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NMI Holdings, Inc. 2016 Investor Day
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P: Lowell Feuer; LF Advisors; Analyst
P: Weston Bloomer; FBR Capital Markets; Analyst

+++ presentation
Bradley Shuster^ Good morning, everyone. Great to see so many of you out here this morning, bright and early. We have, I think, a great program planned for you today and we're very excited about telling our story.

We do have a special guest here to kick off the program and give us her view on the outlook for housing and for our markets and for demand for our product. And I think Ivy Zelman is well-known to many of you. She's been an analyst around this space for a number of years, I think, very well-known for calling the beginnings of the financial crisis well ahead of virtually everyone else and I think has a view on what things are going to be like going forward that will be very interesting to many of you.

We rely on her heavily for advice and we're delighted to have her with us. I won't mention that she was out in the west coast a couple of weeks ago and we were chatting in my office, and naturally the discussion came around to the upcoming election and I'll be the first to admit we didn't get it right, but I think we weren't the only ones.

So, with no further ado, please welcome Ivy Zelman.

Ivy Zelman^ Well, good morning, everybody. Great to be here and I appreciate the opportunity. Calling the top is my claim to fame, but for those of you that may remember, I was also known by some, unfortunately, there's little voodoo Ivy dolls around and a few called me Jihad. So it was not a fun time and now I'm bullish and I'm told I'm a perma-bull. So, I don't know, I just can't win. But I am very constructive.

And today really what we're going to do is we're going to talk about a few things. We're going to go through sort of where we are in cycle and you guys hopefully can see this agenda. These slides are not in your deck, if you are a buy-side client and if you are a client of ours, we're happy to send them to you. If you're not, you should be. And for you other sell-side people, I'm sorry, I do not share the work.

So with that said, let's talk about where we are in the cycle. We believe today most importantly when we look at single-family construction, we believe that single-family starts are 30% below where they should be just to meet demand. So, even though we're up 75% off the trough, which is the first bar on the left or the second bar on the left, we think we have a lot of upside. And when we think where we are in terms of baseball analogy and the innings, I'd probably say we're within the mid innings, but when you look at the entry level affordable, we're in the first or second inning. And I'm going to have more to say about that.

Multi-family; I think we're already pretty much at normal levels. We have a forecast here for the next slide. So, we're looking for single-family construction to continue to show low double-digit growth, which will be predominantly driven by entry level more affordable product, and guess what, great for high LTV lenders. This will be where the MIs are going to be a great opportunity to play the growth that we think is really just getting started.

On the multi-family segment, unfortunately, we're less constructive. We think the multi-family condo, multi-family for rent is ahead of its skis and we're going to continue to see declines there, but not soon enough. There's going to be probably more pressure in that market, but right now we are forecasting declines in '17 and '18.

You see existing homes; we continue to see existing homes in the sort of that 4% range and we'll talk about right now really what's driving that is inventory. Many of you think about inventory months' supply, you hear about a balanced market is between five to six months. Well this chart is unique in that it's showing you inventory that's available for sale in the market, which is predominantly existing homes, but also any new home inventory as a percent of households.

And why this is a very interesting way to look at it is because it gives you 30-year history, and you could see that, we as a nation, are at a 30-year low of inventories. That constraint is a real problem for the market because today there are a lot of frustrated entry level affordable buyers who can't find a home. So we need more supply this market and I think that's going to drive our forecast for prices inflation.

So on the left, you're looking at nominal inflation, although decelerating slightly from what we had been seeing, still seeing low 4% inflation through '18. On the right, we're showing you adjusted for inflation in real terms, but just to show you from a historical perspective, despite the robust pace of pricing we think there's more upside because of that predominantly that tight inventory, and we think strong demand.

So the next question is -- a lot of people have a lot of questions, but really what's going to drive the growth is going to be really young adults. And young adults we define -- we call them millennials. I was speaking at the National Association of Realtors last weekend in Orlando and I had to miss my 12-year-old's soccer tournament which I'm still in the dog house, but it was a good conference and I think what you hear is, well, millennials don't want to buy. Millennials don't want to own.

But we're going to talk about that because today there are 75 million of them and different demographers use different definitions, but we have the definition at 1984 to 2002. I have two millennials of my three; 14 and 16 year-old, they're not going anywhere I hope, not for a while, but the 32-year-old is the oldest millennial today. And the millennial is actually not only getting married and having families again, but they're starting even younger than you would anticipate.

So looking at today, what happened to this millennial in the great recession is that they were really hit hard by job losses. The 20 to 34-year-old cohort actually had almost a 13% unemployment rate. The good news is that it's about 6% today and they are seeing wage inflation of about 2%. In fact, job growth in this segment, the 20 to 34-year-old segment, is actually the fastest job growth of any age cohort.

And we continue to see the benefits of that in the market. So think about it, millennials why would they buy a house when there's like a falling knife in their chest and everybody is like oh my God, don't buy a house, or the fact that they didn't have a job. And I think that today we recognize that a lot of what kept people out of the market was being the fact that they were hit so hard from the cyclical downturn that was so much more severe than anyone anticipated, plus the media pretty much said you're an idiot if you buy a house right now. So, I think that narrative we're going to talk about is changing.

One of the things that also we hear a lot about is adults are living at home longer, absolutely true. Your 18 to 34-year-old today, 34% are living at home, that's up substantially from what we would call normal. Now, maybe that is a new normal, 34% but we don't believe it is a new normal.

We, in fact, think some of it might be they're going to be stay living longer at home, part of which is they're saving, part of it they're recognizing that it's pretty nice living here. I have a friend who has a son who is 28 years old in Newport Beach living at home and he's like maybe there is something to this multigenerational living, i.e. he's got more money than I did when I was 35. He works at Oakley, the sunglasses store. And I said, "Yes. Well, not everybody gets an ocean view of Newport Beach so maybe that's why."

Fast forward, I get a holiday card and he's on a knee proposing and I said, "So, is your daughter-in-law moving in or is your son moving out?" And he said, "Yes. Yes. They're buying a house. They're going to Denver." And I think what people don't appreciate is that not only does your 30-year-old not want to be there but what has to happen is a catalyst and a lot of times that catalyst starts with marriage.

So, we think it's about 1 million households that are going to unwind and it's already happening. There was a lot of speculation about household growth wasn't coming to fruition. Well, we actually show household growth not only as coming to fruition but we are roughly now running at about 1.3and that tailwind that we talked about from those millennials, 66% of household growth comes from the millennial cohort. This is the real driver of household growth.

And, again, we believe they will leave. Maybe they'll leave a little later, but they will leave and they'll form their own households. So, that 1.3 million, we need to shelter these people and that's the problem in the United States right now, we don't have enough shelter.

However, people will say well, maybe they want shelter but they don't want to buy a home. Is the American dream alive or are we an "Uber" nation, are we a renter nation? And I believe not only is this country built on the American of homeownership but I think that right now millennials want to be homeowners.

We talked about the media. Media right now we're very focused on the homeownership rate. The homeownership rate we hear is today Donald Trump said that it's at a 51-year low. In fact, homeownership rates have declined.

But if you actually look at the homeownership rate in terms of the numerator, the numerator is 67 million for single-family, it is actually the same as it was in '07. The denominator has grown and most of the people that lost their homes to foreclosure wound up in a single-family rental that cost them half as much as they were owning that house. A 38-year-old in Phoenix moved across the street to a rental.

So, we actually look at the single-family households and it's been pretty stable at about 68% since '07. But as the foreclosures which are still unfortunately continuing, are roughly 400,000 this year, we believe homeownership rates have bottomed but the narrative to the consumer is still perceived negatively, we think that's starting to change.

This is a busy chart but you see the ugly -- John, give me my little pointer -- this little ugly red thing here, this was the recession that we lost a lot of homeownership through all the way to here with foreclosures continuing to drive homeownership lower. You have age, the older we get, the more likely we own. I'll talk to that in a minute.

And we also have rates that is in this case has pulled down homeownership. This is our forecast for 2020, we'll be back to 65%, we'll talk about that if you'd like in more detail. But to the next slide importantly, we are already seeing apartment traditional renters moving out to buy. In fact, if you look at turnover in the United States for apartment renters, the average renter who's 25 to 39 years old that is married renter living in apartments, typically we would see about 300 to 400 basis points higher move out to buy.

Well, again, where were they going? Frustrated renters, getting a rent increase, wife is pregnant with the second kid and they're likely to be in a big trouble if they don't find a house soon because it's hard enough to be married, try living with two kids in an apartment. So, every person I saw this week in Boston, in New York, and I see a guy, married, ring on his finger, I say, "Well, do you live in the city?"

"No, I just moved out." And, "Really, why did you move out, because rates were low?" "No, because my wife is going to kill me or divorce me if I didn't go find a house." And I think that we realize lifestyle. So, this move out to buy number you're seeing is the turnover which is still low times the number of people that are moving out to buy.

If you just look at the move out to buy and didn't look at the turnover, it would be almost 50%. My apartment companies that we survey, we survey three to four times the size of the publicly traded REITs, private independent operators, they're scared; they're seeing move out to buy surge in many of the markets in this country in areas where there is alternatives today.

Why birth rates? This is probably the most important slide in the deck that people really need to appreciate, because a lot of what drives housing is family formation. In 2014, women over 25 saw birth rates accelerate at 3.4%. That was the fastest rate of acceleration since the downturn and you could see that growth continued for women over 25 in '15.

Even more compelling was women over 35. Women over 35 is not on this chart but they actually grew in '14 at 5.3% and women over 35 in '15 grew at 3.5%. Why is that so important? When you have families, you get on the single-family curve.

So, if you look at this black slate line right here, this line -- I won't tell you where I am. I guess you'd guess I'm somewhere here, I'm not going to tell you exactly where but if you look at this line, 70% roughly of people after 40 are living in single-family shelter. And so, what drives them, the correlation that is the tightest is guess what, having a family.

So, even people in their 20s, they're in single-family once they have children. And they actually stay there long after the kids are gone. So, I think people need to appreciate that the catalyst is not about oh my God, what's mortgage rates; it's about family, it's about lifestyles, about marriage.

Interestingly, millennials which I think probably is the most interesting survey -- I don't like to tout other people's work but occasionally -- and Zillow did an incredible survey and it was 13,000 consumers, 160 questions, very sophisticated, and it actually showed the least important in buying for the millennials is proximity to transportation, totally against what people perceived.

Now, it's got to be within their budget and they want move-in-ready. The millennials want new construction. That has been very clear and their preference is to be in a community that has amenities. And they're not looking at it as a financial investment but they're looking at it as a personal reflection of themselves. They're all narcissists, just kidding.

But recognize this chart right here, this is back to months' supply. This is an analysis that we did and we called it a tale of two markets but look at the entry level at 3.3 months, there's no inventory and there's healthy, very strong demand in first time move up. The second time move up is a balanced market and then you could see in luxury you've got a lot of inventory.

What we're going to tell you though is that if you actually wanted to buy -- oops sorry -- if you wanted to buy entry level, the inventories are going down almost three times the pace of sales. There's no availability and it's very frustrating. So, the builders, you have tell builders if you build it, they will come.

And guess what, they're finally waking up. I fact, if you're an entry level builder, affordable builder, two or three years ago, you didn't want to tell anybody and you were only doing it in infill and you were doing town homes, no way would you go to the B or C rate. Now, you're the prettiest girl at the dance oh, I'm doing, everybody is doing entry level.

So, the narrative is shifting but it takes time to develop ground and get sewage, roads and pipes in place. And we do a land development survey and we see it coming. And see the starts are going to continue to grow.

The good news relative to the size of the market, we just want to show here, we picked arbitrarily $750,000 and we said well, how big is the luxury market, should we be concerned. And the reality is that the luxury market is a small percent nationally, generally that consumer doesn't need MI usually. They are definitely putting more equity down so, it's not as much of an impact to the mortgage insurance industry.

Where the growth back to the one or two innings that we think we're in, the MI company is the best way, purest company to benefit from this early innings beginning of an elongated cycle.

Affordability, well, Ivy, that sounds great but no one can afford it. And, by the way, the credit box is too tight. So, let's address those issues. Number one, it is affordable. If we look at the monthly payment, the monthly payment as a percent of income, one income, is below historic trend line.

To get back to that red line, we would have to see mortgage rates to go to 6%. Now, this only includes one income. In fact, a professor at USC said that 95% of married couples between 25 and 34 have dual income. But I'm not assuming more than one income here. I'm just using apples to apples historically. So, two incomes buy a lot.

Now, look what's happening with rents. Rents are above average. The average consumer, I got like sort of yelled at the NAR because I said something about consumers are getting gouged by rent increases and maybe that's a strong word, depends on what city you're in, but I'd say double digit rent increases are pretty much gouging the consumer.

In fact, in four counties in Northern California out of six, they just passed rent control on the ballots of these four counties. And I'll tell you what, city councils are starting wake up that this is a problem in our country. But when you get that rent increase and you're looking at should I buy, should I rent, nationally, what you're looking at is almost 20% you're better off owning than renting.

Simplistically, just the monthly payment not considering the negative of property tax or the benefit of a mortgage introduction, [Howard Hanna] -- I live in Cleveland and that's as very long story but I'm a New Yorker, 16 years have been in Cleveland, very nice place except it doesn't have any sun for about four months of the year but in terms of living there, you're 28% better off buying than renting.

In Pittsburgh, [Howard Hanna] asked me to do the analysis, it was 38%. So, maybe it's not in New York City we have a, we call it ZAC, it's a Zelman Affordability Calculator spreadsheet that does every city, named it after my 14 year-old and so, we know not every market that's the case. But there are a significant number if markets that the consumer is much better off today locking in a 30-year fixed rate.

The problem is the perception is they don't know they can get a mortgage. In fact, we did a survey, these are two years, '14, '16, we asked the consumers, renters, how many of you can get approved for mortgage, a few thousand people. And in '14, in total only 32%, we show it by cohort, roughly 30% said they could get a mortgage, the rest couldn't get a mortgage.

And now, you could see that the perception has gotten better. If you look at the cohorts, you could see 49% up from 39% for the 30-plus; 44% for the 25 to 29, still a lot of work to get done. What is the number one reason that they couldn't get a mortgage is that 87% of consumers surveyed in 2016 think you need more than 5% down which is blow away to me. In fact the reason we did this survey was back in 2014 early in the year my best friend who lives in Salt Lake who has three children and two grandchildren and one on the way, which is crazy, but anyway, she said to me her oldest wants to buy.

And I said, "It's a great time to buy." This was in'14. She said, "I don't know if she can get a mortgage." I go, "What's her credit score?" She said, "It's 800." I'm like, "Oh my God, yes, she can get a mortgage." "How much has she got saved?" She side, "I think she only has $14,000." And I laughed, I said, "You know how much she can buy in Salt Lake with $14,000, [Lisa]?"

And that made me realize is what do consumers really think is out there. And I say to the lenders like why aren't you guys on TV and showing commercials. And so like well, you get the [Jeb Hensarling] who's going to shoot us if we start saying everybody go buy and put 3% down even though I think that that's sound underwriting and that I don't think there's anything wrong with it if it's underwritten to the government guardrails.

So, that brings us to what's been going on in the mortgages. And there's a lot up here but I'll walk you through it. The non-banks have taken 30 points of market share since 2012. They have 56% of the purchase mortgage market. The banks are growing very, very modestly now and the banks are actually, we think, starting to say, "Wait a minute, we like the purchase mortgage market. We are losing share, we're tired of losing share."

They wouldn't do FHA because the Department of Justice is suing them. Well, president-elect Donald Trump might change that but right now the banks are fighting back with their own innovation which bringing high LTV lending back through selling them to Fannie and Freddie, using mortgage insurance to do that with credit scores as low as 620, like Wells Fargo is your first mortgage. But we talk to the banks all the time and they're like tripping over each other to try to figure out innovation in high LTV lending.

The government despite what may happen with the new trifecta sweep that we have in the Republican Party, Fannie and Freddie are already doing things that are really improving the credit box including very recently providing rep and warranty relief on origination assuming they're utilizing the collateralized underwriting capabilities and other aspects that are huge for the industry.

One of the most compelling things that they changed September 24th of this year is they actually made it if you never had a FICO score established because you didn't want to get a credit card and you're actually debt-free but you've never had a credit card, you could never buy a house. If you have no FICO score, you cannot buy a house.

Well, starting September 24th, if you can prove you pay your bills on time, a payment track record, history, I pay my rent, pat my telephone, my utilities now, you can buy a house if you have proven that payment track record.

Also, Fannie and Freddie, they've been studying for years multigenerational living, Hispanic and Asian households have grown almost 50% over the course of the last decade. Many of them have multigenerational living. They've recognized they can include more than one income in the debt to income calculation.

And I said to the head of single-family at Fannie, I said, "Aren't you worried, what happens if they leave?" And they said we've studied it, actually what happens if someone loses their job. So, I think the reality is that these are things that they're doing that I will call thinking outside the box that are ways to continue to have sound underwriting but opening more opportunity for homeownership.

Lastly, what we want to talk about is mortgage insurers. And I really am very bullish on the mortgage insurers because I think as an industry they're going to be the biggest beneficiary. What we show you right now, people are really, really, really worried about mortgage rates.

And I think that we're worried about mortgage rates rising well, mainly because the equities, what the stocks do more so than fundamentals, but obviously mortgage go up enough, it's going to hurt the fundamentals. I think I'm old enough to remember mortgage rates were a lot higher than they are today.

And what I would tell you, though, more importantly for the MIs is about 50% we estimate of their business is from purchase as opposed to refi. We're actually forecasting refis to be down already 20% this year in our forecast.

Actually, as we see households growing, this is purchase originations in units as a percent of households. So, we see the overall market growing. That's the good news. The market is going to grow and it has been growing and I think the MIs are going to continue to benefit from that, because the predominant growth is going to come from high LTV lending.

Here's our forecast, we break out in purchase, refi and you could see the total. I think when you look at this graph, a lot of you don't ever see forecasts that are in units because we have many forecasters that do in dollars, so we really give you the opportunity to look at purchase units and I think that that's really differentiating the work that we do.

Here, we look at the first time buyer market, what percent is first time buyer. First time buyer we estimate in '16 is 57%, this is coming from actual purchase securitization data and recognizing that the pie is really small, if you go back to this slide, look how relative as a percent of households, it's 34% below the prior peak so recognize it's a big number of a small pie. And we think it's going to stay around that level and continue to be a predominant growth of the purchase mortgage market. So, that 57% sounds high, but those are actual purchase securitizations.

When you look at what that market had been doing during the boom-boom period, we didn't have high LTV lending from FHA, private mortgage insurance, that was government lending or USDA, we had subprime. And those are the dark bars over here, all of this is subprime.

You could see right here that this is really the overall high LTV lending that's coming predominantly from government guardrails, that the loss rates for this industry are so underappreciated. And I'm not assuming they're going to stay low forever. If we have an economy that's growing at zero to 2% and it goes negative, we will see people lose their jobs and it will have an impact.

But right now, the level of losses for the mortgage insurance industry is negligible compared to historically, and you need to model that recognizing they're underwriting to these guardrails called qualified mortgage which I don't think is going to really change very much even with Donald Trump coming out and saying they're going to abolish Dodd-Frank, I don't think they will. I think they might change it on the margin, but I think that the mortgage insurance industry is already taking share.

So, the bottom chart right here, this is the MI, private MI, and it's up from 33% even though FHA reduces premiums. So, we saw some share loss over here from 38% for private mortgage insurance down to 33%, but we're seeing it go back up again. And why is it going back up again is, again, looking at Fannie and Freddie and the willingness to do high LTV lending and guess what , it's taking share from FHA.

And there's definitely opportunity to take more share, but we think that the overall environment for the private mortgage insurance industry is going to continue to benefit overall as the pie grows and as they continue to stay insured and FHA did not -- everyone was so worried, the stocks were getting killed. FHA was going cut their premium -- they didn't cut their premium. And I don't think this administration has any appetite to cut the FHA premium.

So, when we go to the next slide, our forecast for '17, when we think about mortgage origination $1.8 trillion down 6% really coming from the decline in refi and then we're down into what does this mean for private NIW, we're up 3%. We're up double-digit growth if you look at the purchase side so, only 3% is really because of refis.

This just shows you our growth rate for NIW over the next few years. We're looking at 12% growth between now and the end of '18. And, again, that's including the decline that we showed you in the refi business in '17 that we see modestly improving in '18.

So, really overall, I think there's an opportunity to have a lot more discussion and hopefully some interaction with you guys but I am very bullish. I think the MIs are one of the purest ways to play our constructive view on the entry level market accelerating.

So, I will stop there and see if we have any questions. Am I good on my time?

Bradley Shuster^ Good.

+++ q-and-a
Ivy Zelman^ Good. Good. Anybody have any questions? Good.

Bradley Shuster^ Could you give us a little more of your thoughts given the recent election about some of the impact on the regulatory environment including sort of the future positioning of the FHA? You mentioned Dodd-Frank, I'd like to hear a little bit more about how you think that'll evolve prospects for GSE reform under the new administration as well as tax reform.

Ivy Zelman^ That's a lot, Brad.

Bradley Shuster^ Yes.

Ivy Zelman^   OK.

Bradley Shuster^ I got a list here.

Ivy Zelman^ Well, we actually hosted a call last Thursday for our clients to go through housing policy and the impacts. And what I would start with, there are opportunities and there are risks. I think that on the opportunity side, we know deregulation is definitely going to be helpful. I think the stock is market is telling us that. The banks are euphoric. When you talk to the top banks in this country and you talk to executives that are in the top three, they would say that their senior guys are spending more than three quarters of their time on regulation.

They're choking on regulation and their costs on regulation. But what's interestingly they will tell you is don't abolish Dodd Frank. We spend a lot of money. We have a lot of systems in place and we have a lot of human capital and guess what? Some of it is really good.

And it's going to keep the guard rails that we never had on qualified mortgages. That is a good thing. We had craziness. We had negative ALM. We had liar loans. I mean I remember talking to mortgage originators who would tell me, "Oh God, I know this guy. He is a lawyer, but someday he'll make some money. But I can it sell to Fannie and Freddie."

And that's not going hard anymore. I mean, so there is good things about that Dodd Frank. The CFPB at this point, I think there is going to be changes on the margin. I think Donald Trump really -- well, I get my soapbox too much. I'm not even drinking alcohol. I'd say he duped everybody honestly because what he said in his bark, I think his bite is going to be less severe. And I have to rebuild my whole Rolodex in Washington. It's kind of everybody I know is getting fired or is leaving. But as you talk to the people that are sort of in the know, I think you're going to see more of a prudent approach. Now, GSE reform, I think that's a risk, obviously.

But what I will tell you right now and what I'm hearing, talking to the GSEs, talking to people that are probably are going to be the next leaders within the government, it's not broken right now.

So the rhetoric's there, I mean Jeb Hensarling is like the guy that couldn't even get GSE reform to committee with the Republican House. So where is the appetite for GSE reform? They have a lot of things that are broken that they want to focus on. I won't put the GSEs at the top of the list for certain. Will we hear more noise about it? Yes. Are we going to hear people talk about it and especially people that own Fannie and Freddie stock? The shareholders there will say we need to privatize. I will just say that there are a lot of things that this administration will be working on. So, yes, it's a risk, but I think it's going to be more rhetoric than actual reform.

As it relates to FHA, remember, Donald Trump is a real-estate developer and he's a son of a builder. I don't know that they want to pull the cord on the only thing right now that's helping affordable housing. Remember FHA is average-based pricing. So, that's the benefit versus private mortgage insurance versus when a 580 FICO score pays the same as a 700 FICO score, that's an advantage over what Fannie and Freddie loan that's a 620 that's going to pay higher than 700 FICO score. So there is a need for FHA. And I think that this administration is not going to walk away from it, mortgage interest reduction, tax reform, everybody says that's the risk.

Certainly, the commentary from the Trump administration or at least the Trump campaign has been very, very minimal as it relates to housing. The one thing he has clearly said very loudly is that home ownership at 51-year lows is not okay. So one thing we could talk about when we hear about the mortgage interest reduction being at risk, it's really in the broader comprehensive tax reform. And right now, it's really a high-end wealthier benefit.

We look at the affordable market and we've done the analysis. Most affordable buyers that are using your high LTV mortgages or insurance, they use the standard deduction. So will it be limited? Will it have an impact? We think it's more like a tax on the high-end, but will they get a tax break?

So we are waiting to see, we see it as a risk. The biggest thing that worries us is this industry, our housing market has got a regulator called construction workers availability. So when Donald Trump starts talking about immigration reform, we should be worried about that, because the problem today is you can't homes built and that's what's keeping the growth rate muted.

In some ways, it's a good thing because this industry, the housing sector, I've been following housing you recognize, but it's almost 25 years, so I know started when I was what, 15, so in terms of the realizing that you've got governors around growth, if you squeeze that growth, which construction jobs is actually the fastest sector of any jobs.

So we are getting jobs but that is a risk to the overall continued growth. Interestingly, if you talk to a trade company like framers or drywall hangers and survey almost a $100 billion of manufacturers and distributors every month for building products. They weren't hiring in '13 or '14 because they listened to the media. No one wants to live in the suburbs. The mortgage market is closed for business. The narrative convinced them, like I can't go take my working capital and go grow my payroll.

And then in '15, all the builders are like what's the problem? You're not finishing within time. So now the industry is going to military bases. They're going to trade associations. They're even going to prisons. I'm sure they're screening them hopefully well. But they are going out and they're trying to start up the engine and it's going to take time, but immigration reform will be a risk. Anybody else?

Bradley Shuster^ Other questions out there from--

Ivy Zelman^ Yes. Who are you?

Unidentified Audience Member^ Oh, sorry. Repeat the question --

Ivy Zelman^ I will absolutely, if I can hear. Sure.

Unidentified Audience Member^ (Inaudible – microphone inaccessible)

Ivy Zelman^ The question is, are builders purposely keeping the overall supply constrained? And the answer is no. I think that builders are being more prudent about the size of the bites they take in terms of land. They're not going to just go buy thousands of acres and hope that someday they go vertical and they'll be able to sell them. They got burned really badly. They were like six feet under, nearly dead and buried, so many of them are very more prudent about it.

But the truth is that in some markets, they can't let their backlog get too extended because the consumer is going to be pissed off and walk away, and be like, "You know what? It's been a year and where the hell is my house?" And not to mention, when they are locking in trade and they're trying to figure out their puzzle as general contractors, they have regulation on how fast they can grow. So there is definitely growth impediments.

And it's not just labor. There are a lot of other variables which I don't have to bore you with, but I'll throw it out there for you to digest and, again, if you want to be client you can hear all about it. Impact fees, that's a huge governor, a huge governor, even worse than labor.

Labor inflation is a problem, but not in every city. Right now, all in stick and bricks and labor are running at 3% for the homebuilding industry, all in. Land is the cost. And the cost of getting that land developed and the impact fees are a bigger governor for them. And they would love to have 50% of their offering be affordable. But remember, two years ago, they were like, "Oh, I don't want to do affordable." You know, it was bad if you said you were doing affordable. And now, they are like I don't have enough. So they are frustrated because they can't get it fast enough.

Yes?

Bradley Shuster^ Any other questions?

Ivy Zelman^ Great. Well, thank you and enjoy the rest of your presentation.

Bradley Shuster^ OK. Great, great.

Ivy Zelman^ Thank you. I appreciate it.

Bradley Shuster^ Thank you very much. Thank you, great job, great way to open the conference. We're going to take just a very quick, less than five minute break to get the management team up here and set up. Go grab a cup of coffee and we'll start in just a minute.

Thank you. Thanks, Ivy.

[Break]

+++ presentation
Bradley Shuster^ Good day. Take your seats. We'll get started. So I get the pleasure of following that very interesting and dynamic presentation with a cautionary statement. So here we go. Before we begin, please note that during this presentation, we may make forward-looking statements including comments about our expectations for the future.

Actual results could differ materially from those contained in these forward-looking statements. If and to the extent we make forward-looking statements, we do not undertake any obligation to update those statements in the future in light of subsequent developments.

Further, no interested party should rely on the fact that the guidance of forward-looking statements is current at any time other than the date of this presentation. For additional information about the important factors that could cause actual results or trends to differ materially from those discussed today, we direct you to the cautionary note on page one of our presentation, our website and the cautionary notes and risk factors contained in our regulatory filings with the SEC.

OK. So with that let's get going here. So, I'm going to start out with a few introductory comments about the Company, where we are and where we're going. Claudia Merkle will then follow with a discussion about how we sell and distribute our product and develop our customer base.

Pat Mathis, our chief risk officer, will then follow that with thoughts on our approach to risk management as well as some statistics about our portfolio and how that's developing.

Rob Smith who heads up pricing initiatives will take you through our thoughts and our strategy on the pricing front. And then Glenn Farrell, our CFO, will come back and kind of wrap it all up and give you some insight as to how this will translate into our financial metrics going forward. And then, I think we'll have plenty of time for a robust Q&A session at the completion.

Just a little background on the management team we could be hearing from today. So, I think, most of you know, I started as an accountant and I spent 17 years at Deloitte, was an audit partner there. Joined my client PMI in 1995 and was put in charge of developing an international network of mortgage insurance companies. So we did de novo work in Europe, Canada, Hong Kong, did a couple of acquisitions, Australia, New Zealand.

We deployed about $1 billion toward that initiative, all predicated on having a strong period in the U.S. When that ceased to be the case in 2007, we sold or wound up everything, but we generated nearly a 25% IRR and all those activities. So started this company in 2012 and it's been a very exciting ride and we're excited about telling you the progress we've made and what we expect for the future today.

Claudia Merkle, our chief operating officer, has been in this business for over 25 years. I would tell you in my view, Claudia knows more about how to sell and deliver and service mortgage insurance than anybody in the country, so I'm sure you'll enjoy hearing from Claudia about how we organize around the customer and why we're succeeding there.

Glenn Farrell, our chief financial officer, joined us about two years ago. I've known Glenn since way back in business school days, when he and I were classmates. He went on to a great career at KPMG where he ran the practice in San Francisco. And Glenn has done a great job for the past two years in developing our financing infrastructure, our internal control system as well as doing some very important things on the capital planning front, which he'll share some of the details with you today.

Bill Leatherberry in the front row is our general counsel. He really heads up our GR initiatives and is frequently in Washington DC, monitoring developments there. So, Bill does not have an actual formal role in the presentation, but he will come up during the Q&A session. He'll be available to answer any questions you have on regulatory developments.

Pat Mathis, our chief risk officer, is working with me for a number of years. He was actually the chief risk officer for international operations at PMI. He's a very independent and strong-minded risk officer. And with our company, Pat has the final say at the end of the day about matters relating to how much risk we take and how we manage the risk that we take. So I know you'll enjoy hearing from Pat.

And then, Rob Smith is our head of our pricing initiatives, very involved in setting the strategy of the Company. Rob, I think, really has led the industry in terms of developing the pricing, responding the PMIERs that the majority in the industry is using now. And he'll have some very granular thoughts about how we developed our pricing matrix and how we think it is really an appropriate strategy to pursue over the long haul.

So, the themes you're going to hear today, and we want to make sure you take away, number one, that we manage this company to generate returns. Return on equity is the founding principle that we hold up every decision we make to how is this going to affect our return on equity that we're going to ultimately deliver to shareholders through GAAP bottom line earnings, expressed in relation to the equity base that we have as a company. So, if you're ever in doubt about how we're going to respond to a given situation, this is what we default to.

Secondly, we're at a very exciting time in our development. I'm going to go through some illustration about the layering effect of various vintages and what that means to premiums earned going forward. How those are going to grow. And how those premiums earned will fall to the bottom line and generates significant profitability over the foreseeable future.

Thirdly, we know the kind of risk we're dealing in. We are mindful about taking first loss position on high LTB lending and risk management all these holds a critical spot in our thinking in terms of how we manage this business.

Fourthly, now with PMIERs capital standards, we have very clear granular capital rules that we understand well. And we've developed a pricing strategy that delivers great returns. And so we' will share more of our thinking around that.

And also, there are some developments in our industry going on with respect to consolidation that we'll talk a little bit about. All those things are positive. We also have some additional M&A activity, again, all positive for us.

And then finally, we're going to expose you to the full management team. We think this is important because we're very proud of the team. We think we have a very talented and deep team. And we encourage you to take advantage of the Q&A session to make sure you tap into that talent base.

So a little bit about our company, kind of the founding principles and we had a little differentiated vision when we started this company. Number one, we wanted to underwrite the risk that goes into our portfolio. And you might be sitting there saying, "Well, what's unusual about that? You're an insurance company, of course, you underwrite the risk that goes into your portfolio." But that is actually not the model that's historically been followed within our industry. Typically, the majority of business has been done on a delegated basis where there's spot audits done periodically. And that's led to a lot of problems with the reliability of the claim payment during times of stress.

We decided we wanted to pursue a different model. We wanted to be a more reliable counterparty. So we've decided to do the work up front. That allows us to offer better terms of coverage in terms of 12- month rescission relief. So this fundamental approach has been different than the rest of the industry. We think it gives us insight into the manufacturing process at our customers that is superior to what our competitors can offer. And we think over time GSEs and others will grow to appreciate this. And this will be a competitive advantage for us.

A little bit about the history of the industry. So, the chart on the top represents the underwriting environment following the thrift crisis, which if we would have extended it to earlier years, you would have seen the effect of the thrift crisis which was similar to the financial crisis you see on the right side of that chart, but not as broad and as deep, but still a very significant disruption to the underwriting environment.

Then following the thrift crisis, we had 17 years of a really outstanding underwriting environment where there are significant amount of profitability generated by the industry. Then you see the thrift crisis and you see we're now coming out of that. And we're returning to that historical result that you get in a great underwriting environment. And we think we're in early days there and we'll talk more about that. We think there is a lot of runway ahead of us in terms of the underwriting environment going forward. And we'll get into that in real detail.

On the bottom of the page, you can just see sort of from a valuation perspective when the industry has had that kind of an environment to do its underwriting in, you can see the kind of ROEs that have historically have been generated by market participants. And you can also see the types of multiples of book value that the market has afforded to companies delivering those kinds of results.

So, we're also coming out of the financial crisis now. There's a little bit of noise on the right side of the bottom chart due to some of the DTAs that legacy companies had and how that has affected the equity and the book value calculations. But, again, I think our view is that over time we'll be migrating back to some of these historical multiples that the industry has enjoyed. And, again, we think it's kind of early days in terms of that migration.

So, again, I said up front, we manage this company to generate returns. We have a very clear and solid pricing strategy to generate mid-teens return on PMIERs required assets. And we're very focused on managing the Company to make sure we're cognizant of all the controllable variables that we need to be mindful of as we manage the Company.

And so, everything that we could control, this is how we spend our time every day, talking about these things, making adjustments to the extent we think we need to, to make sure that we're operating in a way that's ultimately going to deliver those mid-teens returns on equity.

What we don't spend a lot of time talking about is the things that are outside of our control. So you won't hear us talking a lot about forecasting the size of the market, those kinds of dynamics, because we're just frankly just focused on the amount of NIW we have to write to give us the growth in insurance-in-force that we're looking for to ultimately deliver the mid-teens returns on equity through the bottom line of the Company. So that's, kind of, central to our thinking and we're happy to go into more detail about that as we get into the presentation today.

So, I mentioned earlier, a great time for us because of where we are in terms of our development. The growth in our revenue is going to be, I think, very exciting and very dramatic over the next several years. And that's primarily because of this layering effect, which you've heard us talk about before. So the top chart just illustrates the premiums earned on $1 billion of NIW. So, you can see it starts off pretty strong year one and then it runs off over roughly a 10-year period with about a 4.5-year average life in there. That's our assumption about persistency.

But no mortgage insurer goes into business to just write a $1 billion, right? You write generally more each year. And so, what we've done on the bottom of the chart is we've taken the actual NIW we've done for year one, two, and three. We've guided to $21 billion for this year. So, we put that in there. And then we've assumed very, very modest growth for the years beyond that through a 10-year period, about $1 billion growth in NIW each year.

But even with those very modest growth assumptions, you can see that out in year 10, this company is generating somewhere between $400 million and $500 million annually of earned premium.

So, obviously, we think our expense base is fairly well-built out now. And so much of that premium earned is going to drop straight to the bottom line. So that's why we're very excited about where we are.

And premiums earned, obviously, as I said, the majority of it falls to the bottom line because we don't expect our expense base to grow anywhere near that fast. So, we're looking at a very exciting CAGR on our net income thinking going forward. When we get to Glenn's presentation later today, we'll try to put a little bit more meat on the bone for you there, but very exciting point in our development.

So, a few thoughts on the underwriting environment, as Ivy mentioned QM really provides a good framework for a very high quality mortgage origination environment, very good guardrails there. And I agree with her thinking that we're not going to see radical change there with the new administration. I think a lot of these guidelines will stay.

And that creates an extremely healthy underwriting environment for us. You've seen our results, 90% of our FICO scores are in excess of 700. And 50% of our volume is in excess of 760 FICO, so extremely high quality. With our pricing, we'd be happy to do some more FICO business, but right now, this is what we're getting in the marketplace. And Pat will go into some more detail about the portfolio, how it's developing and what our thoughts are around that.

And also, as you know, we've had healthy house price appreciation since we've been writing business. And that provides additional buffer and margin of safety for us from an underwriting standpoint, so we feel very good about the risk that we've ensured to date. And we'll talk a lot more about that as we go on today.

So FHA competition, I know this has been something that's been talked about a lot. The rumors of an MIP cut started, I think heard them first over a year agree in San Diego. I remember [Bose], we were chatting there about his pending MIP cut. And we said we weren't aware of anything, but you never know. So we've gone through a full year and then some, we had the actuarial report released this week on the fund capital surplus. They're over the 2%, but they've got some issues with the home equity portfolio.

You saw the announcement of officials this week that there was no MIP cut planned. And I think most people would agree that given recent developments on the political scene and the runway, the existing administration has left, I think there is limited runway for them to do something there. And I think it's very unclear whether the new administration would be in favor of the cut or not. I think the right thing to do would be for them to come in, take stock of the role of the FHA in terms of the total housing finance scheme and decide from there, so I think net-net this is probably less of a risk now than maybe what we've been dealing with for some time.

But, again, I think there is also opportunity that you've heard us talk about before. Roughly 20% of the FHA's production is done in FICO LTV bands where we think the pricing in conventional execution is actually a better deal for the borrower. So we're very focused in our sales efforts on trying to get people aware of that and to get that type of business to migrate to conventional executions. So, overall, I think we're pretty well-positioned relative to the FHA.

And a lot of large banks had made no secret that that's not their preferred way of growing their business given some of the tail risks they have with FHA lending.

So overall regulatory environment, there's a reason I asked the question of Ivy to give her thoughts on what the recent changes mean. From my way of thinking an overall basis, everything in the regulatory environment is probably a little bit more positive now than it might have been in the recent past.

As I said, we feel very good about the capital standards, Fannie and Freddie and the FHFA will continually be I think updating and working on it. I know they're working on a PMIERs II now but we don't expect any material change forthcoming there. We think the framework that's been put together is a very good one, so we welcome additional clarification and evolution there. But I think we've got something that's very understandable, very workable and I think can serve us for the long haul.

So housing finance reform. When we raised the money to construct this company in 2012. This was the number one question among investors, what's going to happen to Fannie and Freddie. I answered the question back then, I said no one knows. I said I think you'll measure the pace of change in years, if not decades. And I also said at that time, I don't think anything will happen until the 2016 presidential election. So it's nice to be right once in a while.

I still think we're going to measure the pace of change in years. I think you have not heard a lot out of the new administration on the campaign trail about housing. I think that it's widely acknowledged that the housing sector, while it's not perfect, it's largely working. And so we're not expecting anything dramatic or radical here. In any event, I think that we're well-positioned as a well-capitalized private capital provider that stands between the risk and the taxpayer.

So I think all the proposals for GSE reform, they have been advanced so far, all the serious ones have had private capital and particularly private mortgage insurances as an element of the reform. And I think we're as well-positioned as ever to be a part of the future housing finance scheme.

So on the tax front, I think recent events, I interpret them as being very positive for us. The prospect of lower corporate tax rates could be very significant to this company. When you think back to that slide on our future profitability, if that gets taxed at a rate lower than the 35% federal rate, we've assumed in what we do that that's all just additional profitability, additional ROE. So we're very excited about that. We're excited about how that closes the gap between some of the people we compete with who have offshore tax domiciles and don't pay the kind of corporate tax rate we do. So we think that's great.

And also we think there's potential for the new administration to take a view about wanting to close some of the tax loopholes that allow people to go offshore. I know they want capital repatriated, they want jobs repatriated. So I think in all cases we're kind of on the right side of that trend. So, obviously, nobody knows what's going to happen with any uncertainty. But I will say it's positive relative to where we've been in recent days.

So I mentioned this earlier, you have the announcement of United Guarantee being acquired by Arch. We think that's very positive, particularly since both of those companies pursued what we call a black box pricing strategy. Rob Smith's going to talk more about the impact that pricing strategies had on their businesses as well as the rest of the industry. So to have now one company pursuing that versus two we think is very positive and obviously six competitors relative to seven is a big pickup and a big plus.

And we don't know exactly how the share will migrate away from combined business, but we did think it was positive and constructive that when the acquisition was announced, the acquiring company said they expected to lose some more in the 500 basis points-plus nature of combined pro forma market share which we translated into, said there were we're going to be disciplined capital managers, disciplined pressures and were not going to be aggressively pursuing market share at the expense of return. So we view that as very much a positive.

Also we had a recent announcement of another company within our industry, obviously part of a diversified group by a foreign buyer. So we also think that's net-net a positive to us, number one, sort of if that transaction does close, we think it raises some issue from a counterparty standpoint that customers would be working through, which at the margin we think will be good. And then, secondarily, if the transaction does not close, we think that some other issues could arise with respect to that company that on a net-net basis we think are going to be positive.

So just a few words about our culture, we're a new company, we're a small company, but we think we're a great company now. We think we're going to get better in the future. Based on our most recent employee survey, we were ranked by Fortune magazine as one of the 100 best medium-sized companies at which to work in the entire country. And being only a couple years old we were really heartened by that.

And we've seen this grow into what we think is a competitive advantage for us. We recruit talented people from other companies, from our direct competitors. We've recently hired a couple of really great salespeople, one from a company that's been around for over 50 years and another one from one of the newer companies. And, actually, both individuals said the reason they joined National MI was that they had heard about our culture, they could feel it when they talk to the people and they decided it was the kind of place that they wanted to build their career at.

So we feel very heartened by that. If you haven't seen already on our website, there's a video called Our Story and you can take a look at that. I think it'll give you a little bit more insight into our culture and why we think that's an important part of our competitive advantage going forward.

So takeaways. You're going to hear this over and over again. We manage this company to generate the kind of returns we've been talking to you about. We will continue to do that. The growth curve we have ahead of us is very exciting and we'll dig into that more as we go along. And we're cognizant that we're dealing with very risky product and we never lose sight of the ability to be good underwriters and great risk managers.

And so we believe the overall environment is very positive, not only from the underwriting opportunities that we see out there every day, but the capital guidelines are very clear. We know how to price our risk and so we're excited about the returns that we're going to be able to generate.

The external environment I think has just gotten more positive recently, so on every front we feel very good about the opportunity. And then there's some external issues in terms of the overall industry dynamic. Again, it's a positive.

So great time to be in the mortgage insurance business and I want to take it from that and then have Claudia Merkle step up here and tell about how we face off with the market and how we're developing our customer base.

Claudia?

Claudia Merkle^ Thanks, Brad.

Hi. I'm Claudia Merkle, the Chief Operating Officer. I'm going to go through three primary areas with you today as it relates to sales and business development, first, our sales structure, how we're organized to address the market; two, the MI market as a whole and the lender makeup in the market; and three, how we're doing, our business development, our account penetration and account growth, and as importantly our opportunity on a go-forward.

So, first, let's look at our sales structure. We address the market through two primary channels – national accounts and field sales. Our national accounts are comprised of our top 50 lenders and they're covered by five sales professionals.

In regional accounts and field sales, we have 50 salespeople located across the country and they're organized in seven geographic areas. They cove the rest of the market. They also cover the branches of our national accounts that are located in these regions.

The percentages you see are the approximate NIW percentage by region. This is a competitive structure, and we've also hired a highly seasoned sales team. Our account managers have over 20 years' experience in either the mortgage origination business or mortgage insurance.

We have a really great sales team and they're highly experienced. Our Chief Sales Officer Mike Dirrane, he has over 25 years of experience in mortgage insurance alone. He's held senior level positions at companies like PHH, GE and Fannie Mae. And Mike was just recently reappointed as the Chairman of Mass Housing. And the Massachusetts HFA is known as one of the elite housing finance agencies across the country.

Mark Daly, our SVP of National Accounts and Norm Fitzgerald our SVP of Field Accounts, they have extensive business development experience, sales and sales management. And Norm Fitzgerald also manages the seven managing directors you saw on the sales structure slide. These guys instill motivation and accountability in order for us to drive continued growth and they always see the glass half full.

Our sales framework. We've implemented a strategic sales framework in order to target high opportunity accounts, activate new customers and grow share with our existing lenders. From strategy and culture to customer management to talent management, as well as a metric-driven sales organization, this framework fosters a world-class sales organization.

We have a two-step sales engagement process that we continually follow. And simply put, account penetration, account growth. Account penetration, you first have to open up the aggregator market in order to sign up lenders with master policies. And I'll show you that development in the next couple of slides. And account growth, this is where the rubber meets the road, new insurance written and building insurance-in-force.

So let's look at the progress. Account penetration, the aggregator market. You've seen this slide before. We've clearly achieved this step. We opened up the aggregator market as of May, 2014 and we have full access to the market. So we've unlocked the key aggregators and this enabled field sales and national accounts to drive master policies and NIW.

Account penetration as it relates to master policies. Customers development. We had 1,100 master policies at the end of September compared to 906 master policies at the end of September 2015. We added nearly 200 customers in that year's time. While you'll hear us talk about getting to 2,025 customers in the long run, our near-term goal is to penetrate approximately 1,500 master policies and that'll give us access to over 85% of the market.

So before we get into our growth, let's talk about the NIW market as a whole. If you think about those 2,500-plus lenders out there, the top 50 lenders make up 42% of the NIW market. If you add another 150 to that and now you're looking at the top 200 customers, those lenders comprise 64% of the total mortgage insurance market. The remaining sector, 36% of the market.

You saw on the sales structure slide, we address all of these markets. We have a strong strategy where the team addresses both large national accounts as well as the mid-tier and the smaller regional originators.

So let's look at our growth as it relates to these 2,500-plus lenders. In the top 50, this represents 42% of the NIW market. We're currently getting business from 29 of those 50 today. We have another nine customers where we have a master policy and we're actively working with the lender to launch and we have an opportunity with 12 of those 50.

In looking at the next cohort of 150 lenders, we're delivering with 80, have a master policy with 28, have an opportunity with 42. If I combine these 200 lenders, we're either getting business or we're poised to get business from 73% of this top 200. The rest of the market, this 36% of NIW, delivering with 390, have a master policy with 298. And we have significant opportunity with over 1,600 customers. So great progress, but coupled with substantial opportunity.

As Brad mentioned, returns are key for us. We've had solid NIW growth, but we've also had a significant shift in our mix to the monthly product. We booked $5.9 billion in the third quarter and we did that with 71% monthly business. Second quarter, the previous quarter, we had 63% monthly business. Year over year, our growth in monthly production was 163%. Also to mention, our applications are coming in at 75% and applications are a precursor to NIW once the loan closes so solid NIW growth and significant shift in mix.

So how do we continue to win? First and foremost, this is a relationship business and we foster relationships, our salespeople, our executive team, our ops people at every turn. When a customer works with National MI, they feel the velocity of our organization on several fronts, first, our service, our operations team. We have an outstanding operations team from our underwriting group to our solutions center, to our servicing team. We hear from our lenders consistently, “we always hear accolades from our customers.”

Our technology. Whether a lender is delegated or non-delegated, we have created an ease-of-use submission process through a technology. We also built our technology. We built it in one platform from origination to servicing and claims. And we built this platform with our customers in mind.

Our sales synergy. We excel at the combined efforts between our national account salespeople and our regional salespeople when we cover the branches of our national accounts within the regions, the regional world. This is significant value to that national lender because they get local marketing information, training, recruiting, as well as new products and services.

Our innovation. We developed the master policy with 12 timely payments where the industry then followed. We also, largely due to our robust underwriting model, we have a different approach on how we service loans. We don't disrupt our lender with unnecessary investigations if the delinquent borrower has a life event or a hardship.

Our innovation and pricing, you'll hear later from Rob Smith. We developed a rational pricing approach and the entire industry has followed that. It was a significant industry innovation. So to sum it up, we have a compelling value proposition and we focus on the customer's experience which builds customer loyalty.

So in summary, we have great momentum for continued success. We have a proven track record to continue to win. We have a large market opportunity to fuel future growth. We have unique differentiators in our coverage and our approach on the business. And we have a great customer experience through ease of use in technology as well as superior service and operations. And we have a seasoned sales and operations team that's built to succeed. Thank you.

I'm going to call up Pat Mathis, our Chief Risk Officer.

Patrick Mathis^ Thanks, Claudia. Good morning. I hope everyone is doing well this Friday before Thanksgiving. I'm looking forward to next week. Let's see. So let me stop, just take a minute. I think the points I want to make on this with this slide is even though we're a new company, we have a very well-developed risk management team and culture. We have a very seasoned risk management team. Rob Smith is one of the key people in the risk management area.

But not only my group is seasoned, they have a voice. They know what their job is, to drive the importance of enterprise risk management and compliance throughout the Company. The legal team is very seasoned, Bill's team, that helps drive compliance. Glenn and Rob's team are very important helping drive sort of compliance and enterprise risk issues throughout all groups and organizations in the Company. So we're real proud of our risk management culture throughout the Company, and I think it's already served us well and continue to serve us well in the future.

So let's dive into our portfolio. What does it look like today? Look, everyone here in this room has heard from numerous people, numerous competitors and numerous lenders how high quality the mortgage underwriting is especially in the conventional space where we operate today.

Let's take a quick look. Very high FICO borrowers, I mean these are borrowers that has demonstrated the ability to manage credit over time. These are borrowers that have the documented ability to repay their loans. Their income is well-documented. And we have a geographically diversified portfolio.

The metrics at the bottom of the chart are sort of risk areas that we manage, and you can see there's not really a lot there to be concerned about. Ivy Zelman talked about the 97 space so all of our 97s come through the GSEs and their programs, the guardrails. And we have more granular pricing than the industry used to have which will, I think, keep our 97 portfolio maybe. Maybe it'll grow at around 10%, probably never more than that. Rob will talk more about that.

And just so I note on energy exposure, we are monitoring all of the energy producing regions in the country. And so far, I have not seen a spike in delinquencies in Texas, Oklahoma or Westin Pennsylvania.

Let's move on to the next slide. So why is the quality so high today? Well, Ivy and Brad talked a lot about what I was going to talk about on this slide, but let me add a couple of things. Yes, the guardrails exist that Ivy talked about. Yes, the regulatory changes that took place as a result of the crisis, very important to the quality today.

But keep in mind, those regulations were really just an enshrinement, a codification of common sense underwriting, right, the type of common sense underwriting that existed from the founding of the republic to about 2004 when thing just got wacky. I mean look at the type of risk that was being underwritten. If you're using common sense, you don't make a stated income or a negatively amortizing loan to a high LTD borrower. Somehow, some sort of reality distortion field existed for four, five years and things just got crazy.

Brad and Ivy talked about not likely that the CFPB totally goes away. What if Dodd-Frank is completely repealed, CFPB totally goes away? I can tell you with confidence that common sense underwriting shall not perish from the earth mostly because Fannie and Freddie, they stopped doing the crazy stuff during the crisis. Right before Dodd-Frank was passed, oh, and by the way they didn't even do all this crazy stuff. A big chunk of this was handled our friends downtown on Wall Street, right, who so conveniently packaged it up and sent it over to the German landesbanks and the hedge funds that blew up Iceland. So they're not going to go back into it. They ingested enough for the bad stuff to know how bad it tastes.

Now, we've all heard about some private investors nibbling around the edges of QM. But keep in mind, they're going to have to keep those loans on their portfolio. I think the German landesbanks kind of learned their lesson. Iceland, they focused on terrorism now, not hedge funds. So, again, they're going to continue to nibble around the edges. They're not going to put on the hazmat suits and go diving into the toxic landfill. It's just not going to happen.

So what was the impact of this wacky underwriting during the crisis for a typical MI? So this is the actual portfolio of the Legacy MI at the end of 2009. It's a company that did survive through. So it had the very bad toxic four sectors represented here. Those numbers add up to 58%.

Now, believe it or not, there is some layering of risk and some overlap. But easily 50% of this MI's portfolio was composed of the four horsemen of the apocalypse, if you will. And when house prices started trending down, the four horsemen were loose and they did a lot of damage to the capital of the mortgage finance and the mortgage insurance industry. So now let's take a look at our portfolio.

So none of the top three, 5.5% is 97 only. This other company, they lumped together 97 and 100, but I can tell you from knowledge that most of it's 100. If a borrower is told you can put down $6,000 and get a 97 or you can keep the $6,000 and go to Vegas, they'll take the 100. Most of them will take the 100 and went to Vegas.

So completely different type of underwriting is being done today. So that's true for all of us, right? All the MIs are underwriting to the same level and their portfolios on a go-forward basis would look like this. They have legacy risk to weigh them down, we don't.

But what's different? What do we do differently? Well, Brad's talked about it. Claudia talked about it. What do we do differently from our competitors? We've underwritten or fully validated 85% of the loans on our portfolio. So big contrast to our competitors -- now, they don't release this metric for their entire portfolio, but we're pretty sure, we're confident that it's none of them is it anywhere near 85%.

So if you little note or no longer remember everything I say here today, take away this; take away the fact that we underwrite the great majority of the loans that we insure and that provides a lot of insight into a lender's loan manufacturing process, their entire origination process.

Now, most people focus on the comfort that that gives us on a loan level basis, and it's true. It's great when we get the entire origination file and we see that the income's documented, that the appraisal justifies the value of the house. That's great. That is important. But more important is the keen understanding we have of hundreds of mortgage originators' full origination process. We see loans daily from some, weekly from others; that constant flow of loans allows our underwriting team to see any mistakes, sloppiness. And when we see those mistakes or that sloppiness, our risk ops team and the salespeople go out and visit with these underwriters, the originators, and they tell them what we see and we help them correct it.

And so what's been the response from these lenders when we say, "Hey, you got a problem; your appraisal escalation policy is not working. We can tell it from the files." Overwhelmingly, the response has been gratitude -- thank you. They want to correct their processes because they know if we don't find it and help them correct it or if they don't find it themselves, it's very likely that eventually one of the GSEs or an aggregator that they sell to will do QC and find it.

However, everyone, I'm sure you realize, QC is done on a much smaller proportion of the portfolio than what we're doing 85% of underwriting. So if the QC takes two or three years to find a bad process, a lot of loans can build up and those loans will all come flooding back as repurchase requests ask once if an investor finds these problems.

So the bottom line, this part of our business model we believe unique to us gives us the confidence. We'll save money over time. We'll pay fewer claims. And Claudia mentioned, we'll be able to maintain a smaller claims and investigation department which will save us money over time.

So kind of summing it up, post-crisis, there's been regulatory changes that really just amount to common sense underwriting that you've heard it from Ivy. And we firmly believe it'll continue to exist going forward. The GSEs post-crisis, Brad talked about PMIERs, it's not just very clear capital standards but complete financial standards and complete operating standards that they promulgated that all MIs have to live by that have never existed before.

And then as to the middle bullet, we think again key strategic advantage we have, an additional layer of risk mitigation. Did I mention that we've underwritten already 85% of the loans in our portfolio? So are we going to take a break or are we going to go right into Rob?

Unidentified Company Representative^ Let's have a less than five-minute break and then --

Patrick Mathis^ All right. So have a cup of coffee and enjoy our $45 pastry and come back in about five minutes.

[Break]

Bradley Shuster^ OK. Please take a seat and we'll get going. OK -- get the team back up here. All right, next speaker is Rob Smith. Rob plays an integral role in our pricing strategy. As we said earlier, he really led the industry to the rates in pricing that's being pursued by largely everyone following the advent of PMIERs. So, Rob's got a lot of insight into the way we run the business and I know you'll enjoy hearing it from Rob.

Rob Smith^ Hi, there. Thanks all for coming out today. We're going to get into some dry numbers here. So, first one, no numbers on the -- there's two numbers on this. There's really three main things we look at when we're talking about pricing kind of consistent with Brad's theme. We concentrate a lot on what we can control and not as much as what we can't control, even some of those are inputs.

You know, the three main components are really expected losses. We spend the majority of our time at least in my group looking at expected losses. We run our existing book and current writings through tons of different scenarios, recession scenarios, mild recession scenarios. Lately, we have been looking a lot more at interest rates to see the impact there as well.

We don't have a historical book. So, we have to look at the performance of similarly insured loans. Luckily, there's a lot of data available in the market to purchase or rent, if you will. So, we try to get really comfortable with where we think losses are going to come in and what the drivers of those losses are. As Pat mentioned, the high quality of today's originations lead to very low expected losses and certainly, the economic environment we're looking at today helps that as well. We'll talk about that in the next slide.

In terms of expenses, we can control expenses as well. Also, as Brad mentioned, our expense base is kind of in place for the most part, we'll have some growth and expenses as we originate more volume and things like that, but for the most part, we've kind of built out the platform, as an important component of the underwriting and pricing today, very important to keep expense discipline. And as Pat and Brad have mentioned capital, the GSE PMIERs are a binding constraint today and we'll talk a bit more about that and some of the efforts to look at our capital. But, for any indication we've seen, PMIERs is going to be our guide post for the foreseeable future.

We have other components, investment income is important, with low rates even today, it's not as big of a component it has been historically. Taxes have a big impact. We'll touch on that a bit, too, and the duration of the portfolio can affect us more or less in some cases. So, anyway, we combine these inputs and we target a return, after tax return on equity as Brad mentioned.

So, let's talk about losses a bit. Again, Pat showed the difference in portfolio quality versus pre-crisis and even not just the Go-Go Years, but even the years before than when underwriting was more responsible, if you will, even compared to those times, what we're writing today is unprecedented. It's really pristine quality. The level of underwriting we put into our book, the FICO scores, the reliance on FICO scores now which are really are great predictor of future credit performance, fully documented borrowers.

There's a little anecdote, we built our system from scratch and one of the things -- when we were modeling some of these third-party models we use or other things, they asked for the documentation type. We don't actually have different documentation types in our system yet because all we did was full doc. And so, it's like "What type of documentation do you have?" It's all full doc. So, that's a big difference from prior.

So, largely, the future performance in our book is going to be driven by house prices. It's really a big driver of where we think things are going to go. Ivy gave some predictions of short-term house prices. As an insurance company, we try to price to longer term trends.

Changing prices in our industry is difficult. Prices are very sticky and we have 50 state regulators who want to weigh in on it. So, we try to price to longer term trends.

Recent vintages have benefited from higher than expected house price appreciation or higher than historical average house price appreciation. We've had 5% to 6% HPI really since we've started. Before that, even higher as they house – as the housing industry rebounded from the crisis. It's not what we price were going forward. We don't think 5% or 6% is going to be sustainable every year and certainly history wouldn't indicate it is.

But if you look at the recent loss rates, 2009 will probably settle below 2%. 2010 will finish well below 1%. Compared to the crisis, we had 15% for 2005; 22% for 2006; 25% for 2007. That's looking at some of our competitors and where we think their loss rates will settle out. We have a very much different environment.

So, if you look in the bottom here, we kind of assume a 3% HPI long run. That's kind of borne out by hundreds of years of history. If you think of 2% inflation, around that average, and then about 1% real house price appreciation, that's really driven by land use restrictions, population growth, things like that. So, in that environment, we expect around a 2% loss rate. So, if you think loss rate is dollars of loss over dollars of risk that we insure.

You can see some of the sensitivity to that number. If we have a 1.5% HPI, we got roughly 50% more loss; at 4.5%, you see it's down in the low ones. So, you can see where the low loss rates are really coming from, the recent vintages. It's really above aver HPI growth.

Now, if we look at a recessionary environment, so, if we take our underwriting today and run it through a model, assuming we're standing here and we jump in a hot tub time machine and we're back at July of 2006 and we see what would happen to our book, we'd expect almost a 10% loss rate. Again, that highlights the difference between the underwriting quality we saw in '06, for example, and what we're seeing today, about half the loss rate.

Now, if we take the great recession, delay it by a year, so, say, instead of 2006, we're at 2005, what we write today, we'd expect about a 6.2% loss rate. And the difference there is we get some HPI growth. We also have runoff before losses happen. So, it may not seem like a lot. We'd assume, say, 3% in the one year. It doesn't seem like a lot, but if you think our book is on average, 92% LTV, a 3% growth before you had a recession is pretty material. We also do have at today's interest rates, you have a fair amount of amortization early on as well.

So, it gives you kind of an idea of where we're seeing loss rates. Again, we stress test different paths. You know, we've got the Fed has their CCARs test which we run our book through that. It actually looks very similar to the great recession, I guess, not surprisingly. The Fed kind of designed it that way, a little steeper loss, but a faster recovery. And these are the ranges we're looking at today.

If we look at the Case Shiller National Index, the HPI change year-over-year. Just to give you some context, it's like any average. You don't actually see the average in any given year. I guess maybe in the early '90s, we saw around 3%. But, you can see the stress that the portfolios written prior to or during the bubble have really gone through and it also shows the tests that we're running our book through.

Again, I think peak to trough is about 27% loss, but you have some years that are one year over 10% loss in house price, but then you also the rebound that we've had post-crisis. So, you can't really ignore what you want to price to any, most of these years. You really want to look at a long term average because as the saying goes, "Making predictions, especially about the future, is very difficult."

Let's talk about expenses really quickly. Most of our expense base is largely fixed. There are some variable costs with our underwriting model. There's underwriting cost, sales commissions, things like that. But for the most part, we have a fixed base. We have a system which has to be maintained no matter how many loans we underwrite. We have support functions and things like that.

So, expense control is really important especially the current environment. If you're thinking of pre-crisis or during the bubble and you were underwriting stated income option ARMs, getting a good loss fix is very important. Today, the risk of underwriting is much more predictable and that they are risks that we've seen before. So, controlling our expenses -- expense is a much bigger component of your return. So, keeping those expenses in line is very important.

Avoiding non-core expenses that don't contribute to generating business is very vital in this market, keeping -- do we need a chief economist, not to pick on chief economists, but probably not. You can get a lot of free stuff from the Internet or other third-party providers. Sponsoring rock concerts, probably not a good idea unless it generates volume. So, we kind of keep away from things like that. We kind of invest in the business where we think it will help drive returns.

Capital, again, we've talked about capital in the past, if you're here or watching this last year. PMIERs had come out. Right now, we hold this -- I think we've disclosed this, 6.14% of our assets against our performing primary loan risk. We have additional assets for our pool deal and our nonperforming primary, but that's the main driver. You can see the grid on the bottom. That 6.14% gives you a good view on where our average risk is or average FICO on LTV is based on this grid.

The NAIC has been working on a model to kind of revamp their view of MI risk. You can go on their website and find the draft model that they have proposed. We've taken that to the extent we can and tried to run our portfolio through that model. Any scenario we use would generate less capital need than PMIERs. So, it's unlikely whatever the NAIC comes out with will be more binding than PMIERs. So, again, it seems to be our guidepost moving forward.

As Brad mentioned, not hearing much talk from the GSEs about making substantial changes to it any time soon. They always talk about PMIERs 2.0, but we think the grid-based approach and the relative charges in the grid will stay pretty constant. If they tweak anything, it'll be just some other things in the foreseeable future. So, we price to that.

The other thing I talk about just so you know it, there's multipliers for different things. If you don't do full doc, you take that previous grid and multiply it by three times. So, that's certainly a disincentive as well to do that sort of business. Most of these things, some of these we do. We do some investment property, some DTIs over 50%. We don't do anything not fully amortizing. And the big change that impacted the industry last year or this current year I guess was the additional charge for lender-paid mortgage insurance, generally written as a single premium product.

And you've seen our pricing changes as we mentioned -- as Claudia mentioned, that’s change are mixed a lot as we've increased that price and certainly changed the borrower-paid monthly premium pricing. And Glenn will talk a bit more to about the recent trends in their product.

So, this is a little busy. So, we'll spend some time here. I've highlighted the key parts. But this kind of gives a walk of how we get to our mid-teens return as we say. So, what this really represents -- the expected case, it really represents kind of recent production of our monthly product. And premium rates around 53 basis points, up or down a couple of basis points. Coverage is around 25% of the loan balance. And if you walk through it, if you look at our 2% claim loss rate, if you will, that generates about a 20% loss ratio.

Our expenses, again, we say around 25% expense ratio; all that, if you walk it down there, you get to about roughly a 15% return. What we want to highlight here though is if you increase our loss rate to 8%, I guess, so if you think of our current production, about a 10% loss rate through a great recession scenario, you do get temporal diversification as I call it. What we write today, if it goes through a benign environment for a year, it's much less than 10%.

So, if you say in a portfolio base, let's just say we have an 8% loss rate, you can see it's very difficult for us to lose money and even to our capital base under most reasonable scenarios. So, it's a much different industry than previously where as we saw, we had actual losses of 25%, 22% in '06 and '07 and the industry was really managing themselves to high-teens stress loss rate which didn't turn out to be correct.

I think now we have a much better handle on how bad things could be. Part of the problem pre-crisis is people just didn't believe it, right? You had Ben Bernanke saying "We've never seen a national house price decline. This is never going to happen." I think the industry is much more responsible because we've seen it can happen and it did happen. So, those stress scenarios that were at one point theoretical now are real and again, we can run our book to the exact HPI that we experienced and that's a good scenario to have in your pocket when you're trying to manage your portfolio. Could things get worse? Yes, potentially, but it'd be hard to imagine with today's underwriting, things could get much worse than we experienced.

The other point I'd like to make here is you don't think -- I mean, you talk about high margin businesses. Most people don't think of mortgage insurance right off the bat. I read an article yesterday that it costs about $250 to make the iPhone 7 and they sell it for $750. They have marketing expenses and R&D and things like that.

But if you look at our margins, they're 50%, 55%. There's going to be a pretty big impact on our after-tax return if we get tax reform. A 35% tax rate going to 15% will have a pretty big impact on us. So, that's -- where that will end up, will we get to 15%, we don't know. But, when you think of the beneficiaries of tax reform, mortgage insurance could be a big one of them -- big one of those industries and again, you wouldn't think of it.

Most insurance is a little different. They're not long tailed. They're running at 95% combined ratios. Getting a tax break doesn't make as big a difference. For us, it makes a huge difference because we're a long-tailed industry. On an expected case, our margins are very high. So, we get a tax break, we can build up more capital for the bad times.

So, let's talk about the environment a bit. We changed pricing last year or late last year when we got our final PMIERs grid. I tell the story, I left the MI industry in 2006. I went to the lending side. And in 2006, we priced mostly to rating industry capital. S&P in particular had a model spreadsheet that we can run our books through and it's pretty similar to the PMIERs. It had a grid and every loan, we'd get a charge, if you will. And it actually wasn't mechanically a bad model. It just didn't take into account the layered risk factors. But at least, we had something to price to.

And I reentered the industry in 2012 and the rating agencies have gone away. The existing players other than the other new entrant at the time, were just trying to survive. GSEs said, "We're going to come out with something" and then in our approval letter, they said, "Just stay below 18 to 1 versus capital and you'll be fine" and we had $500 million and not much risk. So, that wasn't a problem.

But, there's nothing to price to. So, I'm like, "Well, gee, I can calculate our numerator, but I don't know what the denominator is." So, we kind of followed the industry. We're new and we didn't do much risk anyway. So, we just matched everyone else. And then, finally, PMIERs comes out and we looked to the current rate card and we said "Well, it's pretty close to where we should be priced, but there's still a fair amount of cross-subsidization in this."

And PMIERs was released in April of 2015. So, we figured, someone will change rates. May rolls around, no one changed rates. June, no one changed rates. July, still waiting, and we're the new guy, right? So, finally, August rolls around and we said, "Well, we're just going to change rates. This doesn't make sense. This cross-subsidization doesn't make any sense". You chase away good business and you attract the bad business, the bad returns.

So, we made a change. We took some heat from some of our competitors, but someone asked -- I remember last year, someone asked, "Well, if people match you, will this be good for you or bad for you?" And our answer was "Well, bad for us in the long term because we're getting the first mover advantage, but good for the industry in the long-term because it's the right thing to do." Well, the last two quarters, the private mortgage insurance industry has experienced volumes that are greatly increased versus the past few years.

And at least some housing industry experts believe the recent pricing has led to that. So, I say you're welcome to our competitors. They matched us all around April. I think it has led more volume for the industry. Overpricing good quality borrowers just didn't make sense to us. One of the big changes we made was 97 LTVs and higher FICOs. We went from a rate of over 100 basis points to 55 basis points.

And, Ivy mentioned this, a 97 LTV at a 760-plus FICO, that's a good borrower. If fully documented, we'll welcome that risk. Just because someone doesn't have a down payment, it doesn't mean they're not a good credit. So, that business has grown from basically nothing a year ago to about 6% of our volume, so, well underwritten, it's kind of why we exist if you think about it.

So, I'd say pricing though is largely stabilized. We don't have any plans to change the monthly rate card any time soon. Everyone else again has matched us around April. They all started to match and we kind of settled on a rate card -- rate cards, it's a good place. If our mix does shift, say, the FHA gets abolished or something crazy like that, we're fine. We'll take the risk at the prices we have set out.

We get a lot of questions or we have in the past about block boxes. Another competitor came out with a black box around about a year ago. They seemed to be battling each other. We've gotten questions about that as well and our answer has been, there's a certain segment of the market which we'll price to a black box and that's about it. One of our other competitors started with a black box first in 2009, gained some market share because of it but then kind of solved.

And if you look at the new black box competitor and you take the two competitors and you combine their market share, it's been pretty flat and one has cannibalized the other guy. They happen to be merging now. So, let's see where that leads. But, just don't -- especially in the post-[trade] environment, you don't see a lot of lenders embracing that approach, some do. But, the analogy has been made, "Well, why isn't mortgage insurance priced like auto insurance?"

Well, mortgage insurance is not auto insurance. I can get online and get an auto insurance quote and bind the policy tomorrow. Mortgage insurance is part of a long underwriting cycle. You quote a borrower today, they might not close their loan for 60 days or more. And having price fluctuations within that 60 days isn't really good, especially with the disclosure requirements that we face today.

For the most part, we think our rate sheet given the quality of loans and the types of risk we're taking on, we cover 80% to 90% of the risk. FICO, LTV and coverage for us really drive pricing for the most part. The lift you get from tweaking a few things on a black box really isn't worth the hassle you create for your lenders.

So, again, we expect going forward, the one competitor who will now have a black box will probably keep it and some lenders will keep using it. But, we don't see it becoming widespread. If it does, it's pretty easy to create a black box. I mean, we have all kinds of models. It's just an IT issue at that point.

Are there still pockets of irrational pricing? Sure, this a largely commoditized business. In any type of business like this, you'll have some lenders who just want low price by staying small and having a differentiated underwriting product. We just try to avoid those people. It's part of the -- the challenge is to identify the people who want what you're selling, and that's our challenge going forward, but we're doing a pretty good job of it.

Again, if you look at our mix of products, you don't see our mix of lenders as much, but I can tell you we're changing to people who really value what we sell. So, that's part of the value of having a differentiated product and also staying small. And again, that environment, the PMIERs environment and also the underwriting environment has given us the opportunity to change who we do business with and our mix and really boost our return.

So, while our volume level may not look different, underneath, there's a lot of movement and we're very happy with where we're ending up. So, just a summary, we price to deliver risk-based returns of PMIERs. If we get leverage beyond that, that's great, but first and foremost, we try to get our return on the PMIERs required assets which is our binding constraint. We should be able to support stress losses up to four times expected without impairing our capital. And as we've seen four times expected is a pretty good benchmark for stress, pretty severe stress environment. And, again, we have a lot of opportunity to create value by picking and choosing who we do business with and what types of products we're originating.

So that's it. We'll be available for our Q&A afterwards, but right now, I want to introduce Glenn Farrell, our CFO, who is going to go over some more numbers for you.

Glenn Farrell^ Thanks, Rob, and good morning, everybody. Great to see all of you out here today. I don't promise or I promise I don't have any Abraham Lincoln or Biblical quips to provide for you today. I do have the role of tying it all together, bringing it home for you and then really putting the financial perspective on the overall business building blocks that this team, this outstanding team has put together over the last several years and created this business model.

So as a lot of the finance guys, we will take a little bit of a look back and we'll then take a little bit of a look forward as well. But the things I want to cover today are principally three things. One, I think you've heard before already, we're focused on returns. We measure our success through the returns, through the net income and definitely the final result of return on equity.

Second quarter this year was a huge milestone for this company. We broke through the breakeven and we passed this incredibly exciting inflexion point in our development. We've actually built into our expense base at this point in time and now, as Brad said a little bit earlier, we're poised for great growth.

And lastly we want to cover with you where we stand with respect to capital. At this point, we believe we have very good access to low-cost capital and we do believe that that is where our growth capital will be coming from.

So a little bit of background, a year ago when we stood before you, this was kind of the picture of what our earnings or at least premiums earned look like as well as insurance-in-force. We are very proud of that growth curve. We were extremely happy with our insurance-in-force because it was significantly higher in fact than we were projecting at that point in time.

This is what it looks like today. The growth has gotten even steeper. We pretty much nearly tripled our insurance-in-force in the past four quarters, revenue grew a little bit more than 20% quarter-over-quarter and that's really the kind of trend that we will continue to see.

As we started in the development phase, we incurred losses, and now we're extremely proud to put green up on the board. The profits that we've broke through in the second quarter with the more than $2 million worth of income, and now that's grown for a year-to-date net income of $4.3 million, so we're very enthused by this progress. And what this really means now is I think as we've tried to demonstrate through the last 18 months, 20 months of our existence is that we are now growing through our expense base. Our expense base is remaining relatively constant. We can predict that growth. We can also predict the growth of the revenues as well. So what that's doing now is showing that that model is indeed working.

We've talked a bit about the change in mix, the profitability and the buildup of the insurance-in-force particularly in these rising interest rate periods, it's going to come from that monthly product as we'll talk a little bit more about persistency in a few minutes. But the development of this split is rather incredible. A year ago, we were about a 50-50 monthly versus single. We came to you and said, this is what we plan to do and as Rob described with the pricing mechanism, it's just a dramatic change over the last 10 months on where we are with respect to our insurance-in-force as well as just the progression of the NIW that Claudia described. And then this is a picture of where we were with respect to the applications.

And you can see, it's just a constant change towards the focus on the monthly. These are applications and then the last one on the right is the 75-25 in October that we talked about, where our applications are, and this trend continues today. So we're extremely excited about that.

Just a little bit about where we are with respect to the balance sheet and capital, you see that our cash and investments are continuing to grow as the insurance company continues to be profitable. That adds on to those cash and investments and then we continue to hold a very sensible amount of cash and investments at the holding company for future purposes.

With respect to the PMIERs asset position, the far right column, you can see the drop in the required PMIERs assets which is the red column. That is as a result of our reinsurance transaction that we'll talk a little bit more about in a few minutes, but what that does obviously is it gives us an incredible amount of runway with respect to our growth and the capacity that we can grow into through NIW.

Let's spend a couple of minutes with the portfolio. Pat touched on it a little bit, but we've got over 119,000 policies and you look and see the just incredible growth in policies over the years, and then obviously the 2016 is only for the nine months to date or excuse me through the third quarter. And then also I'd like you to focus on really these numbers over here, the loans in default, incredibly small number through this period, and then the number of claims paid. We've paid eight claims so far, we can still keep it on both hands.

And then on the far right, cumulative default frequency, very, very low, obviously much lower than the 2% that Rob talked about in terms of our pricing mechanism, but however that number stays low at this point in time, we still do maintain the discipline of pricing to the 2% default rate. So that's something I think is very important.

Some metrics here in terms of just kind of where we are with respect to yield and persistency. Yield, you see our development over the period is somewhat volatile. With that, you've seen is our insurance book has matured, that yield has moved back and forth, it happens as a result of the types of loans and the quality of the loans that we're insuring. It has to do also with persistency. It has to do with how our prepayments or how quickly our prepayments are coming through and then finally, it depends on the mix of singles and monthlies as well.

So that has fluctuated a little bit overtime as our portfolio develops and matures. We fully expect that the prepayments will continue at basically an historic norm. We don't believe those speeds will be anything out of the ordinary even given the change in interest rates. In fact, we'll see probably a healthy continuation at least in the coming few months with respect to prepayments.

But over time, we do expect that that yield on a pre-reinsurance basis to moderate toward that 50 basis point level. I think we did mention it in our Q3 call also that we expect that because of our quarter share reinsurance we'll actually be reporting yields about 5 basis points lower than that.

And then with respect to persistency, again, as our book matures, more probably going to be closer to the 80% persistency level where the industry is. We don't really see this as really changing that much, but it's certainly with respect to this coming interest rate environment, we do believe that persistency will trend somewhat upward, but clearly stay around the 80% level.

Our investment portfolio is a little over $640 million. We manage that very, very conservatively. It's all investment grade. It's 100% fixed income. Their average rating is an A rating. And you can see that with respect to the duration and the yield, we are maintaining a fairly conservative viewpoint there, but with the duration we think that that's probably even more conservatively managed that some of our competitors. But we're happy with the yield, but again, with the changing interest rate structure, that may be a benefit in the future for us as well. You can also see the diversification in the overall portfolio, very, very widely diversified.

Now comes the fun part. This is kind of what we're all here for. It says on the chart that it's for illustration purposes only, it's not a forecast. And it is not a forecast, but it's definitely how we have built this company, how we've modelled what the future could look like based on a modest amount of growth and an ability to maintain expense ratios at a normal level. And ultimately as you see on the far right of the chart, that ultimately gets down to -- and this is probably over the next four or five years -- gets to a steady state expense ratio in the order of 25% to 30% with a loss ratio of 20%.

But what this shows is that as that expense ratio comes down, our loss ratio is maintaining a very, very small and it grows to the mid-single digits, and that really drives obviously the bottom line, the net income which basically is reflected there in your underwriting margin, in the dark blue. And that underwriting margin obviously then drives your ROE. So we believe that certainly by the end of 2017, we should be able to be at that point of exiting 2017 at a double digit ROE at the end of that year.

So it's very exciting. This is the kind of model that I think Brad was talking about earlier, that the whole group has been talking about how we are continuing to build on the revenues and then maintaining that expense ratio and getting to the point of real, real compelling argument about profitability and returns.

Now, a little bit about capital. I think you're all aware that we entered into a quarter share reinsurance treaty at the beginning of September. I think really our point in most of this capital planning is to demonstrate that in fact we've got a lot of options out there. You see on the right hand side of the chart is kind of a view of what our capital structure looks like. Even though reinsurance really isn't technically capital itself, we do see all of these pieces as possibilities when we look at what sorts of things are out there.

The obvious takeaway from this thing is that reinsurance at this point in time provides an after-tax cost of capital between 3% and 4%. So that is obviously very, very attractive to us. We believe that there is a significant market out there for us, continuing. And so we do believe that that's going to be something significant that we'd look at in the future as we continue to grow. And I think reinsurance will continue to be the preferred way of looking at how we grow our capital.

And just a quick note on the term loan, the term loan places obviously has another couple of years. We just passed the point where that was in fact no prepayment penalty would be incurred. So as we look at what our opportunities are and options are down the road, we're looking at a lot of different things. So it's very encouraging to us to know that there are a lot of options and alternatives out there for us.

I won't spend a lot of time with this. This is just a summary of our quota share agreement. I think, again, the point being is that from a capital perspective, we see this as really exciting. We are very enthused to enter into this agreement. We believe that it is again a highly effective and efficient way to gain our growth capital.

I do want to spend a couple of minutes with this. This is in your books and it's obviously very busy from a perspective of kind of what's really going on here. Now, there are two things I want you to take away with this chart. One is kind of we get questions about, well, how does this affect the P&L? You'll see in here, with respect to the -- there are two pieces to the ceding commission or excuse me, to the premiums earned, the ceded premium as well as the profit commission will all flow through the net premiums earned line item of our income statement. And we also have a ceding commission that will be a contra-expense effectively in the P&L. And then lastly, we'll be getting some losses recovered back from the reinsurers as well.

What the other point is I want to drive home is that, you see Rob talked about how we price our product for a mid 15s or mid-teens returned, without reinsurance, you can see that the return on required assets, it is right around the 15% level. With reinsurance, and this is really the exciting point, is that it goes up substantially. So from a perspective of efficient and optimal capital management, we see this as very exciting.

So you've heard it once, you're going to hear it a number of times, but returns are really first and foremost for us. We do look to that in our strategic plan. That is a foundation of our strategic plan and that's something that drives what we do every day. You saw our model with respect to how we look at the prospective future. It's an incredibly compelling argument about the building of the revenues, maintenance of a lower expense ratio and the drive on return. So that is incredibly compelling. And lastly, we do have a number of low-cost opportunities in the capital to support our further growth.

So with that, I'll turn it back to Brad.

Bradley Shuster^ Great. Thank you, Glenn. Thanks, team. I think you've got a great view of the strength of the team today and it's just about 11 o'clock which is pretty much exactly as we planned. So amazing how things do come together sometimes.

So we're happy to entertain your questions. Bill, would you like to come forward in the event there's some GR related matters and we'll make sure and direct those to you. So John Swenson has got the mic in the back of the room, so let's take your questions. Geoff Dunn.

+++ q-and-a
Geoff Dunn^ Thanks, Geoff Dunn with Dowling Partners. Can you talk a little bit about what's going on in the singles market, it seems there's been a -- the whole industry, for the most part, shifted away this past quarter, we're hearing maybe it's even at the LO level in response to the new BPMI pricing. But not just what you're doing with your mix, but as an industry, are we seeing a demand shift back to BPMI?

Rob Smith^ I can take that. Right, good, yes, so part of it, I believe is just the BPMI pricing. So if we go back in history that we got a draft proposal for PMIERs in 2014, July of 2014 I believe. And we were just kind of getting and going at that time, but almost immediately, we saw some LPMI pricing adjust from some of our competitors. They got special LPMI ratings that just so happened to follow the draft PMIERs grids.

LPMI as you probably know is a lot quicker and a lot easier to adjust. It's not embedded as much. It's more of a secondary marketing execution. Also there's much different regulatory requirements or in terms of filing rates. So LPMI adjusted pretty quickly. It had a huge advantage to borrower-paid monthly for a lot of executions, especially in the high FICOs which as you know happens to be a lot of our business today.

So you saw a lot of from a monthly payment perspective for borrowers, you saw that shift to LPMI. Once we changed monthly pricing, that started to shift back and then certainly the change to the PMIERs, we had an increase for LPMI, increase in asset charge for LPMI that even changed even more.

And it takes a while for some of that stuff to shift, so we started seeing some shift at the beginning of the year, but it's kind of picked up in the last couple of quarters. So I think that's really what you're seeing. Loan officers, especially, when they make the pricing decision or the MI decision, they're really slow to pick up on things a lot of times. Inertia is a big force in their lives, so they get used to doing LPMI singles. They do LPMI singles and prices shift and they still do LPMI singles and finally some of them started looking at the execution and like, "Oh gee, BPMI monthly is actually a good execution." And they talk to their buddies and like, "Oh yeah, I should look at that."

So I think that's what we're seeing now. Longer term, we think a good 20%, 25% singles is actually a good mix. You wouldn't want to be 100% monthly. If you experienced that 2003 event again, where we had huge prepayments, persistency dropped to like 50%, you want some singles then. We're not really set up to hedge interest rate risk as an MI company, so we're pretty comfortable in the 20% to 25% range and that's where we're headed to.

So yes, we're seeing that trend, we like to keep it around that level and we expect it will stay there. If we drop to 0% singles, we'd probably do something to get that back up to 20%. So that's where we really like to manage it and that's where we see it going.

Bradley Shuster^ Great. OK, thanks Rob. Next question.

Dan Altscher^ Hey, Dan Altscher from FJ Capital. I was wondering if you can talk a little bit about the taxes or tax issues or potential for changing the taxes, if we knew for certain that there was going to be corporate tax reform and all of a sudden it's 15% or 20%, how does that change maybe the value of the DTA, the ability to bring it on sooner than later, not doing it, doing it, and then the ability to really utilize that on a go-forward basis?

Glenn Farrell^ Yes, I'm not holding my breath that the tax change is going to happen like right away. I suspect in all likelihood, although the current administration is perceived as one that might promote that type of event, and it's something that they've also said that they're going to work on right away, I'm not sure that that's going to happen right away.

One thing I do believe based on kind of the progression of our earnings and whatnot that we expect it's not going to take that long for our net operating loss to run off. You do some projections, we could be a taxpayer late '18 to early 2019. So in terms of how that affects the valuation allowance in our bringing down the DTA, I see that as really not a relevant point whatsoever. I think we are making the arguments at this point in time that we have good, positive evidence that the accounting industry will look at and say, yes, you're justified in bringing back that valuation or at least fairly significant portion of that valuation allowance. And I think we said at least over the next four quarters and possibly as early as this quarter. So that, I don't think has changed at all.

Bradley Shuster^ Great, thanks. Next question?

Scott Hurlburt^ Yes, hi. Scott Hurlburt, Aspen Re. I guess this is for Pat. With the validated number or percentage of loans being such a key issue or such a big part of your success in allowing you to offer the non-rescission, the rescission relief aspect, as you gain scale, are you able to keep that percentage? And if so, how are you going to do that?

Patrick Mathis^ Yes. I mean actually I'll kind of start and then I'll hand it over to Claudia because the operations team reports up to her, and we have been able to keep scale. We have our own underwriters. We have relationships with vendor underwriters and it’s all working very well. As Rob pointed out, the acquisition cost and then just the underwriting part of the acquisition cost is a small part of the total life of loan cost when you add acquisition plus servicing.

So there's underwriting availability out there and as long as it's an attractive model to lenders and they want the 12-month rescission relief, we'll be able to provide it. And again, we think it will save us money over the long-term. Obviously claims will come later in our lifecycle but we think we'll get that savings back in time.

Claudia Merkle^ Sure. And another part of that is, as far as the capacity model and the ability to continue to do it, a lot of the lenders that we're validating post close are our delegated lenders.

So we give them our delegate authority and then we review the loan post-close after it's closed. So it's a little bit of a different underwrite, it allows you to be able to move through them a little quicker. Also, that capacity model, those vendors that we worked with, we've really built this for them to look at all the key aspects very quickly but yet still hone in on ones that rise to the occasion that then our team has to look at. So that process has worked really well. We're totally able to scale.

Bradley Shuster^ Great. Next question? Yes, in the back. Let's give you the mic there.

David Boehmer^ David Boehmer, DB Capital. On page 27 you have some pie charts regarding the lenders and no master policies. My question is, is NMI's approach to the smaller lenders the same as the larger lenders or is it the same or different?

Claudia Merkle^ It's slightly different. What you'll do is you really want to go after the lenders first that have significant NIW. But we do cover them, it's just a matter of how.

Sometimes we'll cover them more in a broader scale through marketing and training and webinars and work with them more from a virtual model than boots on the ground. But they're all important, it's just a matter of first getting to some of the larger lenders and working with that top 200. And then looking at NIW opportunity and continuing to go out to those lenders or market to them from there on in.

So they're all important, it's just a matter of timing and what type of facing off you're going to have with them either virtually or on the road.

Bradley Shuster^ Great. Next question in the back? Yes.

Scott Hurlburt^ Scott Hurlburt, Aspen again. Rob, during your presentation you mentioned the high LTV 97 and high FICO reduction and I think you said you had brought it from a 100 bips down to 55, is that correct?

Rob Smith^ That's right.

Scott Hurlburt^ OK. So my question is really a couple things, how did you arrive at that reduction? To me as not a practitioner, it sounds pretty aggressive. And secondly, how did you test that as being adequate? How did you arrive at that much of a reduction?

Rob Smith^ So it's really again, running the key components through our model, I think really what we saw during the crisis was the MI Industry pushed away a lot of risk that they didn't want in order to maintain or control volumes.

So we saw some surcharges and some base rate changes that were really intended to shrink the industry into a core shell because they had capital issues and they wanted to curtail their volume. I think some products were priced beyond reasonable economic returns. What we did is when we get the PMIERs requirement, we now knew our denominator, we could figure out our expected losses on that product.

And we were able to price where we thought a reasonable rate was. If you look at history, the MI industry really got burned on 100 LTVs, in '07 I think it was almost 50% of their volume. Those were priced at 96 basis points if I remember correctly for all FICO, so 620 up you got the same rate, one size fits all, it's kind of the FHA model.

The average FICO came in below 700 for those loans and I'll tell you, 96 basis points for below 700 is really not enough especially with 100 LTV versus someone actually having skin in the game. So we felt for 760 plus, 97, that's a good credit for someone who doesn't have the down payment but they have the history of paying their bills or paying their credit off.

We know they're fully documented and good DTI ratios so we felt pretty comfortable with those expected loss rates and we did the denominator, it all worked out to about mid teens returns, so it's kind of how we got there.

Scott Hurlburt^ Premium rate went up for lower FICO borrowers across the board.

Rob Smith^ Right. Yes. The FHA flat pricing, right and look, we're not going to get a lot of 620 97s. I mean, if we do at our rates, that would be great but we're not going to compete with the FHA. So we'll take the higher FICOs and returns we think are very sustainable.

Bradley Shuster^ Great. Great. Next question? Mackenzie, we'll just get you a mic here.

Mackenzie Aron^ Mackenzie Aron with Zelman. Can you just talk about what you're seeing in the field right now from lenders? You talked about the opportunity given the consolidation, just how aware do you really think your customers are or is it more a function of the sales teams going out to lenders and kind of highlighting some of the risks of the different ownership changes and then what's the sales strategy there and also, how quickly do you think the industry will react and when will we see market share stabilize?

Claudia Merkle^ So your question I think is how do our sales people go out and what do they hear from the lenders as it relates to some of the consolidation.

They certainly hear what's going on in the market between the acquisition as well as what's going on with the purchase of the other MI company. What we do is try to also inform them on what that means for distraction versus a focus on the lenders. I mean, that's obviously part of our job. And that helps them to really think through more and more. Where do I want to go with the other MI companies? So they're aware but we put a point to it as far as knowledge.

Bradley Shuster^ Yes. I think most of would agree there's going to be some market share reallocation among the remaining industry participants. We can't really put a number on that now but I believe it's got to be a positive number. So we're excited about it. Questions? Yes.

Jasper Burch^ Hi. Jasper Burch with Bayview Asset Management. I just have a couple of questions and I guess Claudia is probably the best person to answer this but really anyone.

In terms of like boots on the ground, regional account acquisition, from sort of our seat, it's really hard to get a view on what differentiating factors there are especially in terms of like services offered, ancillary services and [for pay] services. So one, I just was wondering if you could give us a little bit of insight, are there differences between the MIs on those fronts? And then two, is the risk that was like the CFPB, maybe being weakened and [RESPA] being a little bit weaker that we could see maybe not this year or next year, the year after but resume focus on competing on sort of ancillary services that just drive up the cost of acquisition?

Claudia Merkle^ So let me take first your question around differentiators and how are the lenders seeing that.

There's a lot of differentiators amongst the MI, mostly around relationship and what we really feel that we get our focus on is that we try to help our lender grow their business. The minute you focus on them and then how can we support them makes a world a difference. And as I showed you my slide, we also have some differentiators around our model and that has been a big piece for the lenders.

They like to see that the majority of either their retail loans or their correspondent loans have a 12 timely payments on it, it's the right thing to do for them and for us. But at the end of the day, as I mentioned, this is a relationship business. They want to deal with people that they feel they know in the marketplace, can help them recruit in their areas, give them market knowledge, and we do all those things day in and day out. So you have to create those differentiators based on the lender.

Bradley Shuster^ And you brought in the question of RESPA, and we're a very compliance-oriented company. There are some practices out there with respect to contract underwriting that we are not comfortable with from the RESPA standpoint and we put that in that category of things Rob Smith was talking about, where we encounter pockets of price competition that we are not comfortable with, we don't play there. And so that's just the way we run the Company; we see plenty of opportunity to get full price, full return without doing those kind of things and so we see that continuing.

Jack Besaiko^ Hi. [Jack Besaiko] with SIG. I wanted to get your thoughts on FHA, not around price. We always focus on price, price, price.

A lot of the banks have moved away from the FHA on a sentiment basis and put-backs and legacy exposure. Under the new administration, if it's a more bank friendly administration, at the point of sale, do you see that maybe swinging back the other way where there's maybe more acceptance of FHA by the bigger banks than there is today?

Bradley Shuster^ So I'll try that one and anybody else wants to jump in. Yes, I would agree. It's going to be a more bank friendly environment.

I suppose you could see a lessening of the concern that we've heard a number of our customers voice publicly about the tail risk associated with FHA lending, but, again, at the margin, if you've been to the FHA, if you visit there, it's quite a bureaucratic organization, and so I imagine that their operating practices will be very slow to change regardless of the changes in the political landscape that may take place. So I would expect that to take a lot of time.

And then we also see lenders, their execution methods being fairly sticky. So while they might have migrated to doing a lot of business with the FHA during the financial crisis, for some of the reasons that we pointed out, the MI's backing away from it to conserve capital. Now they've converted a lot of their business to conventional execution and, again, those swings take time. So I think we just have to see how it plays out. Other questions? Yes. Front.

Dan Altscher^ Dan Altscher again from FJ Capital. On the NIC grid, if that were perhaps to be finalized and good to go, to what extent does PMIERs then become irrelevant or they automatically switch over to that and be like, "Hey gosh, that's cool but we don't care."

Rob Smith^ Yes. Again, based on what you've seen, it's NIC proposal for their model framework isn't going to be binding. So PMIERs will always be more binding than the NAIC.

Even if you look at kind of the current risk-base capital requirements that exist in many states, we're restricted to 25 to 1 risk to capital as an industry. Ourselves and most of our competitors would bump up against PMIERs constraints at around 15 to 16 to 1. So that gives you an indication of where the states would probably come out relative to the GSEs.

Bradley Shuster^ I thinks that probably by design, that PMIERs is the binding constraint because during the crisis when some of the legacy MI Companies got in trouble, the GSEs lost control when the state regulator would step in and take control of the situation.

And I think the GSEs in drafting PMIERs wanted to develop a capital standard that wasn't going to see that situation recur. So they're going to be in control of the situation.

Rob Smith^ Yes. That's a really, really good point. The states generally try to manage our industry and probably a lot of other industries to ensure that policy holders get paid back.

So it's kind of what they call the last dollar capital, you don't have a dollar capital left at the end of the crisis. The GSEs specifically stated to us and the rest of the industry that when they designed PMIERs, they designed it to avoid regulatory action. So if you look at the crisis, one of the companies, [RMIC] that was put into run off by the regulators, they're going to pay $0.100 on the dollar for the claims. They're currently paying $0.100 on the dollar on their claims.

So the GSEs will get paid back but there was a time when they weren't getting $0.100 on the dollar and they had to post a reserve against the potential for nonpayment. They want to avoid that situation. So they're not worried about getting paid back, they're worried about having any shortfall at all. So therefore the PMIERs are kind of designed for that scenario versus, again, just being able to pay out all your claims at the end of the day. So for that reason alone the PMIERs will always be more binding that what anything the states come up with.

Bradley Shuster^ Other questions?

Tommy McJoynt^ [Tommy McJoynt] from KBW, I work on [Bose's] team. I just have a question; you disclosed your cost of capital numbers toward the end of the deck there.

Assuming that those numbers don't really change too much and without getting too far into tax speculation, do you see your capital structure changing over the next few years as you guys continue to grow?

Bradley Shuster^ I'm sure we all have perspective on that but I think as we said that the reinsurance aspect, because it is such a low cost of capital at this stage is such an attractive option. That's not to say that we're not going to be opportunistic. If certain things develop, we're always looking at things to assist in our capital planning. We're constantly planning for potential change down the road, the team talked about potential market share growth or market growth from the perspective of the UG Arch situation, to the extent that we have that need for additional capital, we'll be looking at other alternatives or looking at alternatives for that.

So I think that the point is that we'll always be opportunistic. Right now we see that structure is good for now, but there may be other situations that arise in the future that make one of the other types of capital more attractive.

Bradley Shuster^ And I would just point out some of the charts on the profitability of this company going forward. The internal capital generation is going to be very, very significant over the next several years and we will reach a point where we'll be capital self- sufficient in a not too distant future, and we'll be perfectly capitalized for a brief period of time and then we'll probably be over capitalized. So we will be continually evaluating our capital options and optimizing that opportunity as we go forward. Up front.

Brian Bromberg^ Brian Bromberg, FB Asset Management. If the interest rate for mortgages rises more steeply than expected, what effect would it have on your volume and profits if it goes sharper than gradual increase?

Bradley Shuster^ Yes. So if there's interest rate shock in the environment, I would imagine that would have a dampening effect on the overall origination market for a period of time. But one of the real drivers and one of the inspirations for starting this company was what Ivy Zelman was talking about in terms of the demographic, the demand for first time home buyers.

So we think that that's a very, very powerful demand aspect on the market, that over the long haul, over the next five years, next 10 years, that's going to be what's going to write the story more than any kind of short-term disruption in the interest rate environment.

Yes?

Lowell Feuer^ Lowell Feuer, LF Advisors. To that extent, do you anticipate payment of a dividend anytime soon?

Bradley Shuster^ I think it's a little early to start talking about dividends, but I think you can expect from this company and this team that we'll apply the same discipline that we've applied to this point in our development to try and optimize our capital opportunities.

We'll use those same philosophies and methodologies once we are generating excess capital to try and deliver the returns to shareholders that we think will be rewarded in the marketplace.

I think we have time for about one more if there is one more. On the side.

Weston Bloomer^ Hi, Weston Bloomer, FBR; I support [Randy's] team. As you guys continue to grow, what level of capital would you need to support, say like $1 billion in net earned premiums? Can you disclose that number at all, your net premiums written?

Bradley Shuster^ Glenn.

Glenn Farrell^ I'm sorry, could you repeat the question? I did not hear it.

Weston Bloomer^ Yes. As you continue to grow, how much capital would you need to support I guess insurance written? Have you disclosed that number?

Glenn Farrell^ No. I don't think we go that far to disclose the actual capital required. I think the growth curve, the persistency, a lot of different factors come into play there. So it's not so binary as to knowing exactly where we are vis-a-vis capital.

Rob Smith^ But you can do the math pretty easily. So we disclose our asset charge, you saw our current asset charge is about 6.14%, about. You figure on new business, it's about 6.5% on our new business. We have about 25% coverage. So you can kind of figure out for each billion of insurance in force, if I get my phone out I could do it, but we don't expect our mix is going to change much in the foreseeable future. So we're probably adding new insurance in force at about a 6.5% asset charge rate. So if you kind of did billion of insurance in force, it's about $250 million of risk and multiply that number by 6.5%, it's about the need there.

John Swenson^ And Rob, so it's John jumping in. When reinsurance is applied, right, it's 75% of that level in terms of --

Rob Smith^ Right. Yes. So through the end of next year, 25% of our business is, at least for now, is reinsured. So what we need to come up with is 75% of that and the other 25% we cede off to their insurers.

Bradley Shuster^ Well, a lot of great questions. Hopefully you've gotten a lot out of this today. We really appreciate you joining us.

Just to reiterate; this team's focused on delivering returns to our shareholders. We're at a great inflection point in terms of our overall development as a company. I think we have a really bright future ahead and we really appreciate the interest in the Company and your turning out today, and we look forward to an ongoing dialogue with you as we continue to build the Company. Thank you very much for coming.