or other adverse consequence to the Seller, sent all notices, made all filings and obtained all Consents and Orders required in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby;

(iv) any amounts owed in respect of Transaction Related Expenses but unpaid by Buyer at the Closing in respect its obligations under Section 5.2(c)(ii) hereof;

(v) all Ancillary Agreements to which the Buyer is a party, dated the Closing Date and duly executed by the Buyer;

(vi) a certificate dated the Closing Date executed by the President or Chief Executive Officer or other authorized officer of the Buyer certifying as to the satisfaction of each of the conditions set forth in Article VII;

(vii) a certificate dated the Closing Date executed by the Secretary of the Buyer certifying as to the director, stockholder and other resolutions authorizing the Transaction Documents; and

(viii) such other agreements, certificates, instruments and documents as the Seller may reasonably request in order to fully consummate the transactions contemplated by and carry out the purposes and intent of this Agreement.

(c) Upon receipt by the Buyer of GSE Approval:

(i) the Buyer shall instruct the Escrow Agent to deliver by wire transfer of immediately available funds the Escrowed Cash to the Seller's Account;

(ii) the Buyer shall instruct the Escrow Agent to release the Equity Consideration to the Seller;

(iii) the Seller shall instruct the Escrow Agent to release the Share Certificates to the Buyer; and

(iv) the Seller and the Buyer shall deliver to one another such other agreements, certificates, instruments and documents as the Seller or Buyer as applicable may reasonably request in order to fully consummate the transactions contemplated by and carry out the purposes and intent of this Agreement.

2.4 Closing Expenses.

(a) The Seller shall be responsible for and pay (i) the fees, commissions or other compensation to any broker, finder, investment banker or other Person engaged by the Seller with respect to the transactions contemplated by this Agreement, (ii) the legal and accounting fees of the Seller paid or incurred in connection with this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby and any other outstanding legal fees payable by the Seller or any of its Affiliates (including the Purchased Subsidiary and its Subsidiaries), whether or not related to this Agreement, (iii) all compensation, severance and similar amounts attributable to any period on or prior to the Closing, if any, payable to any officer, director or current or former employee or independent contractor of the Seller or any of its Affiliates, including the Purchased Subsidiary and its Subsidiaries, and all payroll, employment or similar Taxes thereon, (iv) the costs of the Seller's own personnel, counsel and other advisors associated with fulfilling the Seller's obligations under Section 5.4, (v) fifty percent (50%) of the Transfer Taxes, if any, (vi) the total amount of principal and interest due on the loan from the State of Wisconsin, (vii) any Indebtedness of the Seller and its Affiliates, including the Purchased Subsidiary and its Subsidiaries, that is not a Retained Liability and (viii) any amounts owed by the Seller or its Afilliates to CDW in excess of the CDW Retained Liability, including, without limitation, any legal fees, pre-judgment interest (as such term is used in the Specified Litigation) or penalty fees, or any other fees or expenses, in each case incurred by the Seller or any of its Affiliates as a result of the Specified Litigation (collectively, the "**Seller Closing Expenses**"). If the Buyer obtains GSE Approval and the Seller becomes entitled to receive the Cash Consideration, the Seller shall use the Cash Consideration to pay any Seller Closing Expenses not satisfied at the Closing.

(b) The Buyer shall be responsible for and shall pay (i) the fees, commissions or other compensation to any broker, finder, investment banker or other Person engaged by the Buyer with respect to the transactions contemplated by this Agreement, (ii) the legal, accounting and audit fees of the Buyer, (iii) the out-of-pocket costs associated with obtaining, configuring, implementing, testing and launching the MAC Technology Platform following the date hereof, including obtaining, configuring, implementing, testing and launching commercially available "off-the-shelf" software and other Third Party software (including any license for such software) necessary for the use or operation of the MAC Technology Platform and not

transferable from the Seller or its Affiliates (including by reason of a Third Party withholding its Consent to such transfer or imposing a transfer fee, up-front license fee or other charge associated with the transfer of a license from the Seller to the Buyer), including any amounts paid by Buyer for optional or discretionary developments or improvements to improve the capacity, functionality or other features of the MAC Technology Platform from the capacity, functionality and other features in place immediately prior to the date hereof (the "**Pre-Transaction MAC Technology Platform**"), (iv) fifty percent (50%) of the Transfer Taxes, if any, and (v) the costs of Buyer's own personnel, counsel and other advisors associated with the fulfillment of the Buyer's obligations pursuant to Section 5.4 (collectively, the "**Buyer Closing Expenses**").

2.5 Withholding Taxes. Notwithstanding any other provision in this Agreement, the Buyer shall have the right to deduct and withhold Taxes from any payments to be made hereunder if such withholding is required by applicable Legal Requirements. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been delivered and paid to the Seller.

2.6 Effect of Failure to Obtain GSE Approval. If the Buyer is unable to obtain GSE Approval, the Buyer and the Seller shall take the following actions:

(a) the Buyer and Seller shall deliver a notice to the Escrow Agent informing the Escrow Agent that GSE Approval has not been obtained and instructing the Escrow Agent to release the Escrowed Amount to the Buyer and to release the Purchased Shares to the Seller, provided, however, that the Buyer shall own all right, title and interest in any optional or discretionary developments or improvements to improve the capacity, functionality or other features of the Pre-Transaction MAC Technology Platform (the "**Technology Improvements**") and the return of the Purchased Shares to the Seller shall in no event include the Technology Improvements;

(b) the Buyer shall cancel all shares of NMI Common Stock and all NMI Warrants issued to the Seller as the Equity Consideration (and held in escrow by the Escrow Agent) on the books and records of the Buyer;

(c) the Buyer and the Seller shall enter into an agreement terminating this Agreement and all Transaction Documents providing that such agreements are void and of no further force and effect (except as may be specified therein) and setting forth the rights and obligations of the parties post-termination, if any;

(d) the Buyer shall pay and be responsible for all Liabilities incurred by the Purchased Subsidiary or any of its Subsidiaries as a result of actions taken by the Buyer or any of its Affiliates during the period beginning on the Closing Date until the release of the Purchased Shares as contemplated by Section 2.6(a) (the "**Post-Closing Liabilities**") and shall deliver the Assets of the Purchased Subsidiary and each of its Subsidiaries to the Seller free and clear of all Encumbrances; and

(e) the Buyer and the Seller shall deliver such other agreements, certificates, instruments and documents as may be reasonably necessary and shall cooperate in good faith with one another in order to unwind the transactions contemplated by this Agreement and the Ancillary Agreements (including to send notices to any affected Third Parties); provided that each party shall, except as otherwise set forth herein, bear its own costs to unwind the transactions contemplated by this Agreement and the Ancillary Agreements (including, for the avoidance of doubt, with respect to any regulatory filings required to be made with any Governmental Body).

Notwithstanding the foregoing, nothing in this Section 2.6 shall (i) relieve the Seller of its obligations to pay any Seller Closing Expenses or (ii) relieve the Buyer of its obligations to pay any Buyer Closing Expenses

or any amounts due to the Seller in respect of expenses incurred through the date of termination of this Agreement under Section 5.2(c)(i) or 5.2(c)(ii). To the extent that termination of this Agreement and the Ancillary Agreements results in a refund or reimbursement of any amounts paid in connection herewith or therewith, such reimbursement shall be owed to the party originally making payment thereof. In addition, the Seller shall not be responsible for reimbursing the Buyer for any amounts paid by the Buyer in respect of the Retained Liabilities or the Purchased Subsidiary Contracts, or to any Third Party as such payment relates to the MAC Technology Platform; provided, however, that any benefit of such payments made by the Buyer shall be retained by the Buyer and neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries shall have any right, title or other ownership interest in any such benefit (subject to the provisions of Section 2.6(d)).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE SELLER

Except as set forth in the corresponding section of the Disclosure Schedule (each section of which, to the extent specified therein, qualifies the correspondingly numbered representation and warranty of the Seller herein and any other representation and warranty of the Seller contained herein to which its application or relevance is reasonably apparent on its face to a reader of such disclosure), the Seller represents and warrants to the Buyer as of the date hereof and as of the Closing Date (or, if made as of a specified date, as of such date) as follows:

3.1 Organization and Good Standing. Immediately prior to and at the Closing, the Seller will be duly organized, validly existing and in good standing under the laws of Bermuda. Each of the Purchased Subsidiary and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization or incorporation. The Seller has all requisite corporate power and authority to enter into this Agreement and the other Transaction Documents to which it is a party. True, correct and complete copies of the Organizational Documents of each of the Seller, the Purchased Subsidiary and each of its Subsidiaries have been delivered to the Buyer.

3.2 Capitalization of the Purchased Subsidiary. The Purchased Shares are duly authorized, validly issued, fully paid and nonassessable and owned by the Seller, free and clear of all Encumbrances. Except for the Purchased Shares, any interest held by the Purchased Subsidiary or any of its Subsidiaries or as set forth in the Disclosure Schedule, there are no shares of common stock, preferred stock or other equity interests of the Purchased Subsidiary or any of its Subsidiaries authorized, reserved, issued or outstanding, and there are no preemptive or other outstanding rights, subscriptions, options, warrants, stock appreciation rights, redemption rights, repurchase rights, convertible, exercisable, or exchangeable securities or other agreements, arrangements or commitments of any character relating to the issued or unissued share capital or other ownership interest in the Purchased Subsidiary or its Subsidiaries or any other securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Purchased Subsidiary or any Subsidiary thereof, and no securities evidencing such rights are authorized, issued or outstanding. Neither the Purchased Subsidiary nor any of its Subsidiaries has any outstanding bonds, debentures, notes or other obligations which provide the holders thereof the right to vote (or are convertible or exchangeable into or exercisable for securities having the right to vote) with the stockholders of the Purchased Subsidiary or its Subsidiaries on any matter.

3.3 Authorization; Enforceability. The Seller has full corporate power and authority to execute and deliver this Agreement and each of the Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder. All corporate action on the part of the Seller, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement and the other Transaction Documents

and the performance of all obligations of the Seller hereunder and thereunder has been taken and no further authorization, approval or action by the holders of the Seller's common and/or preferred equity is or will be required to consummate the Closing. This Agreement and the other Transaction Documents each constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of the Seller enforceable in accordance with its terms, except to the extent that enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by principles of equity regarding the availability of remedies.

3.4 No Conflict.

(a) The Seller is not in default under, and the execution, delivery and performance by the Seller of this Agreement and each other Transaction Document to which it is a party and the consummation of the transactions contemplated hereby and thereby do not and will not conflict with or result in any violation of, or default under, any provision of (i) any Organizational Documents of the Seller, the Purchased Subsidiary or any of its Subsidiaries, (ii) any Legal Requirement or any Order or (iii) any Contract to which the Seller, the Purchased Subsidiary or any of its Subsidiaries is a party or by which it, the Purchased Subsidiary or any of its Subsidiaries or any Asset of the Purchased Subsidiary or any of its Subsidiaries is bound, except in the case of this clause (iii) where any such conflict, violation or default has not had and could not reasonably be expected to have a Material Adverse Effect on the Purchased Subsidiary or any of its Subsidiaries, including on the MAC Technology Platform. The execution, delivery and performance of this Agreement and each other Transaction Document and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time or giving of notice, a default under any such provision or an event which results in the creation of any Encumbrance upon any of the Purchased Shares or the assets or property of any of the Purchased Subsidiary, including the MAC Technology Platform (except an Encumbrance created in favor of the Seller by a Transaction Document), or gives rise to any right of termination, cancellation or acceleration of any right or obligation of the Seller, the Purchased Subsidiary or any of its Subsidiaries or to a loss of any benefit to which the Seller, the Purchased Subsidiary or any of its Subsidiaries is entitled under any provision of any Contract binding upon the Seller, the Purchased Subsidiary or any of its Subsidiaries or any of their respective Assets, except as provided under the Transaction Documents.

(b) Except as set forth in Section 3.4(b) of the Disclosure Schedule, none of the Seller, the Purchased Subsidiary or any of its Subsidiaries is or will be required to give any notice to or make any filing with or obtain any Consent under any Contract to which it is a party or by which it, any of its Assets or any of its employees or independent contractors is bound in connection with the execution and delivery of this Agreement or the other Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except where the failure to do so has not had and could not reasonably be expected to have a Material Adverse Effect on the Purchased Subsidiary or any of its Subsidiaries or any of their respective material Assets.

3.5 Governmental Consents. Except as set forth in Section 3.5 of the Disclosure Schedule, no notice to or filing with or other Consent or Order of any Governmental Body on the part of the Seller is required in connection with the execution, delivery or performance of this Agreement or the other Transaction Documents or the consummation of the transactions contemplated hereby or thereby.

3.6 Legal Compliance. Each of the Seller, the Purchased Subsidiary and its Subsidiaries is and has been in compliance in all material respects with all applicable Legal Requirements except as set forth in Section 3.6 of the Disclosure Schedule or where the failure to do so has not had and could not reasonably be

expected to have a Material Adverse Effect on the Purchased Subsidiary or any of its Subsidiaries or any of their respective material Assets. To the Knowledge of the Seller and except as set forth in Section 3.6 of the Disclosure Schedule, each director, officer, member, manager and employee of the Seller, the Purchased Subsidiary or any of its Subsidiaries engaged at any time in the development, use or operation of the Assets of the Purchased Subsidiary or any of its Subsidiaries (including the MAC Technology Platform), and each independent contractor providing services relating to the Assets of the Purchased Subsidiary or any of its Subsidiaries (including the MAC Technology Platform), is and has been in compliance with all applicable Legal Requirements relating to the development, use or operation of the Assets of the Purchased Subsidiary or any of its Subsidiaries (including the MAC Technology Platform) by them except where the failure to do so has not had and could not reasonably be expected to have a Material Adverse Effect on the Purchased Subsidiary or any of its Subsidiaries or on any of their respective material Assets. Except as set forth in Section 3.6 of the Disclosure Schedule, no Proceeding or notice has been filed, given, commenced or, to the Knowledge of the Seller threatened against the Seller, the Purchased Subsidiary or any of its Subsidiaries or any of their respective directors, officers, members, managers, employees or independent contractors alleging any failure to so comply.

3.7 Licenses, Permits and Orders. Except as set forth in Section 3.7 of the Disclosure Schedule, (a) no licenses, approvals, consents, ratifications, waivers, notices, registrations, qualifications, designations, filings, franchises, authorizations, security clearances or other permits of, to, from or with any Governmental Body (“**Permits**”), are held or required to be held (pursuant to applicable Legal Requirements or otherwise) by the Seller, the Purchased Subsidiary or any of its Subsidiaries or any of their respective directors, officers, employees or independent contractors applicable to the Assets of the Purchased Subsidiary and its Subsidiaries or the ownership, operation, use or maintenance thereof except for those the absence or violation of which could not reasonably be expected to have a Material Adverse Effect on the Assets of the Purchased Subsidiary or any of its Subsidiaries and (b) to the Knowledge of the Seller, no Permits are required to be held (pursuant to applicable Legal Requirements or otherwise) by the Buyer or any of its directors, officers, employees or independent contractors from or after the Closing applicable to the Assets of the Purchased Subsidiary or its Subsidiaries or the ownership, operation, use or maintenance thereof except for those the absence or violation of which could not reasonably be expected to have a Material Adverse Effect on the Purchased Subsidiary or any of its Subsidiaries, including on the MAC Technology Platform. Except as set forth in Section 3.7 of the Disclosure Schedule, none of the Seller, the Purchased Subsidiary or any of its Subsidiaries or any Assets of the Purchased Subsidiary or any of its Subsidiaries are subject to the provisions of any Order of any Governmental Body.

3.8 Litigation. There is no Proceeding pending or, to the Knowledge of the Seller, currently threatened against the Seller, the Purchased Subsidiary or any of its Subsidiaries that questions the validity of this Agreement or the right of the Seller to enter into or to consummate the transactions contemplated hereby or by any of the Transaction Documents, nor, to the Knowledge of the Seller, is there any basis for the foregoing. Section 3.8 of the Disclosure Schedule contains a complete and correct description of all Proceedings existing at any time during the three (3) years prior to the Closing Date (a) involving the Seller, the Purchased Subsidiary or any of its Subsidiaries which, if determined adversely, could have, individually or in the aggregate, a Material Adverse Effect on the Seller, the Purchased Subsidiary or any of its Subsidiaries or involving any Asset of the Purchased Subsidiary or any of its Subsidiaries or (b) in which the Seller, the Purchased Subsidiary or any of its Subsidiaries is a plaintiff or claimant and such Proceeding relates to any Asset of the Purchased Subsidiary. Except as set forth in Section 3.8 of the Disclosure Schedule, there is no Proceeding pending or, to the Knowledge of the Seller, currently threatened against or affecting the Seller, the Purchased Subsidiary or any of its Subsidiaries which, if determined adversely, could have, individually or in the aggregate, a Material Adverse Effect on the Seller, the Purchased Subsidiary or any of its Subsidiaries or involving any Asset of the Purchased Subsidiary or any of its

Subsidiaries and, to the Knowledge of the Seller, no basis for such a Proceeding exists. The foregoing includes, without limitation, Proceedings pending or threatened involving the prior employment or engagement of any employee or independent contractor of the Seller, the Purchased Subsidiary or any of its Subsidiaries, their use in connection with any Asset of the Purchased Subsidiary or any of its Subsidiaries of any information or techniques allegedly proprietary to any of their former employers or Persons for whom they previously provided services as an independent contractor, or their obligations under any agreements with any of them.

3.9 Financial Statements.

(a) Delivery of Financial Statements. The Seller has delivered or previously made available to the Buyer the following financial statements (collectively, the "**Unaudited Financial Statements**"):

(i) the unaudited combined financial statements of the Seller for each of the fiscal years ended December 31, 2009 and 2010; and

(ii) the unaudited combined financial statements of the Seller for the nine months ended September 30, 2011.

(b) Presentation of Unaudited Financial Statements. The Unaudited Financial Statements fairly present in all material respects the financial condition of the Seller and the Purchased Subsidiary and each of its Subsidiaries as of the respective dates thereof and the results of operations of the Seller, the Purchased Subsidiary and each of its Subsidiaries for the respective fiscal periods referred to, in each case in accordance with GAAP, applied on a consistent basis for the respective periods presented, subject to (i) the absence of footnote disclosure, (ii) the absence of statements on changes to stockholders' equity and cash flow, and (iii) normal recurring year-end adjustments.

(c) Absence of Liabilities. Except for those Liabilities that are reflected or reserved against in the Unaudited Financial Statements and the Liabilities set forth on Section 3.9(c) of the Disclosure Schedule, the Seller, the Purchased Subsidiaries and its Subsidiaries have no other outstanding Liabilities or other financial obligations as of the date hereof.

3.10 Sufficiency of Assets; Condition. The Seller has good and marketable title in, to and under all of the material assets of the Purchased Subsidiary and its Subsidiaries, including to the MAC Technology Platform, free and clear of all Encumbrances. No Person other than the Seller has any right, title or interest in or to any of the material Assets of the Purchased Subsidiary and its Subsidiaries. As of the Closing, the Buyer will have good and valid title to all of the material Assets of the Purchased Subsidiary and its Subsidiaries, including the MAC Technology Platform, free and clear of all Encumbrances, except as otherwise set forth in Section 3.10 of the Disclosure Schedule. To the Knowledge of the Seller, all material Assets of the Purchased Subsidiary and its Subsidiaries are free from defects (patent and latent), have been maintained in accordance with normal industry practice, are in good operating condition and repair (subject to normal wear and tear) and are suitable for the purposes for which they are now used.

3.11 Absence of Certain Changes or Events. Since December 31, 2010, except as otherwise set forth in Section 3.11 of the Disclosure Schedule, (a) the Seller has owned, used and maintained the Assets of the Purchased Subsidiary and it Subsidiaries only in the ordinary course of business and (b) there have not been any events, changes, occurrences or state of facts that, individually or in the aggregate, have had or could reasonably be expected to have a Material Adverse Effect with respect to the Seller, the Purchased Subsidiary

or any of its Subsidiaries or the Assets of the Purchased Subsidiary and its Subsidiaries, or prevent the consummation of the transactions contemplated hereby.

3.12 Intellectual Property.

(a) Except as set forth in Section 3.12(a) of the Disclosure Schedule, the Intellectual Property included in the Assets owned by the Purchased Subsidiary and its Subsidiaries is comprised only of Owned Intellectual Property and Licensed Intellectual Property (collectively, the "**Purchased Intellectual Property**"). The Purchased Intellectual Property constitutes all Intellectual Property that, as of the Closing Date, is necessary in order to own, operate, use and maintain the MAC Technology Platform and contains only those items and rights that are owned by the Seller, the Purchased Subsidiary or one of its Subsidiaries or rightfully used by the Seller, the Purchased Subsidiary or one of its Subsidiaries pursuant to a valid and enforceable license.

(b) Section 3.12(b)(i) of the Disclosure Schedule contains a true and complete list of the Owned Intellectual Property. Section 3.12(b)(ii) of the Disclosure Schedule contains a true and complete list of the Licensed Intellectual Property (excluding licenses for computer software that is generally available on nondiscriminatory pricing terms and has an individual acquisition cost of $1,000 or less per seat, user or workstation but including all licenses for computer software that is distributed as "free software", "open source software" or under a similar licensing or distribution model). All Owned Intellectual Property and licenses for Licensed Intellectual Property are in good standing, and neither the Seller nor, to the Knowledge of the Seller, any other Person is in breach or default thereunder and all of the fees and filings due as of the Closing Date with respect thereto have been or will be duly made, except, with respect to the MAC Technology Platform, as set forth in Section 3.12(b)(iii) of the Disclosure Schedule. Except as set forth in Sections 3.12(b)(i) and 3.12(b)(ii) of the Disclosure Schedule, none of the Purchased Intellectual Property is subject to any Order or Contract related to or in any manner restricting the licensing, assignment, transfer or conveyance thereof by the Seller. The Seller does not owe any royalties or other payments to Third Parties in respect of the Purchased Intellectual Property as of the Closing Date.

(c) Upon the Closing, following the actions set forth in Section 3.12(c) of the Disclosure Schedule, (i) the Buyer will be the sole owner of the Owned Intellectual Property, free and clear of all Encumbrances, except as set forth in Section 3.12(c)(i) of the Disclosure Schedule, (ii) neither the Seller nor any Third Party will have any ownership interest in or to any Owned Intellectual Property or, except as set forth in Section 3.12(c)(ii) of the Disclosure Schedule, any right to use or sublicense the Owned Intellectual Property and (iii) the Buyer will have all rights in the Purchased Intellectual Property necessary to own, operate, use and maintain the MAC Technology Platform and to assign and sell the Owned Intellectual Property and, subject to the terms of the applicable license, to assign or sublicense the Licensed Intellectual Property.

(d) To the Knowledge of the Seller, the ownership, operation, use and maintenance of the MAC Technology Platform by the Seller have not infringed or misappropriated, and to the Knowledge of the Seller do not infringe or misappropriate, any Intellectual Property of any Third Party anywhere in the world. No Proceeding is pending before any Governmental Body in any jurisdiction or, to the Knowledge of the Seller, is threatened, (i) challenging the validity, enforceability, continuity or ownership by the Seller of any Owned Intellectual Property or (ii) to the effect that the operation, use, maintenance, distribution, licensing, sublicensing, sale or any other exercise of rights in the Owned Intellectual Property by the Seller or their respective directors, officers, employees or independent contractors infringes or will infringe any Intellectual Property of any Third Party, and no such claim has been asserted, by any Person and, to the Knowledge of the Seller, there is no basis for such a Proceeding or claim. To the Knowledge of the Seller, there is no

unauthorized use, infringement or misappropriation of any Owned Intellectual Property by any Third Party, including without limitation any director, officer, employee, independent contractor or other service provider of the Seller.

(e) Section 3.12(e) of the Disclosure Schedule is a copy of the current policy or policies of the Seller relating to the physical and electronic protection of its information assets from unauthorized disclosure, use or modification. All personal or user information used by or in the possession of the Seller has been collected, stored, maintained and used in material compliance with all applicable Legal Requirements as well as the Seller's and its customers' privacy policies.

(f) Except as set forth in Section 3.12(f) of the Disclosure Schedule, to the extent any Owned Intellectual Property included in or relating to the Assets of the Purchased Subsidiary and its Subsidiaries has been developed or created by employees of the Seller, all such Owned Intellectual Property was developed by employees in the scope of their employment with the Seller and constitutes “work made for hire” under the United States Copyright Act of 1976, or such Seller has obtained, by written agreement with such employees, sole and exclusive ownership of all right, title and interest in and to all such Intellectual Property. No current or former employee or independent contractor of the Seller has asserted, whether or not in writing, any claim of ownership of any Intellectual Property rights in or to any part of the MAC Technology Platform and, to the Knowledge of the Seller, no such claim is threatened, and the Seller is not aware of any facts which would support such a claim. Upon the Closing, no Person other than the Buyer will possess any current or contingent rights to any source code that is part of the Owned Intellectual Property. Except in accordance with the terms and conditions set forth therein, the transactions contemplated by this Agreement will not result in any Person other than the Buyer gaining a right to access the source code included in the Owned Intellectual Property (as the result of an escrow release or otherwise).

(g) With respect to any software included in the Owned Intellectual Property, (i) the Seller maintains complete machine-readable, master-reproducible copies, source code listings and technical documentation for the most current releases and versions thereof and for all earlier releases or versions thereof currently being supported by them, (ii) in each case, the machine-readable copy conforms to the corresponding source code listing, (iii) it is written in the language set forth in Section 3.12(g) of the Disclosure Schedule for use on the hardware set forth in Section 3.12(g) of the Disclosure Schedule with standard operating systems and (iv) it can be maintained and modified by reasonably competent programmers familiar with such language, hardware and operating systems.

(h) None of the software included in the Owned Intellectual Property or, to the Knowledge of the Seller, the Licensed Intellectual Property contains any software code (i) designed to harm, disable or impair in any manner the operation of such software, or any other associated software, firmware, hardware, computer system or network (sometimes referred to as “viruses” or “worms” or “time bombs”) or (ii) that would permit any Person to access such software to intentionally cause any harmful or malicious procedures, routines or mechanisms which would cause the software to cease functioning or to damage or corrupt data, storage media, programs, equipment or communications.

(i) None of the software included in the Owned Intellectual Property or, to the Knowledge of the Seller, the Licensed Intellectual Property contains any software code (i) that contains, or is derived in any manner (in whole or in part) from, any software that is distributed under the GNU General Public License, Lesser/Library GPL, Artistic License (e.g., PERL), Mozilla Public License, Netscape Public License, Sun Community Source License (SCSL), Sun Industry Standards License (SISL) or any similar licenses or distribution models except as set forth on Section 3.12(i) of the Disclosure Schedule, (ii) that is licensed under any terms or conditions that impose any requirement that any software using, linked with, incorporating,

distributed with, based on, derived from or accessing the software code (A) be made available or distributed in source code form, (B) be licensed for the purpose of making derivative works, (C) be licensed under terms that allow reverse engineering, reverse assembly or disassembly of any kind or (D) be redistributable at no charge, (iii) development of which was funded in whole or in part by any Governmental Body or (iv) that uses or incorporates any source or object code that contains, or is derived in any manner (in whole or in part) from, the software or code known as “InfoBytes” or any predecessor or enhancement of the software or code known as “InfoBytes.”

3.13 Purchased Subsidiary Contracts.

(a) Section 3.13(a) of the Disclosure Schedule sets forth as of the date hereof a true and complete list of each of the Contracts to which the Purchased Subsidiary or any of its Subsidiaries or the Seller or any of its Subsidiaries (other than the Purchased Subsidiary or any Subsidiary thereof) (to the extent applicable to the Assets of the Purchased Subsidiary and its Subsidiaries or the MAC Technology Platform) is a party or is bound (the “**Purchased Subsidiary Contracts**”).

(b) Except as set forth in Section 3.13(b) of the Disclosure Schedule, with respect to each Purchased Subsidiary Contract, (i) the Contract is legal, valid, binding and enforceable in accordance with its terms and in full force and effect and will continue to be legal, valid, binding and enforceable by the Buyer and in full force and effect on identical terms following the consummation of the transactions contemplated hereby, except to the extent that enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by principles of equity regarding the availability of remedies, (ii) the Contract is assignable by operation of law or otherwise without any Consent of any Person or such Consent has been obtained, (iii) neither the Seller nor, to the Knowledge of the Seller, any other party to such Contract is in material breach or material default and no event has occurred which with the passage of time or giving of notice would constitute a material breach or material default, or permit termination, modification, or acceleration, of or under the Contract and (iv) no party has actually repudiated any provision of the Contract or provided notice (whether or not in writing) of repudiation or an intent to terminate the Contract. The Purchased Subsidiary Contracts are all of the Contracts necessary for the Buyer to own, operate, use and maintain the Assets of the Purchased Subsidiary and its Subsidiaries in substantially the same manner in which the Assets of the Purchased Subsidiary and its Subsidiaries were maintained by Seller and/or the Purchased Subsidiary and its Subsidiaries prior to the Closing. True, correct and complete copies of all Purchased Subsidiary Contracts have been delivered to the Buyer.

3.14 Employee Benefits.

(a) Section 3.14(a) of the Disclosure Schedule contains a list of all “employee benefit plans” within the meaning of Section 3(3) of ERISA and a description of all other employee benefit plans, programs or arrangements, including, without limitation, compensation, deferred compensation, bonus, long term incentive, commission, change in control, retention and severance arrangements, vacation, medical, life insurance, retirement, pension or other welfare or fringe benefit, whether or not in writing, that are maintained, sponsored or contributed to (or with respect to which the Seller or any of its Affiliates has any obligation or Liability including, without limitation, any obligation or Liability to contribute) by the Seller or any of its Affiliates with respect to or for the benefit of any of the current or former employees, independent contractors or consultants of the Seller or any of its Affiliates (each, a “**Plan**” and collectively, the “**Plans**”). True, correct and complete copies of each of the Plans and related documents and governmental filings, or descriptions of any unwritten Plan, have been delivered to the Buyer.

(b) Neither the Seller nor any of its Affiliates have any Liability with respect to any employment, consulting, independent contractor or severance agreements or other Contracts ("**Individual Arrangements**") that has not previously been fully satisfied.

(c) Neither the Seller nor any entity that would be deemed a "single employer" with the Seller under Section 414(b), (c), (m) or (o) of the Code or Section 4001 of ERISA (each, an "**ERISA Affiliate**") has at any time during the last six years, (i) contributed or been required to contribute to any Multiemployer Plan or Multiple Employer Plan, (ii) incurred any Withdrawal Liability that has not been satisfied in full or (iii) maintained a benefit plan that is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code.

(d) No Plan or Individual Arrangement provides for health, life or other welfare benefits to former employees or beneficiaries or dependents thereof (other than the continuation coverage requirements under Section 4980B of the Code and Part 6 of Title I of ERISA).

(e) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with any other event, give rise to any Liability with respect to any Plan, Individual Arrangement or any current or former director, officer, employee or consultant of the Seller, the Purchased Subsidiary or any of its Subsidiaries, including without limitation Liability for severance pay, unemployment compensation, termination pay or withdrawal liability, or accelerate the time of payment, vesting or funding or increase the amount of compensation or benefits due to any director, officer, employee or consultant of the Seller, the Purchased Subsidiary or any of its Subsidiaries (whether current, former or retired) or their beneficiaries solely by reason of such transactions or by reason of a termination in connection with or following such transactions.

(f) Neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries currently employ any employees or currently engage any independent contractors or consultants.

(g) Neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries is, nor has been since January 1, 2009, bound by or subject to (and none of the Assets of the Purchased Subsidiary or any of its Subsidiaries are bound by or subject to) any Contract with any labor union and no labor union has requested or, to the Knowledge of the Seller, has sought to represent any of the employees, Representatives or agents of the Seller, the Purchased Subsidiary or any of its Subsidiaries. There is no, nor has there been since January 1, 2009, strike or other labor dispute involving the Seller, the Purchased Subsidiary or any of its Subsidiaries pending or threatened, nor to the Knowledge of the Seller is there any labor organization activity involving their employees.

(h) Each of the Seller and the Purchased Subsidiary is and has been in compliance in all material respects with all federal, state, local and foreign Legal Requirements respecting employment and employment practices, terms and conditions of employment, worker classification and wages and hours, safety and health, pay equity and workers' compensation and collection and payment of withheld Taxes. Each of the Seller and the Purchased Subsidiary is and has been in compliance with the requirements of the WARN Act and has no Liabilities or unfulfilled notice obligations pursuant to the WARN Act, and neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries have taken any action that would cause the Seller, the Purchased Subsidiary or such Subsidiaries, or after the Closing, the Buyer, to have any Liability or notice obligation thereunder.

3.15 Taxes .

(a) Except as set forth in Section 3.15 of the Disclosure Schedule, (i) all material Tax Returns that are required to be filed by or with respect to any activities of the Purchased Subsidiary or its Subsidiaries have been timely filed, and all such Tax Returns are true, correct, and complete in all material respects; (ii) all material Taxes owed by the Purchased Subsidiary or its Subsidiaries (including any such Taxes shown on the Tax Returns referred to in clause (i)) have been timely paid in full on or before the Closing Date; (iii) all deficiencies asserted in writing or assessments made in writing by the relevant taxing authority in connection with any of the Tax Returns referred to in clause (i) have been or will be timely paid in full on or before the Closing Date; (iv) no issues that have been raised in writing by the relevant taxing authority in connection with any of the Tax Returns referred to in clause (i) are pending as of the date of this Agreement, or, if pending, have been adequately reserved for in the financial statements of the Purchased Subsidiary and its Subsidiaries; (v) there is no action, suit, proceeding, investigation, audit, or claim pending or threatening in writing with respect to any Taxes of the Purchased Subsidiary or any of its Subsidiaries; (vi) no extension or waiver of any statute of limitations with respect to any Taxes of the Purchased Subsidiary or any of its Subsidiaries is in effect as of the date of this Agreement; (vii) the Purchased Subsidiary and each of its Subsidiaries have complied with all applicable information reporting and withholding requirements with respect to Taxes and have duly and timely withheld and paid over to the appropriate taxing authorities all amounts required to be so withheld and paid over; (viii) there are no liens on any of the assets of the Purchased Subsidiary or any of its Subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax; and (ix) no written claim for Taxes has been asserted against the Purchased Subsidiary or any of its Subsidiaries within the three-year period immediately preceding the date of this Agreement by a taxing authority in a jurisdiction where the Purchased Subsidiary or relevant Subsidiary thereof does not file Tax Returns.

(b) None of the Purchased Subsidiaries has participated in any “reportable transaction” within the meaning of Treasury Regulations Section 1.6011-4.

(c) None of the Purchased Subsidiaries has constituted either a “distributing corporation” or a “controlled corporation” (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code within the three-year period immediately preceding the date of this Agreement.

(d) No closing agreements, private letter rulings, technical advice memoranda, or similar agreements or rulings have been entered into with or issued by any taxing authority within the three-year period immediately preceding the date of this Agreement with respect to the Purchased Subsidiary or any of its Subsidiaries. Since December 31, 2010, the Seller has not made or changed any material Tax election, settled or compromised any material liability for Taxes, or materially amended any Tax Return, in each case, relating to the Purchased Subsidiary or any of its Subsidiaries.

(e) Since January 1, 2009, neither the Purchased Subsidiary nor any of its Subsidiaries has been a member of an affiliated, consolidated, combined, or unitary Tax group for purposes of filing any Tax Return, other than, for purposes of filing consolidated federal income tax returns, a group of which the Seller was the common parent. Neither the Purchased Subsidiary nor any of its Subsidiaries has any liability for the taxes of any Person (other than a member of a group of which the Seller was the common parent) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign law) or as a transferee or successor by contract or agreement. Neither the Purchased Subsidiary nor any of its Subsidiaries currently is a party to any Tax indemnification, allocation, sharing, or similar agreement.

(f) Neither the Purchased Subsidiary nor any of its Subsidiaries will be required, as a result of any change in accounting method for a Tax period beginning on or before the Closing Date, to include any

adjustment under Section 481(c) of the Code (or any similar provision of state, local, or foreign law) in taxable income for any taxable period beginning on or after the Closing Date.

(g) No Tax is required to be withheld pursuant to Section 1445 of the Code as a result of the transfers effected pursuant to this Agreement.

3.16 Insurance.

(a) Section 3.16(a) of the Disclosure Schedule sets forth (i) a complete and correct list of each insurance policy (including policies providing property, casualty, liability and worker's compensation coverage and bond and surety arrangements and including any self-insurance arrangements) providing coverage with respect to the Purchased Subsidiary and its Subsidiaries or any Assets thereof to which the Seller or any of its respective Affiliates is a party, a named insured or otherwise the beneficiary of coverage and (ii) for each such policy, the name of the insurer, name of the policyholder, the expiration date of the policy, the type of policy, the amount of premium and a description of all loss sharing arrangements, and a list and description of all claims made thereunder. True, correct and complete copies of each such policy, as amended to date, have been delivered to the Buyer.

(b) The Seller or its respective Affiliates has paid or caused to be paid all premiums under, and each has at all times owned, operated and maintained the Assets of the Purchased Subsidiary and its Subsidiaries in a manner so as to conform in all material respects to the applicable provisions of, all such insurance policies. Each such policy is in full force and effect and no notice of cancellation or transaction has been received with respect to such policy.

3.17 Security Programs. Each of the Seller, the Purchased Subsidiary and its Subsidiaries is in compliance in all material respects with all privacy and data security policies, procedures and Legal Requirements applicable to its business and the Purchased Subsidiary, its Subsidiaries and the respective Assets thereof. The Seller, the Purchased Subsidiary and each of its Subsidiaries maintains and is in compliance in all material respects with a written information security policy that implements commercially reasonable security programs that are designed to protect (a) the security, confidentiality, availability and integrity of transactions executed through its computer systems, including encryption and/or other security protocols and techniques when appropriate and (b) the security, confidentiality and integrity of all non-public personal information and other confidential and proprietary data. To the Knowledge of the Seller, neither the Seller nor the Purchased Subsidiary nor any of its Subsidiaries has suffered a security breach with respect to its data or systems and neither the Seller nor the Purchased Subsidiary or its Subsidiaries has notified any customer, policy holder, mortgage borrower or any employee or independent contractor of any information security breach involving such customer's, policy holder's or mortgage borrower's confidential information or such employee's or independent contractor's confidential information.

3.18 Brokers' Fees. No broker, finder, investment banker or other Person is entitled to any brokerage fee, finders' fee or other commission in connection with the transactions contemplated by this Agreement based on arrangements made by the Seller or its Affiliates.

3.19 Intercompany Arrangements. Section 3.19 of the Disclosure Schedule lists all arrangements, understandings and Contracts between or among the Purchased Subsidiary or Subsidiary thereof, on the one hand, and (i) the Seller or any Subsidiary of the Seller (other than the Purchased Subsidiary and its Subsidiaries) or (ii) any executive officer or director of the Seller or any Subsidiary of the Seller (other than any Plan), on the other hand.

3.20 No Other Representations or Warranties. Except for the representations and warranties specifically set forth in this Agreement or other Transaction Documents, neither the Seller, any of its Affiliates, nor its or their respective Representatives, nor any other Person, makes or shall be deemed to make any representation or warranty to the Buyer, express or implied, at law or in equity, with respect to the transactions contemplated by this Agreement and the Transaction Documents, and the Seller hereby disclaims any such representation or warranty whether by the Seller or any of its Affiliates or its or their Representatives or any other Person.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Seller as of the date hereof and as of the Closing Date (or, if made as of a specified date, as of such date) as follows:

4.1 Organization and Good Standing. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to enter into this Agreement and the other Transaction Documents to which it is a party. True, correct and complete copies of the Organizational Documents of the Buyer have been delivered to the Seller.

4.2 Capitalization of the Buyer. All shares of NMI Common Stock to be issued to the Seller pursuant to this Agreement and the 144A Offering are (and the shares of NMI Common Stock underlying the NMI Warrants, when issued in accordance with the terms of the NMI Warrants, will be) duly authorized, validly issued, fully paid and non-assessable. At the Closing, the Seller will acquire good and valid title to the shares of NMI Common Stock to be issued to it pursuant to this Agreement and the 144A Offering, free and clear of any Encumbrances, other than the restrictions customarily imposed by federal, state or foreign securities laws or regulations on shares and equity interests of that type. The Seller will acquire good and valid title to the shares of NMI Common Stock underlying the NMI Warrants, when issued in accordance with the terms of the NMI Warrants, free and clear of any Encumbrances, other than the restrictions customarily imposed by federal, state or foreign securities laws or regulations on shares and equity interests of that type.

4.3 Authorization; Enforceability. The Buyer has full corporate power and authority to execute and deliver this Agreement and each of the other Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder. All stockholder, director and other action on the part of the Buyer necessary for the authorization, execution and delivery of this Agreement and each of the other Transaction Documents to which it is a party and the performance of all obligations of the Buyer hereunder and thereunder has been taken or will be taken prior to the Closing. This Agreement and the other Transaction Documents each constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of the Buyer enforceable in accordance with its terms, except to the extent that enforceability thereof may be limited by applicable bankruptcy, insolvency or reorganization laws or other similar laws affecting creditors' rights generally and by principles of equity regarding the availability of remedies.

4.4 No Conflict.

(a) The Buyer is not in default under, and the execution, delivery and performance by the Buyer of this Agreement and the other Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby will not result in any violation of or be in conflict with or constitute, with or without the passage of time or giving of notice, a default under any provision of (i) its Organizational Documents, (ii) any Legal Requirement or any Order or (iii) any Contract to which it is a party

or by which it is bound, except in the case of this clause (iii) where any such conflict, violation or default has not had and could not reasonably be expected to have a Material Adverse Effect on the Buyer.

(b) The Buyer is not and will not be required to give any notice to or make any filing with or obtain any other Consent under any Contract to which it is a party or by which it is bound in connection with the execution and delivery of this Agreement or the other Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except where the failure of any such action has not had and could not reasonably be expected to have a Material Adverse Effect on the Buyer.

4.5 Governmental Consents. Except as provided in Section 6.4, no notice to or filing with or other Consent or Order of any Governmental Body on the part of the Buyer is required in connection with the execution, delivery or performance of this Agreement or the other Transaction Documents or the consummation of the transactions contemplated hereby or thereby.

4.6 Litigation. There is no Proceeding pending or currently threatened against the Buyer that questions the validity of this Agreement or the right of the Buyer to enter into or to consummate the transactions contemplated hereby or by any of the Transaction Documents, nor, to the knowledge of the Buyer, is there any basis for the foregoing.

4.7 Brokers' Fees. No broker, finder, investment banker or other Person is entitled to any brokerage fee, finders' fee or other commission in connection with the transactions contemplated by this Agreement based on arrangements made by the Buyer or any of its Affiliates.

4.8 Financing. The Buyer will have as of the Closing sufficient cash available to pay the Cash Consideration to Seller on the terms and conditions contained herein, and there will be no restriction on the use of such cash for such purpose.

4.9 Independent Assessment. The Buyer acknowledges that it has made its own assessment of the present condition and future prospects of the Purchased Subsidiary and its Subsidiaries and is sufficiently experienced to make an informed judgment with respect thereto. The Buyer acknowledges that, except as explicitly set forth herein, neither the Seller nor any of its Affiliates has made any warranty, express or implied, as to the prospects of the Purchased Subsidiary and its Subsidiaries or their profitability for the Buyer, or with respect to any forecasts, projections or business plans prepared by or on behalf of the Seller or its Affiliates and delivered to the Buyer in connection with the Buyer's review of the Purchased Subsidiary and its Subsidiaries and the negotiation and execution of this Agreement. Nothing in this Section 4.9 shall constitute a waiver of any rights of the Buyer in the case of fraud by any Person.

4.10 No Other Representations or Warranties. Except for the representations and warranties specifically set forth in this Agreement or other Transaction Documents, neither the Buyer, any of its Affiliates, nor its or their respective Representatives, nor any other Person, makes or shall be deemed to make any representation or warranty to the Seller, express or implied, at law or in equity, with respect to the transactions contemplated by this Agreement and the Transaction Documents, and the Buyer hereby disclaims any such representation or warranty whether by the Buyer or any of its Affiliates or its or their Representatives or any other Person.

ARTICLE V

COVENANTS

5.1 Access and Investigation.

(a) Between the date of this Agreement and the Closing Date, the Seller shall, and shall cause its Representatives to, take the following actions:

(i) subject to the payment by the Buyer of the payable listed on Section 5.1(a) of the Disclosure Schedule, afford the Buyer and its Representatives unrestricted access to the MAC Technology Platform, including to make any optional or discretionary developments or improvements to improve the capacity, functionality or other features of the MAC Technology Platform;

(ii) afford the Buyer and its Representatives reasonable access to the Seller's personnel, properties, Contracts, books and records and other information of or relating to the Purchased Subsidiary and its Subsidiaries and their respective Assets; and

(iii) furnish the Buyer and its Representatives with copies of all such Contracts, books and records and other information of or relating to the Purchased Subsidiary and its Subsidiaries and their respective Assets the Buyer may reasonably request.

(b) From and after the Closing, the Seller and the Buyer will each afford promptly to the other and the respective Representatives of each reasonable access, during normal business hours and upon reasonable advance notice, to its books of account, financial and other records (including accountant's work papers), information, employees and auditors to the extent necessary or useful for either party in connection with any subpoena, order or any court, regulator or other Governmental Body or other similar investigation conducted in connection with any official investigation, any dispute or litigation with a Third Party or any other reasonable business purpose relating to this Agreement or the transactions, rights or obligations contemplated hereby; provided, however, that no such access shall unreasonably interfere with the conduct of the business of any party hereto.

5.2 Operation of the Business.

(a) From the date hereof until the Closing Date (unless the Buyer consents in writing), the Seller shall (i) use its commercially reasonable efforts (at the Buyer's cost and expense) to preserve intact the Assets of the Purchased Subsidiary and its Subsidiaries, (ii) confer with the Buyer concerning matters of a material nature concerning the Assets of the Purchased Subsidiary and its Subsidiaries or otherwise directly or indirectly affecting the ownership, use or operation thereof by the Buyer or its potential liability with respect thereto and (iii) otherwise report periodically to the Buyer concerning the status of the finances and regulatory oversight of the Seller and promptly convey the occurrence of any material event concerning the Purchased Subsidiary or its Subsidiaries and their respective Assets or the consummation of the transactions contemplated by this Agreement and the other Transaction Documents.

(b) Without limiting the generality of the foregoing, from the date of this Agreement until the Closing Date, neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries will, without the consent of the Buyer:

(i) sell, lease, license or otherwise dispose of any of the Assets of the Purchased Subsidiary or any of its Subsidiaries;

(ii) enter into any Contract, agreement or other commitment giving any Person an option, right of first offer or other similar rights with respect to the Purchased Subsidiary or any of its Subsidiaries or any of them, or any Assets of the Purchased Subsidiary or any of its Subsidiaries;

(iii) create or incur any indebtedness or obligation that could reasonably be expected to result in an Encumbrance on the Purchased Shares or any assets of the Purchased Subsidiary or any of its Subsidiaries or otherwise permit or allow any of the Purchased Shares or Assets of the Purchased Subsidiary or any of its Subsidiaries to become subject to any Encumbrance;

(iv) incur or commit to incur any Liability that would be a Retained Liability;

(v) enter into any Contract requiring payments by the Seller, the Purchased Subsidiary or any of its Subsidiaries;

(vi) amend, extend or terminate any Purchased Subsidiary Contract;

(vii) do or fail to do any acts or permit any acts or omissions to act that would constitute a material breach of a Purchased Subsidiary Contract or other material obligation relating to the Purchased Subsidiary or any of its Subsidiaries;

(viii) make, change, or revoke any material Tax election, change any method of Tax accounting, adopt or change any Taxable year or period, enter into any closing agreement with respect to Taxes, file any material amended Tax Return, settle or compromise any material Tax claim or assessment, obtain any Tax ruling, or make or surrender any material claim for a refund of Taxes;

(ix) hire or engage any new employee, consultant or independent contractor to provide services in connection with the Purchased Subsidiary or any of its Subsidiaries;

(x) increase or accelerate the vesting or payment of any benefits payable under any existing Plan, severance or termination pay policies or employment or similar agreements with any current or former employees of the Seller, the Purchased Subsidiary or any of its Subsidiaries or establish, adopt, enter into, adopt, or, except as required by Legal Requirements, terminate or amend any Plan in which any current or former employee, independent contractor or consultant participates;

(xi) (A) acquire any business or Person, by merger or consolidation, purchase of substantial assets or equity interests, or by any other manner, in a single transaction or series of related transactions or (B) acquire other Assets, interests or securities other than in the ordinary course of business consistent with past practice;

(xii) enter into any joint ventures, strategic partnerships or alliances;

(xiii) adopt any plan of complete or partial liquidation, dissolution, rehabilitation, restructuring, recapitalization, redomestication or other reorganization;

(xiv) cancel or compromise any material debt, claim or Proceeding relating to or waive or release any material right relating to the Purchased Subsidiary or any of its Subsidiaries or any of their respective Assets;

(xv) voluntarily take any action that would make any representation or warranty of the Seller hereunder inaccurate at, or as of any time on or prior to, the Closing Date;

(xvi) voluntarily take any action that could reasonably be expected to result in a Material Adverse Effect with respect to the Purchased Subsidiary or any of its Subsidiaries or any of their respective Assets; or

(xvii) enter into any Contract to do any of the foregoing.

(c) Reimbursement of Certain Expenses.

(i) Section 5.2(c) of the Disclosure Schedule sets forth the operating expenses that Seller expects to incur between the date hereof and the Closing Date (including in the event the Closing Date occurs after December 31, 2011), including the approximate dollar amounts and approximate date on which the Seller estimates payments of such expenses will be due (the "**Seller Operating Expenses**"). Upon presentation by the Seller to the Buyer of invoices in respect of the Seller Operating Expenses (including, for each item listed on Section 5.2(c) of the Disclosure Schedule, invoices for expenses that exceed the dollar amount listed on Section 5.2(c) of the Disclosure Schedule by no more than 5%), the Buyer shall, at the Buyer's option, either (A) remit to the Seller, by wire transfer of immediately available funds to an account designated by the Seller, funds in the amount listed in the invoice, and the Seller agrees to use such funds to make payment of the Seller Operating Expense listed on such invoice; or (B) make payment arrangements directly with the counterparty to whom such amount is owed. Prior to the Seller, the Purchased Subsidiary or any of its Subsidiaries incurring any operating expense that is either not listed on Section 5.2(c) of the Disclosure Schedule or, if it is listed on Section 5.2(c) of the Disclosure Schedule, exceeds the dollar amount listed on Section 5.2(c) of the Disclosure Schedule by more than 5%, the Seller shall obtain the written consent of the Buyer to incur such expense. If the Buyer provides such written consent to the Seller, such written consent shall constitute an agreement by the Buyer to make payment of or to reimburse the Seller for payment of such operating expense pursuant to this Section 5.2(c) and such expense shall thereafter constitute a Seller Operating Expense for all purposes under this Agreement.

(ii) Upon presentation by the Seller to the Buyer of invoices for expenses incurred by the Seller in connection with carrying out the transactions contemplated by this Agreement and for which the Buyer has agreed pursuant to the terms hereof to reimburse the Seller (exclusive of the Seller Operating Expenses and the Seller Closing Expenses) (the "**Transaction Related Expenses**"), the Buyer shall, at the Buyer's option, either (A) remit to the Seller by wire transfer of immediately available funds to an account designated by the Seller, funds in the amount listed in the invoice, and the Seller agrees to use such funds to make payment of the Transaction Related Expenses listed on such invoice; or (B) make payment arrangements directly with the counterparty to whom such amount is owed.

(d) Operation of the Business Pending GSE Approval. From the Closing Date until the receipt of GSE Approval, the Buyer agrees that, without the prior written consent of the Seller, (i) it shall not take any action affecting the Purchased Subsidiary or any of its Subsidiaries or any of their respective Assets that it believes cannot reasonably be unwound and (ii) it shall not sell any of the Assets of the Purchased Subsidiary and each of its Subsidiaries.

5.3 Employment Matters.

(a) At all times prior to the Closing Date, the Seller shall provide the Buyer with all information requested by the Buyer about the employees that were engaged in the development, use, operation or maintenance of the Assets of the Seller or any Purchased Subsidiaries in order for the Buyer to decide to whom it will offer employment. The Buyer shall not have any Liability or responsibility for, and the Seller shall have sole Liability and responsibility for, any and all severance pay and other termination obligations for the Seller's current or former employees, consultants or independent contractors regardless of whether such individuals provide services to the Buyer.

(b) It shall be the Seller's sole responsibility to provide the required notices under Part 6 of Title I of ERISA (“**COBRA**”) to all eligible employees and former employees of the Seller and its Affiliates and to provide or cause to be provided coverage under COBRA to employees and former employees of the Seller and its Affiliates, and the Seller shall be responsible for all obligations and liabilities relating to or arising under COBRA continuation coverage requirements for any such employee. The Seller shall indemnify, defend and hold the Buyer harmless from and against any and all Liabilities, losses, claims, demands, costs expenses (including, without limitation, actual attorneys' fees, expenses and costs) and any other Liability whatsoever that the Buyer may incur if the Seller fails to provide the required COBRA continuation coverage to its employees and former employees.

(c) The Seller shall be (i) considered to be the “employer” for any triggering events arising out of this Agreement under the WARN Act, (ii) solely and exclusively responsible for all liabilities and obligations under the WARN Act and (iii) solely and exclusively responsible for providing all notices required under the WARN Act. The Seller shall indemnify, defend and hold the Buyer harmless from and against any and all Liabilities, losses, claims, demands, costs, expenses (including without limitation actual attorneys' fees, expenses and costs) and any other Liability whatsoever arising out of or resulting from the Seller's breach of the foregoing covenants and obligations.

(i) Nothing herein is intended to, and shall not be construed to, create any Third Party beneficiary rights of any kind or nature, including, without limitation, the right of any individual to seek to enforce any right to compensation, benefits or any other right or privilege of employment with the Seller or the Buyer.

(ii) The Seller shall provide to the Buyer upon request all documentation with respect to any current or former employee of the Seller or any Purchased Subsidiary who is hired by the Buyer necessary to enable the Buyer to fulfill its statutory obligations pursuant to 8 C.F.R. Section 274a.2(b)(1)(viii)(A)(7)(ii).

5.4 Efforts to Consummate.

(a) The Seller shall use its reasonable best efforts to take all actions and do all things necessary to consummate, as soon as reasonably practicable, the transactions contemplated hereby and by the other Transaction Documents, including, without limitation, preparing the Assets of the Purchased Subsidiary and its Subsidiaries for transfer to the Buyer, satisfying the conditions to the Buyer's obligation to consummate the transactions contemplated hereby and avoiding taking any action that would reasonably be expected to materially delay the obtaining of, or result in not obtaining, any Consent or Order from any Person prior to the Closing. In the event that the Buyer, from time to time prior to the Closing, requests assistance from the Seller that the parties agree is beyond the scope of the foregoing commitment, the Seller shall use its reasonable best efforts to provide such assistance to the extent that it has sufficient resources reasonably available to

fulfill such requests and the Buyer shall reimburse the Seller for the reasonable expenses (including employee time) of fulfillment.

(b) The Buyer shall use its reasonable best efforts to take all action and do all things necessary to consummate, as soon as reasonably practicable, the transactions contemplated hereby, including, without limitation, completing the 144A Offering and satisfying the conditions to the Seller's obligation to consummate the transactions contemplated hereby and avoiding taking any action that would reasonably be expected to materially delay the obtaining of, or result in not obtaining, any Consent or Order from any Person prior to the Closing.

(c) The Buyer and the Seller will cooperate in good faith and each will use its reasonable best efforts to obtain any Consents from any Person necessary or advisable in order to effectively transfer and convey the Purchased Shares and the Assets of the Purchased Subsidiary and its Subsidiaries at the Closing, and the Buyer will bear and be responsible for the costs associated with obtaining such Consents.

(d) The parties will cooperate in good faith and each will use commercially reasonable efforts to support the efforts of the other in obtaining all Consents or Orders required from the Wisconsin Office of the Commissioner of Insurance and all other Governmental Bodies, including any GSE, including but not limited to the Seller making available to the Buyer any and all policies, procedures and documentation that may be useful to the Buyer in developing its policies, procedures and business practices for submission to any Governmental Body, and each party providing the other a reasonable opportunity to review and comment on any proposed regulatory filings related to the transactions contemplated hereby and giving due consideration to such party's comments thereon.

(e) After the date hereof, each of the Buyer on the one hand and the Seller on the other hand shall (i) consult with the other prior to sending any notices to, making any filings with, or having any communications with any Person with respect to the transactions contemplated by this Agreement, (ii) prior to the Closing, promptly consult with the other with respect to, provide any necessary information with respect to, and provide the other (or its counsel) with copies of, all notices sent, all filings made or any other information supplied by such party to a Person in connection with this Agreement and the transactions described herein and (iii) promptly inform the other of any communication from any Person regarding any of the transactions contemplated herein.

5.5 Efforts to Obtain Consents from Third Parties.

(a) The Buyer and the Seller shall work together cooperatively in accordance with the process set forth in this Section 5.5 to obtain, prior to the Closing Date, all Consents or other permissions, waivers or licenses from (i) the licensors of Licensed Intellectual Property and (ii) the providers of Third Party services related to the MAC Technology Platform, which are necessary in order for the Buyer to enjoy the benefit of the Assets purchased hereunder (the "**Third Party Agreements**").

(b) No less than fifteen (15) days after the date of this Agreement, the Seller shall furnish to the Buyer a complete list of all Third Party Agreements. Such list shall identify (i) each agreement that requires Consent from the licensor or provider for the assignment or other transfer of the agreement to the Buyer and (ii) each agreement that requires Consent or other permission, waiver or license from the licensor or provider to enable the Buyer to receive the benefits of the agreement. The Buyer shall contact each such licensor and provider promptly in order to obtain the necessary Consents and, as appropriate, to negotiate alternative terms under which such licenses or services may be obtained by the Buyer. To the extent that licensors or providers under the Third Party Agreements demand payment in exchange for consenting to

assignment or an amendment to the terms of the applicable license, the Buyer may accept or reject such licensor demands and may make counteroffers or otherwise engage in negotiations. The Seller shall cooperate with all reasonable requests by the Buyer for assistance in connection with such negotiations, including without limitation providing introductions for the Buyer to appropriate contacts at licensors and providers, participation at the Buyer's request in communications with licensors and providers, and providing information on the Third Party Agreements as reasonably requested by the Buyer. The Buyer, however, shall have the right at all times to initiate, control and conclude such negotiations. The Seller shall execute such documents as are reasonably requested by the Buyer to evidence any Consents, permissions, waivers and/or licenses.

(c) To the extent obtaining any such Consents related to the Third Party Agreements involves any fees or charges, the Buyer may obtain, at the Buyer's sole cost and expense, any such Consents.

(d) If the Buyer concludes with respect to any Third Party Agreement that a Consent is not available to the Buyer for any reason, the Buyer shall use reasonable efforts to obtain substitute product alternatives or alternative providers. If the Buyer obtains such alternate products or services, the Buyer shall obtain a license or other agreement for an alternative, subject to the payment terms in Section 5.5(c).

5.6 Financing.

(a) The Buyer agrees to use its commercially reasonable efforts to complete a private placement of NMI Common Stock on the terms and conditions acceptable to the Buyer in its sole discretion (subject to the condition in the second succeeding sentence) (the "**144A Offering**"). The Buyer shall have 150 days from the date hereof to complete the 144A Offering, and (i) if the 144A Offering is not complete by such date, either the Buyer or the Seller may terminate this Agreement pursuant to Section 8.1(a)(iv) or (ii) if prior to such date it becomes reasonably apparent that, by no fault or breach of the Buyer of any of its obligations under this Agreement, the condition to closing set forth in Section 7.3 cannot be met within such 150-day period, then the Buyer may terminate this Agreement pursuant to Section 8.1(a)(ii)(A); provided that, in the case of termination pursuant to clause (ii) of this sentence, the Buyer shall be responsible for and shall pay all expenses incurred under Section 5.2(c)(i) or 5.2(c)(ii) through the date of termination. The Buyer agrees that is shall be a condition to the closing of the 144A Offering, and such condition shall not be waivable by the Buyer without the written consent of the Seller, that it shall have sold in such offering not less than a number of shares of NMI Common Stock equivalent to $500,000,000 divided by the Common Stock Sale Price.

(b) Prior to the Closing, the Seller and its Affiliates agree to use their commercially reasonable efforts to provide, and to cause their respective Representatives, including legal and accounting advisors to provide, to the Buyer all cooperation reasonably requested by the Buyer that is necessary, proper or advisable in connection with the 144A Offering; provided that the Buyer shall advance all costs and expenses incurred by the Seller and its Affiliates and any of their Representatives in connection with the foregoing cooperation promptly on request.

(c) As soon as practicable but in any event within five (5) Business Days of the date hereof, the Seller shall engage BDO USA, LLP (the "**Auditors**") to audit the following combined financial statements of the Purchased Subsidiary and its Subsidiaries (the "**Audited Financial Statements**"): the consolidated balance sheets, the consolidated statements of operations, the consolidated statements of cash flows and the consolidated statements of stockholders' equity for the fiscal years ended December 31, 2009 and December 31, 2010 and the notes thereto. The Seller shall also request that the Auditor review the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of cash flows and the consolidated statement of stockholders' equity for the nine month period ended September 30, 2011 (the "**Auditor Reviewed**

Interim Financial Statements”). The Audited Financial Statements and the Auditor Reviewed Interim Financial Statements shall be prepared in accordance with the standards set forth by the Public Company Accounting Oversight Board. The Seller and its Affiliates agree to use their commercially reasonable efforts, at the Buyer's sole cost and expense, to assist the Auditors in conducting and finalizing the Audit and agree to notify the Buyer as promptly as possible if any issues with the Audit arise. The actions set forth in this Section 5.6(c) are collectively referred to as the “**Audit**.” The Buyer shall be responsible for all documented expenses incurred by the Seller in connection with the Audit and shall remit payment to the Auditor as promptly as practicable after presentation by the Seller of an invoice to the Buyer.

5.7 Notification.

(a) The Seller shall promptly (and in any event within three (3) days after becoming aware of such an event, fact or condition) notify the Buyer in writing if, at any time prior to the Closing Date, the Seller becomes aware of any event, fact or condition that would cause the Seller's representations and warranties in this Agreement to be untrue or incomplete or that makes the satisfaction of the conditions to the Buyer's obligation to consummate the transactions contemplated hereby impossible or unlikely; provided, however, that no disclosure by the Seller pursuant to this Section 5.7(a) shall be deemed to amend or supplement any representation or warranty or any Section of the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty or breach of covenant or other breach of this Agreement.

(b) The Buyer shall promptly (and in any event within three (3) days after becoming aware of such an event, fact or condition) notify the Seller in writing if, at any time prior to the Closing Date, the Buyer becomes aware of any event, fact or condition that would cause the Buyer's representations and warranties in this Agreement to be untrue or incomplete or that makes the satisfaction of the conditions to the Seller's obligation to close the transactions contemplated hereby impossible or unlikely; provided, however, that no disclosure by the Buyer pursuant to this Section 5.7(b) shall be deemed to amend or supplement any representation or warranty or to prevent or cure any misrepresentation, breach of warranty or breach of covenant or other breach of this Agreement.

5.8 No Negotiation.

(a) Unless and until this Agreement is terminated pursuant to Article VIII, the Seller shall not, and shall cause each of its respective Representatives not to, directly or indirectly, respond to, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than the Buyer) relating to (i) any transaction involving the sale or license of the Purchased Shares or any assets of the Purchased Subsidiary or any of its Subsidiaries or (ii) any merger, consolidation, reorganization, business combination or similar transaction involving the Seller or the Purchased Subsidiary or any of its Subsidiaries (any such transaction is referred to herein as a “**Restricted Transaction**”).

(b) If the Seller or any of its Representatives receives an offer or proposal relating to a possible Restricted Transaction, the Seller shall immediately notify the Buyer and provide to the Buyer a summary of the terms thereof.

5.9 Non-Competition; Non-Solicitation.

(a) The Seller agrees that it and its Affiliates controlled by the Seller shall not, directly or indirectly, whether for themselves or for any other Person, and whether as a proprietor, principal, shareholders, partner, agent, director, officer, employee, member, manager, consultant, independent contractor or in any

other capacity whatsoever, undertake or have any interest in an entity that engages in the writing of private mortgage insurance anywhere in the United States ("**Competitive Activities**"); provided that such restriction shall not apply to owning any interest of less than five percent (5%) in any publicly traded company.

(b) The Seller agrees that for a period commencing on the Closing Date and ending on the seventh (7th) anniversary of the Closing Date it will not, directly or indirectly, (i) hire or employ any of its or the Purchased Subsidiary's (or any Subsidiary thereof) former employees, former consultants or former independent contractors hired or engaged as a consultant by the Buyer prior to or after the date hereof, (ii) solicit, induce or attempt to induce any former employee, former consultant or former independent contractor hired by the Buyer to leave the employment of the Buyer or its Affiliates or (iii) in any way interfere with, disrupt or attempt to disrupt any then existing relationship between the Buyer or its Affiliates and any former employee, former consultant or former independent contractor hired by the Buyer; unless, in the case of clauses (i) and (ii) above, the employment of such former employee, former consultant or former independent contractor has been terminated by the Buyer.

(c) In recognition of the business objectives of the parties hereto in entering into this Agreement and the transactions contemplated hereby and the consideration paid therefor, the Buyer, on the one hand, and the Seller, on the other hand, each acknowledge and agree that (i) the foregoing non-competition, non-solicitation and non-hire provisions do not impose a greater restraint than is necessary to protect the legitimate business interests of the other parties hereto, (ii) are reasonable under the circumstances and (iii) the parties hereto would not be willing to consummate the transactions contemplated by this Agreement without each of them entering into the restrictive covenants set forth herein. If, at any time, the provisions of this Section 5.9 shall be determined to be invalid or unenforceable by reason of being vague or unreasonable as to duration, geographic area or scope, this Section 5.9 shall be considered divisible and shall be deemed amended to only such duration, geographic area or scope as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction.

(d) Notwithstanding anything to the contrary contained in this Section 5.9, the provisions of this Section 5.9 shall not apply to any stockholder or officer of the Seller or any of its Affiliates (subject to any agreement directly between the Buyer and such stockholder or officer of the Seller).

5.10 Confidential Information.

(a) Between the date of this Agreement and the Closing Date, the Buyer and the Seller shall maintain in confidence, and shall cause their respective agents and advisors to maintain in confidence, any written, oral, or other information obtained in confidence from any other party hereto in connection with this Agreement or the transactions contemplated hereby, unless such information (i) is now, or hereafter becomes, through no act or failure to act on the part of the receiving party in breach of this Agreement, generally known or available, (ii) is known by the receiving party at the time of receiving such information, provided the receiving party can demonstrate such knowledge, (iii) is hereafter furnished to the receiving party by a Third Party as a matter of right and without restriction on disclosure, (iv) is independently developed by or on behalf of the receiving party without any breach of this Agreement, (v) is the subject of a written permission to disclose provided by the disclosing party, (vi) is necessary or appropriate in making any filing or obtaining any consent or approval required for the consummation of the transactions contemplated hereby, (vii) is required to be furnished or disclosed in connection with Proceedings, (viii) is required to be filed with any Governmental Body arising in connection with the transactions contemplated hereby in which case both the Buyer and the Seller shall use reasonable commercial efforts to preserve any confidential information so provided or (ix) is disclosed as part of the 144A Offering.

(b) Subject to the exceptions in clauses (i), (iii) and (v) through (ix) of Section 5.10(a), (i) neither the Seller, the Buyer nor any of their respective Affiliates shall at any time use or disclose to any Person any confidential or proprietary information, knowledge or data relating to another party hereto or the transactions contemplated by this Agreement or the other Transaction Documents and (ii) neither the Seller nor any of its respective Affiliates shall at any time use or disclose to any Person any confidential or proprietary information, knowledge or data relating to the Purchased Subsidiary or any of its Subsidiaries or any of their respective Assets, in each case including, without limitation, financial dealings, transactions, trade secrets, intangibles, files, manuals, procedures, notes, forms, reference materials, computer files, programs and databases, Contracts, process information, workflow information, reports and other materials and documents, however maintained, whether or not marked or otherwise identified as confidential or secret.

5.11 Acknowledgment. The Buyer, on the one hand, and the Seller, on the other hand, each acknowledge that, in view of the nature of the Business and the business objectives of the parties in entering into this Agreement and the transactions contemplated hereby, and the consideration paid therefor, the agreements contained in Sections 5.8, 5.9 and 5.10 are reasonably necessary to protect the legitimate business interests of the parties and that any violation of such agreements will result in irreparable injury to the other parties hereto for which damages will not be an adequate remedy. The Buyer, on the one hand, and the Seller, on the other, therefore agree that in the event of a breach or threatened breach of any such agreements by any other party hereto or its Affiliates, the affected party shall be entitled to preliminary and permanent injunctive relief without proof of actual damages or posting of any bond or other security. For purposes of Sections 5.8, 5.9 and 5.10, the parties further agree that (a) the term "Buyer" shall also include each subsidiary and Affiliate of the Buyer now existing or acquired or formed after the date hereof and the successors and assigns of the Buyer and each such Affiliate or subsidiary and (b) the term "Seller" shall also include each subsidiary and Affiliate of the Seller now existing or acquired or formed after the date hereof and the successors and assigns of the Seller and each such Affiliate or subsidiary.

5.12 Assumption of Liabilities. Immediately prior to the Closing, the Seller shall assume the Excluded Liabilities pursuant to an assignment and assumption agreement between the Purchased Subsidiary, its Subsidiaries and the Seller reasonably acceptable to the Buyer.

5.13 Tax Matters.

(a) Tax Indemnification. The Seller shall pay or cause to be paid, shall be liable for, and shall indemnify, defend, and hold the Buyer Indemnified Parties harmless from and against, any Excluded Taxes. The Seller shall be entitled to any refund of Taxes of the Purchased Subsidiary and its Subsidiaries received for any Pre-Closing Tax Period (other than any refund, credit, or offset of Taxes attributable to, or resulting from, a carry back of any item arising in a Post-Closing Period, or in the case of a refund, credit, or offset for a Straddle Period, the use of such item arising in a Post-Closing Tax Period). The Buyer shall be entitled to the amount of any other refund, credit, offset, or other Tax benefit of the Purchased Subsidiary and its Subsidiaries.

(b) Indemnification Payments. Payment of any amount due under Section 5.13(a), except for any amounts for which the Buyer is required to seek recovery under the Indemnification Insurance Policy pursuant to Article IX, shall be made pursuant to the provisions of Section 9.2(e)..

(c) Mutual Assistance and Cooperation. After the Closing, the Seller and the Buyer shall, subject to Section 5.1(b):

(i) assist (and cause their respective Affiliates to assist) the other party in preparing any Tax Returns of the Purchased Subsidiary or its Subsidiaries;

(ii) cooperate fully in preparing for any audit of, or dispute with, any taxing authority regarding any Tax Return of the Purchased Subsidiary or its Subsidiaries;

(iii) make available to the other parties and to any taxing authority as reasonably requested all information, records, and documents relating to Taxes of the Purchased Subsidiary or its Subsidiaries;

(iv) provide timely notice to the other party in writing of any pending or threatened tax audit or assessment of the Purchased Subsidiary or its Subsidiaries for Taxes for which the other party may have a liability; and

(v) furnish the other party with copies of all correspondence received from any taxing authority in connection with any audit or information request with respect to the Purchased Subsidiary or its Subsidiaries for Taxes for which the other party may have a liability.

(d) Contest Provisions.

(i) The Seller shall have the right to represent the interests of the Purchased Subsidiary and its Subsidiaries in connection with any Tax Contest relating to the taxable years or periods ending on or before the Closing Date and for which the Seller may owe an indemnity pursuant to Section 5.13(a)(i), and to employ counsel of its choice at its expense, provided, that the Seller shall have first notified the Buyer in writing of its intention to do so and of the identity of counsel, if any, chosen by the Seller in connection therewith; provided, further, that the Seller and the Buyer agree that the Seller shall be liable for any expenses, including fees for outside attorneys and other outside consultants incurred in connection with any Tax Contest; provided, further, that with respect to any Tax Contest described in this Section 5.13(d)(i), the Seller shall (x) consult with the Buyer before taking any significant action in connection with such Tax Contest, (y) provide the Buyer with a timely and reasonably detailed account of each phase of such Tax Contest, and (z) not settle, compromise, or abandon any such Tax Contest without obtaining the prior written consent of the Buyer, which consent shall not be unreasonably withheld.

(ii) In the case of a Tax Contest for a Straddle Period of the Purchased Subsidiary or any of its Subsidiaries, the Buyer shall have the right to control such Tax Contest; provided, however, that (A) the Buyer shall provide the Seller with a timely and reasonably detailed account of each phase of such Tax Contest, (B) the Buyer shall consult with the Seller before taking any significant action in connection with such Tax Contest, and (C) the Seller shall be entitled to participate in such Tax Contest, at its own expense.

(iii) The Buyer shall have the exclusive right to control any Tax Contest involving the Purchased Subsidiary or any of its Subsidiaries (other than any Tax Contest described in Section 5.13(d)(i) or 5.13(d)(ii)).

(e) Filing of Tax Returns.

(i) The Seller shall timely prepare and file or shall cause to be timely prepared and filed any Tax Return of the Purchased Subsidiary or any of its Subsidiaries for any taxable period that ends on or before the Closing Date, provided, that the Seller shall prepare and file such Tax Returns in a manner

consistent with the past practice of the Purchased Subsidiary and its Subsidiaries, unless otherwise required by applicable law.

(ii) The Buyer shall, except to the extent that such Tax Returns are the responsibility of the Seller under Section 5.13(e)(i), and subject to Section 5.13(e)(iii), be responsible for the preparation and filing of all Tax Returns with respect to the Purchased Subsidiary and its Subsidiaries.

(iii) For any Tax Return of the Purchased Subsidiary or any of its Subsidiaries with respect to a Straddle Period, the Buyer shall (A) prepare and file such Tax Returns in a manner consistent with the past practice of the Purchased Subsidiary and its Subsidiaries, unless otherwise required by applicable Law, and (B) deliver to the Seller for its review a copy of such proposed Tax Return at least twenty (20) days prior to the due date (giving effect to any validly obtained extension) thereof.

(f) Transfer Taxes. Notwithstanding anything to the contrary in this Agreement, the Seller and the Buyer shall be equally responsible for, and shall pay when due, any sales Tax, use Tax, transfer Tax, documentary stamp Tax, value added Tax or similar Taxes and related fees imposed on the sale or transfer of the Purchased Shares pursuant to this Agreement or the entering into of this Agreement (“**Transfer Taxes**”). The Buyer and the Seller shall jointly prepare and file all Tax Returns with respect to such Transfer Taxes.

(g) Tax Sharing Agreements. As of the Closing Date, any Tax sharing or allocation agreement or arrangement, whether or not written, that may have been entered into between the Purchased Subsidiary or any of its Subsidiaries on the one hand, and the Seller or any of its Affiliates (other than the Purchased Subsidiary and its Subsidiaries) on the other hand, shall be terminated, and no payments that are owed by or to the Purchased Subsidiary or its Subsidiaries shall be made.

(h) Coordination; Survival. Notwithstanding anything in this Agreement to the contrary, the procedures with respect to Tax matters shall be governed exclusively by this Section 5.13 (and not by Article IX). The indemnification provisions of this Section 5.13 shall survive the Closing until GSE Approval is obtained, or, if GSE Approval is not obtained, until this Agreement is terminated by the Seller and the Buyer.

(i) Treatment of Indemnity Payment. The parties agree that, except to the extent otherwise required pursuant to a “determination” (within the meaning of Section 1313(a) of the Code or any similar provision of state, local, or foreign law), all indemnification payments made pursuant to this Agreement shall be treated by the parties as an adjustment to the Purchase Price.

5.14 Directors' and Officers' Insurance.

(a) The Buyer agrees to purchase and maintain in effect for not less than one (1) year from the expiration of the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Seller and its Subsidiaries (the “**Existing Policies**”) for the individuals who at any time prior to the Closing were directors or officers of the Seller or any of its present or former Subsidiaries (the “**Director and Officer Indemnified Parties**”) or corporate parents and any other employees, agents or other individuals otherwise covered by the Existing Policies (the “**Insured Parties**”), policies of directors' and officers' liability insurance and fiduciary liability insurance with respect to matters occurring at or prior to the Closing (including the transactions contemplated by this Agreement), which policies shall contain terms mutually acceptable to the Buyer and the Seller (the “**D&O Policies**”).

(b) This Section 5.14 is intended to benefit the Insured Parties and the Director and Officer Indemnified Parties, and shall be binding on all successors and assigns of the Buyer. In the event that the

Buyer or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving Person of such consolidation or merger or (ii) transfers or conveys a majority of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors, assigns and transferees of the Buyer or its successors or assigns assume the obligations set forth in this Section 5.14.

5.15 Indemnification Insurance Policy. Prior to or substantially simultaneously with the Closing, the Buyer shall use its commercially reasonable efforts to obtain, and if available, shall purchase an indemnification insurance policy with coverage up to $8,500,000 to satisfy any indemnification obligations of the Seller arising under Section 9.2(a)(i) and under Section 5.13(a) (to the extent such indemnification obligations arose under Section 5.13(a) as a result of a breach by the Seller of the representations and warranties contained in Section 3.15) (the "**Indemnification Insurance Policy**"). The Buyer agrees to use its commercially reasonable efforts to ensure that the closing condition relating to the Indemnification Insurance Policy set forth in Section 6.9 is met and further agrees that (i) the Indemnification Insurance Policy shall not include any terms or conditions that provide for recourse by the provider of the Indemnification Insurance Policy against the Seller, the Purchased Subsidiary or any of its Subsidiaries or any of their respective stockholders, officers or directors, and (ii) the amount by which the Cash Consideration is to be reduced pursuant to Section 2.1(b)(iii) shall not be in excess of $150,000 (and the Seller shall not otherwise be liable for any costs incurred by the Buyer to purchase the Indemnification Insurance Policy in excess of such amount). For the avoidance of doubt, nothing contained in this Section 5.15 shall be construed to impose an obligation on the Buyer to purchase the Indemnification Insurance Policy prior to the Buyer having received the proceeds from the 144A Offering.

ARTICLE VI

CONDITIONS PRECEDENT TO THE BUYER'S OBLIGATION TO CLOSE

The Buyer's obligation to consummate the transactions to occur at the Closing is subject to the satisfaction of the following conditions (which may be waived by the Buyer, in its sole discretion, in whole or in part):

6.1 Accuracy of Representations. Each of the representations and warranties of the Seller set forth in (i) this Agreement, the other Transaction Documents and any certificate or document delivered to the Buyer (other than the representations and warranties set forth in Sections 3.1 (first sentence only), 3.2, 3.3, 3.9(b), 3.9(c), 3.10, 3.12(c) and 3.18 of this Agreement), in each case, made as if none of such representations and warranties contained any qualifications or limitations as to "materiality" or Material Adverse Effect, shall be true and correct in all respects, in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date (except for those representations and warranties that address matters as of a particular date which shall be true and correct in all respects as of such date); provided that, for purposes of determining the satisfaction of this condition, such representations and warranties shall be deemed to be true and correct in all respects unless the failure or failures of such representations and warranties to be so true and correct, individually or in the aggregate, would have a Material Adverse Effect on the Seller; (ii) Sections 3.2, 3.9(b), 3.9(c), 3.10 and 3.12(c) shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as though made as of the Closing Date except for any *de minimis* inaccuracies (and, for the avoidance of doubt, "*de minimus* inaccuracies" as it applies to Section 3.9(c) for purposes of this Section 6.1 shall mean inaccuracies of $5,000.00 or less in the aggregate); and (iii) Sections 3.1 (first sentence only), 3.3 and 3.18 shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as though made as of the Closing Date.

6.2 Performance. The Seller shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Agreement and the other Transaction Documents that are required to be performed or complied with by it on or before the Closing.

6.3 Completion of the 144A Offering. The Buyer shall have completed the 144A Offering and received all funds pursuant thereto.

6.4 Consents. Except for Consents under Third Party Agreements, the Seller shall have sent all notices, made all filings and obtained all Consents and Orders that are listed or required to be listed in Sections 3.4(b) and 3.5 of the Disclosure Schedule including but not limited to the Wisconsin Office of the Commissioner of Insurance. The Buyer shall have obtained all Consents under the Third Party Agreements listed in Section 6.4 of the Disclosure Schedule, or obtained licenses or other agreements for alternative products as contemplated by Section 5.5. All such Consents, Orders and licenses shall be in a form reasonably satisfactory to the Buyer, and none of such Consents, Orders and licenses shall have been revoked.

6.5 No Proceedings or Illegality. No Proceeding shall be pending or threatened wherein an unfavorable Order could (a) prevent consummation of any of the transactions contemplated by this Agreement and the other Transaction Documents, (b) cause any of the transactions contemplated by this Agreement and the other Transaction Documents to be rescinded or divested following consummation or (c) adversely affect the right of the Buyer to own or operate the Purchased Subsidiary or its Subsidiaries or their respective Assets, and no such Order shall be in effect. No Order or provision of any Legal Requirement shall prohibit the Buyer from consummating the Closing on its behalf.

6.6 No Bankruptcy or Receivership. None of the Seller, the Wisconsin Office of the Commissioner of Insurance or any other Person shall have filed any petition or commenced any Proceeding with respect to the Seller, the Purchased Subsidiary or any of its Subsidiaries under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, no Seller shall have made a general assignment for the benefit of its creditors and no Order for relief shall have been entered against the Seller, the Purchased Subsidiary or any of its Subsidiaries under any state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization of the Seller, the Purchased Subsidiary or any of its Subsidiaries. Neither the Seller nor the Purchased Subsidiary or any of its Subsidiaries shall be subject to any Order appointing a custodian, trustee or receiver for the Seller or such Purchased Subsidiary or all or any material portion of its Assets or authorizing the taking of possession of the Assets of the Seller or such Purchased Subsidiary.

6.7 No Material Adverse Change. From the date of this Agreement to the Closing, there shall not have occurred a Material Adverse Effect with respect to the Seller, the Purchased Subsidiary or any of its Subsidiaries or any material Asset of the Purchased Subsidiary or any of its Subsidiaries.

6.8 Closing Deliveries. The Buyer shall have received each of the documents and deliveries required by Section 2.3(a).

6.9 Indemnification Insurance. The Indemnification Insurance Policy shall have been available for purchase to the Buyer on terms and conditions reasonably acceptable to the Buyer in its sole discretion (subject to the Buyer's obligations set forth in Section 5.15).

ARTICLE VII

CONDITIONS PRECEDENT TO THE SELLER'S OBLIGATION TO CLOSE

The Seller's obligation to consummate the transactions to occur at the Closing is subject to the satisfaction of the following conditions (which may be waived by the Seller in its sole discretion, in whole or in part):

7.1 Accuracy of Representations. Each of the representations and warranties of the Buyer set forth (i) in this Agreement, the other Transaction Documents and any certificate or document delivered to the Seller (other than the representations and warranties contained in Sections 4.1, 4.2, 4.3 and 4.7 of this Agreement), in each case, made as if none of such representations and warranties contained any qualifications or limitations as to “materiality” or Material Adverse Effect, shall be true and correct in all respects, in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date (except for those representations and warranties that address matters as of a particular date which shall be true and correct in all respects as of such date); provided that, for purposes of determining the satisfaction of this condition, such representations and warranties shall be deemed to be true and correct in all respects unless the failure or failures of such representations and warranties to be so true and correct, individually or in the aggregate, would have a Material Adverse Effect on the Buyer; (ii) Section 4.2 shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as though made as of the Closing Date except for any *de minimis* inaccuracies; and (iii) Sections 4.1, 4.3 and 4.7 shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as though made as of the Closing Date.

7.2 Performance. The Buyer shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Agreement and the other Transaction Documents that are required to be performed or complied with by it on or before the Closing.

7.3 Completion of the 144A Offering. The Buyer shall have completed the 144A Offering and received all funds pursuant thereto.

7.4 Consents. The Seller shall have obtained the Consent of the Wisconsin Office of the Commissioner of Insurance.

7.5 No Proceedings or Illegality. No Proceeding shall be pending or threatened wherein an unfavorable Order could (a) prevent consummation of any of the transactions contemplated by this Agreement and the other Transaction Documents or (b) cause any of the transactions contemplated by this Agreement and the other Transaction Documents to be rescinded or divested following consummation, and no such Order shall be in effect. No Order or provision of any Legal Requirement shall prohibit the Seller from consummating the Closing on its behalf.

7.6 No Bankruptcy or Receivership. Neither the Buyer nor any other Person shall have filed any petition or commenced any Proceeding with respect to the Buyer under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, the Buyer shall have not have made a general assignment for the benefit of its creditors and no Order for relief shall have been entered against the Buyer under any state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization of the Buyer. The Buyer shall not be subject to any Order appointing a custodian, trustee or receiver for the Buyer or all or any material portion of its Assets or authorizing the taking of possession of the Assets of the Buyer.

7.7 Closing Deliveries. The Seller shall have received each of the closing deliverables contemplated by Section 2.3(b).

ARTICLE VIII

TERMINATION

8.1 Termination Events.

(a) This Agreement may, by written notice given prior to or at the Closing, be terminated:

(i) (A) by the Buyer if a material breach of any provision of this Agreement has been committed by the Seller and such breach has not been waived or (B) by the Seller if a material breach of any provision of this Agreement has been committed by the Buyer and such breach has not been waived; provided, that if such breach is capable of being cured a party may not terminate this Agreement under this Section 8.1(a) until a period of thirty (30) days has expired from the date of notice of such breach without such breach having been cured;

(ii) (A) by the Buyer if satisfaction of any of the conditions in Article VI is or becomes impossible (other than through the material breach by the Buyer of its obligations under this Agreement) and the Buyer has not waived such condition or (B) by the Seller if satisfaction of any of the conditions in Article VII is or becomes impossible (other than through the material breach by the Seller of its obligations under this Agreement) and the Seller has not waived such condition;

(iii) by written mutual consent of the Buyer and the Seller; or

(iv) by the Seller (other than through the breach of the Seller of its obligations under this Agreement) or the Buyer (other than through the breach by the Buyer of its obligations under this Agreement) if the Closing has not occurred on or before one hundred fifty (150) days after the date hereof, or such later date as the Buyer and the Seller may agree.

(b) If GSE Approval is not obtained, the Buyer and the Seller shall take the actions set forth in Section 2.6, including to enter into an agreement terminating this Agreement and the Transaction Documents, which agreement shall set forth the rights and obligations of the parties after termination.

8.2 Effect of Termination. If this Agreement is terminated pursuant to Section 8.1, all further obligations of the parties under this Agreement shall terminate without liability of any party (or any stockholder, member, partner, director, manager, officer, employee, agent, consultant or representative of such party) to the other parties to this Agreement, except that (a) the obligations in Section 2.6, Section 5.10(a), this Article VIII and Articles IX, X and XI will survive such termination and (b) if this Agreement is terminated by a party because of the material breach of this Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's material breach of its obligations under this Agreement, the terminating party's right to pursue all legal remedies shall survive such termination.

ARTICLE IX

INDEMNIFICATION; REMEDIES

9.1 Survival of Representations, Warranties and Covenants. All representations and warranties of the parties contained in this Agreement, the other Transaction Documents or any certificate delivered in connection with the Closing shall survive the Closing Date for the same period for which coverage is available under the Indemnification Insurance Policy, except that representations which are the basis for claims asserted under this Agreement prior to the expiration of such applicable time periods shall survive until the final resolution of those claims. All covenants and agreements of the parties contained in this Agreement and the other Transaction Documents shall survive the Closing until GSE Approval is obtained, or, if GSE Approval is not obtained, until this Agreement is terminated by the Seller and the Buyer.

9.2 Indemnification.

(a) Subject to the provisions of this Article IX, effective as of and after the Closing Date, the Seller shall indemnify, defend and hold harmless the Buyer and its Affiliates and their respective stockholders, members, partners, managers, officers, directors, employees, Representatives, controlling persons, counsel, agents, successors and assigns (collectively, the "**Buyer Indemnified Parties**"), from and against, and will pay to any Buyer Indemnified Party the amount of, any and all claims, demands, Proceedings, losses, damages (excluding indirect, special, incidental, consequential and punitive damages, except in each case to the extent arising in connection with, as a result of or otherwise relating to any Third Party claim), penalties, Liabilities, obligations, settlement payments, costs and expenses of every kind whatsoever (including without limitation, costs of investigating, preparing or defending any such claim or Proceeding and reasonable legal fees and disbursements), as and when incurred by such Buyer Indemnified Party and whether or not involving a Third Party claim (collectively and generically, "**Losses**"), incurred or suffered by any of the Buyer Indemnified Parties, arising out of or relating to (i) any inaccuracy of any representation or warranty of the Seller contained in this Agreement (including all schedules, exhibits and annexes hereto) or in any certificate or document delivered in connection therewith (other than any breach of Section 3.15, which shall be governed by Section 5.13), disregarding all qualifications and exceptions contained therein relating to the Knowledge of the Seller, materiality, specified dollar thresholds or Material Adverse Effect, except that with respect to the accuracy of Section 3.9(c), for purposes of this Article IX only, the term "Unaudited Financial Statements" shall be replaced with the phrase "Audited Financial Statements or Auditor Reviewed Interim Financial Statements," (ii) any material breach of any covenant or agreement of the Seller contained in this Agreement or any other Transaction Document, (iii) any Excluded Liability and (iv) the Seller Closing Expenses.

(b) Subject to the provisions of this Article IX, effective at and after the Closing Date, the Buyer shall indemnify, defend and hold harmless the Seller and its Affiliates, and their respective stockholders, members, partners, managers, officers, directors, employees, Representatives, controlling persons, counsel, agents, successors and assigns (collectively, the "**Seller Indemnified Parties**"), from and against any and all Losses incurred or suffered by any of the Seller Indemnified Parties arising by reason of or resulting from (i) any inaccuracy of any representation or warranty of the Buyer contained in this Agreement (including all schedules, exhibits and annexes hereto) or in any certificate or document delivered in connection herewith, disregarding all qualifications and exceptions contained therein relating to knowledge, materiality, specified dollar thresholds or Material Adverse Effect, (ii) any material breach of any covenant or agreement of the Buyer contained in this Agreement or any other Transaction Document, (iii) any Retained Liability, (iv) any Buyer Closing Expenses and (v) the Post-Closing Liabilities.

(c) Notwithstanding any provision of this Article IX, (i) the liability of the Seller shall (A) with respect to indemnification obligations of the Seller arising under Section 9.2(a)(i) and under Section 5.13(a) (to the extent such obligations arose under Section 5.13(a) as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), be limited to $8,500,000, and (B) with respect to indemnification obligations of the Seller arising under Sections 9.2(a)(ii), (iii) and (iv) and under Section 5.13(a) (with respect to indemnification obligations under Section 5.13(a) arising other than as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), be limited to the dollar amount that is equal to $2,500,000 less (1) any amounts reimbursed to the Seller by the Buyer in respect of Seller Operating Expenses; and (2) 50% of the cost incurred by the Buyer to purchase the Indemnification Insurance Policy; and (ii) the liability of the Buyer under Section 9.2(b)(ii) shall be limited to $8,500,000; provided, however, that the foregoing limitations on liability of both the Seller and the Buyer shall not apply to intentional, fraudulent or willful misrepresentations or to intentional or willful breaches of any covenants or agreements of such party contained in this Agreement, as applicable.

(d) The Buyer agrees and acknowledges that, with respect to any Losses incurred or suffered by any of the Buyer Indemnified Parties and otherwise recoverable by the Buyer pursuant to the indemnification obligations of the Seller contained in Section 9.2(a)(i) and Section 5.13(a) (to the extent such obligation arose under Section 5.13(a) as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), except with respect to Losses arising from intentional, fraudulent or willful misrepresentations by the Seller, recovery under the Indemnification Insurance Policy shall be the sole and exclusive remedy of the Buyer to settle the monetary indemnification obligations of the Seller arising under Section 9.2(a)(i) and under Section 5.13(a) (to the extent such obligations arose under Section 5.13(a) as a result of a breach by the Seller of the representations and warranties contained in Section 3.15).

(e) With respect to any Losses recoverable by the Buyer pursuant to the indemnification obligations of the Seller arising under Sections 9.2(a)(ii), (iii) and (iv) and under Section 5.13(a) (with respect to Losses recoverable under Section 5.13(a) other than as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), the Buyer shall have the right to set off the amount of such Losses against the amount of cash contained in the Escrow Account, subject to the cap set forth in Section 9.2(c), by making a claim for indemnification in accordance with the procedures set forth in this Section 9.2(e). With respect to claims for indemnification by the Buyer pursuant to the indemnification obligations of the Seller arising under Sections 9.2(a)(ii), (iii) and (iv) and under Section 5.13(a) (with respect to Losses recoverable under Section 5.13(a) other than as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), the Buyer shall notify the Seller in writing (an "**Indemnification Notice**") setting forth the amount of such claim for indemnification and setting forth the nature and the basis for such claim. The right of the Buyer to set off the amount of such Loss, as set forth in the Indemnification Notice, shall be deemed agreed to by the Seller unless, within five (5) Business Days after receipt by the Seller of such Indemnification Notice, the Seller notifies the Buyer in writing (an "**Objection Notice**") that it disputes the right of the Buyer to set off the amount of such Loss. Upon receipt by the Buyer of an Objection Notice, the Buyer and the Seller shall attempt to settle and compromise the same (and the Buyer shall have the right to participate in any settlement negotiations undertaken by the Seller with any third parties and the Buyer's consent (not to be unreasonably withheld) shall be required for the Seller to agree to any settlement with a third party). If the Buyer and the Seller cannot resolve such dispute within ten (10) Business Days following the Buyer's receipt of the Objection Notice from the Seller, then either the Buyer or the Seller may, by written notice to the other, demand arbitration of the matter. The Buyer and the Seller shall jointly select an arbitrator within ten (10) Business Days after delivery of the notice to arbitrate. If the Buyer and the Seller fail to agree upon an arbitrator within such ten (10) Business Day period, the Buyer and the Seller shall each select one arbitrator and the two arbitrators shall select a third arbitrator. The Seller and the Buyer shall request a hearing in front of the arbitrator(s) as promptly as possible and request that the arbitrator(s) render a decision within five (5) Business Days after the hearing. The decision of the arbitrator(s) so selected as to the validity and

amount of any claim for Losses shall be binding and conclusive upon the parties to this Agreement, and the arbitrator(s) shall promptly deliver a copy of its written decision to the Escrow Agent following such decision. The Buyer agrees and acknowledges that, with respect to any Losses incurred or suffered by any of the Buyer Indemnified Parties and recoverable by the Buyer pursuant to Sections 9.2(a)(ii), (iii) and (iv) and under Section 5.13(a) (with respect to Losses arising other than as a result of a breach by the Seller of the representations and warranties contained in Section 3.15), except with respect to Losses arising from intentional or willful breaches by the Seller, the right of set off against the cash contained in the Escrow Account shall be the sole and exclusive remedy of the Buyer to settle the monetary indemnification obligations of the Seller arising under Section 9.2(a)(ii), (iii) and (iv) and under Section 5.13(a) (with respect to Losses arising other than as a result of a breach by the Seller of the representations and warranties contained in Section 3.15).

9.3 Defense of Third-Party Claims. Except with respect to Taxes, which are covered by Section 5.13, if any Proceeding is filed or instituted by a third party making a claim for Losses (a "**Claim**") against any Buyer Indemnified Party or a Seller Indemnified Party (an "**Indemnified Party**") with respect to a matter subject to indemnity hereunder, such Indemnified Party shall give notice (a "**Claim Notice**") to (a) the Seller, in the case of an indemnification claim pursuant to Section 9.2(a) or (b) the Buyer, in the case of an indemnification claim pursuant to Section 9.2(b) (the "**Indemnifying Party**"), in either case as soon as practicable after such Indemnified Party becomes aware of any fact, condition or event which may reasonably give rise to Losses for which indemnification may be sought under this Article IX; however, the failure of any Indemnified Party to give timely notice hereunder shall not affect rights to indemnification hereunder, except to the extent such Indemnified Party is actually prejudiced by such failure (to the extent determined by a court of competent jurisdiction). Except with respect to Taxes, which are covered by Section 5.13, after receipt of a Claim Notice of a Proceeding, the Indemnifying Party shall have the right to defend the Indemnified Party against the Proceeding at the Indemnifying Party's expense with counsel of its choice reasonably satisfactory to the Indemnified Party, unless the nature of the Claim creates an ethical conflict for the same counsel to represent the Indemnified Party and the Indemnifying Party, so long as (i) the Indemnifying Party notifies the Indemnified Party in writing within fifteen (15) days after the Indemnifying Party has received the Claim Notice and that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any Losses the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Claim or raised in the Proceeding, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Proceeding and fulfill its indemnification obligations hereunder, (iii) the Proceeding involves only a claim for money damages and no other relief and (iv) the Indemnifying Party conducts the defense of the Proceeding actively and diligently. The Indemnifying Party shall not compromise or settle any such Proceeding without the prior written consent of the Indemnified Party or enter into any settlement negotiations in connection with such Proceeding without giving prior written notice to the Indemnified Party. In all other cases the Indemnified Party may defend the claim or Proceeding with one counsel of its choosing reasonably satisfactory to and at the expense of the Indemnifying Party. The Indemnified Party may, at its own cost, participate in the investigation, trial and defense of any such Proceeding defended by the Indemnifying Party and any appeal arising therefrom and employ its own counsel in connection therewith. The parties shall cooperate with each other in connection with any defense and in any notifications to insurers. If the Indemnifying Party fails to promptly and diligently assume the defense of such Proceeding after receipt of notice hereunder, the Indemnified Party against which such Claim has been asserted shall (upon delivering notice to such effect to the Indemnifying Party) have the right to undertake the defense, compromise or settlement of such Proceeding with counsel of its own choosing at the expense of the Indemnifying Party and the Indemnifying Party shall have the right to participate therein at its own cost. The Indemnified Party shall provide prompt notice to the Indemnifying Party in the event of any compromise or settlement entered into pursuant to the immediately preceding sentence. Losses shall be paid within five (5) Business Days of the

final determination of the merits and amount of a Claim. This Section 9.3 shall not apply with respect to any Losses for which any Buyer Indemnified Party is seeking recovery under the Indemnification Insurance Policy or pursuant to its right of set off against the cash in the Escrow Account. The procedure for submitting Claims for which the Buyer seeks recovery under the Indemnification Insurance Policy shall be governed by the terms of the Indemnification Insurance Policy, and the procedure for submitting Claims for which the Buyer seeks recovery pursuant to its right of set off against the cash in the Escrow Account is set forth in Section 9.2(e).

9.4 Punitive Losses; Certain Offsets.

(a) Notwithstanding anything herein to the contrary, no party shall be liable to any Indemnified Party under this Article IX or Section 5.13 for (i) punitive or exemplary Losses or (ii) consequential Losses (including for lost profits or diminution in value to the extent such items constitute consequential Losses), that in the case of this clause (ii) are remote or not reasonably foreseeable, in each case of (i) and (ii) as a result of any breach of this Agreement or other agreements referred to herein or of any private right of action that any party may have hereunder against another party hereto; provided that the foregoing shall not limit the right of any Indemnified Party to indemnification in accordance with this Agreement with respect to any component of any claim, settlement, award or judgment against such party by any unaffiliated third party. For purposes of this Article IX and Section 5.13, “Losses” shall be net of any insurance or other recoveries (net of any related deductible or expenses incurred in securing such recovery) received by the Indemnified Party or its Affiliates in connection with the facts giving rise to any right of indemnification hereunder.

(b) Subject to Section 9.2(d), each Indemnified Party shall use reasonable efforts to collect any amounts available under insurance coverage, or from any other Person alleged to be responsible, for any Losses payable under this Article IX. If the Indemnified Party receives any amounts under applicable insurance policies, or from any other Person alleged to be responsible for any Losses, subsequent to an indemnification payment by the Indemnifying Party, then such Indemnified Party shall promptly reimburse the Indemnifying Party for any payment made or expense incurred by such Indemnifying Party in connection with providing such indemnification payment up to the amount received by the Indemnified Party, net of any deductible or expenses incurred by such Indemnified Party in collecting such amount.

(c) Each Indemnified Party must mitigate in accordance with applicable Legal Requirements any loss for which such Indemnified Party seeks indemnification under this Agreement. If such Indemnified Party mitigates its loss after the Indemnifying Party has paid the Indemnified Party under this Article IX in respect of that loss, the Indemnified Party must notify the Indemnifying Party and pay to the Indemnifying Party the extent of the value of the benefit to the Indemnified Party of that mitigation (less the Indemnified Party's reasonable costs of mitigation) promptly after the benefit is received.

(d) If the Indemnified Party receives any payment from an Indemnifying Party in respect of any Losses pursuant to this Article IX and the Indemnified Party could have recovered all or a part of such Losses from a third party (a “**Potential Contributor**”) based on the underlying claim asserted against the Indemnifying Party, the Indemnified Party shall assign such of its rights to proceed against the Potential Contributor as are necessary to permit the Indemnifying Party to recover from the Potential Contributor the amount of such payment.

9.5 Exclusive Remedy. After the Closing Date, this Article IX and Section 5.13 shall provide the exclusive remedy for any breach or alleged breach of this Agreement, except in the case of common law fraud relating to the entry into this Agreement or with respect to matters for which the remedy of specific performance, injunctive relief or other non-monetary equitable remedies are available.

ARTICLE X

DEFINITIONS

10.1 Certain Definitions. In this Agreement, the following terms have the meanings set forth below, which shall be equally applicable to both the singular and plural forms. Any agreement or document referred to below shall mean such agreement or document as amended, supplemented and modified from time to time to the extent permitted by the applicable provisions thereof and by this Agreement.

"**144A Offering**" has the meaning set forth in Section 5.6(a).

"**Additional Securities**" means any common stock equivalents or options, warrants or other securities convertible into, or exchangeable or exercisable for (at any time or upon the occurrence of any event or contingency) or any other right to subscribe for or purchase any shares of NMI Common Stock (including any note or debt security convertible into or exchangeable for shares of NMI Common Stock or other equity securities of the Buyer) or any other security.

"**Affiliate**" means, with respect to any specified Person, another Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person.

"**Agreement**" has the meaning set forth in the Preamble.

"**Ancillary Agreements**" means, collectively, (a) the Escrow Agreement and (b) any other Contracts delivered by any party hereto at or prior to the Closing.

"**Assets**" means all properties, assets and rights of every kind, nature and description whatsoever whether tangible or intangible, real, personal or mixed, fixed or contingent, choate or inchoate, known or unknown, wherever located.

"**Audit**" has the meaning set forth in Section 5.6(c).

"**Audited Financial Statements**" has the meaning set forth in Section 5.6(c).

"**Auditor Reviewed Interim Financial Statements**" has the meaning set forth in Section 5.6(c).

"**Auditors**" has the meaning set forth in Section 5.6(c).

"**Business Day**" means any day which is not a Saturday, Sunday or legal holiday recognized by the United States of America.

"**Buyer**" has the meaning set forth in the Preamble.

"**Buyer Closing Expenses**" has the meaning set forth in Section 2.4(b).

"**Buyer Indemnified Parties**" has the meaning set forth in Section 9.2(a).

"**Cash Consideration**" has the meaning set forth in Section 2.1(b).

"**CDW**" means CDW, LLC and its Affiliates.

"**CDW Retained Liability**" means the amount set forth opposite CDW's name on Schedule I.

"**Claim**" has the meaning set forth in Section 9.3.

"**Claim Notice**" has the meaning set forth in Section 9.3.

"**Closing**" has the meaning set forth in Section 2.2.

"**Closing Date**" has the meaning set forth in Section 2.2.

"**COBRA**" has the meaning set forth in Section 5.3(b).

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

"**Common Stock Sale Price**" shall mean the per share purchase price paid for the NMI Common Stock and Additional Securities, if any, in the 144A Offering.

"**Competitive Activities**" has the meaning set forth in Section 5.9(a).

"**Consent**" means any approval, consent, ratification, waiver, or other authorization of, notice to or registration, qualification, designation, declaration or filing with any Person, including without limitation, any Governmental Body.

"**Contract**" means any agreement, contract, indenture, note, bond, loan, lease, conditional sale contract, purchase or sales order, option, license, instrument, mortgage, obligation, commitment, arrangement, promise or undertaking (whether written or oral) that is legally binding.

"**Control**" (including the terms "**Controlled by**" and "**under common Control with**") means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by Contract or otherwise.

"**D&O Policies**" has the meaning set forth in Section 5.14(a).

"**Director and Officer Indemnified Parties**" has the meaning set forth in Section 5.14(a).

"**Disclosure Schedule**" means the schedules attached to this Agreement and entitled Disclosure Schedule.

"**Dispute**" has the meaning set forth in Section 11.4(a).

"**Encumbrance**" means any charge, claim, community property interest, condition, easement, covenant, Contract, commitment, warrant, demand, encumbrance, equitable interest, lien, mortgage, charge, option, purchase right, pledge, security interest, right of first refusal, or other material rights of Third Parties or material restrictions of any kind, including without limitation any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"**Equity Consideration**" has the meaning set forth in Section 2.1(a).

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Affiliate**" has the meaning set forth in Section 3.14(c).

"**Escrow Account**" shall mean the account designated by the Escrow Agent.

"**Escrow Agent**" shall mean a financial institution in the United States reasonably acceptable to the Buyer and the Seller.

"**Escrow Agreement**" shall mean a customary escrow agreement entered into by the Buyer with the Escrow Agent relating to the escrow of the Escrowed Cash Consideration, which agreement shall be mutually acceptable to the Buyer and the Seller.

"**Escrowed Amount**" has the meaning set forth in Section 2.3(b)(ii).

"**Escrowed Cash**" has the meaning set forth in Section 2.3(b)(ii).

"**Escrowed Cash Consideration**" has the meaning set forth in Section 2.1(b).

"**Excluded Liabilities**" means any Liability of the Purchased Subsidiary, any of its Subsidiaries or of the Seller that is not a Retained Liability.

"**Excluded Taxes**" means (a) any Taxes of the Purchased Subsidiary or any of its Subsidiaries for any Pre-Closing Tax Period, (b) any Taxes of any other Person, including the Seller or any of its Affiliates (other than the Purchased Subsidiary and its Subsidiaries) for any taxable year or period, (c) any Taxes for which the Purchased Subsidiary or any of its Subsidiaries may be liable under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign Tax law), (d) any Taxes arising from or in connection with any breach by the Seller or any of its Affiliates of any covenant contained in this Agreement, (e) any Taxes arising from or in connection with any inaccuracy in or breach of any of the representations or warranties made by the Seller in this Agreement, (f) any Taxes imposed on the Seller, the Purchased Subsidiary or any of its Subsidiaries as a result of the sale of Shares hereunder (including the recognition of any "deferred intercompany gain" or "excess loss account"), (g) fifty percent (50%) of any Transfer Taxes, and (h) all costs and expenses, including legal, accounting, appraisal, consulting, or similar fees, actually incurred relating to the foregoing. For purposes of this Agreement, in the case of any Straddle Period, Taxes shall be allocated between the period ending on the Closing Date and the period beginning after the Closing Date: (i) in the case of Taxes based on or measured by income or receipts of the Purchased Subsidiary or any of its Subsidiaries, on the basis of an interim closing of the books as of the close of business on the Closing Date (provided, however, that in closing the books of the relevant entity as of the end of the Closing Date, exemptions, allowances, or deductions that are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be allocated on a daily basis); and (ii) in the case of any other Tax of the Purchased Subsidiary or any of its Subsidiaries, pro rata on the basis of the number of dates in such Tax period.

"**Existing Policies**" has the meaning set forth in Section 5.14(a).

"**Fannie Mae**" means the Federal National Mortgage Association.

"**Freddie Mac**" means the Federal Home Loan Mortgage Corporation.

"**GAAP**" means United States generally accepted accounting principles.

"**Governmental Body**" means any federal, state, local, municipal, foreign or other governmental or quasi-governmental authority, including without limitation any administrative, executive, judicial, legislative, regulatory or taxing authority of any nature of any jurisdiction (including without limitation, any governmental agency, branch, department, official or entity and any court or other tribunal), the Wisconsin Office of the Commission of Insurance and Fannie Mae and Freddie Mac.

“**GSE Approval**” means conditional approval by either Fannie Mae or Freddie Mac necessary to permit the Buyer to write private mortgage insurance on terms and in a form acceptable to the Buyer in the Buyer's sole discretion.

“**Guarantee**” means any obligation of a Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such indebtedness or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part).

“**Indebtedness**” means (a) the principal of and premium, if any, and interest in respect of any indebtedness for money borrowed or any obligations evidenced by notes or other instruments, (b) every capital lease obligation, (c) every obligation issued or assumed as the deferred purchase price of property or services and (d) all obligations in respect of surety bonds, letters of credit or other similar instruments.

“**Indemnification Insurance Policy**” has the meaning set forth in Section 5.15.

“**Indemnification Notice**” has the meaning set forth in Section 9.2(e).

“**Indemnified Party**” has the meaning set forth in Section 9.3.

“**Indemnifying Party**” has the meaning set forth in Section 9.3.

“**Individual Arrangements**” has the meaning set forth in Section 3.14(b).

“**Insured Parties**” has the meaning set forth in Section 5.14(a).

“**Intellectual Property**” means all United States and foreign (a) patents, patent rights, patent applications, patent disclosures and all related continuations, continuations-in-part, divisionals, reissues, re-examinations, substitutions and extensions thereof, (b) trademarks, service marks, trade names, fictitious business names, logos, domain names, reissues, re-examinations, substitutions and extensions thereof, (c) copyrights (registered and unregistered) and applications for copyright registration, (d) mask works and registrations and applications for registration thereof, (e) computer software programs and applications (whether in source or object code forms) and related documentation, (f) databases and sui generis database rights, (g) trade secrets, know-how and confidential or proprietary information, whether patentable or nonpatentable and whether or not reduced to practice, processes and techniques, research and development information and (h) other proprietary rights relating to any of the foregoing (including, without limitation, associated goodwill and remedies against infringements thereof and rights of protection of an interest therein under the Legal Requirements of all jurisdictions.

“**IRS**” means the Internal Revenue Service.

“**Knowledge of the Seller**” means the knowledge of Larry Harlow, James Imhoff, James McCourt, Philip Pelanek and Henry Wertheimer, in each case after reasonable inquiry and diligence and taking into account the respective duties and responsibilities of each.

“**Legal Requirement**” means any federal, state, local, municipal, foreign, international, multinational or other statute, law, Order, constitution, rule, regulation, ordinance, principle of common law, treaty or other requirement of any Governmental Body.

“**Liability**” means any liabilities, obligations, debts and commitments of any kind, character or description, whether known or unknown, asserted or not asserted, absolute or contingent, fixed or unfixed, matured or unmatured, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, whenever or however incurred or arising (including whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by GAAP to be reflected in financial statements or disclosed in the notes thereto, including without limitation any direct or indirect Guarantee of any Liability of any other Person.

“**Licensed Intellectual Property**” means all Intellectual Property that is licensed to one or more of the Purchased Subsidiary or its Subsidiaries.

“**Losses**” has the meaning set forth in Section 9.2(a).

“**MAC Financial Holding Corporation Shares**” means all issued and outstanding capital stock of MAC Financial Holding Corporation, a Delaware corporation and wholly owned subsidiary of the Seller.

“**MAC Technology Platform**” means, collectively, the following Assets of the Seller and its Affiliates:

(a) all tangible and intangible assets included in the systems, data center, core services and data listed in Section 10.1(a) of the Disclosure Schedule;

(b) all computer program object code, source code, supporting technical and user documentation and media for all software applications of any kind comprising or otherwise part of any proprietary computer programs used in connection with the items described in Section 10.1(b)(i) of the Disclosure Schedule or otherwise used in or necessary to the Seller's or its Affiliates' underwriting, policy administration, billing, customer service, claims handling, risk management, information technology and technology development operations, policies and procedures, and all obsolete and unsupported versions as well as all currently-supported versions of any of the foregoing, together with all customizations, enhancements, modifications, updates, upgrades, patches and works-in-progress, and all intellectual property rights therein, including without limitation all of the foregoing described in Section 10.1(b)(ii) of the Disclosure Schedule;

(c) all graphical user interfaces and application program interfaces of any kind used in connection with any of the items referenced in subclause (i) or (ii) above, including without limitation all of the foregoing described in Section 10.1(c) of the Disclosure Schedule;

(d) all servers, routers, desktop computers, laptops, fixed and mobile computer storage devices, network equipment, non-fixed media (i.e., CDs, historical backup tapes, USB drives, thumb drives or other storage devices that can be temporarily attached to a computer) and all other computer and electronic equipment of any kind used by the Seller in the operation, maintenance or support of any of the items referenced in subclause (i), (ii) or (iii) above, including without limitation all of the foregoing described in Section 10.1(d) of the Disclosure Schedule;

(e) all other documentation, forms, records (including maintenance and support records and audit records), procedures, policy documents, system specifications, scripts, logs, programmer notes,

databases and other materials of any kind, whether in print or electronic form, used by the Seller in the operation, maintenance or support of any of the items referenced in subclause (a), (b), (c) or (d) above, including without limitation all of the foregoing described in Section 10.1(e) of the Disclosure Schedule;

(f) (i) all licenses, leases, proprietary information agreements, confidentiality agreements, consulting agreements, service agreements and other Contracts of any kind (whether written or oral) to which either Seller or its Affiliates is a party (or under which the Seller or any of its Affiliates has rights) relating to operating system software, application software, hardware, network services, telecommunications services, data processing or storage services or information security services, and which are used in connection with the ownership, operation, use or maintenance of any of the Assets referred to in subclause (a), (b), (c) or (d) above, including without limitation all of the foregoing described in Section 10.1(f) of the Disclosure Schedule and (ii) all Contracts of the Purchased Subsidiary or any of its Subsidiaries; and

(g) all desktop equipment and supplies (other than photographs and art work) used by any employee or independent contractor of the Seller or any of its Affiliates in connection with the operation, maintenance and support of any of the Assets referred to in subclause (a), (b), (c) or (d) above, including without limitation all of the foregoing described in Section 10.1(g) of the Disclosure Schedule.

“**Material Adverse Effect**” means, with respect to a Person or any portion of its business or assets, any events, changes or effects which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the business, operations, assets, liabilities, condition (financial or otherwise), results of operations or prospects of such Person or such portion of its business or assets; provided, however, that none of the following shall constitute a Material Adverse Effect: (a) changes that result from actions taken at the written request of the Buyer and not necessary to effect the Closing of the transactions contemplated hereby; (b) changes that the Person can demonstrate were primarily attributable to their compliance with the terms of this Agreement or any other Transaction Document; (c) changes that are the result of factors generally affecting the industry in which the Person operates; and (d) changes that are the result of economic factors affecting the national or international securities markets; except, in the case of clauses (c) and (d), to the extent disproportionately affecting such Person relative to other participants in the industry in which they operate.

“**Multiemployer Plan**” shall mean any “multiemployer plan” within the meaning of Section 3(37) of ERISA.

“**Multiple Employer Plan**” shall mean a plan that has two (2) or more contributing sponsors at least two (2) of whom are not under common control, within the meaning of Section 4063 of ERISA.

“**NMI Common Stock**” has the meaning set forth in Section 2.1(a).

“**NMI Warrants**” shall mean warrants to purchase NMI Common Stock that have a term of not less than ten (10) years and that contain terms and provisions that (i) are at least as favorable as the most favorable terms and provisions contained in any warrant to purchase NMI Common Stock issued in connection with the 144A Offering or (ii) are mutually agreed to by the Buyer and the Seller in the event that no other warrants to purchase NMI Common Stock are issued in connection with the 144A Offering.

“**Notices**” has the meaning set forth in Section 11.3.

“**Objection Notice**” has the meaning set forth in Section 9.2(e).

“**Order**” means any law, rule, regulation, award, decision, injunction, judgment, order, decree, ruling, subpoena or verdict entered, issued, made or rendered by any court, administrative agency or other Governmental Body or by any referee, arbitrator or mediator.

“**Organizational Documents**” means any certificate or articles of incorporation, formation or organization, by-laws, operating agreement, certificate of limited partnership, business certificate of partners, partnership agreement, declaration of trust or other similar documents.

“**Owned Intellectual Property**” means all Intellectual Property that is owned by one or more of the Purchased Subsidiary or any of its Subsidiaries.

“**Permits**” has the meaning set forth in Section 3.7.

“**Person**” means any individual, corporation, general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union or other entity or Governmental Body.

“**Plan**” and “**Plans**” have the meanings set forth in Section 3.14(a).

“**Post-Closing Liabilities**” has the meaning set forth in Section 2.6(d).

“**Post-Closing Tax Period**” means any Taxable year or period beginning after the Closing Date and, in the case of any Straddle Period, the portion of such period beginning immediately after the Closing Date.

“**Potential Contributor**” has the meaning set forth in Section 9.4(d).

“**Pre-Closing Tax Period**” means any Taxable year or period ending on or prior to the Closing Date and, in the case of any Straddle Period, the portion of such period ending on and including the Closing Date.

“**Pre-Transaction MAC Technology Platform**” has the meaning set forth in Section 2.4(b).

“**Proceeding**” means any action, claim, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Body or referee, trustee, arbitrator or mediator.

“**Purchase Price**” has the meaning set forth in Section 2.1.

“**Purchased Intellectual Property**” has the meaning set forth in Section 3.12(a).

“**Purchased Shares**” has the meaning set forth in the Recitals.

“**Purchased Subsidiary**” has the meaning set forth in the Recitals.

“**Purchased Subsidiary Contracts**” has the meaning set forth in Section 3.13(a).

“**Representatives**” shall mean, with respect to any Person, such Person's officers, directors, employees, agents, advisors and other representatives.

“**Restricted Transaction**” has the meaning set forth in Section 5.8(a).

“**Retained Liabilities**” means (a) any Liability of the Purchased Subsidiary or any of its Subsidiaries arising after the Closing Date under the Purchased Subsidiary Contracts or otherwise, except for Liabilities caused by a breach by the Seller or the Purchased Subsidiary or any of its Subsidiaries of its obligations on or prior to the Closing Date under such Purchased Subsidiary Contracts and (b) the Liabilities listed on Schedule I to this Agreement.

“**Seller**” has the meaning set forth in the Preamble.

“**Seller Closing Expenses**” has the meaning set forth in Section 2.4(a).

“**Seller Indemnified Parties**” has the meaning set forth in Section 9.2(b).

“**Seller Operating Expenses**” has the meaning set forth in Section 5.2(c)(i).

“**Seller's Account**” means such bank account as the Seller reasonably directs by written notice delivered to the Buyer by the Seller at least two (2) Business Days before the Closing Date.

“**Share Certificates**” has the meaning set forth in Section 2.3(a)(i).

“**Specified Litigation**” means the Proceeding pending in the Circuit Court of Cook County, Illinois captioned CDW, LLC v. Mortgage Assurance Corporation, No. 11L-008804 and any investigation, prosecution, defense, negotiation or settlement relating to the foregoing.

“**Straddle Period**” means, with respect to the Purchased Subsidiary or any of its Subsidiaries, any taxable period beginning on or prior to and ending after the Closing Date.

“**Tax**” or “**Taxes**” means any and all taxes, fees, levies, duties, tariffs, imposts and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, provincial, local or foreign taxing authority, including, without limitation, (a) income, franchise, profits, gross receipts, ad valorem, net worth, value added, sales, use, service, real or personal property, special assessments, capital stock, license, payroll, withholding, employment, social security, workers' compensation, unemployment compensation, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, transfer and gains taxes and (b) interest, penalties, additional taxes and additions to tax imposed with respect thereto.

“**Tax Contest**” means any federal, state, local or foreign audit, examination, refund litigation, adjustment in controversy, or other administrative proceeding or court proceeding.

“**Tax Returns**” means any return, report or information statement with respect to Taxes (including but not limited to statements, schedules and appendices and other materials attached thereto) filed or required to be filed with the IRS or any other Governmental Body, domestic or foreign, including, without limitation, consolidated, combined and unitary tax returns.

“**Technology Improvements**” has the meaning set forth in Section 2.6(a).

“**Third Party**” means any Person other than the parties to this Agreement.

“**Third Party Agreements**” has the meaning set forth in Section 5.5(a).

“**Transaction Documents**” means this Agreement, the Ancillary Agreements and all other Contracts, instruments and certificates contemplated hereunder to be delivered by any party hereto at or prior to the Closing.

“**Transaction Related Expenses**” has the meaning set forth in Section 5.2(c)(ii).

“**Transfer Taxes**” has the meaning set forth in Section 5.13(f).

"**Treasury Regulations**" means the Income Tax Regulations and Temporary Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"**Unaudited Financial Statements**" has the meaning set forth in Section 3.9(a).

"**WARN Act**" means the Worker's Adjustment and Retraining Notification Act of 1988, 29 U.S.C. §2101, et seq., and any similar state and local Legal Requirements, as amended from time to time, and any regulations, rules and guidelines issued pursuant thereto.

"**Warrant Purchase Price**" means the purchase price of one NMI Warrant as determined by an independent third-party appraisal firm as shall be mutually acceptable to both the Buyer and the Seller in their respective reasonable discretion and which shall be the lowest purchase price of one NMI Warrant paid by any bona fide third party purchaser of NMI Warrants (if any) in connection with the 144A Offering.

"**Withdrawal Liability**" means Liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as those terms are defined in Part I of Subtitle E of Title IV of ERISA.

10.2 General Interpretation. The terms of this Agreement have been negotiated by the parties hereto and the language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent. This Agreement shall be construed without regard to any presumption or rule requiring construction against the party causing such instrument or any portion thereof to be drafted, or in favor of the party receiving a particular benefit under this Agreement. No rule of strict construction will be applied against any Person. For all purposes of this Agreement, unless otherwise expressly provided or unless the context otherwise requires:

(a) any pronouns used in this Agreement shall include the corresponding masculine, feminine or neutral forms, and the singular form of nouns and pronouns shall include the plural, and vice versa;

(b) the words "herein", "hereto" and "hereby", and other words of similar import, refer to this Agreement as a whole and not to any particular Section or other subdivision of this Agreement;

(c) the use of the term "including" (and with correlative meaning "include" and "includes") means including without limitation;

(d) references to Sections, clauses, other subdivisions and exhibits are references to Sections, clauses, other subdivisions and exhibits of this Agreement;

(e) the captions, titles and headings used in this Agreement are for convenience of reference only, shall not be deemed part of this Agreement and shall not affect its construction or interpretation; and

(f) any reference herein to a statute, rule or regulation of any Governmental Body (or any provision thereof) shall include such statute, rule or regulation (or provision thereof), including any successor thereto, as it may be amended from time to time.

ARTICLE XI

MISCELLANEOUS

11.1 Expenses. Except as otherwise provided herein, each of the parties will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

11.2 Press Releases and Public Announcements. No party shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other parties; provided, however, that a party may make any public disclosure it believes in good faith is required by applicable Legal Requirements, in which case such party will use its reasonable efforts to consult with the other party prior to such disclosure. The Seller and the Buyer will consult with each other concerning the means by which the Seller's employees, customers and suppliers and others having dealings with either of them in connection with the Purchased Subsidiary and its Subsidiaries or their respective Assets will be informed of the contemplated transactions and will use reasonable efforts to facilitate the Buyer's participation in any such communication when appropriate.

11.3 Notices; Certain Consents. All notices, consents, waivers and deliveries ("**Notices**") under this Agreement must be in writing and will be deemed to have been duly given (i) when delivered by hand (against receipt), (ii) when sent by facsimile or electronic-mail (with written confirmation of receipt), (iii) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested) or (iv) five (5) days after being sent by registered or certified mail, return receipt requested, in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may hereafter designate by similar Notice to the other parties):

If to the Seller:

MAC Financial Ltd.
c/o MAC Financial Holding Corporation
1600 Aspen Commons
Suite 950
Middleton, WI 53562
Attention: Philip S. Pelanek
Facsimile No.: (608) 826-0157

with a copy to:

Skadden, Arps, Slate Meager & Flom
155 N. Wacker Drive
Chicago, Illinois 60606
Attention: Peter C. Krupp

Facsimile No.: (312) 407-8513

If to the Buyer:

NMI Holdings Corp.

c/o FBR & Co.
1001 19th Street North
Arlington, Virginia 22209
Attention: Joseph Kavanagh
Facsimile No.: (703) 312-1806

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Attention: David E. Shapiro
Facsimile No.: (212) 403-2314
Attention: Alison M. Zieske

Facsimile No.: (212) 403-2107

11.4 Dispute Resolution.

(a) If any disputes, differences or questions arise between the parties in respect of the interpretation, scope, validity or application of this Agreement or the Transaction Documents, or the subject matter hereof or thereof (a "**Dispute**"), representatives of the Seller and the Buyer as designated on Section 11.4 of the Disclosure Schedule shall cooperate, in good faith, to attempt to amicably resolve the Dispute prior to commencing legal action. If either party believes at any time that such representatives cannot resolve the Dispute, such party may by notice to the other party refer the Dispute to a senior officer from each party in accordance with Section 11.4(b).

(b) If representatives of the parties cannot resolve a Dispute within thirty (30) Business Days, each party shall prepare a statement of its position and deliver it to the other party within the following ten (10) Business Days, and senior officer from each party shall meet with each other in Madison, Wisconsin (or other mutually agreed upon location) within thirty (30) days after receipt of such statement or the notice referred to in Section 11.4(a) in an effort to resolve the Dispute. If the senior officer of either party determines that the Dispute cannot be resolved without referral of the Dispute to an independent third party, such party shall notify the other party that it intends to commence legal action against the party in accordance with Section 11.12.

11.5 Further Assurances. The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents and (c) to do such other acts and things as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the transactions contemplated hereby (including conveyance and transfer of the Purchased Shares to the Buyer).

11.6 Amendments and Waivers. No amendment or waiver of any provision of this Agreement shall be valid unless in writing and signed by both parties hereto. No waiver by any party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

11.7 Entire Agreement. This Agreement supersedes all prior agreements among the parties with respect to its subject matter and constitutes (together with the other Transaction Documents) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. The exhibits and schedules identified in and attached to this Agreement are incorporated herein by reference and shall be deemed as fully a part hereof as if set forth herein in full. In the event of any inconsistency between the statements in the body of this Agreement and those in the exhibits and schedules (other than an exception expressly set forth as such in the Disclosure Schedule with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

11.8 Assignments, Successors and No Third-Party Rights. Neither party may assign any of its rights or obligations under this Agreement without the prior consent of the other party except that the Buyer may assign any of its rights under this Agreement to any Affiliate of the Buyer, provided that any such assignment shall not relieve the Buyer of its duties and obligations hereunder. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties hereto any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement.

11.9 Severability. The determination of any court that any provision of this Agreement is invalid or unenforceable shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity of the offending term or provision in any other situation or in any other jurisdiction. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

11.10 No Merger or Continuation. The parties acknowledge and agree that this Agreement and the transactions contemplated hereby shall in no way constitute a merger or consolidation of the Buyer and the Seller. Subject to the terms and conditions herein and in the other Transaction Documents, the Seller shall be responsible for the operation of its respective businesses from and after the Closing Date, and the Buyer shall not be a continuation of the Seller or any Affiliate of the Seller.

11.11 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES.

11.12 Jurisdiction of Disputes. In the event that any party to this Agreement commences any Proceeding in connection with or relating to this Agreement or any Transaction Document, or any matter described or contemplated herein or therein, with respect to any of the matters described or completed herein or therein, the parties to this Agreement hereby: (a) agree under all circumstances, absolutely and irrevocably, to institute any Proceeding in a court of competent jurisdiction located in Delaware, whether a state or federal court; (b) agree that in the event of any such Proceeding, such parties will consent and submit to personal jurisdiction in any such court described in clause (a) of this Section 11.12; and (c) agree to waive to the full extent permitted by Legal Requirements any objection that they may now or hereafter have to the venue of any such Proceeding in any such court or that any such Proceeding or action was brought in an inconvenient forum. ALL PARTIES TO THIS AGREEMENT WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL IN THE EVENT OF A PROCEEDING IN CONNECTION WITH OR RELATING TO THIS AGREEMENT OR ANY TRANSACTION DOCUMENT, OR ANY MATTER DESCRIBED OR CONTEMPLATED HEREIN OR THEREIN, WITH RESPECT TO ANY OF THE MATTERS DESCRIBED OR CONTEMPLATED HEREIN OR THEREIN.

11.13 Counterparts; Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument. Original signatures hereto and to other Transaction Documents may be delivered by facsimile or .pdf and shall be deemed originals.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SELLER:

MAC FINANCIAL LTD.

By: /s/ Philip S. Pelanek

Print name: Philip S. Pelanek

Title: President and Chief Executive Officer

BUYER:

NMI HOLDINGS, INC.

By: /s/ Joseph Kavanagh

Print name: Joseph Kavanagh

Title: Vice President & Secretary

AMENDMENT TO STOCK PURCHASE AGREEMENT

THIS AMENDMENT (this "Amendment") to the Stock Purchase Agreement (the "Agreement"), dated as of November 30, 2011, by and among NMI Holdings, Inc., a corporation organized under the laws of the State of Delaware (the "Buyer"), and MAC Financial Ltd., a Bermuda exempted company (the "Seller"), is made and entered into as of April 6, 2012, by and between the Buyer and the Seller and is effective as of the date hereof. All capitalized terms used but not defined herein shall have the meaning assigned to them in the Agreement.

WITNESSETH THAT:

WHEREAS, pursuant to the terms of the Agreement, the Buyer has agreed to use its commercially reasonable efforts to complete a 144A Offering in which the Buyer sells not less than a number of shares of NMI Common Stock equivalent to $500,000,000 divided by the Common Stock Sale Price;

WHEREAS, the parties originally agreed that the Buyer would have 150 days from the date of the Agreement to complete the 144A Offering and if not completed by such date, the parties would have the right to terminate the Agreement; and

WHEREAS, the parties wish to extend the deadline by which the 144A Offering must be complete in order to prevent termination of the Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and for other good and valuable consideration, the Buyer and the Seller hereby agree as follows:

1. Extension of Deadline.

(a) The second sentence of Section 5.6(a) of the Agreement shall hereby be replaced in its entirety with the following:

> "The Buyer shall have until May 31, 2012 to complete the 144A Offering and if the 144A Offering is not complete by such date, either the Buyer or the Seller may terminate this Agreement pursuant to Section 8.1(a)(iv)."

(b) The phrase "one hundred fifty (150) days after the date hereof" in Section 8.1(a)(iv) shall be replaced with "May 31, 2012".

2. Effect on the Agreement. This Amendment shall be deemed incorporated into the Agreement and shall be construed and interpreted as though fully set forth therein. Except as amended and modified herein, the Agreement remains in full force and effect.

3. Miscellaneous. Article XI of Agreement shall apply *mutatis mutandis* to this Amendment.

[*Remainder of this page is intentionally left blank.*]

IN WITNESS THEREOF, the parties have executed and delivered this Amendment as of the date set forth above.

NMI HOLDINGS, INC.

By: /s/ Joseph Kavanagh
Name: Joseph Kavanagh
Title: Director

MAC FINANCIAL, LTD.

By: /s/ Larry Harlow
Name: Larry Harlow
Title: EVP

CONFIDENTIAL TREATMENT REQUESTED
PORTIONS OF THIS AGREEMENT MARKED BY *** HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY
WITH THE SECURITIES AND EXCHANGE COMMISSION

July 12, 2013

Mr. Rob Schaefer, Vice President
Fannie Mae, Mail Stop 8H-503
3900 Wisconsin Avenue, NW
Washington, DC 20016

Re: Commitment Letter 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**.

Dear Rob:

National Mortgage Insurance Corporation ("Company") has reviewed the Bid File that Fannie Mae provided concerning the portfolio of loans ("Portfolio") with a count of 22,766 and unpaid principal balances of approximately $5.46 billion and is pleased to provide this commitment to issue Fannie Mae-paid mortgage insurance coverage on some or all of such loans. The definitive list of loans to be insured, along with the Initial Principal Balance and the Loan Coverage Percentage for each will be included in the Set-up File to be delivered to the Company by Fannie Mae. Loans included in the Bid File for which the Company does not intend to issue coverage are included in the excluded loans schedule ("Reject File") attached hereto. Capitalized terms not defined herein shall have the meanings assigned in the Policy.

The Company hereby acknowledges the desire of the Federal Housing Finance Agency for transparency as to transactions such as this one, and as a result, consents to the public disclosure of any or all terms of this transaction. The Company further agrees that it will not make any public statements, including press releases, about this transaction without the prior written approval of Fannie Mae unless required by regulation or law, including filings the Company's parent makes to comply with Federal securities laws or regulation, in which case the Company will give Fannie Mae written notice no less than three days in advance of such disclosure.

Subject to the following terms and conditions, the Company will insure the Covered Loans pursuant to the attached Standard Fannie Mae-Paid Mortgage Guaranty Insurance Policy with Loss-on-Sale Claim Settlement Only, Form #**AS06.13.01** and endorsements, if any, identified in paragraph 1 below (collectively, the "Policy"). The Company has applied to the appropriate regulator for approval of the Policy and the Company has no reason to expect that the regulator will not expeditiously approve the Policy. However, if for any reason the Policy should not be approved on or before October 4, 2013, or if it is approved with material changes on or before such date, the Company will not be obligated to issue the Policy, and Fannie Mae will not be obligated to purchase coverage from the Company.

1. Summary of Transaction Terms.

Insured	Fannie Mae
Fannie Mae Deal Number	2013 MIRT 01
Company Policy #	P-0001-01
Policy Endorsements [*If none, state none*.]	None
Total Initial Principal Balance (approximate)	$5.46 billion
Specified Exposure Percentage ("down-to percentage")	50%
Specified Coverage Percentage	—
Aggregate Loss Percentage	2%
Aggregate Loss Limit (approximate)	$109.2 million
Aggregate Loss Limit Step Down	N/A
Deductible Percentage	0.2%
Deductible Amount (approximate)	$10.92 million
Policy Type	Bulk
Accumulation Period	N/A
Claim Settlement Options	Loss-on-Sale
Policy Effective Date	September 1, 2013, or upon mutual agreement, the first day of the month following the approval of the Policy by the District of Columbia Department of Insurance
Policy Settlement Date	N/A
Coverage Effective Date(s)	September 1, 2013, or upon mutual agreement, the first day of the month following the approval of the Policy by the District of Columbia Department of Insurance
Maturity Date	The later of August 31, 2023 or the last calendar day of the month that occurs 119 months after the Coverage Effective Date.
Monthly Premium Rate	***%[1]
Premium Payment Frequency	Monthly
Property Acquisition Aggregate Loss Limit Adjustment Percentage	50%

2. The Loan Coverage Percentage shall be calculated using the Specified Exposure Percentage as shown in paragraph 1.

3. The Aggregate Loss Limit shall be calculated using the Aggregate Loss Percentage as shown in paragraph 1.

4. Eligibility Criteria applicable to the Portfolio are:

   (a) Selling Guide Compliance. As of the date of Fannie Mae's acquisition, the Company acknowledges Fannie Mae's representation that the Covered Loans met the requirements of the Selling Guide or variances thereto.

1. *** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) Foreclosures and Bankruptcies. The Company acknowledges Fannie Mae's representation that no Borrower on any Covered Loan may have been the subject of a foreclosure proceeding within the twenty-four (24) months prior to the closing of the Covered Loan, and further that no Borrower on any Covered Loan may have been a debtor who was the subject of a bankruptcy proceeding during the twenty-four (24) months prior to the closing of the Covered Loan.

(c) Delinquencies. The Company acknowledges Fannie Mae's representation that all Covered Loans have a next payment due date even with or after the Coverage Effective Date. For example, for a Covered Loan to be eligible with a Coverage Effective Date of June 1, the May 1 payment must have been received not later than June 1. Further, the Company acknowledges Fannie Mae's representation that no Covered Loan has been thirty (30) days' delinquent prior to its Coverage Effective Date.

5. Pre-Settlement Loan File Review. The Company shall be permitted to review certain loans that Fannie Mae reviewed pursuant to its post-purchase review process prior to the Policy Effective Date to confirm the accuracy of the information in the Bid File. Additionally, the Company shall be permitted to review a sample of Covered Loans pursuant to Section 4.7 (b) of the Policy. Loan file reviews shall be conducted in the Company's offices at the Company's expense and shall be limited to reviewing electronic images of the Origination File. The Company agrees that loan file requests will be sent via email to: pool_document_requests@fanniemae.com.

6. Counterparty Requirements. Until new updated MI eligibility requirements are issued by Fannie Mae, the Company agrees to maintain statutory capital equal to the greater of:
   a) The amount of required capital specified in Fannie Mae's January 16, 2013 approval letter for NMI, or
   b) the sum of:
      (1) 5.6% of net primary risk-in-force, plus,
      (2) for pool insurance (i.e., insurance subject to an aggregate stop loss), the lesser of
         i. 5.6% of the risk-in-force based upon the loan-level coverage before application of the aggregate stop loss and deductible (if any), or
         ii. the aggregate stop loss amount, net of any deductible amount, for the pool insurance policy.

If the Company fails to maintain this level of statutory capital and new updated MI eligibility requirements have not then been issued by Fannie Mae, such failure may, at Fannie Mae's sole discretion, be considered a violation of Fannie Mae's existing MI eligibility requirements and entitling Fannie Mae to exercise all of the remedies available to it under its existing MI eligibility requirements (including, but not limited to, suspension and termination).

This letter shall amend and restate in its entirety the letter agreement previously entered into by the parties with respect to Deal No. 2013 MIRT 01. This Commitment Letter may be executed in counterparts, and when each Party has signed and delivered at least one such counterpart, each counterpart shall be deemed an original, and when taken together with the other signed counterparts, shall constitute one agreement, which shall be binding upon and effective as to all Parties. Signatures of the Parties transmitted by fax or .pdf shall be deemed to be their original signatures for all purposes.

Sincerely,

/s/Patrick Mathis
Name: Patrick Mathis
Title: EVP & Chief Risk Officer

The foregoing terms, conditions and provisions are hereby accepted, acknowledged and agreed to by Fannie Mae

By: /s/Rob Schaefer
Name: Rob Schaefer
Title: Vice President

Date: 8/08/2013

Attachments:
1. Standard Fannie Mae-Paid Mortgage Guaranty Insurance Policy with Loss-on-Sale Claims Settlement Only, Form # **AS06.13.01**

STANDARD FANNIE MAE-PAID
MORTGAGE GUARANTY INSURANCE POLICY
WITH LOSS-ON-SALE CLAIM SETTLEMENT ONLY

1 Definitions

1.1 Accumulation Period - means, if applicable, the time period from the Policy Effective Date stated on the Declarations Page of this Policy until 12:01 a.m. on the Policy Settlement Date stated on such Declarations Page. If this time period is left blank or reads "N/A," then no such period applies.

1.2 Accumulation Policy - means that Policy Type in which loans to be covered under this Policy are accumulated and added to this Policy during the Accumulation Period.

1.3 Advances - means those amounts paid by the Insured in accordance with Section 7.2(k) (Advances).

1.4 Aggregate Loss - means, at any given time, the total of all Insurance Benefits paid by the Company under this Policy, including: (a) any partial Insurance Benefit advanced by the Company pursuant to Section 7.1 (Loss Mitigation); (b) any other partial Insurance Benefit paid by the Company; and (c) any Insurance Benefit charged to the Deductible Amount of this Policy, reduced by any net recoveries received by the Company with respect to any Covered Loan or the related Property or Borrower, including but not limited to recoveries pursuant to Section 7.2(f) (Borrower Contributions) and Section 9.1 (Subrogation). If the Company acquires the Property pursuant to Section 8.5(b) (Disapproved REO Sales), the amount of the Insurance Benefit that will be included in the Aggregate Loss for the related Covered Loan shall equal: (x) the Claim Amount calculated pursuant to Section 8.4(b) (Property Acquisition Calculation); multiplied by (y) the applicable Loan Coverage Percentage; multiplied by (z) the Property Acquisition Aggregate Loss Limit Adjustment Percentage. Under no circumstances will any interest or Penalty Interest paid on the Insurance Benefit pursuant to Section 8.9 (Failure to Timely Pay Insurance Benefit) be included in the Aggregate Loss.

1.5 Aggregate Loss Limit - means the Total Initial Principal Balance multiplied by the Aggregate Loss Percentage, which dollar limit shall be specified on the Declarations Page of this Policy.

1.6 Aggregate Loss Limit Step Down - means, if applicable, one or more reductions in the Aggregate Loss Limit calculated in accordance with the timing and formula specified in the Commitment Letter. Whether such reduction applies will be specified on the Declarations Page of this Policy. If this coverage feature is left blank or reads "N/A", then no such reduction applies.

1.7 Aggregate Loss Percentage - means that percentage so specified on the Declarations Page of this Policy.

1.8 Annual Premium Rate - means, if applicable, the premium rate so specified on the Declarations Page of this Policy to be used in computing a premium to be remitted annually.

1.9 Applicable Law - means (i) any law, statute, constitution, regulation, ordinance, or subordinate legislation in force from time to time to which a party or its affiliates is subject; (ii) the common law as applicable to the parties from time to time; (iii) any court order, judgment, or decree that is binding on a party or its affiliates; and (iv) any directive, policy, rule, or order that is binding on a party or its affiliates and that is made or given from time to time by any regulator, government or government agency of, in the case of items (i) through (iv) above, any (x) country, or other national, federal, commonwealth, state, provincial, or local jurisdiction or (y) any exchange, association or non-governmental entity that is charged with monitoring or overseeing the business practices or other activities of a party or its affiliates whose regulations are binding on either party pursuant to a self-regulating mechanism approved by a government entity.

1.10 Application - means a request by the Insured for coverage on a loan as a Covered Loan under this Policy, evidenced by the inclusion of the loan on a Set-up File delivered by the Insured to the Company and consisting of all data and information included in such Set-up File and as reflected in the Covered Loan Schedule.

1.11 Appraisal - means an appraisal or alternative method of valuation (such as an automated valuation model or AVM) used to determine the market value of a Property that complies with: (i) the valuation requirements of the Insured if the Covered Loan was required to be originated in compliance with the valuation requirements of the Insured; or (ii) customary mortgage

loan origination practices that are acceptable to the Company if the Covered Loan was not required to be originated in compliance with the valuation requirements of the Insured.

1.12 Appropriate Proceedings - means any legal, administrative or non-judicial action or proceeding permissible under Applicable Law to enforce the Borrower's obligations under a Covered Loan or to apply the Property to the satisfaction of the Borrower's obligations under such loan or to evict the Borrower from the Property.

1.13 Bid File - means the information furnished to the Company by the Insured in solicitation of offers to issue mortgage guaranty insurance. The Bid File may consist of information about the actual loans intended to be insured or it may consist of a profile of the loans intended to be insured.

1.14 Borrower - means any Person required to repay the debt obligation created pursuant to the Covered Loan. The Borrower may be more than one Person, and the term shall include any co-signer or guarantor of the Covered Loan.

1.15 Borrower's Own Fund - means any funds owned by the Borrower and not borrowed or received (as a gift or otherwise) from any party to the transaction, or subject to refund, rebate, or repayment.

1.16 Borrower's Title - means such title to a Property as was vested in the Borrower at the time of a conveyance to the Insured or to a third party, extinguishing all of the Borrower's rights in the Property; provided, however, that any applicable redemption period need not have expired. The deed evidencing such transfer of title to the Insured need not be recorded unless required by Applicable Law.

1.17 Bulk Policy - means that Policy Type in which loans to be covered under this Policy are specified on the Covered Loan Schedule on the Policy Effective Date.

1.18 Business Day - means any day that the Company is normally scheduled to be open for business.

1.19 Claim - means the request to receive benefits of this Policy filed in accordance with Section 8.1 (Claim Filing) and containing all information required by the Company pursuant to Section 8.1 (Claim Filing).

1.20 Claim Denial - means written notification by the Company to the Insured that it will not pay a Claim filed in connection with a specified Covered Loan due to breach of one or more specified provisions of this Policy.

1.21 Claim Amount - means the amount calculated in accordance with Section 8.4 (Calculation of Claim Amount).

1.22 Claim Settlement Period - means, with respect to a given Claim, the date beginning on the date the Claim is perfected as specified in Section 8.1 (Claim Filing) and ending sixty (60) days from that date.

1.23 Commitment Letter - means the applicable letter agreement provided by the Company and accepted in writing by the Insured that identifies the types of loans or specific portfolio of loans to be insured under this Policy, including any Eligibility Criteria, and specifies the variable terms of coverage.

1.24 Collateral - means the stock or membership certificate issued to a tenant-stockholder or resident-member by a cooperative housing corporation, and the proprietary lease relating to one (1) unit in the cooperative housing corporation that is executed by said tenant-stockholder or resident-member and any other rights of said stockholder or member relating to any of the foregoing.

1.25 Company - means the mortgage guaranty insurance company identified on the Declarations Page of this Policy.

1.26 Company Initiated Cancellation - means written notification by the Company to the Insured that it has cancelled coverage in connection with a specified Covered Loan as of a specified date due to breach of one or more specified provisions of this Policy.

1.27 Cooperative Property - means Residential Property ownership of which is evidenced by ownership or membership in a cooperative housing corporation and the lease of a residential unit by such corporation to the stockholder or member, who shall be the Borrower. A loan secured by a Cooperative Property shall not be a Covered Loan unless the Application identifies such loan as being secured by a Cooperative Property.

1.28 Coverage Effective Date - means the date on which coverage of a Covered Loan becomes effective as specified on the Covered Loan Schedule. For Covered Loans acquired by the Insured prior to the Policy Effective Date, the Company and the Insured shall agree on the Coverage Effective Date. For Covered Loans acquired by the Insured on or after the Policy Effective Date, coverage shall be effective as of the first day of the month during which the Insured acquired the Covered Loans, but a loan cannot become a Covered Loan until it is acquired by the Insured. If Covered Loans are acquired over more than one (1) month, there will be a separate Coverage Effective Date applicable to all of the acquisitions in each such month.

1.29 Coverage Effective Date LTV - means that ratio calculated by multiplying the loan-to-value ratio of the Covered Loan on its origination date and the Initial Principal Balance, then dividing that product by the principal balance of the Covered Loan on its origination date.

1.30 Covered Loan - means any note or other evidence of indebtedness and the indebtedness it evidences, together with the mortgage, bond, deed of trust, or other instrument securing said indebtedness, that satisfies the Eligibility Criteria and to which coverage under this Policy has been extended by inclusion of the Covered Loan on the Covered Loan Schedule.

1.31 Covered Loan Schedule - means,

(a) with respect to a Bulk Policy, that document (in either physical or electronic form) made a part of the Declarations Page of this Policy by the Company, which lists the Covered Loans insured under this Policy, and

(b) with respect to an Accumulation Policy,

(i) each and every Covered Loan Schedule provided by the Company to the Insured during the Accumulation Period in accordance with procedures agreed to by the Company and the Insured, each of which lists a portion of the Covered Loans insured under this Policy, and

(ii) the cumulative Covered Loan Schedule provided by the Company to the Insured on or after the Policy Settlement Date, and

(c) with respect to a Flow Policy, all of the Covered Loan Schedules provided by the Company to the Insured in accordance with procedures agreed to by the Company and the Insured, each of which lists a portion of the Covered Loans insured under this Policy.

1.32 Credible Evidence - means: (a) information contained in the Origination File or Servicing File (whether such information was submitted to the Company prior to or after the Certificate Effective Date); (b) information relating to the Covered Loan (whether written, electronic or oral) provided at any time by a First Party to the Company; or (c) any other information (whether written, electronic or oral) received or obtained by the Company at any time from any Person provided that such information would be viewed by a reasonable person familiar with all other Credible Evidence as having a basis in fact and not exhibiting falsity or material internal inconsistency. Credible Evidence shall not include any written or oral statement made by the Borrower to the Company or the Company's agents after the date the Covered Loan was closed unless such statement was made under oath and penalty of perjury.

1.33 Date of Default - means the date on which a Covered Loan initially Defaults. For example, if a Borrower fails to pay the monthly installments due on January 1, February 1, March 1, and April 1, and all such installments remain unpaid as of the close of business on April 1, the Date of Default is January 1.

1.34 Declarations Page - means the signed document issued by the Company pursuant to Section 2.1(c) (Approval of Coverage) that extends the coverage indicated therein to the Covered Loans identified in the Covered Loan Schedule.

1.35 Deductible Amount - means, if applicable, the Total Initial Principal Balance multiplied by the Deductible Percentage, which dollar amount shall be specified on the Declarations Page of this Policy. If this amount is left blank or reads “N/A”, then no such amount applies.

1.36 Deductible Percentage - means, if applicable, the percentage so specified on the Declarations Page of this Policy. If this percentage is left blank or reads “N/A”, then no such percentage applies.

1.37 Default - means the failure by a Borrower to pay when due a non-accelerated amount equal to or greater than one (1) regular scheduled payment due under the terms of a Covered Loan or the failure by a Borrower to pay all amounts due under a Covered Loan after the exercise by the Insured of the "due on sale" provision of such Covered Loan. Default does not mean any non-monetary default or violation of any other term or condition of the Covered Loan that would allow for acceleration of the debt or foreclosure or other action to realize upon the security provided by the Covered Loan. A Covered Loan is deemed to be in Default for the period for which, as of the close of business on the installment due date, a scheduled installment payment has not been made. For example, a Covered Loan is “four (4) months in Default” if the monthly installments due on January 1, February 1, March 1, and April 1 remain unpaid as of the close of business on April 1 or if a basis for acceleration exists for a continuous period of four (4) months.

1.38 Default Amount - means the unpaid principal balance of a Covered Loan on the Date of Default, excluding penalties, but including: (i) amounts added to such balance, if any, as a result of Negative Amortization or a Modification; and (ii) the amount, if any, that was discharged in a Chapter 13 bankruptcy “cramdown.”

1.39 Deficiency Judgment - means a court judgment imposing personal liability on the Borrower for the unpaid amount remaining under the terms of a Covered Loan when the proceeds of a foreclosure sale of the Property securing the Covered Loan were insufficient to fully satisfy the outstanding debt.

1.40 Eligibility Criteria - means those Covered Loan eligibility conditions, if any, specified on the Eligibility Criteria Schedule.

1.41 Eligibility Criteria Schedule - means that document (in either physical or electronic form) made a part of the Declarations Page of this Policy by the Company, which lists the Eligibility Criteria exactly as such criteria were agreed to in the Commitment Letter.

1.42 Environmental Impairment - means the presence within, on, under or above the Property of: (a) any condition giving rise to liability under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. 9601 *et seq.*, as amended from time to time) or any similar federal law or law of the state or locality where the Property is located; or (b) any “Hazardous Waste” or “Regulated Substance” as those terms are defined by the Resource Conservation and Recovery Act (42 U.S.C. §6901, *et seq*., as amended from time to time) or any similar federal law or law of the state or locality where the Property is located. Environmental Impairment does not mean the presence of radon gas, lead paint or asbestos.

1.43 Exclusions - mean those exclusions and reductions from coverage set forth in Section 6 (Exclusions from Coverage).

1.44 First Deed of Trust - means a mortgage, deed of trust, or other instrument which

(a) constitutes or is equivalent to a first lien or encumbrance on the Property, subject only to the Permitted Encumbrances, and

(b) will allow the Person secured, directly or by a trustee or other Person, to foreclose on the Property (by power of sale, judicially or otherwise) upon Default to acquire title to the Property, subject only to the Permitted Encumbrances.

1.45 First Party - means

(a) the Insured or any officer, employee or agent of the Insured, including any independent contractor of the Insured, or

(b) any of the following Persons: the Loan Originator, the Seller, mortgage loan brokers, correspondent lenders, escrow or closing agents, attorneys, appraisers, appraisal companies, providers of any automated valuation model or other Property valuation, title insurance companies, credit reporting agencies, other third-party vendors performing origination services, and officers, employees, agents or independent contractors of any of the foregoing.

1.46 Flow Policy - means that Policy Type in which loans to be covered under this Policy are added to this Policy on or after the Policy Effective Date and there is no specified date after which additional loans can no longer be added.

1.47 Good and Merchantable Title

(a) Means title to the Property, free and clear of all liens and encumbrances, covenants, conditions, restrictions, easements and rights of redemption except for

(i) any lien established by public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent, or

(ii) any municipal or zoning ordinances, building restrictions or other restrictions, covenants, or regulations of use, provided that the Property is in compliance with and/or its use is permitted by, and its intended use and occupancy is not materially adversely affected by, such restrictions, covenants, regulations or ordinances, or

(iii) easements, rights of way, sewer and utility rights, mineral, oil or timber rights, or any impediments which will not have a materially adverse effect on either the transferability of the Property or the sale of the Property to a bona fide purchaser.

(b) The Property must have, at a minimum, the following characteristics to establish Good and Merchantable Title:

(i) adequate means of ingress and egress, and

(ii) the right to use public or private water and sewer facilities appertaining to the Property, whether such rights be by virtue of public easement or private grant, and

(iii) the Property must be free of any lien due to Environmental Impairment unless otherwise agreed to by the Company.

1.48 Habitable - means meeting the generally-recognized standards for safe residential occupancy, or, if there are no such standards, then what a fully-informed and reasonable person would conclude is a reasonably safe place to live without fear of injury to health or safety.

1.49 Initial Principal Balance - means the unpaid principal balance of a Covered Loan on its Coverage Effective Date.

1.50 Insurance Benefit - means the liability of the Company with respect to a Covered Loan calculated in accordance with Section 8.5 (Insurance Benefit); it being understood that a right to receive an Insurance Benefit shall be deemed to have arisen when a Default that results in a Claim first occurs while coverage is in force for a Covered Loan, notwithstanding that the amount of the Insurance Benefit is not then either presently ascertainable or due and payable. The Insurance Benefit payable shall be subject to the Deductible Amount and/or the Aggregate Loss Limit, if such amount and/or limit apply.

1.51 Insurance Benefit File - means the file specified in Section 4.9 (Insurance Benefit File).

1.52 Insured - means, with respect to any Covered Loan, Fannie Mae, either for its own benefit or as trustee for the benefit of a third party. The Insured will be designated on the Declarations Page of this Policy and may contract with a Servicer or Servicers to perform some or all of the Insured's obligations under this Policy.

1.53Lapse Date - means the date on which coverage for a particular Covered Loan under this Policy is terminated for non-payment of premium in accordance with Section 3.2 (Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium), which date is the first day of the coverage period (for example, monthly or annually) immediately following the coverage period through which the premium has been paid.

1.54 Liquidation Date - means the date the Property securing a Covered Loan was transferred in connection with a Default (i.e., deed-in-lieu of foreclosure or Third-Party Sale), as such date is reported by the Insured to the Company in the Monthly Servicing Report.

1.55 Loan Coverage Percentage - means the percentage applied to the Initial Principal Balance to determine the maximum Insurance Benefit payable by the Company in connection with a Third-Party Sale, or in connection with an REO Sale approved or deemed approved by the Company, which percentage is calculated as follows:

(a) If the Declarations Page of this Policy indicates a Specified Exposure Percentage greater than zero, the Loan Coverage Percentage shall be calculated as follows: [1-(Specified Exposure Percentage/Coverage Effective Date LTV)], rounded up to the next highest whole number percentage point. For example, for a Covered Loan with a Specified Exposure Percentage of 60.50% and a Coverage Effective Date LTV of 77.83%, the Loan Coverage Percentage is calculated as follows: [1-(60.50/77.83)] = 22.27%, which when rounded up to the next highest whole number percentage point = 23%.

(a) If the Declarations Page of this Policy indicates a Specified Coverage Percentage(s) greater than zero, the Loan Coverage Percentage shall equal the applicable Specified Coverage Percentage.

1.56 Loan Originator - means the Person that originated the Covered Loan.

1.57 Loss-on-Sale Calculation - means the method of calculating the Claim Amount pursuant to Section 8.4(a) (Calculation of Claim Amount).

1.58 Material or Materially - means, within the context of a representation relating to a Covered Loan and as determined by the Company, a representation of fact with respect to which had the truth been known by the Company the Covered Loan would not have been eligible for coverage or the Company would either not have accepted the risk or the hazard assumed, or would not have accepted the risk or hazard assumed except on different terms, including a change in premium rate.

1.59 Maturity Date - means, if applicable, the date on which this Policy terminates as specified on the Declarations Page of this Policy, and which date will be the last day of a month. If this date is left blank or reads “N/A”, then no such date applies.

1.60 Misrepresentation - means a false statement, omission, or data inaccuracy respecting a matter of Material fact (in either physical or electronic form).

1.61 Mixed-Use Property - means a dwelling that features distinct functional use for both residential and commercial business purposes including, for example but not limited to, a two-story structure in which one floor serves as a commercial business (e.g., shop, office space, etc.) and the other floor serves as residential space for the owner of the dwelling and the commercial business.

1.62 Modification - means

(a) any change to the amount of indebtedness (for example, capitalization of interest arrearages), interest rate, interest rate adjustment period, use of escrow funds or other funds, or the term or the amortization schedule of a Covered Loan, unless such change is prescribed in the loan documents, or

(b) any change in the Property that adversely affects its market value as security for the Covered Loan, or

(c) the release of any Borrower from liability on a Covered Loan, other than in connection with a Covered Loan that is paid in full.

1.63 Monthly Premium Rate- means, if applicable, the premium rate so specified on the Declarations Page of this Policy to be used in computing a premium to be remitted monthly.

1.64 Monthly Rescission Report - means the report specified in Section 4.3 (Monthly Rescission Report).

1.65 Monthly Servicing Report- means the report specified in Section 4.2 (Monthly Servicing Report).

1.66 Negative Amortization - means the additions to the principal amount of a Covered Loan arising from the insufficiency of optional payments or regularly scheduled payments to cover interest as it accrues against the principal amount of the Covered Loan as provided for in the loan documents relating to the Covered Loan.

1.67 Operations Manual - means the Insured's manual describing the content, format, and manner of delivery of the various reports and files required to be exchanged between the Insured and Company for the administration of this Policy, as such manual currently exists or as it may be periodically amended by the Insured with ninety (90) days advance written notice

to the Company. The reports and files described in the Operations Manual shall include, but not be limited to, the: Insurance Benefit File; Monthly Rescission Report; Monthly Servicing Report; Premium Refund File; Reconciliation File; Reject File; and Set-up File.

1.68 Original Value - means the lesser of the sales price of the Property (only applicable in the case of a Covered Loan made to finance the purchase of such Property) or the market value of the Property established by an Appraisal, which value was obtained by the Loan Originator in connection with the Covered Loan at the time it was originated.

1.69 Origination File - means, with respect to a Covered Loan, copies (either physical or electronic images) of the following documents created or received in connection with the origination and closing of the Covered Loan: the signed loan application; disclosure statements; purchase contract, if applicable; credit reports; verifications of employment, income, assets, and deposit; final HUD-1 or other settlement statement; the note; the mortgage, deed of trust or security deed (including any riders thereto once returned from the land records); and evidence of the Original Value.

1.70 Permitted Encumbrances - mean

(a) any lien established by public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent and

(b) any municipal and zoning ordinances and exceptions to title waived by the regulations of mortgage guaranty insurers with respect to mortgages on one-to-four family residences in effect on the date on which the Covered Loan was closed and all documents were executed and

(c) any impediments which will not have a materially adverse effect on either the transferability of the Property or the sale of the Property to a bona fide purchaser.

1.71 Person - means any natural person, or any corporation, partnership, association or other legally-recognized entity.

1.72 Physical Damage - means damage to a Property that materially adversely affects the use, marketability, or market value of the Property, whether caused by accident, natural occurrence or otherwise, including, but not limited to, damage caused by reason of fire, destruction of tangible property, defects in construction, land subsidence, earth movement or slippage, natural disaster (such as hurricane, flood, earthquake, etc.), war, civil insurrection, or riot. Physical Damage includes the destruction or removal of chattel items (including any built-in appliances) that are part of the Property. For purposes of this definition, damage shall be considered to materially adversely affect the use, marketability, or market value of the Property if the estimated cost to repair a Property is equal to, or greater than five thousand ($5,000). The presence of radon gas, lead paint or asbestos in the dwelling on the Property shall not be deemed to be Physical Damage.

1.73 Policy - means this contract of insurance together with the Commitment Letter, the Application(s), the Declarations Page, the Covered Loan Schedule, and any endorsements referenced on the Declarations Page, which are incorporated herein and made part of this Policy with respect to the Covered Loans to which they relate.

1.74 Policy Effective Date - means the date on which coverage under this Policy becomes effective, which is the first day of the month in which any Covered Loan is insured under this Policy. The Policy Effective Date is specified on the Declarations Page of his Policy.

1.75 Policy Settlement Date - means the date specified on the Declarations Page of this Policy after which no additional Covered Loans may be added to this Policy and which applies only to an Accumulation Policy.

1.76 Policy Type - means Accumulation Policy, Bulk Policy or Flow Policy as specified on the Declarations Page.

1.77 Premium Payable File - means the file specified in Section 4.10 (Premium Payable File).

1.78 Premium Refund File - means the file specified in Section 4.11 (Premium Refund File).

1.79 Property - means the Residential real property and all improvements thereon including any chattel items (including any built-in appliances) which are an element of the market value stated in the Original Value, including all replacements or additions to the chattel items, together with all easements and appurtenances, all rights of access, all rights to use (as well

as any co-ownership interests in) common areas, recreational and appurtenant facilities, and all replacements or additions to those items.

1.80 Property Acquisition Aggregate Loss Limit Adjustment Percentage - means the percentage so specified on the Declarations Page of this Policy.

1.81 Property Acquisition Calculation - means the method of calculating the Claim Amount pursuant to Section 8.4(b) (Calculation of Claim Amount).

1.82 Qualified - means the Company is approved as a mortgage guaranty insurer pursuant to the Insured's Qualified Mortgage Insurer Approval Requirements, as such requirements currently exist or as they may be periodically amended, and meets any other eligibility requirements that may be specified in the Commitment Letter.

1.83 Reconciliation Event - means: (i) the following events in the life of this Policy the occurrence of which causes either the Company or the Insured to require a reconciliation in accordance with Section 4.13 (Reconciliation): exhaustion of the Deductible Amount; the occurrence of an Aggregate Loss Limit Step Down; and termination of this Policy pursuant to either Section 5.2 (Termination of Policy Prior to Exhaustion of Aggregate Loss Limit) or Section 5.3 (Termination of Policy Upon Exhaustion of Aggregate Loss Limit); or (ii) any anniversary of this Policy or other occurrence where both parties agree in writing that a reconciliation should occur.

1.84 Reconciliation File - means the file specified in Section 4.12 (Reconciliation File).

1.85 Reject File - means the file specified in Section 2.1(d) (Disapproval of Coverage).

1.86 REO Sale - means a sale of a Property by the Insured after foreclosure, which sale is approved by the Company.

1.87 Rescission - means written (either physical or electronic) notification by the Company to the Insured that the coverage provided in connection with a specified Covered Loan breaches one or more of the Insured's representations and warranties in Section 2.3 (Representations of the Insured) of this Policy with the result that: coverage is deemed never to have been in force; the Company is concurrently returning all premiums paid in connection with such Covered Loan to the Insured; the Initial Principal Balance of the Covered Loan is deducted from the Total Initial Principal Balance; and the Aggregate Loss Limit and Deductible Amount are proportionately reduced.

1.88 Residential - means

(a) a type of building which is designed for occupancy by not more than four (4) families, or

(b) a single condominium or planned unit development unit, or

(c) a Cooperative Property, or

(d) a Mixed-Use Property, provided that the mixed-use represents a legal, permissible use of the Property under local zoning requirements, the Borrower occupies the Property as a principal residence, the Borrower is both the owner and operator of the commercial business located in the building, and the Property is primarily intended for residential use, or

(e) any other single residence unit as to which Good and Merchantable Title may be held or conveyed freely under law (including but not limited to manufactured housing).

Residential does not include non-residential hotel-type properties identified by characteristics such as

(f) units that do not contain full-sized kitchen appliances or

(g) units that are marketed for sale based on the availability of short term rental rates or

(h) properties that are marketed as hotels including, but not limited to, projects with units that are available to be rented on a daily basis or projects with names that include the words “hotel,” “resort,” “motel,” “inn,” or “lodge” or

(i) a significant level of hotel-type services such as, but not limited to, a registration service to support short-term rentals, daily unit cleaning services, food and beverage services, and central or integrated telephone service or

(j) units subject to timeshare or segmented ownership or

(k) mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units or

(l) restrictions on the owner's ability to occupy the unit or

(m) projects with non-incidental business operations owned or operated by the owners' association such as, but not limited to, a restaurant.

1.89 Seller - means any seller of Covered Loans approved by the parties to deliver loans to the Insured for coverage under this Policy. The seller of any Covered Loan actually insured under this Policy is deemed approved by the parties.

1.90 Selling Guide - means the Insured's single family Selling Guide, as such guide currently exists or as it may be periodically amended, including changes made by announcement or lender letter, for general application for single-family loans. Single family loans are loans secured by property designed for occupancy by not more than four families.

1.91 Servicer - means that Person, other than a natural Person, that at a given time is servicing a Covered Loan (or acting as a master servicer, if subservicing is also involved) on behalf of the Insured and pursuant to the Servicing Guide and any applicable delegation of authority that the Insured may have made to the Servicer to perform loss mitigation without the prior approval of the Insured. Actions required by this Policy to be performed by the Insured may, at the option of the Insured, be performed by a Servicer. The Servicer acts on behalf of the Insured in performing acts under this Policy.

1.92 Servicing File - means, with respect to a Covered Loan, copies (either physical or electronic images) of the following documents created or received in connection with the servicing of the Covered Loan, if applicable: pay history; primary servicing screen print display (including collection screens/notes, unpaid principal balance, last payment date, due date, interest rate, principal and interest payment amount, Borrower name(s), and Property address); rent or receiver account history; assumption or buy-down agreement; loss mitigation documents (e.g., forbearance agreement, repayment plan, modification agreement, pre-foreclosure sale, deed-in-lieu of foreclosure, etc.); foreclosure documents; bankruptcy documents; documents pertaining to preservation and/or establishment of a Deficiency Judgment; Property valuation since origination (e.g., Appraisal, AVM, BPO, etc.); and hazard insurance claim settlement.

1.93 Servicing Guide - means: (a) the Insured's single family Servicing Guide, as such guide currently exists or as it may be periodically amended by announcement, lender letter, notice, or other Servicer communication, for general application to single-family loans serviced by all of the Insured's servicers; and (b) any exceptions, pilots, or variances to the Servicing Guide authorized by the Insured.

1.94 Set-up File - means the file specified in Section 4.1 (Set-up File).

1.95 Single Premium Rate - means, if applicable, the premium rate so specified on the Declarations Page of this Policy to be used in computing a one-time, up-front premium.

1.96 Specified Coverage Percentage - means, if applicable, the percentage so specified on the Declarations Page of this Policy.

1.97 Specified Exposure Percentage - means, if applicable, the percentage so specified on the Declarations Page of this Policy.

1.98 Third-Party Sale - means

(a) a sale of a Property arranged by the Servicer and/or by the Borrower, and approved by the Insured or by the Servicer on behalf of the Insured pursuant to a delegation of authority from the Insured, prior to foreclosure, or

(b) a foreclosure or trustee's sale of a Property to a third party at a price equal to or greater than the minimum bid established and submitted by the Servicer as provided in Section 7.2(j) (Foreclosure Bidding).

1.99 Total Initial Principal Balance - means the sum of the Initial Principal Balance of all Covered Loans, as stated on the Declarations Page of this Policy, less the Initial Principal Balance of any Covered Loan for which coverage is rescinded in accordance with Section 1.87 (Rescission).

1.100 Total Loss - means the Claim Amount plus: (i) in the case of a Third-Party Sale, the amount of all commercially reasonable costs incurred in obtaining and closing the Third-Party Sale, less the proceeds of the Third-Party Sale; and (ii) in the case of an REO Sale, the amount of all commercially reasonable costs incurred in obtaining and closing the REO Sale, less the proceeds of the REO Sale.

Pronouns, when used in this Policy, shall mean the singular or plural, masculine or feminine, as the context requires.

2 Coverage

2.1 Covered Loans--Subject to Section 2.4 (Company's Remedies for Misrepresentation) and Section 6 (Exclusions from Coverage), loans that satisfy the Eligibility Criteria shall become Covered Loans and shall become insured under this Policy upon satisfaction of the requirements set forth in this Section.

(a) **Set-up File**--All loans to be covered under this Policy, whether acquired before, on, or after the Policy Effective Date, shall be identified in a Set-up File delivered to the Company by the Insured in accordance with Section 4.1 (Set-up File Delivery).

(b) **Application for Insurance**--The inclusion of a loan in a Set-up File shall constitute an Application for coverage under this Policy and the Company shall extend coverage under this Policy to each loan listed in a Set-up File unless it disapproves such coverage as provided in subsection (d) below.

(c) **Approval of Coverage**--The Company will indicate its approval of coverage under this Policy for a loan on the Set-up File by assigning a certificate number to such loan and including the certificate number for each such loan so approved on the Covered Loan Schedule. The Company will issue the Declarations Page, along with the Eligibility Criteria Schedule and the Covered Loan Schedule, to the Insured within thirty (30) days of receipt of the Set-up File. Each Covered Loan will be listed on the Covered Loan Schedule, together with the applicable Coverage Effective Date, Loan Coverage Percentage, and certificate number for each Covered Loan, and any other information pertaining thereto exactly as such information was provided on the Set-up File.

(d) **Disapproval of Coverage**-- If a loan on the Set-up File does not meet the Eligibility Criteria, the Company will indicate its disapproval of coverage under this Policy for such loan by including it on the Reject File. The Company will issue the Reject File to the Insured in the format and manner specified in the Operations Manual within thirty (30) days of receipt of the Set-up File. The Reject File must specify the reason each loan does not meet the Eligibility Criteria and the Company shall promptly refund to the Insured any premiums previously received in connection with loans on the Reject File.

2.2 Cooperative Property--For a Covered Loan that is secured by a Cooperative Property the following definitions apply:

(a) Good and Merchantable Title to Collateral exists even if there is a first mortgage lien on the entire real estate owned by the cooperative housing corporation, provided it has been disclosed to the Company in the Application for the Covered Loan secured by the Collateral.

(b) Property means--

(i) the Residential real property and all improvements on the real property which is owned by the cooperative housing corporation, and which is leased to the Borrower who holds an ownership or membership interest in such cooperative housing corporation, which lease and interest secure the related Covered Loan, together with all easements and appurtenances, all rights of access, all rights to use common areas, recreational and other facilities, and all replacements or additions to any of the foregoing, and

(ii) wherever the term “Property” is used and instead refers to the stock or membership certificate, the lease, or any other asset or right related thereto, it shall be deemed to be changed to “Collateral,” including for purposes of provisions relating to foreclosure, valuation or redemption; acquisition of title or other status of title, lien or ownership; or purchase, acquisition, sale, disposition or other conveyance by any Person.

2.3 Representations of the Insured--The Insured represents as follows:

(a) (i) all statements made and information provided to the Company in an Application (including the Set-up File and also as such is related to continuation of coverage upon assumption of a Covered Loan), whether by the Insured, the Borrower, a First Party, or any other Person, have been made and presented for and on behalf of the Insured, and

(i) such statements and information with respect to any Covered Loan are not false or misleading in any Material respect and the information and data relied upon by the Loan Originator to underwrite the Covered Loan are consistent in all Material respects with the information and data included in the Origination File for the Covered Loan, and

(ii) each Covered Loan meets the Eligibility Criteria, and

(iii) if an automated underwriting recommendation concerning the Covered Loan (including a recommendation under an automated underwriting system of the Insured) in connection with origination of the Covered Loan is disclosed to the Company in insuring the Covered Loan, all statements and information submitted through the automated underwriting system to obtain such recommendation are not false or misleading in any Material respect as of the date provided, and

(A) the information and data entered into the automated underwriting system are consistent in all Material respects with the information and data included in the Origination File for the Covered Loan, and

(B) the automated underwriting recommendation concerning the Covered Loan disclosed to the Company was relied upon by the Loan Originator in making the Covered Loan, and

(C) any finding reports and other processing instructions regarding the Covered Loan that are part of the results of the automated underwriting system, including those that may call for another evaluation of the Covered Loan by the automated underwriting system after re-verification of information or acquisition of additional data as part of such instructions, have been complied with, to the extent required by the Loan Originator's underwriting guidelines or consistent with instructions of the Insured.

(b) and agrees that

(i) such statements and information in the aggregate are, and in certain instances individually may be, Material to the Company's decision to offer, provide or continue coverage on the related Covered Loan, and

(i) the Company has issued coverage on the Covered Loan or has continued coverage on the Covered Loan in reliance on the accuracy and completeness of such statements and information and without any obligation to independently verify the statements and information submitted to it, and

(ii) the Company's reliance on the representations in subsection (a) above survive the issuance of coverage on a Covered Loan or continuation of coverage, and

(iv) the representations in subsection (a) shall be effective whether or not they are made with the intent to deceive or mislead or with the knowledge they are not true and correct.

2.4 Company's Remedies for Misrepresentation--

(a) **Rescission** - Subject to Section 2.5 (Limitation on Claim Denial, Company Initiated Cancellation and Rescission), if any of the Insured's representations in Section 2.3 (Representations of the Insured) are Materially false or misleading with respect to a Covered Loan, the Company shall have the right, to the extent permitted by Applicable Law, to issue a Rescission on a Covered Loan retroactively to the Coverage Effective Date (or, if the Misrepresentation occurs with respect to continuation of coverage upon assumption of a Covered Loan, to issue a Rescission retroactively to the date of such continuation). In the case of such Rescission, the Company shall return at that time all premiums paid for coverage after such applicable date.

(a) **Reprice** - Notwithstanding Section 2.4(a) (Rescission), the Company will not issue a Rescission on a Covered Loan if all of the following conditions are met:

(i) The conditions of Section 2.5(a) (Limitation on Claim Denial, Company Initiated Cancellation and Rescission) have not been met;

(ii) Based on the true facts, the Covered Loan would have been eligible for coverage under this Policy, according to the Eligibility Criteria and as of the Coverage Effective Date, but would have received a different premium rate; and

(iii) The Insured, within sixty (60) days following written notice from the Company that the conditions of this Section 2.4(b) (Reprice) have been met, pays the Company the additional premium owed (i.e., the appropriate monthly, annual, or single premium as agreed to by the Insured that would have been charged but for the Material Misrepresentation, less the premium actually charged) as reasonably calculated by the Company. If the Insured does not timely pay such additional premium, the Company will promptly issue a Rescission on the Covered Loan.

2.5 Limitation on Claim Denial, Company Initiated Cancellation and Rescission - except for Exclusions determined to relate to Covered Loans described in: Section 6.1 (Assumptions); 6.2 (Balloon Payment); Section 6.3 (Breach of Conditions and Insured's Obligations); Section 6.5 (Effective Date and Cancellation); Section 6.8 (Monthly Servicing Report); Section 6.9 (No First Deed of Trust); Section 6.10 (Physical Damage); Section 6.11 (Pre-Existing Environmental Impairment); Section 6.12 (Release of Indebtedness); and Section 6.13 (Residential Property), no Claim will be adjusted or denied, nor will coverage be cancelled or rescinded, by the Company for any issue arising out of the origination or closing of a Covered Loan provided all of the following conditions are met:

(a) the Borrower: (i) made the first consecutive thirty-six (36) monthly payments of principal, interest, and escrow impounds in the amount and timeliness required under the Covered Loan with the Borrower's Own Funds; or (ii) had no 60-day or greater delinquencies and no more than two 30-day delinquencies during the thirty-six (36) months following the date the Covered Loan closed and was current as of the sixtieth (60th) month following the date the Covered Loan closed. A payment will be considered to be “consecutive” only if it is made prior to the date the next scheduled payment becomes due;

(b) there is no Credible Evidence of Material Misrepresentation in the origination or closing of the Covered Loan involving any First Party with respect to a single Covered Loan if the Misrepresentation was made intentionally and with knowledge and the Company relied upon such Misrepresentation;

(c) there is no Credible Evidence of Material Misrepresentation in the origination or closing of the Covered Loan involving two or more parties (i.e., the Borrower and one or more Pattern Parties, or two or more Pattern Parties) and the Covered Loan together with one or more other Covered Loans, loans, or related real estate transactions. For purposes of this Section 2.5(c), “Pattern Party” means a First Party as well as a Property seller, a builder, and a real estate agent; and

(d) the Insured must have satisfied all of the requirements of Sections 8.1 (Claim Filing).

The Company's payment of a Claim will not limit any rights the Company has against the Borrower or any other Person (other than the Insured) for any Material Misrepresentation under Section 2.3 (Representations of the Insured).

2.6 Policy Type--

(a) If the Policy Type designated on the Declarations Page of this Policy is an Accumulation Policy, the following provisions apply during the Accumulation Period of this Policy in addition to or, if specified, in place of, the other terms and conditions of this Policy:

(i) from the Policy Effective Date until the Policy Settlement Date, the Total Initial Principal Balance shall be as designated on the Declarations Page of this Policy, notwithstanding the actual total initial principal balance of the Covered Loans as set forth on the Covered Loan Schedule to this Policy, and

(ii) notwithstanding any other provision of this Policy to the contrary,

(A) coverage shall extend only to those loans which have been purchased by the Insured that meet the Eligibility Criteria and are reported to the Company in accordance with procedures agreed to by the Company and the Insured and listed on the Covered Loan Schedule, and

(B) the Coverage Effective Date for a Covered Loan under this Policy shall be the date listed on the Covered Loan Schedule, and

(iii) effective on the Policy Settlement Date at the end of the Accumulation Period, the Total Initial Principal Balance as specified on the Declarations Page of this Policy shall be adjusted to be equal to the total initial principal balances of all Covered Loans listed on all Covered Loan Schedules issued prior to the Policy Settlement Date, regardless of whether the Covered Loan is covered by this Policy on the Policy Settlement Date, and the Covered Loan Schedule which is provided by the Company to the Insured effective on the Policy Settlement Date shall list all such Covered Loans, with a notation of loans which were initially covered by this Policy but are no longer covered as of the Policy Settlement Date, and

(iv) no loan may be covered under this Policy which is not included in a Covered Loan Schedule dated before the Policy Settlement Date, and

(v) any provisions that may be so specified in the Commitment Letter.

(b) If the Policy Type designated on the Declarations Page is a Bulk Policy, any provisions that may be so specified in the Commitment Letter will apply in addition to or in place of the other terms and conditions of this Policy.

(c) If the Policy Type designated on the Declarations Page is a Flow Policy, any provisions that may be so specified in the Commitment Letter will apply in addition to or in place of the other terms and conditions of this Policy.

3 Premium

3.1 Premium Calculation and Payment--

(a) **Premiums**--The premiums due and payable under this Policy shall be calculated and paid monthly, annually or in a single premium, as specified on the Declarations Page of this Policy.

(i) **Monthly Premium**--If the premium is a monthly premium, whether or not all the Covered Loans have a single Coverage Effective Date, the initial premium for each Covered Loan shall be calculated by multiplying the Monthly Premium Rate by the Initial Principal Balance of each Covered Loan. The Insured will make its best effort to pay the initial premium within five (5) days of delivery of the Set-up File, but in all cases the initial premium will be paid within ten (10) days of delivery of the Set-up File. After that payment, all regular subsequent premiums shall be calculated by multiplying the Monthly Premium Rate by the then-current unpaid principal balance of each Covered Loan as of the day immediately preceding the first (1st) day of the month for which the subsequent premium is due and as such balance is reported in the Monthly Servicing Report. The Insured will pay regular subsequent premiums within thirty (30) days of the end of each month. If the regular renewal premium is not paid within such period, the Company will promptly notify the Insured that it has not been paid pursuant to Section 3.2 (Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium; Reinstatement3.2 Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium).

(ii) **Annual Premium**--If the premium is an annual premium, the initial premium shall be calculated by multiplying the Annual Premium Rate by the Initial Principal Balance of each Covered Loan once all loans have been delivered to the Insured. The Insured will make its best effort to pay the initial premium within five (5) days of delivery of the Set-up File, but in all cases the initial premium will be paid within ten (10) days of delivery of the Set-up File. If all Covered Loans on a Covered Loan Schedule have the same Coverage Effective Date, then the initial premium on a Covered Loan will cover the period from the Coverage Effective Date for such Covered Loan to the one year anniversary of such Coverage Effective Date. After that payment, each subsequent premium shall be calculated by multiplying the Annual Premium Rate by the then-current unpaid principal balance of each Covered Loan on the day immediately preceding the anniversary of the applicable Coverage Effective Date and as such balance is reported in the Monthly Servicing Report. Unless otherwise agreed between the Company and the Insured, if the Covered Loan Schedule includes Covered Loans with different Coverage Effective Dates, both the initial and subsequent premium for each month's deliveries will be a full year's premium (that is, no proration of the initial premium). The Insured will pay subsequent premiums within thirty (30) days of the anniversary of the applicable Coverage Effective Date. If the subsequent premium is not paid within such period, the Company will promptly notify the Insured that the subsequent premium has not been paid pursuant to Section 3.2 (Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium; Reinstatement3.2 Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium).

(iii) **Single Premium**--If the premium is a single premium, it shall be calculated by multiplying the Single Premium Rate by the Initial Principal Balance of each Covered Loan. The Insured will make its best effort to pay the premium within five (5) days of delivery of the Set-up File, but in all cases it will be paid within ten (10) days of delivery of the Set-up File. In this case, there will be no subsequent premiums.

(iv) **Other Premium Structures -** If the parties agree to a premium structure other than one identified in subsection (a)(i), (a)(ii), or (a)(iii) above, then the applicable premium rate, method of calculating the premium payment, timing of premium payment, etc. shall be detailed in the Commitment Letter. In addition, the applicable premium rate will be specified on the Declarations Page of this Policy.

(v) **Tender of First Premium**--Tender of the first premium for a Covered Loan will constitute a representation by the Insured for the purposes of Section 2.3 (Representations of the Insured) that any special conditions included by the Company in the Commitment Letter have been satisfied.

(b) **Changes in Unpaid Principal Balance**--In the event the unpaid principal balance of a Covered Loan is increased or decreased pursuant to the terms of the note, mortgage, deed of trust or other instrument relating to the Covered Loan or in accordance with Section 7.2(a) (Modification of Covered Loans Not in Default and Not at Risk of Imminent Default) or Section 7.2(c) (Modification of Covered Loans in Default or at Risk of Imminent Default), the Insured shall pay subsequent premium at the Monthly Premium Rate or Annual Premium Rate applicable to the Covered Loan, on the changed unpaid principal balance as such balance is reported in the Monthly Servicing Report. In the case of a Monthly Premium, the Monthly Premium on the changed unpaid principal balance will be payable beginning with the month in which such unpaid principal balance changed, but shall be paid beginning with the month in which such changed unpaid principal balance is initially reported to the Insured by the Servicer. In the case of an Annual Premium, the Annual Premium on the changed unpaid principal balance will be paid beginning with the first Annual Premium that is due after the month in which such changed unpaid principal balance is initially reported to the Insured by the Servicer. In the event of a Default prior to the payment of the required premium for any increase in unpaid principal balance, such increase in unpaid principal balance will not be covered. This Section will not apply if a Single Premium Rate is applicable. In no event will a change in the unpaid principal balance of a Covered Loan change the Initial Principal Balance of such loan.

(c) **Effective Date of Coverage**--Provided that premiums are paid by the Insured in accordance with this Section, coverage for the relevant Covered Loans shall be effective as of the applicable Coverage Effective Date and shall remain effective until terminated or canceled in accordance with this Policy.

(d) **End of Obligation to Pay Premium**--The Insured's obligation to pay premium on a Covered Loan ceases on the last day of the month in which the Liquidation Date occurs.

(e) **Payment Method**--All premiums will be paid by the Insured by Automated Clearing House (ACH) of the Federal Reserve System, to the account specified in writing by the Company, or as otherwise agreed in writing between the Company and the Insured, and the Insured will concurrently with payment provide to the Company the Premium Payable File.

(f) **Premiums Non-refundable**--All premiums are non-refundable except as otherwise provided in this Policy or in the Commitment Letter.

3.2 Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium -

(a) **Lapse, Grace Period, Notice** - If premium is not paid for a Covered Loan identified as active on the most recent Monthly Servicing Report as provided in this Policy, coverage with respect to such Covered Loan shall terminate, effective as of 12:01 a.m. on the Lapse Date, except coverage shall continue uninterrupted if payment is received by the Company within ninety (90) days after the Lapse Date, or if a non-payment notice is required by Applicable Law, within whatever period is specified in such non-payment notice or may be required by Applicable Law. If the Company does not receive a premium payment within sixty (60) days after the Lapse Date for any Covered Loan identified as active on the most current Monthly Servicing Report, it will promptly provide written notice to the Insured (at the e-mail box specified in writing by the Insured) and allow the Insured until the ninetieth (90th) day after the Lapse Date to cure the lapse before issuing a Company Initiated Cancellation.

If a Covered Loan is in Default prior to the Lapse Date and remains in Default as of the Lapse Date, the liability of the Company shall continue with respect to such Covered Loan.

(b) **Lapse Due to Erroneous Liquidation** - If coverage lapses due to the erroneous reporting of a liquidation of a Covered Loan and the Insured wishes to reinstate coverage on such loan if it is subsequently reported as active on the Monthly Servicing Report, the Insured shall forward to the Company the premium payment(s) necessary to reinstate coverage and the Company will reinstate coverage without requiring any additional information.

(c) **Reinstatement After Lapse** - If the Insured fails to pay premium in accordance with subsection (a), coverage lapses, and the Insured wishes to reinstate coverage after the Lapse Date, the Insured shall forward to the Company its request for reinstatement together with the appropriate premium payment and any information reasonably required by the Company. The Company will not agree to reinstate coverage of a loan if a Default has occurred after the Lapse Date. If the Company agrees to reinstate coverage on the relevant Covered Loan(s), such agreement will be evidenced by its acceptance of the premium payment; provided, however, that the Insured acknowledges that the Company deposits all payments immediately on receipt and, accordingly, the Insured agrees that the receipt and deposit of premium by the Company does not constitute acceptance by the Company until final reconciliation by the Company of the Company's records with such premium, which reconciliation will occur no later than sixty (60) days after receipt of premium by the Company.

Upon the Company's acceptance of the premium after the Lapse Date, coverage on the relevant Covered Loan(s) shall be reinstated and shall continue without interruption, as if there had been no lapse, and Defaults occurring prior to the Lapse Date or after the date of reinstatement of coverage will be covered. If the Company learns that the Covered Loan was in Default during the period between the Lapse Date and the date of reinstatement, the Company will be entitled to issue a Company Initiated Cancellation and will return all premiums received for the period after the Lapse Date. Receipt, deposit and retention of a premium will not constitute a waiver of any other defense with respect to the Covered Loan which the Company has under this Policy.

4 Administration of Policy

4.1 Set-up File Delivery--The Set-up File will be delivered by the Insured to the Company in the format and manner specified in the Operations Manual. This file is used to provide the Company with loan level information needed by the Company to prepare the Covered Loan Schedule in accordance with Section 2.1(c) (Approval of Coverage).

4.2 Monthly Servicing Report --For so long as this Policy is in effect, the Insured shall provide the Company with a Monthly Servicing Report for all active and liquidated Covered Loans, including information on the status of Covered Loans in Default. At the request of the Company, the Insured shall also include on one or more Monthly Servicing Reports information on the status of inactive Covered Loans. The Monthly Servicing Report will satisfy all of the Insured's obligations under

this Policy with respect to notification of Default reporting and will be the sole source for Covered Loan balances used to calculate premium payments and Claim Amounts under this Policy. The Monthly Servicing Report will be delivered by the Insured to the Company on or before the last Business Day of the month following the month to which it relates and in the format and manner specified in the Operations Manual, provided, however, that the Insured shall include in the Monthly Servicing Report notice of any Default on a Covered Loan if, within the month to which the Monthly Servicing Report relates: (i) the Borrower was two (2) months in Default on the Covered Loan; or (ii) any proceeding was commenced, including but not limited to foreclosure, which affects the Covered Loan or the Property or the Insured's or Borrower's interest in the Covered Loan or the Property.

4.3 Monthly Rescission Report-- For so long as this Policy is in effect, the Company shall provide the Insured with a Monthly Rescission Report identifying any Covered Loans for which the Company has issued a Rescission under this Policy. The Monthly Rescission Report will be delivered by the Company to the Insured by the fifth (5th) Business Day of the month following the month to which it relates and in the format and manner specified in the Operations Manual.

4.4 Servicing --

(a) The Insured shall identify the Servicer of a Covered Loan as part of the Set-up File. The Company shall be notified of any change in Servicer through the Monthly Servicing Report. The specific data and Servicer information required to be shown on the Monthly Servicing Report will be specified in the Operations Manual.

(b) To the extent consistent with the terms and conditions of this Policy, (i) Covered Loans will be serviced by a Servicer or Servicers selected by the Insured consistent with the Insured's normal business practices and in accordance with Section 4.5 (Change of Servicing) of this Policy and in accordance with servicing guidelines that are at least as rigorous as the Insured's Servicing Guide for non-insured loans and (ii) the Insured may give the Servicer delegated authority to perform loss mitigation and enter into workouts with Borrowers without the Insured's prior approval, which otherwise would be required by the Servicing Guide or other applicable servicing guidelines.

4.5 Change of Servicing--

(a) If the servicing of a Covered Loan is sold, assigned or transferred, coverage under this Policy will continue in accordance with the terms of this Policy, provided that the Covered Loan is serviced by a Servicer approved by the Insured to service other loans of a similar nature owned or guaranteed by the Insured.

(b) The Company may require a change of Servicer, provided, however, that the Company must first have (i) identified in writing to the Insured the material performance deficiencies necessitating the change and (ii) allowed a period of at least sixty (60) days after notice to the Insured for the Insured to remedy those deficiencies to the Company's satisfaction. If the deficiencies are not so remedied, the Company may require that the servicing be transferred in order to continue coverage and if it does so, it must notify the Insured in writing that the servicing must be transferred in order to continue coverage of affected Covered Loans and allow the Insured a minimum of ninety (90) days to effect the transfer to another Servicer acceptable to the Company to service the Covered Loans.

4.6 Change of Insured--If one or more Covered Loans are sold, assigned or transferred by the Insured, coverage under this Policy will not continue on such loans unless the Company consents in writing to the continuation of coverage. If the Company does not consent, then termination of coverage on such loans under this Section shall be effective as of the date of sale, assignment or transfer and there shall be no refund of premium.

4.7 Examinations and Audits--

(a) **Set-up File Variances and Remedies**--The Set-up File may contain some loans not included in the Bid File and may not contain some loans included in the Bid File. If, within thirty (30) days from its receipt of the initial premium payment under this Policy, the Company determines that the Set-up File information Materially differs from the information in the Bid File used by the Company for pricing the coverage provided under this Policy, the Company will provide written notice to the Insured of the alleged Material difference and cooperate in good faith with the Insured to address such difference. A variance of the Total Initial Principal Balance of the Covered Loans from the Bid File to the Set-up File, shall not, in and of itself, be considered a Material difference; however, variances in individual loan characteristics may be Material on a case-by-case basis.

(i) In the event a cure is not agreed upon between the Insured and the Company within thirty (30) days after

such notice, the Company will be entitled, at its option, within fifteen (15) days after expiration of such thirty (30) day period, to

(A) adjust its premium rate on all Covered Loans to reflect the risk of the actual Covered Loans insured using the same pricing methodology used to price the loans included in the Bid File, or

(B) reject coverage on the loans with respect to which the Set-up File contains information Materially different from the information in the Bid File, and include such loans on the Reject File, or

(C) request substitutions of loans consistent with the Bid File.

(ii) If the Company chooses to adjust its premium rate pursuant to subsection (a)(i)(A) above, and if the Insured does not agree that the adjusted premium reflects the risk of the actual loans to be insured, then no later than fifteen (15) days after notice is given to the Insured, the Insured may cancel this Policy retroactive to the Policy Effective Date. Such cancellation will apply to all Covered Loans regardless of Default status. The Company shall have no liability for any Claim under this Policy, including any Claim arising out of a Default in existence at cancellation. The Company shall promptly refund to the Insured all premiums paid in connection with this Policy. If the Company has paid a Claim with respect to any Covered Loan, the Insured shall promptly refund to the Company the amount of the Insurance Benefit paid.

(iii) If the Company chooses to reject coverage on loans having Materially different information, or if the Company chooses to request substitution and the Insured has not substituted loans consistent with the Bid File to the Company's satisfaction within thirty (30) days after notice from the Company,

(A) the Company shall promptly refund to the Insured all premiums paid on the rejected loans or Covered Loans, as applicable, and

(B) the Insured shall promptly refund to the Company the amount of any Insurance Benefit paid, and

(C) the Company shall have no liability under this Policy for any Claims, including any Claim arising out of a Default then in existence on the rejected loan or Covered Loan, as applicable.

(b) **Due Diligence Review and Remedies**--

(i) The Company will have the right to perform a due diligence review of Origination Files on a reasonable sample of Covered Loans at any time prior to the twelve (12) month anniversary of the Effective Date of this Policy with respect to a Bulk Policy or the Policy Settlement Date of an Accumulation Policy, provided that the Company notifies the Insured in writing of its intent to perform such a review. This Section 4.7(b) shall not apply to a Flow Policy. Notice of a due diligence review shall be directed as specified in the Commitment Letter. Due diligence reviews shall be conducted in the Company's offices utilizing physical or electronic images of the Origination Files. The purpose of any such due diligence review shall be limited to confirming that the Covered Loans comply with the Insured's representations as set forth in Section 2.3 (Representations of Insured) of this Policy. The Insured is required to provide the identified Origination Files to the Company within sixty (60) days of the Company's written notice. If the Insured fails to provide one or more Origination Files within such sixty (60) day period, the Company will promptly provide a second notice to the Insured, allowing the Insured to provide the missing Origination Files within an additional thirty (30) day period. If the Insured fails to provide the identified Origination Files to the Company within such additional thirty (30) day period, the Company and the Insured agree to meet within ten (10) Business Days to reach a mutually agreeable resolution. If no mutually agreed upon resolution can be reached, the Company may issue a Company Initiated Cancellation with respect to any Covered Loans for which Origination Files were not provided and there shall be no refund of premium. The Company's failure to use this right to perform due diligence shall in no way reduce, preclude or eliminate any of its other rights under this Policy.

(ii) If the Company determines, based on a due diligence review, that a Covered Loan does not Materially

comply with the Insured's representations as set forth in Section 2.3 (Representations of Insured) of this Policy, the Company will provide written notice to the Insured of the alleged breach and the Insured will attempt to cure the breach. In the event a cure is not effected to the Company's satisfaction within thirty (30) days after such notice, the Company will be entitled, within fifteen (15) days after expiration of such thirty (30) day period, to

(A) adjust its premium rate on all Covered Loans to reflect the risk of the actual Covered Loans insured using the same pricing methodology used to price the loans included in the Bid File, or

(B) issue a Rescission on the non-complying Covered Loans, or

(C) request substitutions of loans consistent with the Insured's representations.

(iii) If the Company chooses to adjust its premium rate pursuant to subsection (b)(ii)(A) above, and if the Insured does not agree that the adjusted premium reflects the risk of the actual Covered Loans insured, then no later than forty-five (45) days after such notice is given to the Insured, the Insured may cancel the Policy retroactive to the Policy Effective Date. Such cancellation will apply to all Covered Loans regardless of Default status. After such cancellation, the Company shall have no liability for any Claim under this Policy. The Company shall promptly refund to the Insured all premiums paid in connection with the Covered Loans. If the Company has already paid an Insurance Benefit with respect to any Covered Loan, the Insured shall promptly refund to the Company the amount of the Insurance Benefit paid.

(iv) If the Company chooses to issue a Rescission on the non-complying Covered Loans pursuant to subsection (b)(ii)(B), or if the Company chooses to request substitution pursuant to subsection (b)(ii)(C) and the Insured has not substituted loans consistent with its representations to the Company's satisfaction within thirty (30) days after notice from the Company, with respect to such Covered Loans

(A) the Company shall promptly refund to the Insured all premiums paid, and

(B) the Insured shall promptly refund to the Company the amount of any Insurance Benefit paid, and

(C) the Company shall have no liability under this Policy for any Claim, including any Claim arising out of a Default then in existence on the applicable Covered Loan.

(c) **Examinations and Requests for Origination Files and Servicing Files** - At any time prior to the Insured filing a Claim pursuant to Section 8.1 (Claim Filing), the Company will have the right to request from the Insured copies of individual Origination Files and/or Servicing Files as specifically needed by the Company to perform quality control reviews or investigations. The Insured is required to provide such Origination Files and/or Servicing Files within sixty (60) days of the date of the Company's written request, provided, however, that if the Company requests in any one month files for more than three percent (3%) of the number of Covered Loans currently insured under this Policy, the Insured and the Company shall agree on the timing for production of such files. If the Insured fails to provide a copy of an Origination File and/or Servicing File within such sixty (60) day period, the Company will promptly provide a second notice to the Insured, allowing the Insured to provide the Origination File and/or Servicing File within an additional thirty (30) day period. If the Insured fails to make the identified Origination File and/or Servicing File available to the Company within such additional thirty (30) day period, the Company may cancel coverage on the related Covered Loan and there shall be no refund of premium.

(d) **Examinations of Servicing and Loss Mitigation**--The Company shall have the right to perform periodic examinations of the Insured and its Servicer to confirm that servicing and loss mitigation actions are being performed by the Servicer consistent with this Policy. The Insured and the Servicer shall actively cooperate with and assist the Company in performing periodic examinations. In the event such reviews identify Material noncompliance, upon written notice by the Company to the Insured, the Insured will exercise its best efforts to remedy such noncompliance and cause the identified servicing deficiencies to be corrected. In the event the deficiencies are not corrected to the Company's satisfaction, the Company shall have the right to (i) withdraw its approval of the Servicer pursuant to Section 4.5(b) (Change of Servicing), or (ii) adjust any Claim as provided in Section 6.3 (Breach of Conditions and Insured's Obligations).

4.8 Co-ordination and Duplication of Insurance Benefits--The coverage under this Policy shall be excess over any other mortgage guaranty insurance that may apply to a Covered Loan, regardless of the type of or the effective date of such other coverage.

4.9 Insurance Benefit File-- The Insurance Benefit File will be delivered by the Company to the Insured by the fifth (5th) Business Day of the month following the month to which it relates and in the format and manner specified in the Operations Manual. This file is used to provide the Insured with loan level Insurance Benefit payment information, including, but not limited to, the amount and date of Insurance Benefits paid by the Company under this Policy.

4.10 Premium Payable File-- If the applicable premium is a monthly premium, the Premium Payable File will be delivered by the Insured to the Company by the last Business Day of the month following the month to which it relates and in the format and manner specified in the Operations Manual. If the applicable premium is an annual premium, the Premium Payable File will be delivered by the Insured to the Company by the last Business Day of the month following the anniversary of the applicable Coverage Effective Date. If the applicable premium is a single premium, the Premium Payable File will be delivered by the Insured to the Company within ten (10) days of the Insured's delivery to the Company of the Set-up File. The Premium Payable File is used to provide the Company with loan level information regarding premium payments being made by the Insured in connection with Covered Loans.

4.11 Premium Refund File - The Premium Refund File will be delivered by the Company to the Insured within one (1) Business Day of remitting any premium refund to the Insured. Premium refunds may be remitted daily, weekly or monthly. The file will be delivered in the format and manner specified in the Operations Manual. This file is used to provide the Insured with loan level premium refund information, including, but not limited to, the amount of and reason for all premiums refunded by the Company under this Policy, as well as the date of the event giving rise to each premium refund. All premium refunds must be remitted to the account or address specified in writing by the Insured in the Operations Manual. No premium refund may in any way be added to, intermingled with, or offset from Insurance Benefits. The Company acknowledges that the Insured deposits all payments immediately on receipt and, accordingly, the Company agrees that the receipt and deposit of any premium refund by the Insured does not constitute acceptance by the Insured of the reason for the refund. For example, if the reason for the premium refund was a Rescission, such Rescission shall continue to be subject to appeal pursuant to Section 8.9 (Appeal of Adverse Actions).

4.12 Reconciliation File - The Reconciliation File will be delivered by the Company to the Insured by the fifth (5th) Business Day following a Reconciliation Event and in the format and manner specified in the Operations Manual. This file is used to provide the Insured with loan level information necessary to periodically reconcile with the Company the Covered Loans insured under this Policy at a point in time, including, but not limited to if applicable, the remaining Covered Loan population, the remaining Deductible Amount, the remaining Aggregate Loss Limit, and the Aggregate Loss Limit Step Down.

4.13 Reconciliation - At least ninety (90) days prior to the expected occurrence of a Reconciliation Event, the Company will deliver to the Insured a Reconciliation File. Within thirty (30) days of its receipt of a Reconciliation File, the Insured will identify any variances from the data in its systems and notify the Company in writing of any such variances. Within thirty (30) days of its receipt of the Insured's written notice of any variances, the Company and the Insured must reconcile the variances and agree to such reconciliation in writing (“Reconciliation Agreement”). The Reconciliation Agreement will be definitive and form the binding basis of any subsequent reconciliation. If a reconciliation is still in process and the Company reasonably determines that the Maturity Date has been reached or the Aggregate Loss Limit has been exhausted, the Company shall suspend paying Insurance Benefits until the reconciliation is complete and any such suspension shall toll the application of Section 8.7 (Failure to Timely Pay Insurance Benefit).

5 Termination and Cancellation--

5.1 Termination of Coverage on a Covered Loan--

(a) Provided that all applicable premiums have been paid with respect to a Covered Loan, coverage shall continue until, and shall automatically terminate upon, the first to occur of the following events:

(i) the Covered Loan is paid in full;

(ii) the Company pays the Insured the Insurance Benefit with respect to the Covered Loan, or, if applicable per

the Declarations Page, the Insurance Benefit is charged to the Deductible Amount with respect to the Covered Loan;

(iii) the Covered Loan is required to be and is repurchased from the Insured by a Person pursuant to a written agreement as that agreement is in effect between the Insured and such Person at the time of acquisition of the Covered Loan by the Insured;

(iv) the Insured sells, assigns or transfers the Covered Loan without obtaining consent of the Company to continue coverage under this Policy pursuant to Section 4.6 (Change of Insured); or

(v) the Company issues a Rescission or Company Initiated Cancellation with respect to the Covered Loan pursuant to its rights under this Policy.

(b) The Insured shall provide notice to the Company within sixty (60) days of the termination date specified in subsection (a)(i), (a)(iii), or (a)(iv).

(c) If coverage is terminated pursuant to subsection (a)(iii), that portion of an annual premium or a single premium attributable to coverage after such termination shall be refunded to the Insured within thirty (30) days of termination of coverage in accordance with the Company's published refund schedule in effect on the Policy Effective Date. The Insured shall not be entitled to any refund of premium if coverage terminates pursuant to subsection (a)(i), (a)(ii), or (a)(iv) or if premiums are paid monthly.

5.2 Termination of Policy Prior to Exhaustion of Aggregate Loss Limit - If a Maturity Date is applicable per the Declarations Page and any applicable Aggregate Loss Limit has not been reached, this Policy will automatically terminate on the Maturity Date. If the Company believes that the Maturity Date has occurred, it will provide the Insured with the Reconciliation File and cease paying Insurance Benefits until the reconciliation specified in Section 4.13 (Reconciliation) is complete. Upon termination:

(a) No additional premiums under this Policy shall be due or payable, except in the case of a monthly premium, any premium due for the month in which termination occurs shall be paid;

(b) Subject to subsections (a) and (e) of this Section 5.2, the Insured is relieved of any and all obligations and waives any and all rights it has under this Policy with respect to any Covered Loan, except that any Covered Loan in Default on the Maturity Date shall remain covered under this Policy until it cures, in which case the Company shall have no liability for any Claim arising out of any subsequent Default;

(c) In the case of an annual premium, the Company shall refund to the Insured the pro-rated portion of such premium related to the months following termination;

(d) Subject to subsection (c) and (e) of this Section 5.2, the Company is relieved of any and all obligations and waives any and all rights it has under this Policy with respect to any Covered Loan, except that any Covered Loan in Default on the Maturity Date shall remain covered under this Policy until it cures, in which case the Company shall have no liability for any Claim arising out of any subsequent Default; and

(e) With respect to any Covered Loan in Default on the Maturity Date where the Company issues a Claim Denial or Rescission, or adjusts the Claim Amount or curtails the Insurance Benefit, before or after the Maturity Date, the Insured may still appeal the adverse action pursuant to Section 8.9 (Appeals of Adverse Actions) and, if the Insured's appeal is successful, the Company will pay the applicable amount within the remaining Claim Settlement Period.

5.3 Termination of Policy Upon Exhaustion of Aggregate Loss Limit - If an Aggregate Loss Limit is applicable per the Declarations Page, this Policy will automatically terminate on the last day of the month in which the Aggregate Loss Limit is reached. If the Company believes that the Aggregate Loss Limit has been reached, it will provide the Insured with the Reconciliation File and cease paying Insurance Benefits until the reconciliation specified in Section 4.13 (Reconciliation) is complete. Upon termination:

(a) No additional premiums under this Policy shall be due or payable, except in the case of a monthly premium, any premium due for the month in which termination occurs shall be paid;

(b) Subject to subsection (a) of this Section 5.3, the Insured is relieved of any and all obligations and waives any and all rights it has under this Policy with respect to any Covered Loan, whether in Default or not, whether a Claim has been filed or not, and whether an Insurance Benefit has been paid or not;

(c) In the case of an annual premium, the Company shall refund to the Insured the pro-rated portion of such premium related to the months following termination;

(d) Subject to subsection (c) of this Section 5.3, the Company is relieved of any and all obligations and waives any and all rights it has under this Policy with respect to any Covered Loan, whether in Default or not, whether a Claim has been filed or not, and whether an Insurance Benefit has been paid or not;

(e) The Insured withdraws any Claims filed on or prior to the date of termination that are still pending as of the date of termination, and will file no Claims after the date of termination; and

(f) With respect to any Covered Loan where the Company issued a Rescission pursuant to Section 2.4 (Company's Remedies for Misrepresentation) prior to the date of termination, neither the Insured nor any of the Insured's predecessors or successors in interest may rebut the Rescission and coverage will not be reinstated.

5.4 Cancellation of Coverage on a Covered Loan by the Insured--Except as provided in Section 5.1 (Termination of Coverage on a Covered Loan), the Insured may not cancel coverage on a Covered Loan unless permitted in writing by the Company. Cancellation of coverage on a Covered Loan will not cancel this Policy.

5.5 Cancellation of Policy by the Company--

(a) With respect to an Accumulation Policy or a Bulk Policy, the Company may not cancel this Policy so long as premiums have been paid in accordance with this Policy and coverage on any Covered Loan remains in force.

(b) With respect to a Flow Policy, the Company may cancel this Policy on ninety (90) days prior written notice to the Insured; provided, however, that Covered Loans with a Coverage Effective Date prior to the cancellation date of this Policy shall continue to have coverage so long as all premiums are paid pursuant to, and subject to all other terms and conditions of, this Policy, and further provided that loans on which an initial loan application has been received by a Loan Originator prior to such cancellation date will be eligible to become a Covered Loan, but loans for which such application is received after such date will not be so eligible. After receipt of the notice, the Insured shall not enter into any new contracts to purchase loans that will be insured under this Policy.

5.6 Cancellation of Policy by the Insured5.3 Cancellation of Policy-- With respect to an Accumulation Policy, a Bulk Policy, or a Flow Policy, the Insured may cancel this Policy if the Company ceases to be Qualified and provides thirty (30) days prior written notice to the Company. In the event of such cancellation, the effective date of the cancellation will be deemed to be the Maturity Date and the Policy will terminate in accordance with Section 5.2 (Termination of Policy Prior to Exhaustion of Aggregate Loss Limit), provided, however, that if a single premium was paid and there is no actual Maturity Date, the unearned portion of the single premium, calculated in accordance with the Company's published refund schedule in effect on the Policy Effective Date, will be refunded to the Insured.

6 Exclusions from Coverage

Even if a particular Covered Loan satisfies the Eligibility Criteria, the Company shall not be liable for, and the Policy shall not apply to, extend to, or cover a Claim on such loan to the extent it is described in one of the Exclusions listed in this Section 6. In the event a Covered Loan is excluded from coverage under this Section 6, the Company shall be entitled to issue a Company Initiated Cancellation or Claim Denial, as appropriate, and, if it does so, will promptly refund all premiums for such loan for the period following the occurrence of the event giving rise to the Exclusion.

6.1 Assumptions - Any Claim if a Covered Loan is assumed and the Borrower is released from liability under the Covered Loan unless (i) the Insured approved such assumption and release in advance; or (ii) the Insured, under the Covered Loan or Applicable Law, cannot exercise a "due-on-sale" clause; or (iii) the Insured is obligated to consent to such assumption under the terms of the Covered Loan or Applicable Law; or (iv) the Servicing Guide provides for such assumption.

6.2 Balloon Payment--Any Claim arising out of or in connection with the failure of the Borrower to make any payment of principal and/or interest due under a Covered Loan, which payment becomes due when the Insured exercises its right to call the Covered Loan when not in Default or because the term of the Covered Loan is shorter than the amortization period, and which payment is for an amount more than twice the regular periodic payment of principal and interest that is set forth in the Covered Loan (commonly referred to as a "Balloon Payment"); provided, however, that this Exclusion shall not apply if the Insured or its Servicer offers the Borrower unconditionally and in writing, before the due date of the Balloon Payment, a renewal, refinance, or extension of the Covered Loan or a new loan in accordance with the Servicing Guide and the Borrower declines to accept such renewal, refinancing or extension, or new loan.

6.3 Breach of Conditions and Insured's Obligations--Any Claim involving or arising out of any breach by the Insured of its obligations under, or its failure to comply with, Section 4 (Administration of Policy) and Section 7 (Loss Mitigation) of this Policy, or of its obligations as imposed by operation of law, if the breach or failure

(a) materially contributed to the Default resulting in such Claim, or,

(b) increased the Company's loss, provided that if the Company can reasonably determine the amount of such increase, the Company will not issue a Claim Denial, but the Claim Amount will be reduced to the extent of such amount.

6.4 Down Payment--Any Claim involving a Covered Loan which is for the purchase of the Property and for which the Borrower did not make the down payment, if any was required by the Insured, from Borrower's Own Funds, as described in the Application or the final HUD-1 settlement statement executed in connection with the origination of the Covered Loan.

6.5 Effective Date and Cancellation--Any Claim resulting from a Default occurring

(a) before the Policy Effective Date, or

(b) before the Coverage Effective Date for the Covered Loan, or

(c) after the cancellation of this Policy, or

(d) after the Lapse Date applicable to the Covered Loan (unless coverage is reinstated pursuant to Section 3.2 (Lapse of Coverage for Covered Loan for Failure to Pay Subsequent Premium), or

(e) after coverage with respect to the Covered Loan is terminated, cancelled, or rescinded.

6.6 Incomplete Construction--Any Claim when, as of the date of such Claim, construction of the Property had not been completed in accordance with the Appraisal obtained, or the construction plans and specifications approved, at the time the Covered Loan was originated or on which the Original Value was based.

6.7 Ineligible Loan--Any Claim with respect to a loan that does not satisfy the Eligibility Criteria set forth in the Eligibility Criteria Schedule.

6.8 Monthly Servicing Report--Any Claim if the information contained in a Monthly Servicing Report relating to the particular Covered Loan is false or misleading in any material respect as of the date of the Monthly Servicing Report or omits to state any fact necessary in order to make such information not false or misleading in any material respect as of such date, provided the Company relied on such false or misleading statement or omission in continuing coverage on the related Covered Loan prior to correction of such statement or omission, and further provided that if the Company can reasonably determine the amount by which the Claim Amount was increased by the error in the Monthly Servicing Report, the Company will not issue a Claim Denial, but the Claim Amount will be reduced to the extent of such amount.

6.9 No First Deed of Trust--Any Claim if the Covered Loan is not secured by a First Deed of Trust as of the date the Covered Loan is closed.

6.10 Physical Damage--Any Claim in which there is Physical Damage to the Property occurring or manifesting itself after the date on which the related Covered Loan is closed and the Physical Damage is the principal cause of the Default. This exclusion shall not apply if the Insured restores (or causes to be restored) the Property to its fully-completed condition as reported in the Original Value, reasonable wear and tear excepted, prior to the payment of the Insurance Benefit.

If the Physical Damage is not the principal cause of the Default (i.e., a complete exclusion does not apply) and the Insured has not restored (or caused to be restored) the Property to its fully-completed condition as reported in the Original Value, reasonable wear and tear excepted, the Company shall reduce the Claim Amount by an amount equal to the cost required to restore the Property to its condition as reported in the Original Value, reasonable wear and tear excepted. Cost estimates relied upon by the Company shall be provided in writing by an independent party selected by the Company without objection by the Insured. Upon request, the Company shall furnish to the Insured a written estimate of the cost of restoration.

6.11 Pre-Existing Environmental Impairment6.14 Environmental Impairment--Any Claim to the extent of any Environmental Impairment to the Property which has not been removed or remedied in accordance with Applicable Law and which

(a) existed on or prior to the date on which the related Covered Loan was closed (whether or not known to the Borrower, Insured, or Servicer) if the existence of the Environmental Impairment was not disclosed in the Application and

(b) was the principal cause of the Default and has made the principal Residential structure on the Property not Habitable.

6.12 Release of Indebtedness--Any Claim if, under Applicable Law, the Borrower did successfully assert any defense against the Insured, or could have asserted any defense against the Insured that would be reasonably likely to prevail, in view of then-current legal precedent in the applicable jurisdiction, so as to release in whole or in part the Borrower's obligation to repay the Covered Loan provided, however, that

(a) this Exclusion shall only apply to the extent and amount of such release, and

(b) this Exclusion shall not apply where the release of the Borrower is the result of the Covered Loan having been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy laws (a so-called Chapter 13 “cram-down”) so long as all other conditions of this Policy have been met, and

(c) in the event the Borrower failed to assert a defense, the Company has the burden of proof to show that the Borrower would have been reasonably likely to prevail if it had asserted a defense against the Insured.

6.13 Residential Property--Any Claim where the Property securing the loan was not Residential on the Coverage Effective Date or the date the Claim was submitted, provided that if the Company can reasonably determine the amount by which the Claim Amount was increased because the Property was not Residential on the date the Claim was submitted, the Company will not issue a Claim Denial, but the Claim Amount will be reduced to the extent of such amount.

6.14 Negligence - Any Claim that arises out of the negligence of a First Party, which negligence (a) materially contributed to the Default resulting in such Claim, or (b) increased the Claim Amount, provided that if the Company can reasonably determine the amount of such increase, the Company will not issue a Claim Denial, but the Claim Amount will be reduced to the extent of such amount.

7 Loss Mitigation--Except as provided in Section 7.2(a) (Modification of Covered Loans Not in Default and Not at Risk of Imminent Default) and unless otherwise provided for in the Commitment Letter, this section shall apply to all Covered Loans in Default and at risk of imminent Default.

7.1 Loss Mitigation - The Insured shall, and shall cause the Servicer to, use its commercially reasonable efforts to limit and mitigate loss by adhering to the Servicing Guide. In addition:

(a) The Insured shall not administer or apply its Servicing Guide guidelines for loss mitigation to Covered Loans in a manner that is inconsistent with or different from such administration or application of such guidelines to any non-insured loan, if such inconsistency or difference may (i) materially contribute to a Default and result in a Claim or (ii) increase the Claim Amount.

(b) The Insured shall actively cooperate with and assist the Company to prevent and mitigate a loss, including good faith efforts by the Insured to, as appropriate: obtain a cure of the Default; collect monies due under the Covered Loan; pursue one or more of the loss mitigation actions specified in Section 7.2 (Specific Loss Mitigation Actions); inspect and appraise the Property; and effectuate the early disposition of the Property.

If the Company issues a Claim Denial or reduces the Claim Amount in accordance with Section 6.3 (Breach of Conditions and Insured's Obligations) for failure of the Insured to materially comply with this Section 7, the Company must specify the amount of and reason for the action in its estimate of benefits.

Subject to the prior written approval of the Insured, at any time following a notice of Default on a Covered Loan, the Company may advance to the Insured or its Servicer, a partial Insurance Benefit on terms and conditions specified by the Company. If, in such case, the existing coverage is maintained, the amount of such Claim advance will be added to the Aggregate Loss, if applicable, and subtracted from any future Insurance Benefit with respect to such Covered Loan.

7.2 Specific Loss Mitigation Requirements--Subject to the terms specified below, the Insured must pursue as appropriate and in accordance with the Servicing Guide one or more of the following loss mitigation actions. Such pursuit does not require the Company's prior approval. Any and all loss mitigation actions undertaken by the Insured in accordance with this Section 7.2 and in accordance with the Servicing Guide are deemed approved by the Company and, except for breaches by the Insured of its obligations under, or its failure to comply with Section 7 (Loss Mitigation), no Claim Denial or reduction of the Claim Amount will result therefrom.

(a) Modification of Covered Loans Not in Default and Not at Risk of Imminent Default-The terms of a Covered Loan not in Default and not at risk of imminent Default may be changed by agreement between the Insured and a Borrower and without the prior approval of the Company, and the Borrower may retain possession of the Property, if all of the following conditions are met:

(i) no broker's price opinion or Appraisal of the Property shall be required, and

(ii) any extension of the loan term may not result in a total loan term in excess of four hundred eighty (480) months from the origination date (that is, including the months the Covered Loan has already been in existence), and

(iii) fixed-rate Covered Loans must remain fixed-rate, except for step-rate Covered Loans, and

(iv) the Borrower's financial position must be improved, and

(v) the unpaid principal balance of the Covered Loan after Modification may not exceed the unpaid principal balance prior to Modification.

Unless advance written approval is provided by, or obtained from, the Company, including approval in the Commitment Letter applicable to all Covered Loans insured under the Policy, the Insured may not make any change in the terms of a Covered Loan other than those specified above; nor make or permit to be made any change in the Property or other collateral securing the Covered Loan; nor release the Borrower from liability on a Covered Loan.

(b) Appropriate Proceedings - the Insured must refer Covered Loans to an attorney for the commencement of Appropriate Proceedings in accordance with the Servicing Guide unless Applicable Law precludes such action. Once begun, Appropriate Proceedings must be diligently pursued, provided, however, that a foreclosure sale may be postponed in order to complete a workout transaction with the Borrower(s), if the Insured is then currently involved in a workout with the Borrower(s) that the Insured reasonably anticipates will reduce the likelihood of a Claim.

(c) Modification of Covered Loans in Default or at Risk of Imminent Default - With respect to Covered Loans in Default or at risk of imminent Default, the Insured may make any change: (i) in the terms of a Covered Loan, including, but not limited to, reduction of the interest rate, capitalization of delinquent interest, extension of the loan term, forbearance of principal, and/or forgiveness of principal; (ii) in the Property or other collateral securing a Covered Loan; (iii) that is permitted by the terms of a Covered Loan; or (iv) that is required by Applicable Law. In the event a Covered Loan is modified and the unpaid principal balance is changed, the premium rate shall remain the same as it was before the Covered Loan was modified, but such rate will be applied to the modified unpaid principal balance.

In the event a Covered Loan is modified and such Modification includes principal forgiveness (i.e., a permanent reduction in the Covered Loan's unpaid principal balance), and such modified loan later Defaults and a Claim is submitted and perfected, the Insured shall include in the Claim Amount the amount by which the unpaid principal balance of the Covered Loan was forgiven, and the Company will pay the corresponding Insurance Benefit; provided,

however, that the Insured shall separately pay to the Company in a lump sum, promptly upon notice by the Company, premium on the forgiven unpaid principal balance (at the rate applicable to the Covered Loan) from the date the Covered Loan was modified through the date of Default.

(d) Third-Party Sales by the Borrower - The Insured may consent to a Third-Party Sale of the Property by the Borrower with respect to a Covered Loan prior to a foreclosure sale. Such consent by the Insured shall neither constitute nor be deemed an acknowledgement of liability by the Company with respect to such Covered Loan.

(e) Deeds-in-Lieu of Foreclosure - The Insured may accept a voluntary conveyance of the Property from the Borrower in lieu of foreclosure or other proceeding. Such acceptance by the Insured shall neither constitute nor be deemed an acknowledgement of liability by the Company with respect to such Covered Loan.

(f) Borrower Contributions - If a contribution, either in the form of cash or a promissory note, is obtained from the Borrower in connection with a Third-Party Sale or voluntary conveyance of the Property, the net contribution amount (i.e., net of any commercially reasonable expenses incurred in documenting and collecting such contribution) shall be shared pro rata by the Company and the Insured and distributed after the Total Loss is determined and when the cash is received or when note payments are made by the Borrower over time. The Company's pro rata portion of any Borrower contributions shall be a fraction, the numerator of which shall be the amount of the Insurance Benefit paid, and the denominator of which shall be the amount of the Total Loss.

(g) Repayment Plans - The Insured may consent to all Covered Loan payment arrearages being repaid through increased monthly payments from the Borrower over a specified period.

(h) Forbearance - The Insured may consent to a temporary reduction or suspension of Covered Loan payments from the Borrower for a specified period.

(i) Low-Balance Covered Loans - The Insured may choose not to foreclose on Covered Loans where the market value of the Property is less than or equal to thirty thousand dollars ($30,000). In such cases: (i) the Insured is not required to refer the Covered Loan to an attorney for the commencement of Appropriate Proceedings pursuant to subsection (a) of this Section; (ii) the accrual of accumulated delinquent interest includable in any subsequent Claim related to the Covered Loan, otherwise calculable in accordance with Section 8.5 (Calculation of Claim Amount), will be suspended as of the Date of Default; and (iii) no Claim with respect to such Covered Loan may be filed with the Company unless a Third-Party Sale by the Borrower is completed within four (4) years from the Date of Default.

(j) Foreclosure Bidding-At foreclosure, the Insured will bid in accordance with the Insured's Servicing Guide.

(k) Advances - The Insured must advance, each as due and payable, unless otherwise prohibited by Applicable Law, the following:

(i) normal and customary hazard and/or homeowner's insurance premiums as required by the Servicing Guide;

(ii) taxes, assessments and other public charges imposed on the Property;

(iii) solely in instances of Default, commercially reasonable and necessary expenses for protection and preservation of the Property;

(iv) condominium fees, homeowner association dues and other pro-rated portions of shared fees related to the common areas attendant to the Property, to the extent ascertainable and necessary to maintain the priority of the first lien;

(v) if the Covered Loan is secured by a Cooperative Property, maintenance fees, cooperative association dues and other pro-rated portions of shared fees related to the common areas attendant to the Cooperative Property, to the extent ascertainable; and

(vi) commercially reasonable and necessary expenses to complete Appropriate Proceedings, including court costs, actual attorney's fees, and the cost to evict occupants (including moving expenses where required by Applicable Law to be paid by the evicting party).

8 Claim Filing and Settlement--It is a condition to the Company's obligation to pay a Claim that the Insured comply with all of the following:

8.1 Claim Filing--

(a) Claim Submission. A Claim must be submitted by the Insured to the Company within sixty (60) days of the date a Third-Party Sale or REO Sale is closed.

(b) Required Documentation. Claims may either be submitted electronically or the Company may be required to retrieve Claims directly from the Insured's systems. Claims may reference one or more Covered Loans and must include the following with respect to each Covered Loan:

(i) Covered Loan/Insured loan number;

(ii) mortgage guaranty insurance certificate number;

(iii) Property address;

(iv) Claim Amount and Insurance Benefit calculations;

(v) date the Third-Party Sale or REO Sale closed;

(vi) statement showing net proceeds of Third-Party Sale or REO Sale; and

(vii) complete Origination File and complete Servicing File.

(a) Claim Perfection. The Claim shall be considered perfected when the Company receives the items listed in subsection (b), unless within twenty (20) days thereafter the Company requests from the Insured those required items in subsection (b) that were not received, in which case the Claim Settlement Period shall be suspended until the Company receives all such missing items. The Claim shall be considered perfected on the date the Company receives all such missing items. If the Company does not receive any missing items within thirty (30) days of its request, the Company will promptly send a courtesy reminder notice to the Insured. No Claim Denial may be issued by the Company for failure of the Insured to produce all items listed in subsection (b) in less than one hundred twenty (120) days following the Claim filing date.

(b) Failure to Perfect Claim. If the Insured files a Claim within the time required by subsection (a) but such Claim is not perfected within one hundred twenty (120) days of its filing, irrespective of any request by the Company for items under subsection (b) and irrespective of any interim suspension of the Claim Settlement Period, then the Company will issue a Claim Denial and explain the reason for such denial on the explanation of benefits.

(c) Waiver of Insurance Benefits. If the Insured fails to file a perfected Claim within the time required by subsection (c), but does file a perfected Claim within one (1) year after the applicable event described in subsection (a), the Company shall re-open and process such perfected Claim under this Policy; however, there shall be no further interest or Advances included in the Claim Amount for periods following the subsection (a) deadline to file the Claim. If the Insured fails to file a perfected Claim within the one (1) year period specified, such failure shall be deemed an election by the Insured to waive its right to any Insurance Benefit under this Policy with respect to such Covered Loan.

8.2 Conditions Precedent to Claim Settlement--The following procedures shall constitute conditions precedent to, and additional limitations upon, the Company's obligation to pay Insurance Benefits under this Policy.

(a) **Third-Party Sales by the Borrower**-If the Covered Loan is in Default or Default is imminent and the Borrower receives any third-party offer to purchase the Property prior to a trustee's sale or foreclosure sale, the Insured may, but does not have to, approve a Third-Party Sale pursuant to Section 7.2(d) (Third-Party Sales by the Borrower). If the Insured approves such sale, the Insurance Benefit shall be paid pursuant Section 8.5(a) (Third-Party Sales and Approved REO Sales).

(b) **Third-Party Sales at Foreclosure**-In the event of a Third-Party Sale at a trustee's sale or foreclosure sale, the Insurance Benefit shall be paid pursuant to Section 8.5(a) (Third-Party Sales and Approved REO Sales).

(c) **REO Sales**--In the event the Insured receives any third-party offer to purchase the Property after the Insured has acquired Borrower's Title and the Insured desires to accept such offer, the Insured shall promptly notify the Company in writing of the terms of such offer. The Company shall either approve or disapprove the offer within five (5) Business Days of receipt of notice of such offer by the Company and such approval or disapproval shall be final. In the event the Company fails to respond within five (5) Business Days, the Company shall be deemed to have approved the offer. Approval by the Company may not unreasonably be withheld.

If the Company approves or is deemed to have approved the REO Sale, the Insurance Benefit shall be paid pursuant to Section 8.5(a) (Third-Party Sales and Approved REO Sales). If the Company disapproves the REO Sale, the Company must acquire the Property and the Insurance Benefit shall be paid pursuant to Section 8.5(b) (Disapproved REO Sales).

In the event the Property is inadvertently sold by the Insured without first seeking the Company's approval, for an amount that the Company determines based on reasonable evidence (e.g., Appraisal or broker's price opinion) was less than the market value of the Property, the Company will not issue a Claim Denial and the Claim Amount shall still be calculated pursuant to Section 8.4(a) (Loss-on-Sale Calculation); provided, however, that the gross sales price shall be the market value of the Property obtained by the Company. For example, if the Property sold for $100,000 with closing costs of three (3) percent (i.e., net proceeds of $97,000) and the market value of the Property obtained by the Company was $125,000, then the net REO Sale proceeds would equal $121,250 (i.e., $125,000 less $3,750) for purposes of calculating actual loss. If requested by the Insured, the Company must provide to the Insured a copy of the document evidencing the market value of the Property that it obtained.

(d) **Lease of Property** - The Company acknowledges that the Insured may lease the Property to the Borrower or to a third-party following a foreclosure sale or a voluntary conveyance by the Borrower, in which case the marketing and sale of the Property will be delayed until the lease is terminated.

(e) **Marketing Information and Access to the Property**--Following acquisition of Borrower's Title by the Insured and extending until the last day of the Claim Settlement Period, the Insured shall authorize its agent, when requested by the Company, to release marketing information for the Property to the Company, and the Insured shall grant the Company reasonable access to the Property in order to inspect and/or value the Property.

(f) **Claims with Primary Coverage** - If a Covered Loan has primary mortgage guaranty insurance coverage, the Insured or the Servicer, as applicable, must first submit any claim for loss due under such coverage. This Section 8.2(e) shall not apply if the Covered Loan had primary mortgage guaranty insurance coverage, but such coverage was properly terminated or cancelled as required by Applicable Law or as permitted by the Servicing Guide.

8.3 Selection of Settlement Option--The Company must pursue its Claim investigations and Insurance Benefit payments expeditiously and in good faith.

8.4 Calculation of Claim Amount--

The Claim Amount shall be calculated pursuant to this section.

(a) The Loss-on-Sale Calculation (in the event of a Third-Party Sale or an approved REO Sale as described in Section 8.5(a) (Third-Party Sales and Approved REO Sales) shall be the sum of:

(i) the Default Amount, and

(ii) the amount equal to the sum of (a) interest at the contract rate stated in the Covered Loan computed on the Default Amount from the Date of Default until the date of the Third-Party Sale or REO Sale, and (b) thereafter through the date the Insurance Benefit is paid, interest at the contract rate stated in the Covered Loan computed on the Default Amount as such amount is reduced by the net proceeds of the Third-Party Sale or REO Sale, but excluding late charges or other penalties or changes to the contract rate by reason of Default, provided, however, that in no event will the time for which accumulated delinquent interest is included in the Claim Amount exceed forty five (45) months, and

(iii) the amount of Advances paid by the Insured pursuant to Section 7.2(k) (Advances) prorated through the date the Claim is submitted, provided, however, that attorney fees shall not exceed: (a) the lesser of five percent (5%) of the Default Amount and the accumulated delinquent interest calculated in (i) and (ii) above, or six thousand dollars ($6,000), for Covered Loans having Default Amounts less than two hundred thousand dollars ($200,000); and (b) three percent (3%) of the Default Amount and the accumulated delinquent interest calculated in (i) and (ii) above for Covered Loans having Default Amounts equal to or greater than two hundred thousand dollars ($200,000),

less

(iv) the amount of all rents and other payments (excluding proceeds of hazard and/or homeowner's insurance) collected or received by the Insured, prior to the earlier of the date the Claim is submitted or required to be submitted, and that the Insured is entitled to retain, which are derived from or in any way related to the Property, and

(v) the amount of cash remaining in any escrow account as of the last payment date, if such cash secures the debt, and

(vi) the amount of cash to which the Insured has retained the right of possession as security for the Covered Loan and all sums as to which the Insured has the right of set-off, and

(vii) the amount paid under applicable hazard and/or homeowner's coverage policies which has not been applied to the cost of restoring and repairing the Property or which has not been applied to the payment of the Covered Loan, and

(viii) the net proceeds of the Third-Party Sale or REO Sale, consisting of the gross sales price less all reasonable and necessary costs incurred in obtaining and closing the sale, and

(ix) any amounts claimed by the Insured to the extent they are excluded from the Claim Amount by reason of Section 6 (Exclusions from Coverage) and

(x) the amount due to the Insured under the terms of any primary mortgage guaranty insurance coverage on the Covered Loan, based on full compliance with the terms of such coverage and irrespective of whether the Insured has actually received such amount.

(b) The Property Acquisition Calculation (in the event of a disapproved REO Sale as described in Section 8.5(b) (Disapproved REO Sales) shall be the sum of:

(i) the Default Amount, and

(ii) the amount equal to interest at the contract rate stated in the Covered Loan computed on the Default Amount from the Date of Default through the date the Insurance Benefit is paid in connection with the Company's acquisition of the Property, but excluding late charges or other penalties or changes to the contract rate by reason of Default, provided, however, that in no event will the time for which accumulated delinquent interest is included in the Claim Amount exceed forty five (45) months, and

(iii) the amount of Advances paid by the Insured pursuant to Section 7.2(k) (Advances), provided, however, that

attorney fees shall not exceed: (a) the lesser of five percent (5%) of the Default Amount and the accumulated delinquent interest calculated in (i) and (ii) above, or six thousand dollars ($6,000), for Covered Loans having Default Amounts less than two hundred thousand dollars ($200,000); and (b) three percent (3%) of the Default Amount and the accumulated delinquent interest calculated in (i) and (ii) above for Covered Loans having Default Amounts equal to or greater than two hundred thousand dollars ($200,000),

less

(iv) the amount of all rents and other payments (excluding proceeds of hazard and/or homeowner's insurance) collected or received by the Insured, prior to the earlier of the date the Claim is submitted or required to be submitted, and that the Insured is entitled to retain, which are derived from or in any way related to the Property, and

(v) the amount of cash remaining in any escrow account as of the last payment date, if the Insured has a right to such cash, and

(vi) the amount of cash to which the Insured has retained the right of possession as security for the Covered Loan and all sums as to which the Insured has the right of set-off, and

(vii) the amount paid under applicable hazard and/or homeowner's coverage policies which has not been applied to the cost of restoring and repairing the Property or to the payment of the Covered Loan, and

(viii) any amounts claimed by the Insured to the extent they are excluded from the Claim Amount by reason of Section 6 (Exclusions from Coverage), and

(ix) the amount due to the Insured under the terms of any primary mortgage guaranty insurance coverage on the Covered Loan, based on full compliance with the terms of such coverage and irrespective of whether the Insured has actually received such amount.

8.5 Insurance Benefit--

(a) **Third-Party Sales and Approved REO Sales**-If the Property is sold pursuant to Section 8.2(a) (Third-Party Sales by Borrower), 8.2(b) (Third-Party Sales at Foreclosure), or 8.2(c) (REO Sales) where the Company approved or is deemed to have approved such REO Sale, the Company will pay the Insured, as the Insurance Benefit, the lesser of: (i) the Loan Coverage Percentage multiplied by the Initial Principal Balance; and (ii) the Loss-on-Sale Calculation.

(b) **Disapproved REO Sales** - If the Company disapproves an REO Sale pursuant to Section 8.2(c) (REO Sales), the Company must acquire the Property. The Company will pay the Insured, as the Insurance Benefit, the Property Acquisition Calculation and receive in exchange therefore: (i) a duly and properly-executed and recordable deed, in customary form and containing customary warranties and covenants, conveying to the Company or its designee Good and Merchantable Title to the Property; (ii) a title insurance policy or attorney's opinion of title reasonably acceptable to the Company, confirming that the Insured has and can convey to the Company or its designee Good and Merchantable Title to the Property; and (iii) possession of the Property, which is full and undisputed occupancy and control of the Property by the Company. The Company must ensure that such deed is sent to the appropriate local recording office for recordation within sixty (60) days of receipt.

Examples of these Insurance Benefit calculations are provided in Exhibit A.

In addition to the payment of the Insurance Benefit, the Company will: (i) pay whatever recoveries or expenses may be payable to the Insured pursuant to Section 7.2(f) (Borrower Contributions) or Section 9.1 (Subrogation), which amounts will appear as credits or deductions on the explanation of benefits and be paid or charged to the Insured at the same time the Insurance Benefit is paid; and (ii) separately refund any and all premiums paid for coverage after the Date of Default pursuant to Section 4.11 (Premium Refund File)

8.6 Claim Settlement--The Company, within the Claim Settlement Period, shall pay the Insurance Benefit to the Insured.

8.7 Failure to Timely Pay Insurance Benefit--In the event the Company does not pay the Insurance Benefit within the Claim Settlement Period, it shall pay interest on the Insurance Benefit at the following rates:

(a) if the Insurance Benefit is paid on or before the sixtieth (60th) day following the last day of the Claim Settlement Period, the rate due upon the Covered Loan, commencing on and including the day immediately following the last day of the Claim Settlement Period up to but excluding the date on which the Insurance Benefit is paid; or

(b) if the Insurance Benefit is paid after the sixtieth (60th) day following the last day of the Claim Settlement Period, the rate due upon the Covered Loan, commencing on and including the day immediately following the last day of the Claim Settlement Period up to and including the sixtieth (60th) day following the Claim Settlement Period, plus the rate due upon the Covered Loan plus ten (10) percentage points ("Penalty Interest"), commencing on and including the day immediately following the sixtieth (60th) day following last day of the Claim Settlement Period up to but excluding the date on which the Insurance Benefit is paid. Penalty Interest shall not be payable on the Insurance Benefit if the Company's failure to pay within sixty (60) days following the last day of the Claim Settlement Period is the result of (i) the failure of payment systems beyond the control of the Company or (ii) a Rescission of coverage with respect to a Covered Loan that the Company later determines to reinstate after receiving additional information from the Insured.

8.8 Discharge of Obligation8.11 Discharge of Obligation--Payment by the Company of the Insurance Benefit due in accordance with this Policy shall be a full and final discharge of the Company's obligation under this Policy with respect to the related Covered Loan.

8.9 Appeals of Adverse Actions - In the event the Company adjusts a Claim Amount, curtails an Insurance Benefit, or issues a Claim Denial, Company Initiated Cancellation, or a Rescission and the Insured believes such action is improper under this Policy, the Insured may appeal such action as follows:

(a) Insured must submit a reasonably detailed written appeal to the Company within one hundred twenty (120) days of its receipt of the Company's adverse action notice. The appeal must include documentation that supports the Insured's belief that the Company's action was improper.

(b) The Company must review the documentation and notify the Insured of its decision within sixty (60) days of its receipt of the appeal. If the Company will not reverse the adverse action, its notification to the Insured must include a reasonably detailed explanation. The Company's decision will be final with respect to the stated reason for the adverse action, subject to any arbitration or suit that the Insured may pursue in accordance with Section 9.4 (Arbitration) or Section 9.5 (Suit).

(c) If a Claim has been filed and the Company reinstates coverage (in the case of Company Initiated Cancellation or a Rescission) or reverses the action (in the case of a Claim Amount adjustment, an Insurance Benefit curtailment, or a Claim Denial), the Claim will be deemed perfected as of the date of the reinstatement or reversal notice and the Company must pay the appropriate Insurance Benefit within the remaining Claim Settlement Period.

8.10 Application of Aggregate Loss Limit - Notwithstanding any other provision of this Policy to the contrary, the Company shall have no liability to pay any Insurance Benefit once the Aggregate Losses paid by the Company equal the Aggregate Loss Limit. Under no circumstances will any interest or Penalty Interest paid on the Insurance Benefit pursuant to Section 8.7 (Failure to Timely Pay Insurance Benefit) be included in the Aggregate Loss. The Insured shall be solely responsible for any losses exceeding the Aggregate Loss Limit, unless and until the Aggregate Losses are reduced below the Aggregate Loss Limit. The Aggregate Loss Limit is subject to reduction pursuant to Section 1.8 (Aggregate Loss Limit Step Down).

8.11 Application of Deductible Amount - Notwithstanding any other provision of this Policy to the contrary, the Company shall have no liability to pay any Insurance Benefit unless and until the Aggregate Losses exceed the Deductible Amount. The Insured shall be solely responsible for the Aggregate Losses up to and including the Deductible Amount. If the Company believes that the Deductible Amount has been reached, it will provide the Insured with the Reconciliation File and not be responsible for beginning to pay Insurance Benefits in cash until the reconciliation specified in Section 4.13 (Reconciliation) is complete.

9 Additional Conditions--

9.1 Subrogation

(a) **Pursuit of Deficiency Judgment** - If either the Insured or the Company desires to pursue a Deficiency Judgment against a Borrower in connection with a Covered Loan, the party seeking to pursue such Deficiency Judgment shall contact the other party to determine whether the Deficiency Judgment should be sought for the account of both parties or only for its own account; provided, however, that if under Applicable Law pursuit of a Deficiency Judgment will substantially increase the expenses associated with foreclosure, the Insured shall contact the Company prior to the initiation of a form of foreclosure proceedings that would increase the costs of foreclosure to determine whether a Deficiency Judgment is to be sought and, if so, whether such Deficiency Judgment is to be sought for the account of both parties or only for the account of the Company or the Insured. In connection with the determination regarding pursuit of a Deficiency Judgment, each of the Insured and the Company must provide the other with all information it may have concerning the assets of the Borrower, possible defenses, and other information material to the decision.

(b) **Parties Determination** - If the parties determine that the Deficiency Judgment shall be pursued solely for the account of the Company, the Company shall be subrogated to all of the Insured's rights of recovery against the Borrower and any other Person relating to the Covered Loan or the Property with respect to which the Company has paid an Insurance Benefit and shall be responsible for all costs associated with pursuing such Deficiency Judgment. If the parties determine that the Deficiency Judgment shall be pursued solely for the account of the Insured, or if the Company is prohibited by law from pursuing the Deficiency Judgment, the Company shall not be subrogated to any of the Insured's rights of recovery against the Borrower and any other Person relating to the Covered Loan or the Property with respect to which the Company has paid an Insurance Benefit and the Insured shall be responsible for all costs associated with pursuing the Deficiency Judgment. If the parties determine that the Deficiency Judgment shall be pursued for the account of both parties, the Company shall be subrogated pro rata to such rights of recovery and shall be responsible for a pro rata portion of the associated costs. The Company's pro rata portion of recovery rights and associated costs shall be a fraction, the numerator of which shall be the amount of the Insurance Benefit paid, and the denominator of which shall be the amount of the Total Loss.

(c) **Cooperation** - The Insured shall cooperate with the Company in any action or proceeding to enforce any rights of recovery or other remedies that the Company may have or may have acquired pursuant to this Section 9.1 (Subrogation) against the Borrower or any other Person and shall refrain from any action, either before or after payment of an Insurance Benefit hereunder, that shall in any manner prejudice such rights.

9.2 Proceedings in Eminent Domain--In the event that part or all of the Property is taken by eminent domain, condemnation or by any other proceedings by a federal, state or local governmental unit or agency, the Insured shall require that the Borrower apply the maximum permissible amount of compensation awarded to reduce the unpaid principal balance of the Covered Loan in accordance with applicable law and the terms of the Covered Loan.

9.3 Notice--

(a) Notices and information to facilitate administration of the Policy shall be sent between the Company and the Insured and/or the Servicer by any means and method mutually agreed to, including by electronic transmission in a format acceptable to all, which shall include: (i) sent by overnight mail or other commercially reasonable method of express delivery, (ii) transmitted in a commercially reasonable, electronic manner (that is, e-mail, posting to a web portal, etc.), or (iii) sent by regular mail, to the person or address and with such copies as are identified in the Operations Manual.

(b) If the Insured so directs the Company in writing in the manner provided for in this Section, the Company shall provide notice to the Servicer or any other Person in lieu of or in addition to providing notice to the Insured. All notices to the Servicer or any other Person designated by the Insured to receive notices shall be sent to the last known address or facsimile number for the Servicer or such other Persons, as the case may be, as reflected in the records of the Company (provided that the Company shall use its best efforts to confirm telephonically or otherwise with the Servicer of other Person designated by the Insured the accuracy of the facsimile number used).

(c) Either party may notify the other of a change of its address in the manner provided for in this Section for giving notice. All notices required to be submitted to the Company or to the Insured shall be deemed to have been given five (5) days after the notice is sent in the manner set forth in this Section, unless actually received earlier.

9.4 Arbitration--Unless prohibited by Applicable Law, any controversy or dispute, including any Claim made under this Policy, arising out of or relating to this Policy, may, upon the mutual consent of all parties to the dispute, be settled by binding arbitration in accordance with the rules of the American Arbitration Association deemed most appropriate by such association. If this remedy is elected by all parties to the dispute, then the decision of the arbitrator shall be final and binding on all the parties and shall be enforceable in any court of competent jurisdiction in the United States of America.

9.5 Suit--

(a) Each of the parties to this Policy consents to the sole and exclusive jurisdiction of the courts of the District of Columbia and/or the federal courts sitting in the District of Columbia, in the case of any dispute or other matter arising under this Policy which is not disposed of with finality under Section 9.4 (Arbitration). No suit or action for recovery of any Insurance Benefit under this Policy shall be sustained in any court of law or equity unless the Insured has materially complied with the terms and conditions of this Policy, except a suit or action where the issue is whether the Insured materially complied with the terms and conditions of the Policy or what was required to do so, and unless the suit or action in equity is commenced within three (3) years, or such longer period of time as may be permitted by Applicable Law, after (i) the Claim has been presented to the Company or (ii) the date on which the cause of action accrued, whichever is earlier. No suit or action on the Company's disposition of a Claim or Insurance Benefit may be brought against the Company until sixty (60) days have elapsed from the last day of the Claim Settlement Period. The parties to this Policy expressly waive the right to a jury trial.

(b) If a dispute arises concerning a Covered Loan and involves either the Property or the Insured, the Company has the right to protect its interest by defending any action arising from such dispute, even if the allegations involved are groundless, false or fraudulent. The Company is not required to defend any lawsuit involving the Insured, the Property, or a Covered Loan. The Company and the Insured shall each bear its own costs and expenses for any litigation under this Section.

9.6 Parties in Interest--Subject to Section 4.6 (Change of Insured), this Policy shall be binding upon and inure to the benefit of the Company and its successors and assigns and the Insured and its permitted successors and assigns. Neither the Borrower, nor the Servicer, nor any successor owner of a Property, nor any mortgage guaranty pool insurance company, nor any other Person is included or intended as a third-party beneficiary to this Policy. Because the Company and the Insured are the only parties to this Policy, they may agree to modify or amend or terminate this Policy without the consent of, or notice to, any Borrower, Servicer or any other Person.

9.7 Agency--None of the Insured, its Servicer, or any Person, or any of their respective employees or agents shall be or shall be deemed to be agents of the Company, nor shall the Company or any of its employees or agents be or be deemed to be an agent of the Insured.

9.8 Governing Law; Conformity to Statute--This Policy shall be governed by, and construed and enforced in accordance with, the laws of the jurisdiction in which the Insured is located (excluding the conflict of laws rules). Any provision of this Policy that is in conflict with the law of that jurisdiction is amended by this Section to conform to the minimum requirements of that law.

9.9 Electronic Data--The Company and the Insured agree that each may originate, maintain, and share information, documents or other data (in this Section referred to as “data”) as electronic records using electronic media generally accepted as usual and customary for business records (e.g., e-mail, secure web-portals) and that such data are as acceptable for all purposes under this Policy as data maintained in printed or written form, so long as the data is not denied legal effect or enforceability solely because it is in electronic form. Notices required by this Policy may be sent by electronic means and if so sent shall have the same effect as if sent in paper form.

9.10 Amendments; No Waiver; Rights and Remedies--

(a) The Company reserves the right to amend the terms and conditions of this Policy from time to time; provided, however, that any such amendment will be effective only after the Company has given the Insured written notice of the amendment by endorsement setting forth the amendment. Such amendment will only be applicable to those Covered Loans where the Coverage Effective Date for the Covered Loan is on or after the effective date of the amendment.

(b) No condition or requirement of this Policy will be deemed waived, modified or otherwise compromised unless that

waiver, modification or compromise is stated in a writing properly executed on behalf of the Company. Each of the conditions and requirements of this Policy is severable, and a waiver, modification or compromise of one will not be construed as a waiver, modification or compromise of any other.

(c) No right or remedy of the Company provided for by this Policy will be exclusive of, or limit, any other rights or remedies set forth in this Policy or otherwise available to the Company at law or equity.

EXHIBIT A

EXAMPLES OF INSURANCE BENEFIT CALCULATIONS

(as described in Section 8.5 (Insurance Benefit))

Third-Party Sales and Approved REO Sales	
Original Value	$ 280,000
Coverage Effective Date LTV	75%
Initial Principal Balance	$ 210,000
Default Amount	$ 205,000
Accumulated Delinquent Interest	$ 12,000
Advances	$ 3,500
Credits	$ (1,000)
Net Proceeds of Sale	$ (185,000)
Loss-on-Sale Calculation	$ 34,500
Loan Coverage Percentage	33%
Maximum Insurance Benefit	$ 69,300
Insurance Benefit*	**$ 34,500**
Property Acquisition Aggregate Loss Limit Adjustment Percentage	N/A
Amount of Insurance Benefit included in Aggregate Loss	$ 34,500

*Equals lesser of: (i) maximum Insurance Benefit; and (ii) Loss-on-Sale Calculation.

Disapproved REO Sales	
Original Value	$ 280,000
Coverage Effective Date LTV	75%
Initial Principal Balance	$ 210,000
Default Amount	$ 205,000
Accumulated Delinquent Interest	$ 12,000
Advances	$ 3,500
Credits	$ (1,000)
Net Proceeds of Sale	N/A
Property Acquisition Calculation	$ 219,500
Loan Coverage Percentage	33%
Maximum Insurance Benefit	N/A
Insurance Benefit*	**$ 219,500**
Property Acquisition Aggregate Loss Limit Adjustment Percentage	50%
Amount of Insurance Benefit included in Aggregate Loss	$ 36,218

*Equals Property Acquisition Calculation. Company acquires Property.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

NMI Holdings, Inc.
Emeryville, California

We hereby consent to the use in the Prospectus, constituting a part of this Registration Statement on Form S-1/A (Filing #333-189507), of our report dated June 14, 2013, relating to the consolidated financial statements of MAC Financial Holdings Corporation (A Development Stage Company), which is contained in that Prospectus.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ BDO USA, LLP
San Francisco, California

August 9, 2013

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

NMI Holdings, Inc.
Emeryville, California

We hereby consent to the use in the Prospectus, constituting a part of this Registration Statement on Form S-1/A (Filing #333-189507), of our report dated February 14, 2013, relating to the consolidated financial statements of NMI Holdings, Inc. (A Development Stage Company), which is contained in that Prospectus.

We also consent to the reference to us under the caption “Experts” in the Prospectus.

/s/ BDO USA, LLP
San Francisco, California

August 9, 2013

VIA OVERNIGHT DELIVERY AND E-MAIL

January 15, 2013

Mr. Brad M. Shuster
President and Chief Executive Officer
National Mortgage Insurance Corporation
NMI Holdings, Inc.
2100 Powell Street, 12th Floor
Emeryville, CA 94608

Re: Application of National Mortgage Insurance Corporation ("NMI") for Approved Insurer Status

Dear Mr. Shuster:

This letter (i.e., the "Conditional Approval") is in response to NMI's initial application to Freddie Mac to become an "Approved Insurer," as that term is defined in Freddie Mac's Private Mortgage Insurer Eligibility Requirements, as amended from time to time and including the most recent draft proposed amendment until a new version of the PMIERs is adopted, published and becomes effective (the "PMIERs"). NMI provided its initial application to Freddie Mac on May 10, 2012, and supplemented it with additional materials and information subsequently provided to Freddie Mac (which, together with the initial application, are referred to below as the "Application"). Capitalized terms used herein, not otherwise defined, shall have the meaning set forth in the PMIERs as amended by the proposed draft.

During the Application assessment, Freddie Mac communicated to NMI various new requirements for mortgage insurers addressing safety and soundness principles related to capital adequacy, diversification, certainty of coverage, and performance metrics (collectively, the "Safety and Soundness Principles"). NMI has represented to Freddie Mac that it is committed to complying with and operating its business in accordance with the Safety and Soundness Principles. NMI acknowledges that Freddie Mac is relying on NMI's commitment to adhere to the Safety and Soundness Principles in providing this Conditional Approval.

Based on our review of the Application and other information relevant to Freddie Mac's determination of this matter, and subject to the terms and conditions set forth below, Freddie Mac conditionally approves NMI as an Approved Insurer eligible to write first lien Mortgage Guaranty Insurance on mortgages purchased or guaranteed by Freddie Mac as of the Effective Date, as defined below. The mortgage insurer code assigned to NMI is **44**.

Conditions of Approval

NMI has represented to Freddie Mac that it intends to commence writing Mortgage Guaranty Insurance substantially in the manner described in the Application. The effective date of NMI's status as an Approved Insurer shall be the later of (i) April 1, 2013, or (ii) fourteen (14) calendar days after certification by NMI to Freddie Mac that all terms and conditions of this Conditional Approval have been satisfied, including the completion of system testing by Freddie Mac (“Effective Date").

A. The following events must take place in order for NMI to commence writing Mortgage Guaranty Insurance as an Approved Insurer:

    1. NMI must have obtained initial capital funding of $220 million, inclusive of the funding of its Affiliated

reinsurer, National Mortgage Reinsurance, Inc. One and its subsidiary reinsurer, National Mortgage Reinsurance, Inc. Two, each in the amount of $10,000,000 (and exclusive of NMI's start-up costs).

2. NMI must seek approvals and licenses from insurance regulatory departments and other State authorities necessary in order to write first lien Mortgage Guaranty Insurance business, including any applicable Reinsurance requirements imposed for higher coverage percentages, as necessary, in those jurisdictions to carry out its business plan as set forth in the Application. All Reinsurance obtained by NMI, must be provided by a Qualified Reinsurer. On or before the Effective Date, NMI must have obtained approvals and licenses to write first lien Mortgage Guaranty Insurance business in either (a) the ten (10) most populous States of the United States or (b) States that account for at least fifty percent (50%) of the population of the United States.

3. NMI must complete a form of master policy that reflects the Safety and Soundness Principles, including without limitation, those relating to certainty of coverage, and obtain Freddie Mac's approval of that form prior to the Effective Date. NMI acknowledges that notwithstanding Freddie Mac approval of its master policy form at this time, NMI must comply with any master policy changes subsequently imposed on all Approved Insurers within the same timeframe for compliance required of other Approved Insurers, if in Freddie Mac's sole discretion, its approved form does not satisfy such imposed requirements.

4. NMI must have in place a technology system and platform (the "Platform") that has capabilities and functionality, and qualified and sufficient staffing that, at a minimum, can support the provision of Mortgage Guaranty Insurance in accordance with the business plan provided in the Application, and satisfies Freddie Mac's expectations. NMI must receive a written communication from Freddie Mac stating that Freddie Mac's systems, as integrated or otherwise interoperable with the Platform, are ready to accept and support loans insured by NMI. Freddie Mac shall have the right to inspect the Platform, or to have a representative do so, prior to and after issuance of any mortgage insurance policy and/or certificate of insurance coverage issued thereunder.

5. As of the Effective Date, NMI must have in place all NMI initial personnel, policies, and procedures necessary to conduct the business of Mortgage Guaranty Insurance in accordance with the business plan set forth in the Application.

B. NMI must comply with the following Safety and Soundness Principles and supplemental conditions going forward in order to retain the status of Approved Insurer.

1. Capital Adequacy

   a) NMI must maintain a Risk-to-Capital Ratio of no greater than fifteen to one (15: 1) for such period as Freddie Mac may require in its sole discretion, not to exceed three (3) years from the Effective Date.

   b) NMI must at all times maintain total statutory capital (i.e. as regards policyholders' surplus plus statutory Contingency Reserves of at least $150 million.

   c) For the three (3) year period commencing on the Effective Date, NMI may not make any dividends, capital withdrawals, or changes to capital deployments other than as listed in the Application without Freddie Mac's prior written approval.

   d) NMI may not purchase or otherwise invest in the debt of Affiliates.

   e) NMI must receive a comparable risk-adjusted economic rate of return on all primary insurance programs. NMI must not discount premiums to the extent that such premiums do not, after taking

into account the risk assumed at inception of coverage, provide NMI with a reasonable economic rate of return. For this purpose, in determining the risk assumed and the rate of return, NMI must consider all relevant facts, including premium discount programs, Reinsurance with a Captive Reinsurer, Freddie Mac approved Risk Sharing Transactions, and other transactions in which premium and/or risk is shared, on the same loan or group of loans.

2. Diversification

a) NMI must use its best efforts to ensure that future capital raises allow access to a broad investor base.

b) NMI must use its best efforts to ensure that future capital or Reinsurance may be available to diversify risk if needed.

c) NMI must monitor and have adequate diversity across customer base, geography and other risk characteristics such that concentration of anyone risk factor does not cause undue harm to NMI's insurance risk portfolio.

3. Certainty of Coverage

a) NMI must be clear and consistent in applying and enforcing the terms of its master policy to promote the certainty of coverage, such that coverage will be honored absent fraud, material misrepresentation and/or a failure to satisfy the clear and objective requirements established by the master policy to obtain coverage.

b) NMI must align its timeframe for exercising its right to rescind coverage under its approved master policy with the 36 months of timely borrower payment timeframe adopted by the GSEs in the representation and warranty framework effective January 1, 2013.

c) NMI must maintain quality control practices that include a full re-underwrite for an loans insured under its delegated master policy within 6 months of the coverage date, in addition to the quality assurance review completed within 270 days of the date of coverage.

d) NMI shall use its best efforts to reduce the level of issuance of insurance under its delegated underwriting master policies and work towards increasing non delegated underwriting policies.

e) NMI must maintain claim documentation standards with a finite set of documents for facilitating claim perfection standards.

4. Performance Metrics

NMI acknowledges that it has been informed that it will be required to comply with standards to be imposed by Freddie Mac on all Approved Insurers related to, among other things, the timely payment of claims, including the Approved Insurer's process for addressing issues related to appeals of rescissions and denials, quality control sampling rates and the proportion of loans insured pursuant to delegated underwriting master policies versus non-delegated underwriting master policies.

5. Other Conditions

a) NMI shall only provide insurance coverage on eligible first-lien mortgage products as provided by NMI's Underwriting Guidelines dated December 12, 2012, as amended from time to time by NMI, which amendments shall take effect not less than thirty (30) days following notice to Freddie Mac.

b) NMI may not enter into any Risk Sharing Transactions[1], without Freddie Mac's prior written approval.

c) NMI must receive approval from Freddie Mac to enter into any transaction involving the issuance of insurance on other than an .individual loan "flow" basis, e.g., pool insurance, bulk primary transactions, "structured" or "negotiated" transactions. Additionally, NMI will provide Freddie Mac at least forty-five (45) days to review any such transaction.

d) As of the Effective Date, NMI must comply with all requirements of the PMIERs. For the avoidance of doubt, NMI must comply with all requirements of the currently published and effective version of the PMIERs dated January 2008, new Section 103 made applicable to all Approved Insurers and provided to NMI by email dated August 2, 2012 and the latest, proposed draft of the PMIERs with a date of February 2011 attached hereto as Exhibit A. Approval of the Application and status as an Approved Insurer is expressly conditioned on NMI taking all actions necessary to comply with the requirements of the PMIERs, as they may be amended from time to time in addition to adhering to the Safety and Soundness Principles and the specific requirements related thereto set forth in Section B hereof.

e) Freddie Mac may at any time direct NMI to initiate a change in domicile from Wisconsin to another state. Upon its receipt of such written direction from Freddie Mac, NMI shall immediately use its best efforts to change its domiciliary jurisdiction in accordance with Freddie Mac's instructions.

f) NMI's conditional approval as an Approved Insurer at this time does not require NMI's receipt of a financial strength rating from any rating agency. However, NMI must pursue the process to obtain a rating from one of the rating agencies and obtain a rating no later than July 31, 2015.

g) NMI must incorporate and implement any changes or requirements imposed by law or regulation and adopted by the Government-Sponsored-Enterprises ("GSEs") regarding the purchase and servicing of mortgages or the enforcement by the GSEs of their rights against or obligations to mortgagors, in the operation and conduct of their businesses so as not to diminish the availability of or amount of claim payment with respect to Mortgage Guaranty Insurance on an insured loan to which such law or regulation is applicable. By way of example and not limitation of the foregoing requirement, NMJ must cooperate with Freddie Mac in implementing government programs such as the Home Affordable Modification Program, the Home Affordable Refinance Program, foreclosure moratoria, disaster relief, etc. in such a way as to assure minimal impact on Freddie Mac's ability to recover any potential claim to mortgage insurance coverage to the same extent as if such law or regulation had not been imposed on the GSEs.

h) Once NMI identifies Freddie Mac as the beneficiary of the insurance coverage for any loan or group of loans, NMI will thereafter notify Freddie Mac of any issues or concerns regarding the loan or group of loans within 30 days as they may exist or arise. The notification includes any issues and concerns identified or communicated to NMI.

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[1] PMIERs definition of Risk Sharing Transaction: A transaction, agreement, program or arrangement involving the ceding, sharing, assuming, reimbursing or rebating, in whole or in part, of risks, liabilities, premiums, payments of any kind. including payments made in accordance with the terms of any Mortgage Guaranty Insurance policy, or any other transfer of value, including without limitation, a Reinsurance agreement, with any person including an Insured, whether the ceding, sharing, assuming, reimbursing or rebating is determined prior or subsequent to the occurrence of a default and/or payment of a claim, on insured mortgages subject to the transaction agreement, program or arrangement. For example and not by way of limitation of the foregoing definition, an Arrangement between an Approved Insurer and an Insured in which the Insured agrees to reimburse some or all claim payments made by the Approved Insurer pursuant to the applicable policy in lieu of the Approved Insurer's rescissions or denials of claims on insured mortgages, is a Risk Sharing Transaction. Cession of risk to a Qualified Reinsurer other than a captive reinsurer to comply with state regulatory requirements for "excess of" 25 percent coverage, is not deemed to be a Risk Sharing Transaction for purposes of this definition or these Eligibility Requirements

A. Within fourteen (14) calendar days, unless otherwise noted, of the occurrence of any and each of the following events, NMI shall notify Freddie Mac of its occurrence, regardless of whether any such event occurs prior to or after the Effective Date:

1. A material change in NMI's business plan as described in the Application, including but not limited to, any change in contributions to capital or the capital structure, changes in stock ownership greater than 5% of total NMI ownership, ownership by anyone shareholder of 15% or more of NMI stock, revision of the underwriting policy, corporate governance structure, board positions, or management positions;

2. A material downward change in Mortgage Guaranty Insurance premium pricing.

3. Receipt of authority to do business in each jurisdiction where such authority is obtained. Such notice must include a copy of any document evidencing such authority, including any conditions, restrictions, or other provisions related to the grant of authority;

4. In the event that NMI contemplates a change of ownership involving a public issuance of stock, Freddie Mac must be provided sufficient notice and opportunity to comment prior to any such issuance, but in no event less than thirty (30) days prior to the date on which such issuance is set to occur;

5. Updates on the PMI (Arizona DOI) lawsuit including but not limited to: evidence submitted by NMI or PMI in the litigation, legal motions filed or requested by any party, settlement proposals, Arizona regulatory approval of NMI, and overall progress on the case, but in no event shall NMI be obligated to provide information that is attorney/client privileged or subject to confidentiality under the attorney work product doctrine;

6. Execution or amendment of any agreement necessary to implementation of the business plan described in the Application, including but not limited to, articles of incorporation, subscription agreements, private placement memoranda or any documents required to be issued pursuant thereto, shareholder agreements and Reinsurance agreements whether Reinsurance is required by law or regulation or as part of a Risk-Sharing Transaction;

7. Receipt of the initial contribution(s) of capital by NMI and each of the subsidiary and Affiliated Reinsurance entities required by A.2 hereof.

Nothing contained in this Conditional Approval constitutes a waiver by Freddie Mac of its right to determine in its sole discretion the initial or continued eligibility of any entity for Approved Insurer status under the PMIERs (as previously noted, including as amended by the proposed draft and supplemented by the new Section 103), and Freddie Mac reserves all rights to discontinue or restrict such status as it deems necessary, in its sole discretion. As stated in the PMJERs, Freddie Mac reserves the right to modify the terms of the PMIERs at any time without notice. Freddie Mac's receipt of and review of the Application does not constitute a waiver of any requirement of the PMIERs. NMI must obtain a written waiver of noncompliance with any requirement of the PMIERS, as applicable, from Freddie Mac, notwithstanding that a document, agreement or other information presented to Freddie Mac by NMI as a part of the Application or otherwise contains notice or evidence of NMI's noncompliance.

In granting this Conditional Approval, Freddie Mac has materially relied on all such information provided by NMI, including information contained within the Application. In the event that any information, documents or other matter provided by NMI (including by means of the Application) is materially inaccurate, or changes in a material way as determined by Freddie Mac in its sole and absolute discretion, including without limitation the financial condition of NMI, Freddie Mac may further condition this Conditional Approval or revoke it entirely, in either instance, immediately and without notice.

NMI shall not publicize or refer to this Conditional Approval in submissions to state insurance regulatory bodies or in any public announcements without the prior written consent of Freddie Mac with respect to each such communication.

Moreover, any other external NMI communication referencing Freddie Mac must be first reviewed and approved by Freddie Mac prior to distribution.

If you have any further questions, please feel free to contact me at (571) 382-3559.

Sincerely,

/s/ Gina Healy

Gina Healy
Vice President - Special Asset Workouts & Mortgage Insurance Risk
Enterprise Risk Management

cc: Bob Izzo
Javier Portella
Matt McClure
Deborah Phillips

Attachments:

Exhibit A: Proposed draft of the PMIERs dated February 2011

EXHIBIT 99.2

John Nichols
Executive Vice President and Chief Risk Officer
202-752-8264
202-752-0911(fax)
john_nichols@fanniemae.com

January 16, 2013

NMI Holdings, Inc.
National Mortgage Insurance Corporation
2100 Powell Street, 12th Fl
Emeryville, CA 94608
Attn: Mr. Bradley Shuster, Chairman of the Board, President and Chief Executive Officer

Re: NMI Conditional Approval Agreement

Ladies and Gentlemen:

You have requested that Federal National Mortgage Association ("Fannie Mae") approve National Mortgage Insurance Corporation ("NMI") as a direct issuer of mortgage guaranty insurance under the Fannie Mae Qualified Mortgage Insurer Approval Requirements as they may be amended from time to time ("Requirements"). Effective as of the date hereof, and subject to the terms and conditions set forth below, Fannie Mae hereby conditionally approves NMI as a direct issuer of mortgage guaranty insurance for loans owned by or serviced for Fannie Mae.

In making the determination to conditionally approve NMI, Fannie Mae has relied upon (1) the completeness and accuracy of all data, documents and information submitted to us in connection with NMI's application ("Submissions"), and (2) the agreement of NMI and NMI Holdings, Inc. to comply with the Requirements and the conditions for approval attached hereto and incorporated herein (collectively "Conditions"). Accordingly, in the event of any material adverse change to the Submissions, or NMI's failure to meet and maintain the Conditions, Fannie Mae reserves the right, in its sole and absolute discretion, to withdraw this conditional approval and suspend or terminate NMI. As with all our approved insurers, Fannie Mae will monitor NMI's financial and operational performance on a regular basis and we anticipate your full cooperation in this regard.

Fannie Mae will separately issue a Lender Letter providing our timing for beginning to accept loan deliveries with NMI insurance. Our current expectation is we will be ready to accept such deliveries as of June 1, 2013, barring any significant system or operational issues that may emerge as we enhance our processes and systems to accommodate NMI.

You are advised that our conditional approval of NMI may not be construed as a representation to any party concerning any legal matters or the financial condition of NMI, and should not be cited by NMI as a basis for representations made by NMI with respect to such matters.

In the event of a conflict between the conditions for approval and the Requirements, the conditions for approval shall govern.

Please acknowledge agreement with the terms and Conditions of this approval by signing and returning the enclosed copy of this letter.

Very truly yours,

FEDERAL NATIONAL MORTGAGE ASSOCIATION "Fannie Mae"
By: /s/ John Nichols
Name: John Nichols
Title: Executive Vice President
Chief Risk Officer

Attachments:

- Attachment A - Conditions of National Mortgage Insurance Corporation Approval
- Attachment B - New Mortgage Insurer Review Report

Agreed and accepted as of the date hereof.

NATIONAL MORTGAGE INSURANCE CORPORATION

By:________________________
Name:
Title:

NMI HOLDINGS, INC.

By:__________________________
Name:
Title:

ATTACHMENT A

Conditions of National Mortgage Insurance Corporation Approval

Fannie Mae's approval of NMI is subject to NMI's satisfaction of the following conditions in Fannie Mae's sole discretion.

1. NMI's demonstration that it has total initial capital funding of $200 million, which includes certain contributions already made and certain provision for start-up and formation expenses. The total initial capital shall be contributed to NMI on or before January 31, 2013, or such other date as is mutually agreed upon between Fannie Mae and NMI.

2. NMI will maintain a risk-to-capital ratio not to exceed 15:1 through December 31, 2015. After December 31, 2015 NMI will maintain capital levels as required by Fannie Mae's then applicable Requirements. However, without regard to the December 31, 2015 risk-to-capital date, NMI must at all times maintain total statutory capital (i.e., policyholder surplus plus statutory contingency reserves) of at least $150 million.

3. A resolution regarding these capital commitments will be adopted by the Board of Directors of NMI Holdings, Inc. at its next scheduled meeting and NMI will provide Fannie Mae with a copy of such adopted resolution.

4. NMI will not pay any dividends to affiliates or its holding company until December 31, 2015. After December 31, 2015, NMI may pay such dividends to the extent such payments are in conformity with Fannie Mae's Requirements.

5. NMI will obtain Fannie Mae's prior written approval before entering into any reinsurance agreement or structure until December 31, 2015. After December 31, 2015, NMI may enter into reinsurance agreements or structures to the extent that such action is in conformity with Fannie Mae's Requirements.
    - Fannie Mae will give consideration to approving transactions on a template basis such that once a "template" transaction is approved then materially similar transactions would not require individual prior approval.

6. NMI shall abide by annual limits on outgoing payments under intercompany expense sharing, lease or tax sharing agreements. The annual limits will be agreed to by Fannie Mae and NMI upon finalization of each of NMI's annual budgets.

7. NMI must obtain Fannie Mae's prior written approval of any risk novation or commutation until December 31, 2015. After December 31, 2015, NMI may enter into risk novation or commutation to the extent such action is in conformity with Fannie Mae's Requirements.

8. NMI will not provide any capital support, assumption of liabilities, or guarantees of indebtedness to any company without the prior written approval of Fannie Mae until December 31, 2015. After December 31, 2015, NMI may take such actions to the extent that they are in conformity with Fannie Mae's Requirements.
    - Nothing in this provision shall be deemed to preclude NMI from providing credit enhancement in the form of primary or pool mortgage insurance.
    - Notwithstanding the above, NMI may provide capital support to an affiliated reinsurance entity to be formed for the sole purpose of reinsuring NMI for the portion of the risk on loans in excess of 25% of the indebtedness to the Insured, subject to Fannie Mae's prior written approval of the capital support agreement.

9. NMI will not make any investment, contribution or loan to any subsidiary, parent or affiliate until December 31, 2015. After December 31, 2015, NMI may make such investment, contribution or loan to the extent that it is in conformity with Fannie Mae's Requirements.

10. Without Fannie Mae's prior written approval, NMI will not issue or repurchase any of its equity securities that would result in any change of voting or equitable ownership of more than 25%.

11. NMI will obtain Fannie Mae's prior written approval for any shifts of its underwriting of new mortgage insurance

to an affiliate, and understands and acknowledges that any such shift will be conditioned on joint and several full guaranty of timely repayment of all policyholder claims as they come due with respect to operating insurance coverage.

12. Until the earlier of (A) December 31, 2015, or (B) the date on which new Fannie Mae eligibility requirements applicable to NMI are promulgated and made effective, NMI shall insure only (1) loans that are eligible for sale to Fannie Mae, Freddie Mac or any of the Federal Home Loan Banks (collectively, "GSE loans") or (2) loans that meet GSE guidelines except those related to loan amount (collectively, "Eligible Loans"). NMI may insure non- Eligible Loans if at the time the insurance is written, those loans have an expected default rate not materially higher than the average expected default rate for the new insurance written by NMI in its most recent quarter, and the RIF of such non-Eligible loans constitutes not more than 2% of NMI's total outstanding RIF. NMI shall provide Fannie Mae quarterly updates on its methodology for determining its expected default rate, and at Fannie Mae's request, NMI shall demonstrate compliance with the 2% limitation. For purposes hereof, "GSE loans" include loans that have actually been purchased by one of these entities as well as those that meet the published standards of one of these entities.

13. NMI will not provide any service not directly required for the provision of mortgage insurance if such service creates a direct or contingent liability for NMI, including without limitation, provision of underwriting services on a contract basis. Moreover, NMI will not be liable, or cause itself to be liable, to pay or reimburse another entity for any such ancillary service.

14. NMI shall have and must maintain a fully operational business and technology platform. In addition, NMI will satisfy all outstanding items from Fannie Mae's Mortgage Origination Risk Assessment (MORA) team's New Mortgage Insurer Review Report, which is attached hereto and incorporated herein, by the time of MORA's first post-approval review. Fannie Mae will consider Operational Contingency number 8, "Settlement of lawsuit with Arizona to the acceptance of Fannie Mae," satisfied for now, however, we will reassess if significant new information becomes available or if any decision or settlement is reached on the lawsuit.

15. NMI must adhere to the Requirements at all times.

16. NMI shall not insure any loan owned by or serviced for Fannie Mae except under the terms and conditions of a master policy and related forms that have received Fannie Mae's prior written approval. Any proposed changes to an existing primary or pool mortgage insurance policy covering any loan that Fannie Mae owns or guarantees, or that will cover a loan intended for sale to Fannie Mae, must be approved in advance and in writing by Fannie Mae. This includes any policy change, whether by endorsement, customer bulletin, letter agreement, or any other form of agreement or commitment, with or without consideration, that alters the terms of, or the rights of the parties under, the policy.

17. NMI represents and warrants that, aside from the litigation involving the Arizona Department of Insurance as Receiver for PMI Mortgage Insurance, NMI is not aware of any other litigation involving NMI or NMI Holdings. Additionally, all costs related to the pending complaint by the Arizona Department of Insurance as Receiver for PMI Mortgage Insurance Co. against NMI Holdings, Inc. et al., including but not limited to attorney's fees, court costs, penalties, settlement amounts, etc., will be borne by NMI Holdings, Inc. and not by NMI.

18. Fannie Mae may require that NMI redomicile to another state, and NMI agrees to redomicile to a state approved by Fannie Mae if and when Fannie Mae requires it to do so, provided that Fannie Mae allows sufficient time to accomplish such move.

19. NMI will diligently work with Fannie Mae to establish their business and technical integration to Fannie Mae's Mortgage Insurance Data Exchange (MIDX) application and processes.