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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2018**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________

Commission file number **001-36174**

NMI Holdings, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**45-4914248**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2100 Powell Street, Emeryville, CA	**94608**
(Address of principal executive offices)	**(Zip Code)**

(855) 530-6642
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Emerging growth company x

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

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

YES o NO x

The number of shares of common stock, $0.01 par value per share, of the registrant outstanding on October 26, 2018 was 66,302,317 shares.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believe," "can," "could," "may," "predict," "potential," "should," "will," "estimate," "plan," "project," "continuing," "ongoing," "expect," "intend" or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. All forward looking statements are necessarily only estimates of future results, and actual results may differ materially from expectations. You are, therefore, cautioned not to place undue reliance on such statements which should be read in conjunction with the other cautionary statements that are included elsewhere in this report. Further, any forward looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. We have based these forward looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy and financial needs. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward looking statements including, but not limited to:

- changes in the business practices of Fannie Mae and Freddie Mac (collectively, the GSEs), including decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement;
- our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements (PMIERs) and other requirements imposed by the GSEs, which they may change at any time;
- retention of our existing certificates of authority in each state and the District of Columbia (D.C.) and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- our future profitability, liquidity and capital resources;
- actions of existing competitors, including public mortgage insurers such as the Federal Housing Administration (FHA) and the Veterans Administration (VA), and potential market entry by new competitors or consolidation of existing competitors;
- developments in the world's financial and capital markets and our access to such markets, including reinsurance;
- adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators;
- changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance in particular;
- potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries;
- changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance;
- our ability to successfully execute and implement our capital plans, including our ability to access the capital, credit and reinsurance markets and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators;
- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;
- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
- potential adverse impacts arising from recent natural disasters, including, with respect to the affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;

- the inability of our counter-parties, including third party reinsurers, to meet their obligations to us;
- our ability to utilize our net operating loss carryforwards, which could be limited or eliminated in various ways, including if we experience an ownership change as defined in Section 382 of the Internal Revenue Code;
- failure to maintain, improve and continue to develop necessary information technology (IT) systems or the failure of technology providers to perform; and
- ability to recruit, train and retain key personnel.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the *Risk Factors* in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 10-K) and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (First Quarter 10-Q), as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

Unless expressly indicated or the context requires otherwise, the terms "we," "our," "us" and the "Company" in this document refer to NMI Holdings, Inc., a Delaware corporation, and its wholly owned subsidiaries on a consolidated basis.

PART I

Item 1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017
Assets	*(In Thousands, except for share data)*	
Fixed maturities, available-for-sale, at fair value (amortized cost of $889,794 and $713,859 as of September 30, 2018 and December 31, 2017, respectively)	$ 874,435	$ 715,875
Cash and cash equivalents (including restricted cash of $1,406 and $0 as of September 30, 2018 and December 31, 2017, respectively)	18,187	19,196
Premiums receivable	34,675	25,179
Accrued investment income	5,881	4,212
Prepaid expenses	3,131	2,151
Deferred policy acquisition costs, net	44,437	37,925
Software and equipment, net	22,887	22,802
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	33,058	40,250
Deferred tax asset, net	6,880	19,929
Other assets	5,276	3,695
Total assets	$ 1,052,481	$ 894,848
Liabilities		
Term loan	$ 147,009	$ 143,882
Unearned premiums	162,893	163,166
Accounts payable and accrued expenses	27,134	23,364
Reserve for insurance claims and claim expenses	10,908	8,761
Reinsurance funds withheld	28,953	34,102
Deferred ceding commission	4,161	5,024
Warrant liability, at fair value	10,930	7,472
Total liabilities	391,988	385,771
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, $0.01 par value; 66,285,847 and 60,517,512 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively (250,000,000 shares authorized)	663	605
Additional paid-in capital	678,165	585,488
Accumulated other comprehensive loss, net of tax	(16,303)	(2,859)
Accumulated deficit	(2,032)	(74,157)
Total shareholders' equity	660,493	509,077
Total liabilities and shareholders' equity	$ 1,052,481	$ 894,848

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenues	*(In Thousands, except for per share data)*			
Net premiums earned	$ 65,407	$ 44,519	$ 181,936	$ 115,661
Net investment income	6,277	4,170	16,586	11,885
Net realized investment (losses) gains	(8)	69	51	198
Other revenues	85	195	193	461
Total revenues	71,761	48,953	198,766	128,205
Expenses				
Insurance claims and claim expenses	1,099	957	3,311	2,965
Underwriting and operating expenses	30,379	24,645	87,852	78,682
Total expenses	31,478	25,602	91,163	81,647
Other expense				
Loss from change in fair value of warrant liability	(5,464)	(502)	(4,935)	(679)
Interest expense	(2,972)	(3,352)	(11,951)	(10,146)
Total other expense	(8,436)	(3,854)	(16,886)	(10,825)
Income before income taxes	31,847	19,497	90,717	35,733
Income tax expense	7,036	7,185	18,310	11,917
Net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Earnings per share				
Basic	$ 0.38	$ 0.21	$ 1.12	$ 0.40
Diluted	$ 0.36	$ 0.20	$ 1.07	$ 0.38
Weighted average common shares outstanding				
Basic	65,948	59,884	64,584	59,680
Diluted	68,844	63,089	67,512	62,773
Net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) in accumulated other comprehensive income, net of tax (benefit) expense of ($337) and $366 for the three months ended September 30, 2018 and 2017, respectively, and ($3,676) and $2,439 for the nine months ended September 30, 2018 and 2017	(1,267)	768	(13,828)	4,786
Reclassification adjustment for realized losses (gains) included in net income, net of tax expense (benefit) of ($2) and $24 for the three months ended September 30, 2018 and 2017, respectively, and ($27) and $69 for the nine months ended September 30, 2018 and 2017	7	(45)	102	(129)
Other comprehensive (loss) income, net of tax	(1,260)	723	(13,726)	4,657
Comprehensive income	$ 23,551	$ 13,035	$ 58,681	$ 28,473

See accompanying notes to consolidated financial statements.

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

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
			(In Thousands)			
Balances, January 1, 2017	59,145	$ 591	$ 576,927	$ (5,287)	$ (96,722)	$ 475,509
Cumulative effect of change in accounting principle	—	—	—	—	515	515
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	638	7	(1,117)	—	—	(1,110)
Share-based compensation expense	—	—	2,271	—	—	2,271
Change in unrealized investment gains/losses, net of tax expense of $664	—	—	—	1,233	—	1,233
Net income	—	—	—	—	5,492	5,492
Balances, March 31, 2017	59,783	$ 598	$ 578,081	$ (4,054)	$ (90,715)	$ 483,910
Cumulative effect of change in accounting principle	—	—	388	—	—	388
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	75	—	82	—	—	82
Share-based compensation expense	—	—	1,948	—	—	1,948
Change in unrealized investment gains/losses, net of tax benefit of $1,454	—	—	—	2,700	—	2,700
Net income	—	—	—	—	6,012	6,012
Balances, June 30, 2017	59,858	$ 598	$ 580,499	$ (1,354)	$ (84,703)	$ 495,040
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	70	1	234	—	—	235
Share-based compensation expense	—	—	2,714	—	—	2,714
Change in unrealized investment gains/losses, net of tax benefit of $390	—	—	—	724	—	724
Net income	—	—	—	—	12,312	12,312
Balances, September 30, 2017	59,928	$ 599	$ 583,447	$ (630)	$ (72,391)	$ 511,025

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

	Common Stock - Class A										
	Shares		**Amount**		**Additional Paid-in Capital**		**Accumulated Other Comprehensive Income (Loss)**		**Accumulated Deficit**		**Total**
	(In Thousands)										
Balances, January 1, 2018	60,518	$	605	$	585,488	$	(2,859)	$	(74,157)	$	509,077
Cumulative effect of change in accounting principle	—		—		—		282		(282)		—
Common stock: class A shares issued related to public offering	4,255		43		79,122		—		—		79,165
Common stock: class A shares issued related to warrants	26		*		489		—		—		489
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	770		8		(999)		—		—		(991)
Share-based compensation expense	—		—		2,805		—		—		2,805
Change in unrealized investment gains/losses, net of tax benefit of $423	—		—		—		(10,956)		—		(10,956)
Net income	—		—		—		—		22,355		22,355
Balances, March 31, 2018	65,569	$	656	$	666,905	$	(13,533)	$	(52,084)	$	601,944
Common stock: class A shares issued related to warrants	3		*		63		—		—		63
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	182		2		885		—		—		887
Share-based compensation expense	—		—		3,017		—		—		3,017
Change in unrealized investment gains/losses, net of tax benefit of $2,891	—		—		—		(1,510)		—		(1,510)
Net income	—		—		—		—		25,241		25,241
Balances, June 30, 2018	65,754	$	658	$	670,870	$	(15,043)	$	(26,843)	$	629,642
Common stock: class A shares issued related to warrants	57		1		1,244		—		—		1,245
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	475		4		3,092		—		—		3,096
Share-based compensation expense	—		—		2,959		—		—		2,959
Change in unrealized investment gains/losses, net of tax benefit of $335	—		—		—		(1,260)		—		(1,260)
Net income	—		—		—		—		24,811		24,811
Balances, September 30, 2018	66,286	$	663	$	678,165	$	(16,303)	$	(2,032)	$	660,493

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

See accompanying notes to consolidated financial statements.

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

	For the nine months ended September 30,	
	2018	2017
Cash flows from operating activities	(In Thousands)	
Net income	$ 72,407	$ 23,816
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment gains	(51)	(198)
Loss from change in fair value of warrant liability	4,935	679
Depreciation and amortization	5,825	4,871
Net amortization of premium on investment securities	1,176	1,200
Amortization of debt discount and debt issuance costs	3,141	1,112
Share-based compensation expense	8,781	6,933
Deferred income taxes	16,698	11,340
Changes in operating assets and liabilities:		
Premiums receivable	(9,496)	(7,328)
Accrued investment income	(1,669)	(1,177)
Prepaid expenses	(980)	(660)
Deferred policy acquisition costs, net	(6,512)	(5,992)
Other assets [1]	927	(273)
Unearned premiums	(273)	8,439
Reserve for insurance claims and claim expenses	2,147	3,122
Reinsurance balances, net [1]	565	(259)
Accounts payable and accrued expenses	1,728	(3,847)
Net cash provided by operating activities	99,349	41,778
Cash flows from investing activities		
Purchase of short-term investments	(168,751)	(111,551)
Purchase of fixed-maturity investments, available-for-sale	(310,286)	(166,640)
Proceeds from maturity of short-term investments	148,997	142,722
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	154,438	75,785
Additions to software and equipment	(5,326)	(6,869)
Net cash used in investing activities	(180,928)	(66,553)
Cash flows from financing activities		
Proceeds from issuance of common stock related to public offering, net of issuance costs	79,165	—
Proceeds from issuance of common stock related to employee equity plans	12,557	3,105
Proceeds from issuance of common stock related to warrants	320	—
Taxes paid related to net share settlement of equity awards	(10,113)	(3,883)
Proceeds from senior note, net	149,250	—
Repayments of term loan	(147,000)	(1,125)
Payments of debt issuance/modification costs	(3,609)	(370)
Net cash provided by (used in) financing activities	80,570	(2,273)
Net decrease in cash, cash equivalents and restricted cash	(1,009)	(27,048)
Cash, cash equivalents and restricted cash, beginning of period	19,196	47,746
Cash, cash equivalents and restricted cash, end of period	$ 18,187	$ 20,698
Supplemental disclosures of cash flow information		
Interest paid	$ 9,233	$ 10,350
Income tax paid	687	802

[1] Ceded losses recoverable on the QSR Transactions were reclassified from "Other Assets" in prior periods to "Reinsurance balance, net".

See accompanying notes to consolidated financial statements.

1. Organization, Basis of Presentation and Summary of Accounting Principles

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011, to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One).

In April 2012, we completed a private placement of our securities, through which we offered and sold an aggregate of 55 million of our Class A common stock resulting in net proceeds of approximately $510 million (the Private Placement), and we completed the acquisition of our insurance subsidiaries for $8.5 million in cash, common stock and warrants, plus the assumption of $1.3 million in liabilities. In November 2013, we completed an initial public offering of 2.4 million shares of our common stock, and our common stock began trading on the NASDAQ exchange on November 8, 2013, under the symbol "NMIH." In March 2018, we completed the sale of an additional 4.3 million shares of common stock including a 15% option to purchase additional shares, which was exercised in full.

In April 2013, NMIC, our primary insurance subsidiary, issued its first mortgage insurance policy. NMIC is licensed to write mortgage insurance in all 50 states and D.C. In August 2015, NMIH capitalized a wholly owned subsidiary, NMI Services, Inc. (NMIS), through which we offer outsourced loan review services to mortgage loan originators.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the results of NMIH and its wholly owned subsidiaries, have been prepared in accordance with the instructions to Form 10-Q as prescribed by the SEC for interim reporting and include other information and disclosures required by accounting principles generally accepted in the U.S. (GAAP). Our accounts are maintained in U.S. dollars. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2017, included in our 2017 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. Certain reclassifications to our previously reported financial information have been made to conform to current period presentation. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2018.

Significant Accounting Principles

There have been no changes to our significant accounting principles as described in Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 2 - Summary of Accounting Principles*" of our 2017 Form 10-K, other than as noted in "*Reinsurance*", "*Variable interest entity"* and "*Recent Accounting Pronouncements - Adopted"* below.

Reinsurance

We account for premiums, claims and claim expenses that are ceded to reinsurers on a basis consistent with those we use to account for the original policies we issue and pursuant to the terms of our reinsurance contracts. We account for premiums ceded or otherwise paid to reinsurers as reductions to premium revenue.

Effective January 1, 2018, NMIC entered into a second quota share reinsurance transaction (2018 QSR Transaction) which is similar in nature to the quota share reinsurance transaction we entered into in September 2016 (2016 QSR Transaction, together with 2018 QSR Transaction, the QSR Transactions) (see Note 5, "*Reinsurance*"). We earn profit and ceding commissions in connection with the QSR Transactions. Profit commissions represent a percentage of the profits recognized by reinsurers that are returned to us, based on the level of claims and claim expenses that we cede. We recognize any profit commissions we earn as increases to premium revenue. Ceding commissions are calculated as a percentage of ceded written premiums under the 2016 QSR Transaction and as a percentage of ceded earned premiums under the 2018 QSR Transaction, to cover our costs to acquire and service the direct policies. We earn the ceding commissions in a manner consistent with our recognition of earnings on the underlying insurance policies, over the terms of the policies reinsured. We account for ceding commissions earned as a reduction to underwriting and operating expenses.

Under the QSR Transactions, we cede a portion of claims and claim expenses reserves to our reinsurers, which are accounted for as reinsurance recoverables in "Other Assets" on the consolidated balance sheets and as reductions to claim expense on the consolidated statements of operations. We remain directly liable for all loss payments in the event we are unable to collect from any reinsurer.

Variable interest entity

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

We concluded that we are not the primary beneficiary of either Oaktown Re or Oaktown Re II because NMIC does not have significant economic exposure to either Oaktown Re or Oaktown Re II, and, as such, we do not consolidate the VIEs in our consolidated financial statements.

Recent Accounting Pronouncements - Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In December 2016, the FASB clarified that all contracts that are within the scope of Topic 944, *Financial Services-Insurance*, are excluded from the scope of ASU 2014-09. Accordingly, this update did not impact the recognition of revenue related to insurance premiums or investment income, which represent a majority of our total revenues. The update impacted our loan review services revenue, which is the only revenue stream in scope of the update. We adopted this update on January 1, 2018 using the modified-retrospective approach and the impact was immaterial to our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (Subtopic 825-10). This update requires entities to reduce the carrying amount of deferred tax assets, if necessary, by the amount of any tax benefit that is not expected to be realized. We adopted this update effective January 1, 2018. The impact was immaterial to our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of* C*ertain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This update permits a company to reclassify the disproportionate income tax effects as a result of the 2017 Tax Cuts and Jobs Act (the TCJA) on items within accumulated other comprehensive income (AOCI) to retained earnings. This standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We adopted this update on January 1, 2018 and adjusted the disproportionate income tax effects, or "stranded tax effects," resulting in a $0.3 million reduction to our beginning retained earnings as of January 1, 2018.

Recent Accounting Pronouncements - Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This update requires that businesses recognize rights and obligations associated with certain leases as assets and liabilities on the balance sheet. The standard also requires additional disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. For public business entities, this update is effective for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted in any period. We expect to adopt this guidance on January 1, 2019. In September 2017, ASU 2017-13 added guidance from a SEC Staff Announcement, "Transition Related to Accounting Standards Update No. 2016-02," and in July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842), *Targeted Improvement*, which provides companies the option to apply the provisions of the new lease standard prospectively as of the effective date, without adjusting comparative periods presented. The effect of adoption will depend on our current lease portfolio at time of adoption; however, upon adoption, we anticipate that our reported assets and liabilities will increase in connection with the recognition of any right-of-use assets and lease liabilities, such as the operating lease on our corporate headquarters.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326). This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The standard also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently reviewing the impacts the adoption of this guidance will have, if any, on our accounting for credit losses on our investment portfolio. We do not expect it to impact our accounting for insurance claims and claims expenses as these items are not in the scope of this ASU.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share* (Topic 260), *Distinguishing Liabilities from Equity* (Topic 480), and *Derivatives and Hedging* (Topic 815). This update is intended to simplify the accounting for certain equity-linked financial instruments. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance must be applied using a full or modified retrospective approach. We expect to adopt this ASU in the first quarter of 2019 and have determined that it will have no impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718).* This update expands the scope of Topic 718 to include share-based payments made to non-employees in connection with the acquisition of goods and services. The standard will take effect for public business entities for fiscal years, beginning after December 15, 2019, and interim periods within fiscal years, beginning after December 15, 2020. We expect to adopt this ASU in the first quarter of 2019 and have determined that it has no impact on our financial results at this time as we have not made any share-based grants to nonemployees as defined in ASC 718-10-20.

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

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820). This update requires companies to make disclosures about recurring and nonrecurring fair value measurements. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact the adoption of this ASU will have, if any, on our fair value of financial instruments disclosures.

In August 2018, the FASB issued ASU 2018 -15, *Intangibles - Goodwill and Other - Internal-Use Software* (Subtopic 350-40). This update applies to cloud computing arrangements hosted by a vendor and provides companies with guidance on the criteria for capitalizing implementation, set-up and other up-front costs incurred in association with these arrangements. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

2. Investments

We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized through comprehensive income and loss, and on an accumulated basis in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold.

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
As of September 30, 2018		*(In Thousands)*		
U.S. Treasury securities and obligations of U.S. government agencies	$ 48,292	$ —	$ (2,483)	$ 45,809
Municipal debt securities	93,945	20	(1,933)	92,032
Corporate debt securities	536,240	323	(10,217)	526,346
Asset-backed securities	169,061	113	(1,236)	167,938
Total bonds	847,538	456	(15,869)	832,125
Short-term investments	42,256	54	—	42,310
Total investments	$ 889,794	$ 510	$ (15,869)	$ 874,435

As of December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 65,669	$ —	$ (981)	$ 64,688
Municipal debt securities	89,973	534	(659)	89,848
Corporate debt securities	435,562	4,231	(1,958)	437,835
Asset-backed securities	100,153	916	(125)	100,944
Total bonds	691,357	5,681	(3,723)	693,315
Long-term investments - other	353	—	—	353
Short-term investments	22,149	58	—	22,207
Total investments	$ 713,859	$ 5,739	$ (3,723)	$ 715,875

As of September 30, 2018 and December 31, 2017, approximately $5.3 million and $7.0 million, respectively, of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements. See Note 5 *"Reinsurance"* for the information related to restricted cash.

Scheduled Maturities

The amortized cost and fair values of available-for-sale securities as of September 30, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed securities provide for periodic payments throughout their lives, they are listed below in a separate category.

As of September 30, 2018	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 63,314	$ 63,368
Due after one through five years	335,262	330,603
Due after five through ten years	318,357	308,759
Due after ten years	3,800	3,767
Asset-backed securities	169,061	167,938
Total investments	$ 889,794	$ 874,435

As of December 31, 2017	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 97,406	$ 97,394
Due after one through five years	195,795	195,626
Due after five through ten years	305,798	306,930
Due after ten years	14,707	14,981
Asset-backed securities	100,153	100,944
Total investments	$ 713,859	$ 715,875

Aging of Unrealized Losses

As of September 30, 2018, the investment portfolio had gross unrealized losses of $15.9 million, $7.8 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of September 30, 2018. We based our conclusion that these investments were not other-than-temporarily impaired as of September 30, 2018 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
As of September 30, 2018	*(Dollars in Thousands)*								
U.S. Treasury securities and obligations of U.S. government agencies	5	$ 5,033	$ (60)	18	$ 40,776	$ (2,423)	23	$ 45,809	$ (2,483)
Municipal debt securities	26	53,431	(885)	18	30,580	(1,048)	44	84,011	(1,933)
Corporate debt securities	180	343,602	(6,123)	43	76,589	(4,094)	223	420,191	(10,217)
Asset-backed securities	51	111,382	(976)	6	10,563	(260)	57	121,945	(1,236)
Total	262	$ 513,448	$ (8,044)	85	$ 158,508	$ (7,825)	347	$ 671,956	$ (15,869)

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
As of December 31, 2017	*(Dollars in Thousands)*								
U.S. Treasury securities and obligations of U.S. government agencies	16	$ 29,806	$ (394)	26	$ 34,882	$ (587)	42	$ 64,688	$ (981)
Municipal debt securities	21	38,628	(264)	10	17,945	(395)	31	56,573	(659)
Corporate debt securities	94	128,313	(829)	23	48,978	(1,129)	117	177,291	(1,958)
Asset-backed securities	22	27,947	(63)	5	12,438	(62)	27	40,385	(125)
Total	153	$ 224,694	$ (1,550)	64	$ 114,243	$ (2,173)	217	$ 338,937	$ (3,723)

The following table presents the components of net investment income:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Investment income	$ 6,473	$ 4,363	$ 17,192	$ 12,455
Investment expenses	(196)	(193)	(606)	(570)
Net investment income	$ 6,277	$ 4,170	$ 16,586	$ 11,885

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Gross realized investment gains	$ 461	$ 69	$ 520	$ 536
Gross realized investment losses	(469)	—	(469)	(338)
Net realized investment gains (losses)	$ (8)	$ 69	$ 51	$ 198

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

At September 30, 2018, we held no other-than-temporarily impaired securities. During the three and nine months ended September 30, 2018 and the three months ended September 30, 2017, we did not recognize any OTTI losses. During the nine months ended September 30, 2017, we recognized $0.1 million of OTTI losses in earnings.

3. Fair Value of Financial Instruments

The following describes the valuation techniques used by us to determine the fair value of our financial instruments:

We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this standard are described below:

Level 1 - Fair value measurements based on quoted prices in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.

Level 2 - Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions, which require significant management judgment or estimation about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets classified as Level 1 and Level 2

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources.

Liabilities classified as Level 3

We calculate the fair value of outstanding warrants utilizing Level 3 inputs, including a Black-Scholes option-pricing model, in combination with a binomial model, and we value the pricing protection features within the warrants using a Monte-Carlo simulation model. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of our stock price.

The following tables present the level within the fair value hierarchy at which our financial instruments were measured:

As of September 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 45,809	$ —	$ —	$ 45,809
Municipal debt securities	—	92,032	—	92,032
Corporate debt securities	—	526,346	—	526,346
Asset-backed securities	—	167,938	—	167,938
Long-term investment – other	—	—		—
Cash, cash equivalents and short-term investments	60,497			60,497
Total assets	$ 106,306	$ 786,316	$ —	$ 892,622
Warrant liability	—	—	10,930	10,930
Total liabilities	$ —	$ —	$ 10,930	$ 10,930

As of December 31, 2017	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 59,844	$ 4,844	$ —	$ 64,688
Municipal debt securities	—	89,848	—	89,848
Corporate debt securities	—	437,835	—	437,835
Asset-backed securities	—	100,944	—	100,944
Long-term investment - other	353	—	—	353
Cash, cash equivalents and short-term investments	41,403	—	—	41,403
Total assets	$ 101,600	$ 633,471	$ —	$ 735,071
Warrant liability	—	—	7,472	7,472
Total liabilities	$ —	$ —	$ 7,472	$ 7,472

There were no transfers between Level 1 and Level 2, nor any transfers in or out of Level 3, of the fair value hierarchy during the nine months ended September 30, 2018 and the year ended December 31, 2017.

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

Warrant Liability	For the nine months ended September 30, 2018	2017
	(In Thousands)	
Balance, January 1	$ 7,472	$ 3,367
Change in fair value of warrant liability included in earnings	4,935	679
Issuance of common stock on warrant exercise	(1,477)	—
Balance, September 30	$ 10,930	$ 4,046

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

	As of September 30,	
	2018	2017
Common stock price	$ 22.65	$ 12.40
Risk free interest rate	2.86 - 2.90%	1.66%
Expected life	2.50 - 3.56 Years	3.25 years
Expected volatility	39.9 - 41.5%	30.6%
Dividend yield	0%	0%

The changes in fair value of the warrant liability for the nine months ended September 30, 2018 and 2017 are primarily attributable to changes in the price of our common stock during the respective periods, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants.

4. Debt Obligations

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

2018 Term Loan

The 2018 Term Loan bears interest at the Eurodollar Rate, as defined in the 2018 Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 4.75%, representing an all-in rate of 6.99% as of September 30, 2018, payable monthly based on our current interest period election. Quarterly principal payments of $375 thousand are also required. The 2018 Term Loan has a prepayment premium of 1% for any refinancing prepayments made on or prior to the date that is six months after the date of the 2018 Credit Agreement, after which there is no prepayment penalty.

Interest expense for nine months ended September 30, 2018 includes amounts related to our interest payment, one-time financing costs and the amortization of issuance costs and original issue discounts. For the nine months ended September 30, 2018, we recorded $11.6 million of interest expense, including $2.2 million of costs related to the extinguishment of the 2015 Term Loan and issuance of the 2018 Term Loan. Capitalized debt issuance costs totaling $1.8 million and original issue discounts totaling $986 thousand are being amortized to interest expense using the effective interest method over the contractual life of the 2018 Term Loan. As of September 30, 2018, the remaining unamortized issuance cost and original issue discounts totaled $2.6 million, and the outstanding principal balance of the 2018 Term Loan was $149.6 million.

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

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

As of September 30, 2018	**Principal**
	(In thousands)
2018	$ 375
2019	1,500
2020	1,500
2021	1,500
2022	1,500
2023	143,250
Total	$ 149,625

2018 Revolving Credit Facility

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

We are required to pay a quarterly commitment fee on the average daily undrawn amount of the 2018 Revolving Credit Facility, which ranges from 0.30% to 0.60%, based on the applicable corporate credit rating at the time. As of September 30, 2018, the applicable commitment fee was 0.50%. For the three and nine months ended September 30, 2018, we recorded $0.1 million and $0.2 million of commitment fees in interest expense, respectively.

We incurred issuance costs of $1.5 million in connection with the establishment of the 2018 Revolving Credit Facility, which were deferred and recorded within Other Assets. These costs will be amortized through interest expense over the three-year life of the 2018 Revolving Credit Facility on a straight line basis. For the three and nine months ended September 30, 2018, we recognized $0.1 million and $0.2 million of interest expense from the amortization of deferred issuance costs. At September 30, 2018, the remaining issuance costs were $1.3 million, net of accumulated amortization.

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

5. Reinsurance

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

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In Thousands)			
Net premiums written				
Direct	$ 73,748	$ 56,217	$ 210,452	$ 142,134
Ceded [(1)]	(8,367)	(8,501)	(21,598)	(20,029)
Net premiums written	$ 65,381	$ 47,716	$ 188,854	$ 122,105
Net premiums earned				
Direct	$ 76,513	$ 52,024	$ 210,725	$ 133,696
Ceded [(1)]	(11,106)	(7,505)	(28,789)	(18,035)
Net premiums earned	$ 65,407	$ 44,519	$ 181,936	$ 115,661

[(1)] Net of profit commission

Excess-of-loss reinsurance

2017 ILN Transaction

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re that provides for up to $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the reinsurance coverage period, NMIC retains the first layer of $126.8 million of aggregate losses, of which $125.6 million remained at September 30, 2018, and Oaktown Re then provides second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled and was $144.1 million as of September 30, 2018. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $211.3 million to unaffiliated investors (the 2017 Notes). The 2017 Notes mature on April 26, 2027. All of the proceeds paid to Oaktown Re from the sale of the 2017 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re and the issuance of the 2017 Notes by Oaktown Re as the 2017 ILN Transaction. Under the terms of the 2017 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re for anticipated operating expenses (capped at $300 thousand per year). For the three and nine months ended September 30, 2018, NMIC ceded risk premiums of $1.5 million and $4.8 million, respectively. For the three and nine months ended September 30, 2017, NMIC ceded risk premiums of $1.9 million and $3.3 million, respectively. NMIC did not cede any losses to Oaktown Re during the three and nine month periods ended September 30, 2017 and 2018.

Under the reinsurance agreement, NMIC holds an optional termination right if certain events occur, including, among others, a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under the agreement. In addition, there are certain events that will result in mandatory termination of the agreement, including NMIC's failure to pay premiums or consent to reductions in the trust account to make principal payments to noteholders, among others.

2018 ILN Transaction

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

Oaktown Re II financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $264.5 million to unaffiliated investors (the 2018 Notes). The 2018 Notes mature on July 25, 2028. All of the proceeds paid to Oaktown Re II from the sale of the 2018 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re II to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re II and the issuance of the 2018 Notes by Oaktown Re II as the 2018 ILN Transaction, and the 2017 ILN Transaction and 2018 ILN Transaction as the ILN Transactions. Under the terms of the 2018 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re II for anticipated operating expenses (capped at $250 thousand per year). For the three and nine months ended September 30, 2018, NMIC ceded risk premiums of $1.6 million. NMIC did not cede any losses to Oaktown Re II.

Under the reinsurance agreement, NMIC holds an optional termination right if certain events occur, including, among others, a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under the agreement. In addition, there are certain events that will result in mandatory termination of the agreement, including NMIC's failure to pay premiums or consent to reductions in the trust account to make principal payments to noteholders, among others.

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

Quota share reinsurance

2016 QSR Transaction

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

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

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

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

2018 QSR Transaction

Effective January 1, 2018, NMIC entered into the 2018 QSR Transaction with a panel of third-party reinsurers. Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both. Under the 2018 QSR

Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written in 2018 and 20% to 30% (such amount to be determined by NMIC at its sole election by December 1, 2018) in 2019.

The 2018 QSR Transaction is scheduled to terminate on December 31, 2029. However, NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2022, or at the end of any calendar quarter thereafter, which would result in NMIC reassuming the related risk.

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In Thousands)			
Ceded risk-in-force	3,960,461	2,682,982	3,960,461	2,682,982
Ceded premiums written	(16,546)	(14,389)	(46,389)	(36,715)
Ceded premiums earned	(19,286)	(13,393)	(53,581)	(34,721)
Ceded claims and claims expenses	337	277	1,053	887
Ceding commission written	3,320	2,878	9,289	7,343
Ceding commission earned	3,814	2,581	10,501	6,921
Profit commission	11,272	7,758	31,180	19,945

Ceded premiums written under the 2016 QSR Transaction are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of revenue on direct premiums. Under the 2018 QSR Transaction, premiums are ceded on an earned basis as defined in the agreement. NMIC receives a 20% ceding commission for premiums ceded under the QSR Transactions. NMIC also receives a profit commission, provided that the loss ratio on the loans covered under the 2016 QSR Transaction and 2018 QSR Transaction generally remains below 60% and 61%, respectively, as measured annually. Ceded claims and claim expenses under the QSR Transactions reduce NMIC's profit commission on a dollar-for-dollar basis.

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was $2.5 million as of September 30, 2018.

In accordance with the terms of the 2018 QSR Transaction, cash payments for ceded premiums earned are settled on a quarterly basis, offset by amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC are also settled quarterly. NMIC's reinsurance recoverable balance is supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2018 QSR Transaction was $64 thousand as of September 30, 2018.

6. Reserves for Insurance Claims and Claim Expenses

We establish reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Consistent with industry practice, we establish reserves for loans that have been reported to us by servicers as having been in default for at least 60 days, referred to as case reserves, and additional loans that we estimate (based on actuarial review) have been in default for at least 60 days that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish claims expense reserves, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claims settlement process. As of September 30, 2018, we had reserves for insurance claims and claims expenses of $10.9 million for 746 primary loans in default. During the first nine months of 2018, we paid 59 claims totaling $2.2 million, including 42 claims covered under the QSR Transactions representing $438 thousand of ceded claims and claims expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At September 30, 2018, 53 loans in the pool were past due by 60 days or more. These 53 loans represent approximately $3.2 million of risk-in-force (RIF). Due to the size of the remaining deductible, the low level of notices of default (NODs) reported on loans in the pool through September 30, 2018 and the expected severity (all loans in the pool have loan-to-value ratios (LTV) ratios under 80%), we did not have any case or IBNR reserves for pool risks at September 30, 2018. In connection with the settlement of pool claims, we applied $0.6 million to the pool deductible through September 30, 2018. At September 30, 2018, the remaining pool deductible was $9.8 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

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

	For the nine months ended September 30,	
	2018	2017
	(In Thousands)	
Beginning balance	$ 8,761	$ 3,001
Less reinsurance recoverables [1]	(1,902)	(297)
Beginning balance, net of reinsurance recoverables	6,859	2,704
Add claims incurred:		
Claims and claim expenses incurred:		
Current year [2]	5,090	3,546
Prior years [3]	(1,779)	(581)
Total claims and claims expenses incurred	3,311	2,965
Less claims paid:		
Claims and claim expenses paid:		
Current year [2]	37	—
Prior years [3]	1,742	720
Total claims and claim expenses paid	1,779	720
Reserve at end of period, net of reinsurance recoverables	8,391	4,949
Add reinsurance recoverables [1]	2,517	1,174
Ending balance	$ 10,908	$ 6,123

(1) Related to ceded losses recoverable on the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, *"Reinsurance"* for additional information.

(2) Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year.

(3) Related to insured loans with defaults occurring in prior years, which have been continuously in default since that time.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred relating to current year NODs represents the estimated amount of claims and claims expenses to be ultimately paid on such loans in default. We recognized $1.8 million and $0.6 million of favorable prior year development during the nine months ended September 30, 2018 and 2017, respectively, due to NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Gross reserves of $3.7 million related to prior year defaults remained as of September 30, 2018.

7. Earnings per Share (EPS)

Basic earnings per share is based on the weighted average number of shares of common stock outstanding, while diluted earnings per share is based on the weighted average number of shares of common stock outstanding and common stock equivalents that would be issuable upon the vesting of service based RSUs, and exercise of vested and unvested stock options and outstanding warrants. The following table reconciles the net income and the weighted average shares of common stock outstanding used in the computations of basic and diluted earnings per share of common stock:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands, except for per share data)			
Net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Basic weighted average shares outstanding	65,948	59,884	64,584	59,680
Basic earnings per share	$ 0.38	$ 0.21	$ 1.12	$ 0.40
Net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Warrant gain, net of tax	—	—	—	—
Diluted net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Basic weighted average shares outstanding	65,948	59,884	64,584	59,680
Dilutive effect of issuable shares	2,896	3,205	2,928	3,093
Diluted weighted average shares outstanding	68,844	63,089	67,512	62,773
Diluted earnings per share	$ 0.36	$ 0.20	$ 1.07	$ 0.38
Anti-dilutive shares	—	830	252	832

8. Warrants

We issued 992 thousand warrants in connection with the Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to $10.00. The warrants were issued with an aggregate fair value of $5.1 million.

During the nine months ended September 30, 2018, 142 thousand warrants were exercised resulting in 87 thousand common shares issued. No warrants were exercised during the nine months ended September 30, 2017. Upon exercise, we reclassified the fair value of the warrants from warrant liability to additional paid-in capital and recognized a loss of approximately $333 thousand.

We account for these warrants to purchase our common shares in accordance with ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-40, *Derivatives and Hedging - Contracts in Entity's Own Equity.*

9. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21% for the current and all future years following the enactment of the TCJA on December 22, 2017. We were subject to a statutory U.S. federal corporate income tax rate of 35% for all prior years through December 31, 2017. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rates for a given year. Our effective tax rate on our pre-tax income was 22.1% and 20.2% for the three and nine months ended September 30, 2018, respectively, compared to 36.9% and 33.3% for the three and nine months ended September 30, 2017, respectively. The decrease in the effective tax rates for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 is attributable to the decrease in the statutory U.S. federal corporate income tax rate. We currently pay no federal income tax primarily due to the forecasted utilization of our federal net operating loss carryforwards, which were $93.9 million as of December 31, 2017. As a result, the interim provision for income taxes represents changes to deferred tax assets.

Provisional amounts

The TCJA reduced the statutory U.S. federal corporate income tax rate from 35% to 21% and changed the tax deductibility of certain expenses for tax years beginning after December 31, 2017. We have not completed our full assessment of the tax effects of the enactment of the TCJA on our deferred tax balances as of September 30, 2018 and December 31, 2017; however, in certain cases, as described below, we have made reasonable estimates of the effects on our deferred tax balances. We recognized a $13.6 million income tax expense in the year ended December 31, 2017 for the items we could reasonably estimate. We are still analyzing the TCJA and refining our calculations, which could impact the measurement of our existing deferred tax assets including those related to share-based compensation. For tax years beginning after December 31, 2017, the TCJA expanded the number of individuals whose compensation is subject to a $1 million cap on tax deductibility and includes performance-based compensation in the calculation. As a result, we recorded a provisional amount to reduce the future tax benefit related to share-based compensation. We will continue to make and refine our calculations as additional analysis is completed. In addition, our estimates may also be affected as we incorporate additional guidance that may be issued by the U.S. Treasury Department, the IRS, or other standard-setting bodies.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of* C*ertain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This update permits a company to reclassify the disproportionate income tax effects as a result of the TCJA on items within AOCI to retained earnings. We adopted this update on January 1, 2018 and adjusted the disproportionate income tax effects, or "stranded tax effects," resulting in a $0.3 million reduction to our beginning retained earnings as of January 1, 2018. The disproportionate tax effects that remain in AOCI of $4.2 million were not related to the TCJA and will remain in AOCI until certain events occur. Our elected accounting policy for available-for-sale debt securities is the "aggregate portfolio" approach.

10. Common Stock Offerings

In March 2018, we completed the sale of 3.7 million shares of common stock and granted the underwriters on the transaction a 15% overallotment option to purchase additional shares. The overallotment option was exercised in full, resulting in a total of 4.3 million shares of common stock issued. The common stock offering generated total proceeds of approximately $79.2 million, net of underwriting discounts, commissions and other direct offering expenses.

11. Regulatory Information

Our insurance subsidiaries, NMIC and Re One, file financial statements in conformity with statutory accounting principles (SAP) prescribed or permitted by the Wisconsin OCI, NMIC's principal regulator. Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners. The Wisconsin OCI recognizes only statutory accounting practices prescribed or permitted by the state of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Wisconsin insurance laws.

NMIC and Re One's combined statutory net income (loss) was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Statutory net (loss)	$ (17,274)	$ (7,688)	$ (22,022)	$ (29,394)

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

	September 30, 2018	December 31, 2017
	(Dollars In Thousands)	
Statutory surplus	$ 440,697	$ 371,084
Contingency reserve	292,030	186,641
RTC Ratio	13.3:1	13.2:1

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware corporate law provides that dividends are only payable out of a corporation's surplus or, subject to certain limitations, recent net profits. NMIC and Re One's ability to pay dividends to NMIH is subject to Wisconsin OCI notice or approval. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends. Since inception, NMIC and Re One have not paid any dividends to NMIH.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2017 10-K, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Cautionary Note Regarding Forward-Looking Statements" above and the "Risk Factors" detailed in Part I, Item 1A of our 2017 10-K and Part II, Item 1A of our First Quarter 10-Q, as subsequently updated in other reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.

Overview

We provide private MI through our wholly owned insurance subsidiaries NMIC and Re One. NMIC and Re One are domiciled in Wisconsin and principally regulated by the Wisconsin OCI. NMIC is our primary insurance subsidiary, and is approved as an MI provider by the GSEs and is licensed to write coverage in all 50 states and D.C. Re One provides statutorily required reinsurance to NMIC on insured loans with coverage levels in excess of 25% after giving effect to third-party reinsurance. Our subsidiary, NMIS, provides outsourced loan review services to mortgage loan originators.

MI protects lenders and investors from default-related losses on a portion of the unpaid principal balance of a covered mortgage. MI plays a critical role in the U.S. housing market by mitigating mortgage credit risk and facilitating the secondary market sale of high-LTV (*i.e.*, above 80%) residential loans to the GSEs, who are otherwise restricted by their charters from purchasing or guaranteeing high-LTV mortgages that are not covered by certain credit protections. Such credit protection and secondary market sales allow lenders to increase their capacity for mortgage commitments and expand financing access to existing and prospective homeowners.

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of September 30, 2018, we had master policy relationships with 1,340 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders and other non bank lenders. As of September 30, 2018, we had $66.5 billion of total insurance-in-force (IIF), including primary IIF of $63.5 billion, and $15.8 billion of gross RIF, including primary RIF of $15.7 billion.

We believe that our success in acquiring a large and diverse group of lender customers and growing a portfolio of high-quality IIF traces to our founding principles, whereby we aim to help qualified individuals achieve the dream of homeownership, ensure that we remain a strong and credible counter-party, deliver a unique customer service experience, establish a differentiated risk management approach that emphasizes the individual underwriting review or validation of the vast majority of the loans we insure, and foster a culture of collaboration and excellence that helps us attract and retain experienced industry leaders. As of September 30, 2018, we had 300 full-time employees.

Our strategy is to continue to build on our position in the private MI market, expand our customer base and grow our insured portfolio of high-quality residential loans by focusing on long-term customer relationships, disciplined and proactive risk selection and pricing, fair and transparent claims payment practices, responsive customer service, financial strength and profitability.

Our common stock trades on the NASDAQ under the symbol "NMIH."

We discuss below our results of operations for the periods presented, as well as the conditions and trends that have impacted or are expected to impact our business, including new insurance writings, the composition of our insurance portfolio and other factors that we expect to impact our results. Our headquarters are located in Emeryville, California and our website is *www.nationalmi.com*. Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

New Insurance Written, Insurance In Force and Risk In Force

New insurance written (NIW) is the aggregate unpaid principal balance of mortgages underpinning new policies written during a given period. Our NIW is affected by the overall size of the mortgage origination market and the volume of high-LTV mortgage originations, which tend to be generated to a greater extent in purchase originations as compared to refinancings. Our NIW is also affected by the percentage of such high-LTV originations covered by private versus public MI or other alternative credit enhancement structures and our share of the private MI market. NIW, together with persistency, drives our IIF. IIF is the aggregate unpaid principal balance of the mortgages we insure, as reported to us by servicers at a given date, and represents the sum total of

NIW from all prior periods less principal payments on insured mortgages and policy cancellations (including for prepayment, nonpayment of premiums, coverage rescission and claim payments). RIF is related to IIF and represents the aggregate amount of coverage we provide on all outstanding policies at a given date. RIF is calculated as the sum total of the coverage percentage of each individual policy in our portfolio applied to the unpaid principal balance of such insured mortgage. RIF is affected by IIF and the LTV profile of our insured mortgages, with lower LTV loans generally having a lower coverage percentage and higher LTV loans having a higher coverage percentage. Gross RIF represents RIF before consideration of reinsurance. Net RIF is gross RIF net of ceded reinsurance.

Net Premiums Written and Net Premiums Earned

We set our premium rates on individual policies based on the risk characteristics of the underlying mortgage loans and borrowers, and in accordance with our filed rates and applicable rating rules. Effective June 4, 2018, we implemented our proprietary risk-based pricing platform, which we refer to as Rate GPS^{SM}. Rate GPS considers up to 30 individual risk variables to assist in our underwriting selection process and determine policy pricing on an individual loan basis. Rate GPS evaluates a broader and more granular spectrum of risk attributes than our previous rate card pricing system and, we believe, provides us with an increased ability to align our premium rates with the risks of each individual loan. Although we expect most new business to be priced through Rate GPS, we will continue to offer a rate card pricing option to a limited number of lender customers who require a rate card for operational reasons. We believe Rate GPS will enhance our ability to continue building a high-quality mortgage insurance portfolio, and allow us to achieve risk-adjusted returns in line with our pricing expectations.

Premiums are generally fixed over the estimated life of the underlying loans. Net premiums written are equal to gross premiums written minus ceded premiums written under our reinsurance arrangements and less premium refunds. As a result, net premiums written are generally influenced by:

- NIW;
- premium rates and the mix of premium payment type, which are either single, monthly or annual premiums, as described below;
- cancellation rates of our insurance policies, which are impacted by payments or prepayments on mortgages, refinancings (which are affected by prevailing mortgage interest rates as compared to interest rates on loans underpinning our in force policies), levels of claims payments and home prices;
- cession of premiums under third-party reinsurance arrangements.

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium). Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is initially recorded as unearned premium and earned over the estimated life of the policy. A majority of our single premium policies in force as of September 30, 2018 were non-refundable under most cancellation scenarios. If non-refundable single premium policies are canceled, we immediately recognize the remaining unearned premium balances as earned premium revenue. Monthly premiums are recognized in the month billed and when the coverage is effective. Annual premiums are earned on a straight-line basis over the year of coverage. Substantially all of our policies provide for either single or monthly premiums.

The percentage of IIF that remains on our books after any 12-month period is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher persistency rates can have a significant impact on our net premiums earned and profitability. Generally, faster speeds of mortgage prepayment lead to lower persistency. Prepayment speeds and the relative mix of business between single and monthly premium policies also impact our profitability. Our premium rates include certain assumptions regarding repayment or prepayment speeds of the mortgages underlying our policies. Because premiums are paid at origination on single premium policies and substantially all of our single premium policies are non-refundable on cancellation, assuming all other factors remain constant, if single premium loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than anticipated, we do not earn any more premium with respect to those loans and, unless we replace the repaid monthly premium loan with a new loan at the same or greater premium rate, our profitability is likely to decline.

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure PMIERs compliance and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERs asset positions. Under a quota share reinsurance agreement, the reinsurer receives a premium in exchange for covering an agreed-upon portion of incurred losses. Such a quota share arrangement reduces net premiums written and earned and also reduces net RIF, providing capital relief to the ceding insurance company and reducing incurred claims in accordance with the terms of the reinsurance agreement. In addition, reinsurers typically pay ceding commissions as part of quota share transactions, which offset the ceding company's acquisition and underwriting expenses. Certain quota share agreements include profit commissions that are earned based on loss performance and serve to reduce ceded premiums. Under an excess-of-loss agreement, the ceding insurer is typically responsible for losses up to an agreed-upon threshold and the reinsurer then provides coverage in excess of such threshold up to a maximum agreed-upon limit. In general, there are no ceding commissions under excess-of-loss reinsurance agreements. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

Quota share reinsurance

The 2018 QSR Transaction took effect on January 1, 2018. Under the terms of the 2018 QSR Transaction, NMIC has ceded or will cede 25% of its eligible policies written in 2018 and 20% to 30% (such amount to be determined by NMIC at its sole election by December 1, 2018) of eligible policies written in 2019, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a 20% ceding commission, and a profit commission of up to 61% that varies directly and inversely with ceded claims.

NMIC entered into the 2016 QSR Transaction in September 2016. Under the terms of the 2016 QSR Transaction, NMIC (1) ceded 100% of the risk relating to our pool agreement with Fannie Mae, (2) ceded 25% of existing risk written on eligible policies as of August 31, 2016 and (3) ceded 25% of the risk relating to eligible primary insurance policies written between September 1, 2016 and December 31, 2017, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a 20% ceding commission, and a profit commission of up to 60% that varies directly and inversely with ceded claims.

Excess-of-loss reinsurance

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

In May 2017, NMIC secured $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled and was $144.1 million as of September 30, 2018. For the reinsurance coverage period, NMIC retains the first layer of $126.8 million of aggregate losses, of which $125.6 million remained as of September 30, 2018, and Oaktown Re then provides second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

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

Portfolio Data

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

Primary and pool IIF and NIW	**As of and for the three months ended**				**For the nine months ended**	
	September 30, 2018		**September 30, 2017**		**September 30, 2018**	**September 30, 2017**
	IIF	**NIW**	**IIF**	**NIW**	**NIW**	
	(In Millions)					
Monthly	$ 46,967	$ 6,675	$ 28,707	$ 4,833	$ 17,827	$ 11,824
Single	16,560	686	14,552	1,282	2,507	2,887
Primary	63,527	7,361	43,259	6,115	20,334	14,711
Pool	2,974	—	3,330	$ —	—	—
Total	$ 66,501	$ 7,361	$ 46,589	$ 6,115	$ 20,334	$ 14,711

For the three and nine months ended September 30, 2018, NIW increased 20% and 38%, respectively, compared to the three and nine months ended September 30, 2017, primarily because of the growth in our monthly policy volume tied to increased penetration of existing customer accounts and new customer account activations, partially offset by a reduction in our single policy production. For the three and nine months ended September 30, 2018, monthly premium NIW increased 38% and 51%, respectively, compared to the same periods a year ago.

For the three months ended September 30, 2018, monthly premium polices accounted for 91% of our NIW. As of September 30, 2018, monthly premium policies accounted for 74% of our primary IIF, as compared to 66% at September 30, 2017. We expect the break-down of monthly premium policies and single premium policies (which we refer to as "mix") in our primary IIF to continue to trend toward our current NIW mix over time. Our primary IIF increased 47% as of September 30, 2018 compared to September 30, 2017, primarily because of the NIW generated between such measurement dates and the high persistency of our policies in force.

The following table presents net premiums written and earned for the periods indicated.

Primary and pool premiums written and earned	**For the three months ended**		**For the nine months ended**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
	(In Thousands)			
Net premiums written (1)	$ 65,381	$ 47,716	$ 188,854	$ 122,105
Net premiums earned (1)	65,407	44,519	181,936	115,661

(1) Net premiums written and earned are reported net of reinsurance and premium refunds.

For the three and nine months ended September 30, 2018, net premiums written increased 37% and 55%, respectively, and net premiums earned increased 47% and 57%, respectively, compared to the same periods in 2017. The increases in net premiums written and earned are due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception dates of the ILN Transactions. The growth of our net premiums written and net premiums earned was also impacted by the QSR Transactions. Under the 2016 QSR Transaction, premiums on singles policies are ceded on a written basis, with unearned premium reserves ceded and recognized on balance sheet as prepaid reinsurance premiums, and subsequently amortized to earnings in a manner consistent with the recognition of earnings on direct premiums written. Under the 2018 QSR Transaction, premiums on singles policies are ceded on an earned basis. The reinsurance coverage period for the 2016 QSR Transaction ended for new policies written after December 31, 2017, and we did not cede any unearned premium reserves on singles policies under the 2016 QSR Transaction during the three or nine months ended September 30, 2018. We did, however, continue to recognize earnings from the amortization of prepaid reinsurance premiums on policies previously ceded under the 2016 QSR Transaction. This contributed to accelerated growth in net premiums earned compared to net premiums written for the periods presented.

Pool premiums written and earned for the three and nine months ended September 30, 2018, were $0.9 million and $2.6 million, respectively, before the effects of the 2016 QSR Transaction, under which all of our written and earned pool premiums have been ceded.

Portfolio Statistics

Unless otherwise noted, the portfolio statistics tables presented below do not include the effects of our third-party reinsurance arrangements described above. The table below highlights trends in our primary portfolio as of the date and for the periods indicated.

Primary portfolio trends	**As of and for the three months ended**				
	September 30, 2018	**June 30, 2018**	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**
			($ Values In Millions)		
New insurance written	$ 7,361	$ 6,513	$ 6,460	$ 6,876	$ 6,115
Percentage of monthly premium	91%	88%	84%	83%	79%
Percentage of single premium	9%	12%	16%	17%	21%
New risk written	$ 1,883	$ 1,647	$ 1,580	$ 1,665	$ 1,496
Insurance in force (IIF) (1)	63,527	58,089	53,434	48,465	43,259
Percentage of monthly premium	74%	72%	70%	69%	66%
Percentage of single premium	26%	28%	30%	31%	34%
Risk in force (1)	$ 15,744	$ 14,308	$ 13,085	$ 11,843	$ 10,572
Policies in force (count) (1)	262,485	241,993	223,263	202,351	180,089
Average loan size (1)	$ 0.242	$ 0.240	$ 0.239	$ 0.240	$ 0.240
Average coverage (2)	24.8%	24.6%	24.5%	24.4%	24.4%
Loans in default (count)	746	768	1,000	928	350
Percentage of loans in default	0.3%	0.3%	0.5%	0.5%	0.2%
Risk in force on defaulted loans	$ 42	$ 43	$ 57	$ 53	$ 19
Average premium yield (3)	0.43%	0.44%	0.43%	0.44%	0.43%
Earnings from cancellations	$ 2.6	$ 3.1	$ 2.8	$ 4.2	$ 4.3
Annual persistency (4)	86.1%	85.5%	85.7%	86.1%	85.1%
Quarterly run-off (5)	3.3%	3.5%	3.1%	3.9%	3.8%

(1) Reported as of the end of the period.
(2) Calculated as end of period RIF divided by IIF.
(3) Calculated as net primary and pool premiums earned, net of reinsurance, divided by average gross primary IIF for the period, annualized.
(4) Defined as the percentage of IIF that remains on our books after any 12-month period.
(5) Defined as the percentage of IIF that is no longer on our books after any 3-month period.

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

Primary IIF	**For the three months ended**		**For the nine months ended**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
		(In Millions)		
IIF, beginning of period	$ 58,089	$ 38,629	$ 48,465	$ 32,168
NIW	7,361	6,115	20,334	14,711
Cancellations and other reductions	(1,923)	(1,485)	(5,272)	(3,620)
IIF, end of period	$ 63,527	$ 43,259	$ 63,527	$ 43,259

We consider a "book" to be a collective pool of policies insured during a particular period, normally a calendar year. In general, the majority of underwriting profit, calculated as earned premium revenue minus claims and underwriting and operating expenses, generated by a particular book year emerges in the years immediately following origination. This pattern generally occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years following origination, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and by increasing losses.

The table below presents a summary of our primary IIF and RIF by book year as of the dates indicated.

Primary IIF and RIF	**As of September 30, 2018**		**As of September 30, 2017**	
	IIF	**RIF**	**IIF**	**RIF**
	(In Millions)			
September 30, 2018	$ 19,804	$ 4,980	$ —	$ —
2017	19,317	4,731	14,315	3,508
2016	16,086	3,948	18,684	4,520
2015	7,144	1,790	8,742	2,167
2014	1,145	288	1,479	368
2013	31	7	39	9
Total	$ 63,527	$ 15,744	$ 43,259	$ 10,572

We utilize certain risk principles that form the basis of how we underwrite and originate primary NIW. We manage our portfolio credit risk by using several loan eligibility matrices which prescribe the maximum LTV, minimum borrower credit score, maximum borrower debt-to-income (DTI) ratio, maximum loan size, property type, loan type, loan term and occupancy status of loans that we will insure. Our loan eligibility matrices, as well as all of our detailed underwriting guidelines, are contained in our Underwriting Guideline Manual that is publicly available on our website. Our eligibility criteria and underwriting guidelines are designed to mitigate the layered risk inherent in a single insurance policy. "Layered risk" refers to the accumulation of borrower, loan and property risk. For example, we have higher credit score and lower maximum allowed LTV requirements for investor-owned properties, compared to owner-occupied properties. We monitor the concentrations of various risk attributes in our insurance portfolio, which may change over time, in part, as a result of regional conditions or public policy shifts.

The tables below present our primary NIW by FICO, LTV and purchase/refinance mix for the periods indicated. We calculate the LTV of a loan as the percentage of the original loan amount to the original purchase value of the property securing the loan.

Primary NIW by FICO	**For the three months ended**		**For the nine months ended**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
	($ In Millions)			
>= 760	$ 3,191	$ 2,806	$ 8,617	$ 6,865
740-759	1,228	934	3,431	2,277
720-739	1,095	807	2,973	1,889
700-719	878	697	2,435	1,662
680-699	632	456	1,668	1,088
<=679	337	415	1,210	930
Total	$ 7,361	$ 6,115	$ 20,334	$ 14,711
Weighted average FICO	747	747	746	748

Primary NIW by LTV	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	($ In Millions)			
95.01% and above	$ 676	$ 722	$ 2,644	$ 1,470
90.01% to 95.00%	3,553	2,714	9,249	6,623
85.01% to 90.00%	2,373	1,765	6,017	4,372
85.00% and below	759	914	2,424	2,246
Total	$ 7,361	$ 6,115	$ 20,334	$ 14,711
Weighted average LTV	92.5%	92.3%	92.6%	92.2%

Primary NIW by purchase/refinance mix	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In Millions)			
Purchase	$ 7,022	$ 5,387	$ 18,584	$ 12,889
Refinance	339	728	1,750	1,822
Total	$ 7,361	$ 6,115	$ 20,334	$ 14,711

The tables below present our total primary IIF and RIF by FICO and LTV and total primary RIF by loan type as of the dates indicated.

Primary IIF by FICO	As of			
	September 30, 2018		September 30, 2017	
	($ In Millions)			
>= 760	$ 29,627	47%	$ 21,329	49%
740-759	10,386	16	6,983	16
720-739	8,566	14	5,547	13
700-719	7,008	11	4,505	10
680-699	4,655	7	2,942	7
<=679	3,285	5	1,953	5
Total	$ 63,527	100%	$ 43,259	100%

Primary RIF by FICO	As of			
	September 30, 2018		September 30, 2017	
	($ In Millions)			
>= 760	$ 7,361	47%	$ 5,251	50%
740-759	2,592	16	1,713	16
720-739	2,131	14	1,349	13
700-719	1,732	11	1,092	10
680-699	1,145	7	707	7
<=679	783	5	460	4
Total	$ 15,744	100%	$ 10,572	100%

Primary IIF by LTV

	As of			
	September 30, 2018		September 30, 2017	
	($ In Millions)			
95.01% and above	$ 6,309	10%	$ 3,038	7%
90.01% to 95.00%	28,879	45	19,562	45
85.01% to 90.00%	19,074	30	13,437	31
85.00% and below	9,265	15	7,222	17
Total	$ 63,527	100%	$ 43,259	100%

Primary RIF by LTV

	As of			
	September 30, 2018		September 30, 2017	
	($ In Millions)			
95.01% and above	$ 1,670	11%	$ 822	8%
90.01% to 95.00%	8,416	53	5,722	54
85.01% to 90.00%	4,590	29	3,205	30
85.00% and below	1,068	7	823	8
Total	$ 15,744	100%	$ 10,572	100%

Primary RIF by Loan Type

	As of	
	September 30, 2018	September 30, 2017
Fixed	98%	98%
Adjustable rate mortgages:		
Less than five years	—	—
Five years and longer	2	2
Total	100%	100%

The table below shows selected primary portfolio statistics, by book year, as of September 30, 2018.

	As of September 30, 2018								
Book year	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) [(1)]	Cumulative default rate [(2)]
	($ Values in Millions)								
2013	$ 162	$ 31	19%	655	166	—	1	0.2%	0.2%
2014	3,451	1,145	33%	14,786	5,944	53	23	3.6%	0.5%
2015	12,422	7,144	58%	52,548	33,093	197	47	2.9%	0.5%
2016	21,187	16,086	76%	83,626	66,849	248	25	2.0%	0.3%
2017	21,582	19,317	90%	85,897	79,147	215	2	2.3%	0.3%
2018	20,334	19,804	97%	78,829	77,286	33	—	0.8%	—%
Total	$ 79,138	$ 63,527		316,341	262,485	746	98		

(1) The ratio of total claims incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.
(2) The sum of the number of claims paid ever to date and number of loans in default as of the end of the period divided by policies ever in force.

Geographic Dispersion

The following table shows the distribution by state of our primary RIF as of the periods indicated. As of September 30, 2018, our RIF continues to be relatively more concentrated in California, primarily as a result of the size of the California mortgage market relative to the rest of the country and the location and timing of our acquisition of new customers. The distribution of risk as of September 30, 2018 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state	**As of**	
	September 30, 2018	**September 30, 2017**
California	13.3%	13.6%
Texas	8.1	7.6
Arizona	5.0	4.4
Florida	4.9	4.3
Virginia	4.9	5.6
Michigan	3.7	3.7
Pennsylvania	3.6	3.6
Colorado	3.4	3.8
Illinois	3.3	3.4
Utah	3.2	3.6
Total	53.4%	53.6%

Insurance Claims and Claim Expenses

Insurance claims and claim expenses incurred represent estimated future payments on newly defaulted insured loans and any change in our claim estimates for previously existing defaults. Claims incurred is generally affected by a variety of factors, including the state of the economy, changes in housing values, loan and borrower level risk characteristics, the size of loans insured and the percentage of coverage on insured loans.

Reserves for claims and allocated claim expenses are established for mortgage loan defaults, which we refer to as case reserves, when we are notified that a borrower has missed two or more mortgage payments (*i.e.*, an NOD). We also make estimates of IBNR defaults, which are defaults that have been incurred but have not been reported by loan servicers, based on historical reporting trends, and establish IBNR reserves for those estimates. We also establish reserves for unallocated claims expenses not associated with a specific claim. The claims expenses consist of the estimated cost of the claim administration process, including legal and other fees as well as other general expenses of administering the claims settlement process.

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property valuation. Reserves are released the month in which a loan in default is brought current by the borrower, which is referred to as a cure. Adjustments to reserve estimates are reflected in the period in which the adjustment is made. Reserves are also ceded to reinsurers under the QSR Transactions. We will not cede reserves to reinsurers under the ILN Transactions unless losses exceed the respective retained coverage layers. Reserves are not established for future claims on insured loans which are not currently in default.

Based on our experience and industry data, we believe that claims incidence for mortgage insurance is generally highest in the third through sixth years after loan origination. Although the claims experience on new primary insurance written by us to date has been favorable, we expect incurred claims to increase as a greater amount of our existing insured portfolio reaches its anticipated period of highest claim frequency. We estimate that the loss ratio over the life of our existing primary insured portfolio will be between 20% and 25% of earned premiums, and we price to that expectation. Additionally, our pool insurance agreement with Fannie Mae contains a claim deductible through which Fannie Mae absorbs specified losses before we are obligated to pay any claims. We have not established any pool reserves for claims or IBNR to date.

The actual claims we incur as our portfolio matures are difficult to predict and depend on the specific characteristics of our current in-force book (including the credit score and DTI of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the profile of new business we write in the future. In addition, claims experience will be affected by future macroeconomic factors such as housing prices, interest rates and employment and other events, such as natural disasters. To date, our claims experience is developing at a slower pace than historical trends indicate, as a result of high quality underwriting, a strong macroeconomic environment and a favorable housing market. For additional discussion of our reserves, see, Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 6, Reserves for Insurance Claims and Claims Expenses*."

We insure mortgages for homes in areas that have been impacted by recent natural disasters. We do not provide coverage for property or casualty claims related to physical damage of a home underpinning an insured mortgage. We experienced an increase in NODs on insured loans in areas impacted by such disasters in the fourth quarter of 2017 and the first quarter of 2018. In the second and third quarters of 2018, we experienced an increase in cure activity on this NOD population. Our ultimate claims exposure for loans in areas impacted by natural catastrophes will depend on the number of NODs received, proximate cause of each default, cure rate of the NOD population, and potential repair cost curtailment for appropriate claims on damaged properties as permitted by our Master Policy. In the event of natural disasters, cure rates are influenced by the adequacy of homeowners and other hazard insurance carried on a related property, GSE-sponsored forbearance and other assistance programs, and a borrower's access to aid from government entities and private organizations, in addition to other factors which generally impact cure rates in unaffected areas.

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In Thousands)			
Beginning balance	$ 10,601	$ 5,048	$ 8,761	$ 3,001
Less reinsurance recoverables [1]	(2,382)	(899)	(1,902)	(297)
Beginning balance, net of reinsurance recoverables	8,219	4,149	6,859	2,704
Add claims incurred:				
Claims and claim expenses incurred:				
Current year [2]	1,938	1,215	5,090	3,546
Prior years [3]	(839)	(258)	(1,779)	(581)
Total claims and claims expenses incurred	1,099	957	3,311	2,965
Less claims paid:				
Claims and claim expenses paid:				
Current year [2]	37	—	37	—
Prior years [3]	890	157	1,742	720
Total claims and claim expenses paid	927	157	1,779	720
Reserve at end of period, net of reinsurance recoverables	8,391	4,949	8,391	4,949
Add reinsurance recoverables [1]	2,517	1,174	2,517	1,174
Ending balance	$ 10,908	$ 6,123	$ 10,908	$ 6,123

(1) Related to ceded losses recoverable under the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Item 1, "*Financial Statements - Notes to Consolidated Financial Statements - Note 5, Reinsurance"* for additional information.

(2) Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year. Amounts are net of reinsurance.

(3) Related to insured loans with defaults occurring in prior years, which have been continuously in default since that time. Amounts are net of reinsurance.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves and is presented net of reinsurance. The amount of claims incurred for current year NODs represents the estimated amount to be ultimately paid on such loans in default. The decreases during the periods presented in reserves held for prior year defaults represent favorable development and are generally the result of NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims, and continue to observe and analyze loss development trends in our portfolio. Gross reserves of $3.7 million related to prior year defaults remained as of September 30, 2018.

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Beginning default inventory	768	249	928	179
Plus: new defaults	380	208	1,080	479
Less: cures	(378)	(103)	(1,203)	(292)
Less: claims paid	(24)	(4)	(59)	(16)
Ending default inventory	746	350	746	350

The increase in the ending default inventory at September 30, 2018 compared to September 30, 2017 was primarily due to the aging of earlier book years and an increase in the overall number of policies in our portfolio which, historically drives a general increase in defaults, as well as defaults on insured loans in areas impacted by natural disasters that occurred in late 2017.

The following table provides details of our claims paid, before giving effect to claims ceded under the 2016 QSR Transaction, for the periods indicated. No claims paid were ceded under the 2018 QSR Transaction during the periods indicated.

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	($ In Thousands)			
Number of claims paid [1]	24	4	59	16
Total amount paid for claims	$ 1,128	$ 160	$ 2,217	$ 731
Average amount paid per claim [2]	$ 49	$ 40	$ 41	$ 46
Severity[3]	80%	73%	76%	83%

(1) Count includes claims settled without payment.
(2) Calculation is net of claims settled without payment.
(3) Severity represents the total amount of claims paid including claims expenses divided by the related RIF on the loan at the time the claim is perfected.

The increase in the number of claims paid for the three and nine months ended September 30, 2018, compared to the same periods ended September 30, 2017, is due to an increase in our default inventory and the continued growth and seasoning of our insured portfolio. Claims settled without payment are included in claim counts, but excluded from averages. Over time, we expect the severity of claims paid to be between 85% and 95% of the coverage amount. We believe our severity for the period ended September 30, 2018 is below long-term expectations due to home price appreciation in recent periods.

The following table shows our average reserve per default, before giving effect to reserves ceded under the QSR Transactions, as of the periods indicated.

Average reserve per default:	As of September 30, 2018	As of September 30, 2017
	(In Thousands)	
Case [1]	$ 14	$ 16
IBNR	1	1
Total	$ 15	$ 17

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

The average reserve per default at September 30, 2018 decreased from September 30, 2017, primarily due to defaults on insured loans in areas impacted by natural disasters. As of September 30, 2018, 91 of the 746 loans in default relate to homes in areas declared by FEMA to be disaster zones following natural catastrophes. We expect that this population of loans in default will cure at a higher rate than the estimated rate we apply to non-disaster related loans in default, due to our historical and observed industry experience, and current economic indicators and relief programs. As such, we have established lower reserves for this population of NODs than we otherwise would for a similarly situated set of NODs in non-disaster zones. Over time, we anticipate that our average reserve per default will increase as the NODs in these zones cure and our NOD population continues to age.

GSE Oversight

As an *Approved Insurer*, NMIC is subject to ongoing compliance with the PMIERs. (*Italicized* terms have the same meaning that such terms have in the PMIERs, as described below.) The PMIERs establish operational, business, remedial and financial requirements applicable to *Approved Insurers*. The PMIERs financial requirements prescribe a risk-based methodology whereby the amount of assets required to be held against each insured loan is determined based on certain risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (*i.e.*, current vs. delinquent), LTV and other risk features. An asset charge is calculated for each insured loan based on its risk profile. In general, higher quality loans carry lower charges.

Under the PMIERs financial requirements, *Approved Insurers* must maintain *available assets* that equal or exceed *minimum required assets*, which is an amount equal to the greater of (i) $400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *Approved Insurer's* net RIF, calculated by applying on a loan-by-loan basis certain risk-based factors derived from tables set out in the PMIERs to the net RIF, and other transactional adjustments approved by the GSEs, such as with respect to our ILN Transactions and QSR Transactions. The *risk-based required asset amount* for primary insurance is subject to a floor of 5.6% of total, performing, primary RIF, and the *risk-based required asset amount* for pool insurance considers both the factors in the tables and the *net remaining stop loss* for each pool insurance policy. The PMIERs financial requirements also increase the amount of *available assets* that must be held by an *Approved Insurer* for LPMI policies originated on or after January 1, 2016.

By April 15th of each year, NMIC must certify it met all PMIERs requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2018 that NMIC was in full compliance with the PMIERs as of December 31, 2017. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a material failure to meet one or more of the PMIERs requirements. We continuously monitor our compliance with the PMIERs.

The following table provides a comparison of the PMIERs financial requirements as reported by NMIC as of the dates indicated.

	As of	
	September 30, 2018	September 30, 2017
	(In Thousands)	
Available assets	$ 702,020	$ 495,182
Risk-based required assets	398,975	356,207

The increase in *available assets* of $207 million as of September 30, 2018 compared to September 30, 2017 is driven by our positive cash flow from operations and a $70 million capital contribution from NMIH to NMIC during the second quarter of 2018, partially offset by an increase in our unearned premium reserve. The increase in the *risk-based required asset amount* of $43 million is due to the growth of our gross RIF and, to a lesser extent, an increase in our NOD population, which has a higher *risk-based required asset amount* charge, partially offset by the cession of risk relating to our third-party reinsurance agreements.

On September 27, 2018, the GSEs published revised PMIERs that will take effect and become applicable to NMIC on March 31, 2019. We expect that NMIC will remain in full compliance with the existing and revised PMIERs, as applicable, prior to and after March 31, 2019.

Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings

In addition to GSE-imposed asset requirements, NMIC is also subject to state regulatory minimum capital requirements based on its RIF. While formulations of this minimum capital may vary by jurisdiction, the most common measure allows for a maximum permitted RTC ratio of 25:1.

As of September 30, 2018, NMIC's primary RIF, net of reinsurance, was approximately $9.7 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory surplus of $698.0 million (including contingency reserves) as of September 30, 2018, NMIC's RTC ratio was 13.9:1. Re One had total statutory capital of $34.7 million as of September 30, 2018, with a RTC ratio of 1.0:1. We continuously monitor our compliance with state capital requirements.

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

Competition

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

The private MI industry overall competes more broadly with public MIs who significantly increased their presence in the MI market following the financial crisis. Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, it remains difficult to predict whether the combined market share of public MIs will recede to historical levels. A range of factors influence a lender's decision to choose private over public MI, including among others, premium rates and other charges, loan eligibility requirements, cancelability, loan size limits and the relative ease of use of private MI products compared to public MI alternatives.

Consolidated Results of Operations

Consolidated statements of operations	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues	(In Thousands)			
Net premiums earned	$ 65,407	$ 44,519	$ 181,936	$ 115,661
Net investment income	6,277	4,170	16,586	11,885
Net realized investment (losses) gains	(8)	69	51	198
Other revenues	85	195	193	461
Total revenues	71,761	48,953	198,766	128,205
Expenses				
Insurance claims and claim expenses	1,099	957	3,311	2,965
Underwriting and operating expenses	30,379	24,645	87,852	78,682
Total expenses	31,478	25,602	91,163	81,647
Other expense				
Loss from change in fair value of warrant liability	(5,464)	(502)	(4,935)	(679)
Interest expense	(2,972)	(3,352)	(11,951)	(10,146)
Income before income taxes	31,847	19,497	90,717	35,733
Income tax expense	7,036	7,185	18,310	11,917
Net income	$ 24,811	$ 12,312	$ 72,407	$ 23,816
Loss ratio(1)	1.7%	2.1%	1.8%	2.6%
Expense ratio(2)	46.4%	55.4%	48.3%	68.0%
Combined ratio	48.1%	57.5%	50.1%	70.6%

(1) Loss ratio is calculated by dividing the provision for insurance claims and claims expenses by net premiums earned.
(2) Expense ratio is calculated by dividing other underwriting and operating expenses by net premiums earned.

Revenues

For the three and nine months ended September 30, 2018, net premiums earned increased $20.9 million or 47% and $66.3 million or 57%, respectively, compared to the three and nine months ended September 30, 2017. The increase in both periods is primarily due to the growth of our IIF and increased monthly policy production, partially offset by increases to cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception dates of the ILN Transactions.

For the three and nine months ended September 30, 2018, net investment income increased $2.1 million and $4.7 million, respectively, compared to the three and nine months ended September 30, 2017 due to an increase in the size of and improved yields on our total investment portfolio.

Expenses

We recognize insurance claims and claim expenses in connection with the loss experience of our insured portfolio and incur other underwriting and operating expenses, including employee compensation and benefits, policy acquisition costs, and technology, professional services and facilities expenses, in connection with the development and operation of our business.

Insurance claims and claim expenses increased $0.1 million or 15% and $0.3 million or 12% for the three months and nine months ended September 30, 2018, respectively, compared to the three months and nine months ended September 30, 2017, primarily due to an increase in new NODs and aging of existing NODs, partially offset by the release of reserves related to prior year defaults.

Underwriting and operating expenses increased $5.7 million or 23% and $9.2 million or 12%, for the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 30, 2017. Employee compensation accounts for the majority of our operating expenses, which increased to support the growth of our business, particularly in our operating functions. We incurred $2.6 million of underwriting and operating expenses during the nine months ended September 30, 2018 in connection with the 2018 ILN Transaction completed in July 2018. Underwriting and operating expenses for the nine months ended September 30, 2017 included $4.8 million related to the 2017 ILN Transaction and an amendment of the 2015 Credit Agreement.

Interest expense was $3.0 million and $12.0 million for the three and nine months ended September 30, 2018, respectively, compared to $3.4 million and $10.1 million, respectively, for the three and nine months ended September 30, 2017. Interest expense for the nine months ended September 2018 included $2.2 million of costs related to the extinguishment of the 2015 Term Loan and issuance of the 2018 Term Loan completed in May 2018. Interest expense for the three months ended September 30, 2018 declined compared to the three months ended September 30, 2017 due to the reduction in the interest spread payable on our borrowings under the 2018 Term Loan as compared to the 2015 Term Loan. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt Obligations.*"

Income tax expense increased to $18.3 million for the nine months ended September 30, 2018 from $11.9 million for the nine months ended September 30, 2017 because of the growth in our pre-tax income, partially offset by a decrease in our effective tax rate. Our effective tax rate on our pre-tax income decreased to 20.2% for the nine months ended September 30, 2018 from 33.3% for the nine months ended September 30, 2017, primarily because the TCJA reduced the statutory U.S. federal corporate income tax rate to 21% for the current and all future years from 35% for all prior years through December 31, 2017. Our provision for income taxes for interim periods is established based on our estimated annual effective tax rate for a given year. We expect our annual effective tax rate for the year ending December 31, 2018 will approximate the current 21% statutory U.S. federal corporate income tax rate. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes.*"

Consolidated balance sheets	**September 30, 2018**	**December 31, 2017**
	(In Thousands)	
Total investment portfolio	$ 874,435	$ 715,875
Cash and cash equivalents	18,187	19,196
Premiums receivable	34,675	25,179
Deferred policy acquisition costs, net	44,437	37,925
Software and equipment, net	22,887	22,802
Prepaid reinsurance premiums	33,058	40,250
Deferred tax asset, net	6,880	19,929
Other assets	17,922	13,692
Total assets	$ 1,052,481	$ 894,848
Term loan	$ 147,009	$ 143,882
Unearned premiums	162,893	163,166
Accounts payable and accrued expenses	27,134	23,364
Reserve for insurance claims and claims expenses	10,908	8,761
Reinsurance funds withheld	28,953	34,102
Deferred ceding commission	4,161	5,024
Warrant liability	10,930	7,472
Total liabilities	391,988	385,771
Total shareholders' equity	660,493	509,077
Total liabilities and shareholders' equity	$ 1,052,481	$ 894,848

As of September 30, 2018, we had approximately $892.6 million in cash and investments, including $50.8 million held by NMIH. The increase in cash and cash equivalents and investments from December 31, 2017 primarily relates to cash generated from operations and net proceeds of approximately $79.2 million from the common stock offering completed in March 2018.

Premiums receivable was $34.7 million as of September 30, 2018, compared to $25.2 million as of December 31, 2017. The increase was primarily driven by the increase in our monthly premium policies in force, where premiums are generally paid one month in arrears.

Net deferred policy acquisition costs were $44.4 million as of September 30, 2018, compared to $37.9 million at December 31, 2017. The increase was primarily driven by growth in the number of policies written during the period ended September 30, 2018 and the deferral of certain costs associated with the origination of those policies, partially offset by the amortization of previously deferred acquisition costs.

Prepaid reinsurance premiums were $33.1 million as of September 30, 2018, compared to $40.3 million as of December 31, 2017. The prepaid reinsurance premiums balance represents the unearned premiums reserve on single premium policies ceded under the 2016 QSR Transaction. The reinsurance coverage period of the 2016 QSR Transaction ended for new premiums written after December 31, 2017, and under the 2018 QSR Transaction we cede premiums on singles policies on an earned basis. Consequently, we did not cede any unearned premium reserves on singles policies with coverage effective dates on or after January 1, 2018. The decrease in prepaid reinsurance premiums reflects the amortization of the unearned premiums, reserve on singles policies previously ceded under the 2016 QSR Transaction.

Net deferred tax assets decreased to $6.9 million as of September 30, 2018, from $19.9 million at December 31, 2017, primarily due to the utilization of net operating loss carryforwards during the period. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes.*"

Other assets increased to $17.9 million as of September 30, 2018 from $13.7 million as of December 31, 2017, driven by an increase in accrued investment income and prepaid expenses for various contracts renewals, as well as the capitalization of $1.3 million deferred debt issuance costs in connection with the establishment of the 2018 Revolving Credit Facility.

Unearned premiums decreased $0.3 million to $162.9 million as of September 30, 2018, primarily due to the amortization through earnings of existing unearned premiums in accordance with the expiration of risk on the related policies and the cancellation of other single premium policies, partially offset by single premium policy origination during the period.

Accounts payable and accrued expense increased to $27.1 million as of September 30, 2018, from $23.4 million at December 31, 2017, primarily due to an increase in personnel expense and deferred rent accruals, reinsurance premiums payable and unsettled payments from the purchase of certain securities at September 30, 2018.

Reserve for insurance claims and claim expenses increased $2.1 million to $10.9 million at September 30, 2018, primarily due to an increase in the number of new defaults and the aging of existing defaults in our general loan population, offset by the release of reserves on cured defaults. See "- *Insurance Claims and Claims Expenses*," above for further details.

Reinsurance funds withheld was $29.0 million as of September 30, 2018, representing ceded premiums written, less our profit and ceding commission receivables under the 2016 QSR Transaction. The decrease in reinsurance funds withheld of $5.1 million from December 31, 2017, was a result of a decline in ceded premiums written on single premium policies, due to the end of the effective reinsurance coverage period of the 2016 QSR Transaction at December 31, 2017. See, Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance*."

Warrant liability increased to $10.9 million at September 30, 2018, compared to $7.5 million at December 31, 2017, primarily due to the increase in our common stock price during the period, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants. For further information regarding valuation of our warrant liability and their impact on our results of operations and financial position, see Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 3, Fair Value of Financial Instruments.*"

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

Consolidated cash flows	**For the nine months ended September 30,**	
	2018	**2017**
Net cash provided by (used in) :	*(In Thousands)*	
Operating activities	$ 99,349	$ 41,778
Investing activities	(180,928)	(66,553)
Financing activities	80,570	(2,273)
Net decrease in cash and cash equivalents	$ (1,009)	$ (27,048)

Net cash provided by operating activities was $99.3 million for the nine months ended September 30, 2018, compared to $41.8 million for the nine months ended September 30, 2017. The increase in cash generated from operating activities was primarily driven by growth in premiums written and investment income, partially offset by increases in operating expenses as well as higher claims paid due to an increase in our default inventory.

Cash used in investing activities for the periods presented was driven by the purchase of fixed and short-term maturities during those periods. Cash used in investing activities for the nine months ended September 30, 2018, reflects, in part, the investment of net proceeds from the common stock offering completed in March 2018.

Cash provided by financing activities was $80.6 million for the nine months ended September 30, 2018, compared to cash used in financing activities of $2.3 million for the nine months ended September 30, 2017. The increase was primarily driven by the $79.2 million net cash proceeds raised through the common stock offering we completed in March 2018, partially offset by the net cash used in connection with the extinguishment of the 2015 Term Loan, and establishment of the 2018 Term Loan and 2018 Revolving Credit Facility, as well as an increase in taxes paid on the net share settlement of equity awards.

Holding Company Liquidity and Capital Resources

NMIH serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. NMIH's principal liquidity demands include funds for: (i) payment of certain corporate expenses; (ii) payment of certain reimbursable expenses of its insurance subsidiaries; (iii) payment of principal, interest and other fees related to the 2018 Credit Agreement; (iv) tax payments to the Internal Revenue Service; (v) capital support for its subsidiaries; and (vi) payment of dividends, if any, on its common stock. NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMIH, that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations).

As of September 30, 2018, NMIH had $50.8 million of cash and investments. NMIH's principal source of net operating cash is investment income. NMIH also has access to the $85 million 2018 Revolving Credit Facility and in the future could benefit from dividends from NMIC and Re One, if available and permitted under law and by the GSEs.

In March 2018, NMIH completed the sale of 4.3 million shares of common stock, including the exercise of a 15% overallotment option to purchase additional shares, and raised proceeds of approximately $79.2 million, net of underwriting discounts, commissions and other direct offering expenses. In April, 2018, NMIH made a capital contribution of $70 million to NMIC.

NMIH has entered into tax and expense-sharing agreements with its subsidiaries which have been approved by the Wisconsin OCI, but such approval may be changed or revoked at any time. With the Wisconsin OCI's approval, NMIH began allocating the interest expense on its 2015 Term Loan to NMIC in the first quarter of 2017, consistent with the benefits NMIC received when NMIH down-streamed the loan proceeds to NMIC. NMIH received similar approval from the Wisconsin OCI to allocate interest expense to NMIC on the 2018 Term Loan and 2018 Revolving Credit Facility.

Our insurance subsidiaries' ability to pay dividends to NMIH is subject to insurance department notice or approval. Under Wisconsin law, insurance companies may pay dividends up to specified levels (*i.e.*, "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts, or "extraordinary" dividends, are subject to the Wisconsin OCI's prior approval. Under Wisconsin insurance laws, an extraordinary dividend is defined as any payment or distribution that together with other dividends and distributions made within the preceding 12 months exceeds the lesser of (i) 10% of the insurer's statutory policyholders' surplus as of the preceding December 31 or (ii) adjusted statutory net income for the 12-month period ending the preceding December 31.

NMIC has never paid any dividends to NMIH. NMIC reported a statutory net loss for the 12 months ended December 31, 2017 and cannot pay any dividends to NMIH through December 31, 2018 without the prior approval of the Wisconsin OCI. Re One has never paid dividends to NMIH. Re One currently has the capacity to pay ordinary dividends of $505 thousand to NMIH. Certain other states in which NMIC and Re One are licensed also have statutes or regulations that may restrict their ability to pay dividends.

NMIC's capital needs depend on many factors including its ability to successfully write new business, establish premium rates at levels sufficient to cover claims and operating costs and meet *minimum required asset* thresholds under the PMIERs and state capital requirements. NMIC's capital needs also depend on its decision to access the reinsurance markets. NMIH may require liquidity to fund the capital needs of its insurance subsidiaries.

On May 24, 2018, NMIH entered into the 2018 Credit Agreement covering the 2018 Term Loan and 2018 Revolving Credit Facility. The 2018 Term Loan bears interest at the Eurodollar Rate, as defined in the 2018 Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 4.75%, payable monthly based on our current interest period election. Borrowings under the 2018 Revolving Credit Facility will accrue interest at a variable rate equal to, at our discretion, (i) a base rate (as defined in the 2018 Credit Agreement, subject to a floor of 1.00% per annum) plus a margin of 1.00% to 2.50% per annum, based on the applicable corporate credit rating at the time, or (ii) the Eurodollar Rate (subject to a floor of 0.00% per annum) plus a margin of 2.00% to 3.50% per annum, based on the applicable corporate credit rating at the time. The 2018 Credit Agreement also requires a quarterly commitment fee on the average daily undrawn amount ranging from 0.30% to 0.60%, based on the applicable corporate credit rating at the time.

The 2018 Credit Agreement contains certain covenants for the 2018 Term Loan, including (but not limited to) the financial covenant of a maximum debt-to-total capitalization ratio of 35%, and certain covenants for the 2018 Revolving Credit Facility, including (but not limited to) the following financial covenants: a maximum debt-to-total capitalization ratio of 35%, a minimum liquidity requirement, compliance with the PMIERs financial requirements (subject to any GSE-approved waivers), and minimum consolidated net worth and statutory capital requirements. We were in compliance with all covenants as of September 30, 2018.

Consolidated Investment Portfolio

Our primary objectives with respect to our investment portfolio are to preserve capital and generate investment income, while maintaining sufficient liquidity to cover our operating needs. We aim to achieve diversification by type, quality, maturity, and industry. We have adopted an investment policy that defines, among other things, eligible and ineligible investments, concentration limits for asset types, industry sectors, single issuers, and certain credit ratings, and benchmarks for asset duration.

Substantially all of our investment portfolio is held in fixed maturity instruments. As of September 30, 2018, the fair value of our investment portfolio was $874.4 million. We also had an additional $18.2 million of cash and equivalents as of September 30, 2018. Pre-tax book yield on the investment portfolio for the nine months ended September 30, 2018 was 2.8%. The book yield is calculated as period-to-date net investment income divided by the average amortized cost of the investment portfolio. Yield on the investment portfolio is likely to change over time based on movements in interest rates, credit spreads, the duration or mix of our investment portfolio and other factors.

The following tables present a breakdown of our investment portfolio and cash and cash equivalents by investment type and credit rating.

Percentage of portfolio's fair value	September 30, 2018	December 31, 2017
Corporate debt securities	59%	59%
Asset-backed securities	19	14
Cash, cash equivalents, and short-term investments	7	6
Municipal debt securities	10	12
U.S. treasury securities and obligations of U.S. government agencies	5	9
Total	100%	100%

Investment portfolio ratings at fair value (1)	September 30, 2018	December 31, 2017
AAA	22%	21%
AA(2)	17	19
A(2)	43	46
BBB(2)	18	14
Total	100%	100%

(1) Excluded certain operating cash accounts.
(2) Includes +/– ratings.

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

Other Items

Off-Balance Sheet Arrangements and Contractual Obligations

We had no material off-balance sheet arrangements as of September 30, 2018. In connection with the ILN Transactions, we have certain future contractual commitments to Oaktown Re and Oaktown Re II, special purpose VIEs that are not consolidated in our financial results. See "*Financial Statements - Notes to Condensed Consolidated Financial Statements - "Note 5, Reinsurance."*

Critical Accounting Estimates

We use accounting principles and methods that conform to GAAP. Where GAAP specifically excludes mortgage insurance we follow general industry practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with revenue recognition, fair value measurements, our investment portfolio, deferred policy acquisition costs, premium deficiency reserves, income taxes, reserves for insurance claims and claims expenses, warrants and share-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting estimates. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2017 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large portfolio of various holdings, types and maturities. NMIH's principal source of operating cash is investment income. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance.

We manage market risk via a defined investment policy implemented by our treasury function with oversight from our Board of Director's Risk Committee. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

- *Changes to the level of interest rates*. Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates of our insurance portfolio, and as a result we may determine that our investment portfolio needs to be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse. Additionally, the changes in Eurodollar based interest rates affect the interest expense related to our debt.
- *Changes to the term structure of interest rates*. Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.
- *Market volatility/changes in the real or perceived credit quality of investments*. Deterioration in the quality of investments, identified through changes to our own or third party (*e.g.*, rating agency) assessments, will reduce the value and potentially the liquidity of investments.
- *Concentration Risk*. If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.
- *Prepayment Risk*. Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

The carrying value of our investment portfolio as of September 30, 2018 and December 31, 2017 was $874 million and $716 million, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of September 30, 2018, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.53 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.53% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.67 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.67% in fair value of our fixed income portfolio.

We are also subject to market risk related to our 2018 Term Loan and the ILN Transactions. As discussed in Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt Obligations*," the 2018 Term Loan bears interest at a variable rate and, as a result, increases in market interest rates would generally result in increased interest expense on our outstanding principal.

The risk premium amounts under the ILN Transactions are calculated by multiplying the outstanding reinsurance coverage amount at the beginning of any payment period by a coupon rate, which is the sum of 1-month LIBOR and a risk margin, and then subtracting actual investment income earned on the trust balance during that payment period. An increase in 1-month LIBOR rates would generally increase the risk premium payments, while an increase to money market rates, which directly affect investment income earned on the trust balance, would generally decrease them. Although we expect the two rates to move in tandem, to the extent they do not, it could increase or decrease the risk premium payments that otherwise would be due.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 30, 2018 pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2018 our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

Certain lawsuits and claims arising in the ordinary course of business may be filed or pending against us or our affiliates from time to time. In accordance with applicable accounting guidance, we establish accruals for all lawsuits, claims and expected settlements when we believe it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. When a loss contingency is not both probable and estimable, we do not establish an accrual. Any such loss estimates are inherently uncertain, based on currently available information and are subject to management's judgment and various assumptions. Due to the inherent subjectivity of these estimates and unpredictability of outcomes of legal proceedings, any amounts accrued may not represent the ultimate resolution of such matters.

To the extent we believe any potential loss relating to such lawsuits and claims may have a material impact on our liquidity, consolidated financial position, results of operations, and/or our business as a whole and is reasonably possible but not probable, we will disclose information relating to any such potential loss, whether in excess of any established accruals or where there is no established accrual. We will also disclose information relating to any material potential loss that is probable but not reasonably estimable. Where reasonably practicable, we will provide an estimate of loss or range of potential loss. No disclosures are generally made for any loss contingencies that are deemed to be remote.

Based upon information available to us and our review of lawsuits and claims filed or pending against us to date, we have not recognized a material accrual liability for these matters, nor do we currently expect it is reasonably possible that these matters will result in a material liability to the Company. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of such matters currently pending or threatened could have an unanticipated material adverse effect on our liquidity, consolidated financial position, results of operations, and/or our business as a whole, in the future.

Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our 2017 10-K, as updated in our First Quarter 10-Q. As of the date of this report, we are not aware of any material changes in our risk factors from the risk factors disclosed in our 2017 10-K, as updated in our First Quarter 10-Q. You should carefully consider the risks and uncertainties described herein and in our 2017 10-K and First Quarter 10-Q, which have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. The risks described herein and in our 2017 10-K and First Quarter 10-Q are not the only risks we face, as there are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial which may in the future adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated November 30, 2011, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
2.2	Amendment to Stock Purchase Agreement, dated April 6, 2012, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.2	Third Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, filed on December 9, 2014)
4.1	Specimen Class A common stock certificate (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.2	Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets & Co., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.3	Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.4	Registration Rights Agreement between FBR & Co., FBR Capital Markets LT, Inc., FBR Capital Markets & Co., FBR Capital Markets PT, Inc. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.5	Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets & Co., dated June 13, 2013 (incorporated herein by reference to Exhibit 4.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.6	Form of Warrant to Purchase Common Stock of NMI Holdings, Inc. issued to former stockholders of MAC Financial Ltd. (incorporated herein by reference to Exhibit 4.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.1 ~	NMI Holdings Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (registration No. 333-191635), filed on October 9, 2013)
10.2 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.3 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.4 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Directors (incorporated herein by reference to Exhibit 10.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.5 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.6 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.7 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.8 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017)
10.9 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017)
10.10 ~	Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015)

10.11 ~	Offer Letter by and between NMI Holdings, Inc. and William Leatherberry, dated July 11, 2014 (incorporated herein by reference to Exhibit 10.10 to our Form 10-Q, filed on April 28, 2016)
10.12 ~	Offer Letter by and between NMI Holdings, Inc. and Adam Pollitzer, dated February 1, 2017 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 3, 2017)
10.13 ~	Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014)
10.14 +	Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately $5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.15	Credit Agreement, dated November 10, 2015, between NMI Holdings, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on November 10, 2015)
10.16	Amendment No. 1, dated February 10, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 10, 2017)
10.17	Amendment No. 2, dated October 25, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on October 26, 2017)
10.18	Credit Agreement, dated May 24, 2018, between NMI Holdings, Inc., the lender party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on May 25, 2018)
10.19 ~	NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan (incorporated herein by reference to Appendix A to our 2017 Annual Proxy Statement, filed on March 30, 2017)
10.20 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.19 to our Form 10-Q filed on August 1, 2017)
10.21 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.20 to our Form 10-Q filed on August 1, 2017)
10.22 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q filed on August 1, 2017)
10.23 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.22 to our Form 10-Q filed on August 1, 2017)
10.24 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.23 to our Form 10-Q filed on August 1, 2017)
10.25 ~	Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Executive Officers and Employees (incorporated herein by reference to Exhibit 10.24 to our Form 10-Q filed on August 1, 2017)
10.26 ~	Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Phantom Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q, filed on August 5, 2015)
10.27 ~	Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.26 to our Form 10-K, filed on February 17, 2017)
10.28 ~	NMI Holdings, Inc. Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016)
10.29 ~	NMI Holdings, Inc. Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 23, 2017)
10.30 ~	NMI Holdings, Inc. Amended and Restated Change in Control Severance Benefit Plan
10.31~	NMI Holdings, Inc. Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
21.1	Subsidiaries of NMI Holdings, Inc. (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q, filed on October 30, 2015)
31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 #	Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2018 and the year ended December 31, 2017 (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (v) Notes to Condensed Consolidated Financial Statements.

~ Indicates a management contract or compensatory plan or contract.

+ Confidential treatment granted as to certain portions, which portions have been filed separately with the SEC.

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NMI HOLDINGS, INC.

Date: October 30, 2018

By: /s/ Adam S. Pollitzer

Name:Adam S. Pollitzer

Title:Chief Financial Officer and Duly Authorized Signatory

NMI Holdings, Inc.
Amended and Restated Change in Control Severance Benefit Plan

I. PURPOSE

NMI Holdings, Inc. (the "***Company***") has established this Amended and Restated Change in Control Severance Benefit Plan (the "***Plan***") in order to assure the Company that it will have the continued dedication of specified executives and employees and eliminate the distractions of personal uncertainties associated with potential transactions that the Company may undertake in the future by providing for certain benefits and payments to those executives who experience qualifying terminations of employment in connection with such transactions, as described herein.

II. PLAN TERM

The Plan is effective as of February 16, 2017 (the "***Effective Date***"), and it will remain in effect unless it is amended or terminated sooner by the Company. If a Change in Control occurs, the Plan shall continue in full force and effect until all obligations under the Plan have been satisfied.

III. AMENDMENT; TERMINATION

Prior to the occurrence of a Change in Control, the Plan may be amended or terminated by the Committee; provided, however, that during the 12 months prior to a Change in Control, the Committee may not amend the plan in any manner that adversely affects the rights or benefits of any Participant without such Participant's consent. Following the occurrence of a Change in Control, the Plan may not be amended or terminated in any respect that adversely affects the rights or benefits of any Participant and may not be terminated until all obligations under the Plan have been satisfied.

IV. ADMINISTRATION

The Plan shall be administered by the Committee, which shall have full and exclusive power to interpret the Plan and to adopt rules, regulations and guidelines to carry out the Plan as it deems necessary or appropriate. Any Committee decision in interpreting and administering the Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. Notwithstanding anything in the Plan to the contrary, following a Change in Control, a Participant shall have the right to challenge any determination by Committee regarding such Participant's rights under the Plan in a court or tribunal of competent jurisdiction and the Committee's determination shall be subject to de novo review. Such de novo standard shall apply notwithstanding the grant of full discretion hereunder to the Committee or any person or characterization of any decision by the Committee or by such person as final, binding or conclusive on any party.

V. ELIGIBILITY

From time to time, the Committee may, in its sole discretion, designate in writing the names of the employees who shall be eligible for benefits under the Plan. Promptly following the date on which the Committee designates the employees who shall be Participants in the Plan, the Committee shall deliver each Participant a written notice of participation which specifies the Participant's applicable Severance Multiple and COBRA Period. The Committee may designate Participants at any time. The Committee may revoke employees as Participants if, and only if, such Committee action occurs at least twelve months prior to a Change in Control.

VI. SEVERANCE BENEFITS

Upon a Qualifying Termination that occurs within 24 months following a Change in Control, each Participant shall be entitled to receive the following benefits:

1. A lump sum cash payment in an amount equal to (a) the Severance Multiple multiplied by (b) the sum of (i) the Participant's annual base salary in effect as of the date of termination and (ii) the Participant's target annual bonus for the year in which the date of termination occurs (the "***Severance Amount***"), which, subject to Section VII, shall be paid on the 60th day following the Participant's date of termination. For purposes of determining the Severance Amount, the amount of the Participant's annual base salary and target annual bonus will be determined without regard to any reduction if such reduction is the reason for the Participant's termination of employment under the Plan under clause (a) or (b) of the definition of Good Reason.
2. A lump sum cash payment in an amount equal to the cost of (a) the monthly premiums for medical coverage for the Participant and his or her eligible dependents pursuant to Section 4980B(f) of the Code (or any successor provision thereof) in effect as of the date of termination, less the active employee rate for such coverage, multiplied by (b) the number of months in the COBRA Period, which amount, subject to Section VII, shall be paid on the 60th day following the Participant's date of termination (the "***COBRA Amount***"). For avoidance of doubt, the COBRA Period will be set to align with the Severance Multiple, but stated on a monthly basis (e.g., a 2.0 multiple would be 24 months, while a 1.5 multiple would be 18 months).
3. A lump sum cash payment in an amount equal to (a) the greater of (x) Participant's target annual bonus for the fiscal year of termination or (y) the amount being accrued on the books and records of the Company in respect of the Participant's annual bonus for the fiscal year of termination, multiplied by (b) a fraction, the numerator of which is the number of days that have elapsed through the date of termination during the fiscal year of the Company in which the date of termination occurs, and the denominator of which is the total number of days in such fiscal year, which amount, subject to Section VII, shall be paid on the 60th day following the Participant's date of termination. The amount of the Participant's target annual bonus will be determined without regard to any reduction if such reduction is the reason for the Participant's termination of employment under the Plan under clause (b) of the definition of Good Reason (the "***Prorated Bonus***").
4. A lump sum cash payment consisting of the Participant's earned annual base salary through the date of his or her termination of employment, which shall be paid no later than the 30th day following the date of the Participant's termination of employment.
5. Any annual incentive payment for any prior award period that has ended but not yet paid to the Participant as of his or her date of termination (other than any portion of such annual incentive payment that was previously deferred, which shall be paid in accordance with the applicable deferral arrangement and any election thereunder), which shall be paid no later than the 15th day of the third month following the last day of the fiscal year with respect to which such incentive payment is attributed to.
6. To the extent not paid or provided prior to the Participant's date of termination, any other amounts or benefits required to be paid or provided, or which the Participant is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company or its affiliates through the date of termination, including unreimbursed expenses due and owing to the Participant under the Company's expense reimbursement policy as of the date of termination.

Upon a Qualifying Termination that occurs during the six-month period immediately preceding the date on which a Change in Control occurs but after the date a definitive transaction agreement is executed that contemplates such a Change in Control, and it is reasonably demonstrated by the Participant that such termination of employment was initiated by the acquiror or merger partner in connection with the Change in Control, then, for purposes of the Plan, the Participant's employment shall be deemed to have terminated immediately following the closing of the Change in Control, and the amount paid to the Participant under this Plan shall be reduced by the amount of any severance benefits paid to the Participant in connection with such termination of employment or that the Participant is entitled to receive in connection with such termination of employment pursuant to any other severance plan, policy or Individual Agreement.

Participants who voluntarily terminate employment without Good Reason or terminate employment due to death or Disability or are terminated by the Company for Cause will not be eligible for benefits under the Plan.

Participants shall have no obligation to mitigate the severance obligations under the Plan and compensation from a subsequent employer will not reduce benefits under the Plan.

All payments and benefits under the Plan shall be less any required tax withholdings.

VII. RELEASE REQUIREMENT

A Participant shall not be entitled to the Severance Amount, the COBRA Amount or the Prorated Bonus unless the Participant executes a Separation Agreement and Release of All Claims (the "***Separation Agreement***") within 30 days (or 45 days, if applicable law requires the Participant be entitled to consider the Separation Agreement for a longer period), and the Separation Agreement becomes effective in accordance with its terms prior to the 60th day following the Participant's date of termination.

VIII. SEVERANCE BENEFITS REQUIRED BY OTHER AGREEMENT

If Participant is entitled to severance benefits under the Plan and one or more other severance plans or agreements or an Individual Agreement, such Participant shall only receive the severance benefits under the Plan (subject to receipt of a signed (and unrevoked) Separation Agreement).

IX. LIMITATION ON CERTAIN PAYMENTS

Anything in the Plan to the contrary notwithstanding, if the Accounting Firm (as defined below) shall determine that receipt of all Payments (as defined below) would subject the Participant to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to the Plan (the "***Agreement Payments***") so that the Parachute Value (as defined below) of all Payments, in the aggregate, equals the Safe Harbor Amount (as defined below). The Agreement Payments shall be so reduced only if the Accounting Firm determines that the Participant would have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced. If the Accounting Firm determines that the Participant would not have a greater Net After-Tax Receipt of aggregate Payments if the Agreement Payments were so reduced, the Participant shall receive all Agreement Payments to which the Participant is entitled hereunder.

If the Accounting Firm determines that aggregate Agreement Payments should be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, the Company shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof.

As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company to or for the benefit of the Participant pursuant to the Plan which should not have been so paid or distributed ("***Overpayment***") or that additional amounts which will have not been paid or distributed by the Company to or for the benefit of the Participant pursuant to the Plan could have been so paid or distributed ("***Underpayment***"), in each case, consistent with the calculation of the Safe Harbor Amount hereunder. If the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or the Participant which the Accounting Firm believes has a high probability of success, determines that an Overpayment has been made, the Participant shall pay promptly (and in no event later than 60 days following the date on which the Overpayment is determined) pay promptly any such Overpayment to the Company together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Participant to the Company if and to the extent such payment would not either reduce the amount on which the Participant is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. If the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be paid promptly (and in no event later than 60 days following the date on which the Underpayment is determined) by the Company to or for the benefit of the Participant together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code.

To the extent requested by the Participant, the Company shall cooperate with the Participant in good faith in valuing, and the Accounting Firm shall take into account the value of, services provided or to be provided by the Participant (including without limitation, the Participant's agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant) before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of Treasury Regulation Section 1.280G-1 under Section 280G of the Code), such that payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of Treasury Regulation Section 1.280G-1 under Section 280G of the Code and/or exempt from the definition of the term "parachute payment" within the meaning of Q&A-2(a) of Treasury Regulation Section 1.280G-1 under Section 280G of the Code in accordance with Q&A-5(a) of Treasury Regulation Section 1.280G-1 under Section 280G of the Code.

All determinations made by the Accounting Firm under this Section shall be binding upon the Company and the Participant and shall be made as soon as reasonably practicable and in no event later than 15 days following the date of the Participant's termination. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

The following terms shall have the following meanings for purposes of this Section.

1. "***Accounting Firm***" means a nationally recognized certified public accounting firm that is selected by the Company for purposes of making the applicable determinations hereunder and is reasonably acceptable to the Participant, which firm shall not, without the Participant's consent, be a firm serving as accountant or auditor for the individual, entity or group effecting the Change in Control.
2. "***Net After-Tax Receipt***" means the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Payment net of all taxes imposed on the Participant with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to the Participant's taxable income for the immediately preceding taxable year, or such other rate(s) as the Accounting Firm determined to be likely to apply to the Participant in the relevant tax year(s).
3. "***Parachute Value***" of a Payment means the present value as of the date of the Change in Control

for purposes of Section 280G of the Code of the portion of such Payment that constitutes a “parachute payment” under Section 280G(b)(2) of the Code, as determined by the Accounting Firm for purposes of determining whether and to what extent the excise tax under Section 4999 of the Code will apply to such Payment.

4. “***Payment***” means any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Participant, whether paid or payable pursuant to the Plan or otherwise.
5. “***Safe Harbor Amount***” means (x) 3.0 times the Participant's “base amount,” within the meaning of Section 280G(b)(3) of the Code, minus (y) $1.00.

X. SECTION 409A

It is intended that payments and benefits made or provided under the Plan shall not result in penalty taxes or accelerated taxation pursuant to Section 409A of the Code. Any payments that qualify for the “short-term deferral” exception, the separation pay exception or another exception under Section 409A of the Code shall be paid under the applicable exception. For purposes of the limitations on nonqualified deferred compensation under Section 409A of the Code, each payment of compensation under the Plan shall be treated as a separate payment of compensation for purposes of applying the exclusion under Section 409A of the Code for short-term deferral amounts, the separation pay exception or any other exception or exclusion under Section 409A of the Code. All payments to be made upon a termination of employment under the Plan may only be made upon a “separation from service” under Section 409A of the Code to the extent necessary in order to avoid the imposition of penalty taxes on a Participant pursuant to Section 409A of the Code. In no event may a Participant, directly or indirectly, designate the calendar year of any payment under the Plan including without limitation through the timing of the delivery of the Separation Agreement, such that, for the avoidance of doubt, any payment that may be paid in more than one taxable year, depending on the date of delivery of the Release by a Participant, shall be paid in the later taxable year.

Notwithstanding anything to the contrary in the Plan, all reimbursements and in-kind benefits provided under the Plan that are subject to Section 409A of the Code shall be made in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during a Participant’s lifetime (or during a shorter period of time specified in the Plan); (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (iii) the reimbursement of an eligible expense shall be made no later than the last day of the calendar year following the year in which the expense is incurred; and (iv) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

Notwithstanding any other provision of the Plan to the contrary, if a Participant is considered a “specified employee” for purposes of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the date of the Participant’s termination of employment), any payment that constitutes nonqualified deferred compensation within the meaning of Section 409A of the Code that is otherwise due to such Participant under the Plan during the six-month period immediately following such Participant’s separation from service (as determined in accordance with Section 409A of the Code) on account of such Participant’s separation from service shall be accumulated and paid to such Participant on the first business day of the seventh month following his separation from service (the “***Delayed Payment Date***”), to the extent necessary to avoid penalty taxes or accelerated taxation pursuant to Section 409A of the Code. If such Participant dies during the postponement period, the amounts and entitlements delayed on account of Section 409A of the Code shall be paid to the personal representative of his estate on the first to occur of the Delayed Payment Date or 30 calendar days after the date of such Participant’s death.

XI. OTHER TERMS AND CONDITIONS

Unless otherwise specified in the Plan, all benefits of employment terminate as of the Participant's date of termination.

The Plan does not constitute a contract of employment or impose on the Company any obligation to retain Participants. Nothing in the Plan will be deemed to modify or affect in any way any Participant's at-will status.

In the event of any conflict between this document and any other document, instrument, or communication describing the policies or procedures with respect to benefits for employees eligible to participate in the Plan, the terms of this document will control.

The benefits under the Plan are provided entirely from the Company's general assets. No portion of the Plan is funded.

In the event any provision of the Plan is held to be in conflict with or in violation of any federal, state or local statute, rule or decision, all other provisions of the Plan shall continue in full force and effect.

The Plan shall be governed by the laws of the State of California.

XII. CERTAIN DEFINITIONS

"***Cause***" means (a) "Cause" as defined in the Participant's Individual Agreement or (b) if the Participant is not subject to an Individual Agreement or it does not define Cause: (i) conviction of, or plea of guilty or nolo contendere by, the Participant for committing a felony under federal law or the law of the state in which such action occurred, (ii) willful and deliberate failure on the part of the Participant to perform his or her employment duties in any material respect, (iii) dishonesty in the course of fulfilling the Participant's employment duties, or (iv) a material violation of the Company's ethics and compliance program. Following a Change in Control, any determination by the Committee as to whether Cause exists shall be subject to de novo review.

"***Change in Control***" means the happening of any of the following events:

(a) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended from time to time (the "***Exchange Act***")) (a "***Person***") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the "***Outstanding Company Common Stock***") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "***Outstanding Company Voting Securities***"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (D) any acquisition by any entity pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this definition; or

(b) A change in the composition of the Board of Directors of the Company (the "***Board***") such that the individuals who, as of the Effective Date, constitute the Board (the "***Incumbent Board***") cease for any reason to constitute at least a majority of the Board; provided, however, that, for purposes of this definition, any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be considered as a member of the Incumbent Board; or

(c) The consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries or sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or securities of another entity by the Company or any of its subsidiaries (a "***Business Combination***"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent securities), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent body or committee) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, a Change in Control shall not have occurred unless the Change in Control constitutes a “change in ownership” of the Company, a “change in effective control” of the Company or a “change in the ownership of a substantial portion of the assets” of the Company, in each case, as defined under Section 409A of the Code.

“***COBRA Period***” means the period of months following the Participant’s termination of employment set forth in the written notice of participation provided to the Participant by the Company.

The “***Code***” means the Internal Revenue Code of 1986, as amended.

“***Committee***” means the Compensation Committee of the Board, or any other committee designated by the Board to administer the Plan.

“***Disability***” means (a) “Disability” as defined in the Participant’s Individual Agreement or (b) if the Participant is not subject to an Individual Agreement or it does not define disability, a condition entitling the Participant to receive benefits under a long-term disability plan of the Company or an affiliate or, in the absence of such a plan, the complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which a Participant was employed or served when such disability commenced or, as determined by the Committee, based upon medical evidence acceptable to it.

“***Good Reason***” means (a) a 10% reduction in the Participant’s base salary, (b) a 10% reduction in the Participant’s target annual incentive opportunity, (c) a material diminution in the Participant’s title or position or a material diminution in duties, authorities or responsibilities of the Participant, or the assignment to the Participant of any duties or responsibilities (including reporting responsibilities) materially inconsistent with the Participant’s position, or (d) any relocation of the Participant’s principal place of business to a location more than 30 miles from the Participant’s principal place of business prior to such relocation. In order to invoke a termination for Good Reason, the Participant shall provide written notice to the Company of the existence of one or more of the conditions described in clauses (a) through (d) within 30 days following the Participant’s knowledge of the initial existence of such condition or conditions, specifying in reasonable detail the conditions constituting Good Reason, and the Company shall have 30 days following receipt of such written notice (the “***Cure Period***”) during which it may remedy the condition if such condition is reasonably subject to cure. If the Company fails to remedy the condition constituting Good Reason during the applicable Cure Period, the Participant's “separation from service” (within the meaning of Section 409A of the Code) must occur, if at all, within 60 days following such Cure Period in order for such termination as a result of such condition to constitute a termination for Good Reason.

“***Individual Agreement***” means an employment, consulting or similar agreement between a Participant and the Company or one of its subsidiaries or affiliates.

“***Participant***” means any executive, employee or consultant of the Company that the Committee has designated in writing as eligible to receive benefits under the Plan in accordance with Section V.

“***Qualifying Termination***” means a termination of the Participant’s employment by the Company without Cause or a resignation by the Participant with Good Reason.

“***Severance Multiple***” means the multiple set forth in the written notice of participation provided to the Participant by the Company.

EXHIBIT 31.1

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

I, Bradley M. Shuster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NMI Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2018	/s/ Bradley M. Shuster
	Bradley M. Shuster
	Chairman and Chief Executive Officer
	(Principal Executive Officer)

EXHIBIT 31.2

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

I, Adam S. Pollitzer, certify that:

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

October 30, 2018

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

EXHIBIT 32.1

CERTIFICATION OF CEO AND CFO PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NMI Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

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

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

October 30, 2018

/s/ Bradley M. Shuster
Bradley M. Shuster
Chairman and Chief Executive Officer
(Principal Executive Officer)

October 30, 2018

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

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