



NMI Holdings, Inc.

2020 ANNUAL REPORT

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2020**

OR

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

Commission file number **001-36174**

NMI Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

45-4914248
(I.R.S. Employer Identification No.)

2100 Powell Street , Emeryville , CA
(Address of principal executive offices)

94608
(Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$.01 par value per share	NMIH	NASDAQ

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** **No**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. **Yes** **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** **No**

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes** **No**

As of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the calculated aggregate market value of common stock held by non-affiliates was 1,182,522,798.

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on February 22, 2021 was 85,302,579 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

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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," "perceive," "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:

- uncertainty relating to the coronavirus (COVID-19) pandemic and the measures taken by governmental authorities and other third parties to combat it, including their impact on the global economy, the U.S. housing, real estate, housing finance and mortgage insurance markets, and our business, operations and personnel;
- 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 generally, or with first time homebuyers or on very high loan-to-value mortgages;
- our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements (PMIERS) and other requirements imposed by the GSEs, which they may change at any time;
- retention of our existing certificates of authority in each state and the District of Columbia (D.C.) and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- our future profitability, liquidity and capital resources;
- actions of existing competitors, including other private mortgage insurers and government mortgage insurers such as the Federal Housing Administration (FHA), the U.S. Department of Agriculture's Rural Housing Service (USDA) and the U.S. Department of Veterans Affairs (VA) (collectively, government MIs), and potential market entry by new competitors or consolidation of existing competitors;
- developments in the world's financial and capital markets and our access to such markets, including reinsurance;
- adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators, including the timing and eventual implementation of the final rules concerning the expiration of the "QM Patch" and "Qualified Mortgage" definitions under the Dodd-Frank Act Ability to Repay/Qualified Mortgage rule;
- legislative or regulatory changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance in particular;
- potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries;
- changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance;
- our ability to successfully execute and implement our capital plans, including our ability to access the capital, credit and reinsurance markets and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators;
- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex

infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;

- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
- potential adverse impacts arising from natural disasters, including, with respect to affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;
- the inability of our counter-parties, including third-party reinsurers, to meet their obligations to us;
- failure to maintain, improve and continue to develop necessary information technology (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 the *Risk Factors* described in this report in Item 1A, "*Risk Factors*," Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this report, including the exhibits hereto.

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

PART I

Item 1. Business

General

We provide mortgage insurance (referred to as "mortgage insurance" or "MI") through our wholly-owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One). NMIC and Re One are domiciled in Wisconsin and principally regulated by the Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI). NMIC is our primary insurance subsidiary, and is approved as an MI provider by the GSEs and is licensed to write MI coverage in all 50 states and D.C. Re One provides reinsurance to NMIC on certain insured loans after giving effect to third-party reinsurance. Our subsidiary, NMI Services, Inc. (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 loan-to-value (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.

NMI Holdings, Inc. (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 December 31, 2020, we had master policies with 1,570 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders, internet-sourced lenders and other non-bank lenders. As of December 31, 2020, we had \$113.1 billion of total insurance-in-force (IIF), including primary IIF of \$111.3 billion, and \$28.3 billion of gross risk-in-force (RIF), including primary RIF of \$28.2 billion. For the year ended December 31, 2020, we generated new insurance written (NIW) of \$62.7 billion. As of December 31, 2020, we had 262 full- and part-time employees.

We believe that our success in acquiring a large and diverse group of lender customers and growing a portfolio of high-quality IIF traces to our founding principles, whereby we aim to help qualified individuals achieve their homeownership goals, ensure that we remain a strong and credible counter-party, deliver a unique customer service experience, establish a differentiated risk management approach that emphasizes the individual underwriting review or validation of the vast majority of the loans we insure, utilize our proprietary Rate GPS[®] pricing platform to dynamically evaluate risk and price our policies, and foster a culture of collaboration and excellence that helps us attract and retain experienced industry leaders.

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

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

Overview of Residential Mortgage Finance and the Role of the Private MI Industry in the Current Operating Environment

U.S. Residential Mortgage Market

According to statistics published by the U.S. Federal Reserve, the U.S. residential mortgage market is one of the largest in the world, with approximately \$11.5 trillion of mortgage debt outstanding as of December 31, 2020, and includes both primary and secondary components. The primary market consists of lenders originating home loans to borrowers and includes loans made in connection with home purchases, which are referred to as purchase originations, and loans made to refinance existing mortgages, which are referred to as refinancing originations. The secondary market includes institutions that buy and sell mortgages in the form of whole loans or securitized assets, such as mortgage-backed securities.

The U.S. residential mortgage market attracts and involves participation from a range of private and governmental institutions. Private industry participants include national and regional mortgage banks, money center banks, mortgage brokers, community banks, builder-owned mortgage lenders, internet-sourced lenders, commercial, regional and investment banks, savings institutions, credit unions, real estate investment trusts (REITs) and other financial institutions. Government participants include

government agencies such as the government MIs (e.g., FHA, USDA and VA) and Ginnie Mae, as well as government-sponsored enterprises, such as Fannie Mae and Freddie Mac.

GSEs

The GSEs are the largest participants in the secondary mortgage market, buying residential mortgages from banks and other primary lenders in connection with their federal mandate to provide liquidity and promote stability in the U.S. housing finance system. The GSEs' charters prohibit them from purchasing or guaranteeing high-LTV loans unless such loans are covered by an authorized form of credit enhancement, including insurance from a GSE-approved MI company, retention by the mortgage seller of at least a 10% participation in the loan or agreement by the seller to repurchase or replace the loan in the event of a default. As the largest participants in the secondary mortgage market, the GSEs are the principal purchasers of mortgages insured by mortgage insurers, including NMIC. As a result, the private MI industry in the U.S. is driven in large part by the GSEs' demand for high-LTV loans, mortgage insurance requirements and business practices. See "*Business - U.S. Mortgage Insurance Regulation - GSE Oversight*," below.

Mortgage Insurance

MI protects lenders and investors from default-related losses on a portion of the unpaid principal balance of a covered mortgage and plays a central role in the U.S. housing market. MI is provided by both government MIs and private MI companies, such as NMIC, and is primarily geared toward high-LTV loans where borrowers make a down-payment that is less than 20% of the value of a home. MI helps facilitate secondary market sales of such mortgages, primarily to the GSEs, and provides lenders and investors a means to diversify and mitigate their exposure to mortgage credit risk. 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.

Competition

Our competition includes other private mortgage insurers, government MIs and other alternatives designed to eliminate the need for MI, such as piggy-back loans or front-end risk sharing arrangements that do not require private MI on loans sold to the GSEs.

The private MI industry is highly competitive and currently consists of six active participants, including us, Arch Capital Group Ltd., Essent Group Ltd. (Essent), Genworth Financial, Inc., MGIC Investment Corporation (MGIC), and Radian Group Inc. (Radian). Private mortgage insurers generally compete based on terms of coverage, underwriting guidelines, pricing, customer service (including speed of MI underwriting and decisioning), availability of ancillary products and services (including training and loan review services), financial strength, customer relationships, name recognition and reputation, the strength of management teams and sales organizations, the effective use of technology, and innovation in the delivery and servicing of insurance products. We expect the MI market to remain competitive, with pressure for industry participants to grow or maintain their market share.

We and other private mortgage insurers also compete directly with the government MI companies, who significantly increased their share in the MI market following the 2008 financial crisis. Prior to the financial crisis, private mortgage insurers accounted for the majority of the insured mortgage origination market. During the financial crisis, the government MIs captured an increasing share of the high-LTV MI market as incumbent private mortgage insurers came under significant financial stress. According to data reported by Inside Mortgage Finance, in 2007, government MIs accounted for 23% of the total insured mortgage origination market. By 2009, government MI share had peaked at approximately 82% of the total insured mortgage origination market. Government MI share has since declined and is estimated to have been 56% in 2020. Previous rate actions and product introductions continue to impact the government mortgage insurers' market share and by extension the private MI market. Although there has been broad policy consensus toward the need for increasing private capital participation and decreasing government exposure to credit risk in the U.S. housing finance system, it remains difficult to predict whether the combined market share of government MIs will recede to pre-2008 levels. A range of factors influence a lender's decision to choose private over government MI, including among others, GSE demand, premium rates and other charges, loan eligibility requirements, cancelability, loan size limits and the relative ease of use of private MI products compared to government MI alternatives.

Products and Services

Mortgage Insurance Products

We offer two principal types of MI coverage, primary and pool.

Primary Mortgage Insurance

Primary MI provides default protection on individual mortgage loans at specified coverage percentages. Primary MI is typically written on a flow basis, whereby mortgages are insured on an individual, loan-by-loan basis at the time of origination. Primary MI can also be written on an aggregated basis, whereby each mortgage in a given loan portfolio is individually insured in a single transaction after the point of origination.

All of our primary insurance is written on first-lien mortgage loans, with nearly all secured by owner occupied single-family homes (defined as one-to-four family homes and condominiums). We also write a small amount of primary insurance on first-lien mortgages secured by vacation properties, second homes and investment properties, although we have formal risk policies in place to limit the amount of such business we underwrite.

Lenders select specific coverage levels for each loan insured on a primary basis. For loans sold to a GSE, the coverage level must comply with the requirements established by that GSE. For other loans, lenders determine their desired coverage levels.

IIF is the unpaid principal balance of all insured loans on a given date, and RIF is the product of the coverage percentages multiplied by the IIF on such date. We expect our RIF across all policies written to approximate 25% of primary IIF; however, coverage levels will vary on an individual loan basis between 6% and 35%. Higher coverage percentages generally result in greater amounts paid per claim relative to policies with lower coverage percentages. In general, our premium rates increase as coverage levels increase.

Our maximum obligation with respect to a claim is generally determined by multiplying the selected coverage percentage by the loss amount on an insured loan. The loss amount is defined in the applicable master mortgage insurance policy (together with any related endorsements, a Master Policy) and includes, subject to certain limitations, unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale of the property securing the insured loan. See "*Business - Defaults and Claims; Loss Mitigation - Defaults and Claims*," below for a description of our claim settlement processes.

The terms of our primary mortgage insurance coverage are governed by the applicable Master Policy, which we issue to each approved lender with which we do business. The Master Policy sets forth the terms and conditions of our MI coverage, including, among others, loan eligibility requirements, coverage terms, premium payment obligations, exclusions or reductions in coverage, rescission and rescission relief provisions, policy administration requirements, conditions precedent to payment of a claim and loss payment procedures. In March 2020, we introduced a new Master Policy (the 2020 Master Policy), which replaced our previous form (the 2014 Master Policy) for MI applications received on and after March 1, 2020. We implemented the 2020 Master Policy, in part, to provide terms of coverage that conform to the requirements of the GSEs' 2018 revised Amended and Restated Rescission Relief Principles (RRPs), which contain rescission relief provisions that the GSEs require their approved mortgage insurers to include in their master policies. In addition to incorporating substantive changes mandated by the RRP, we developed the 2020 Master Policy to (i) present standard MI policy terms in a plain English format; (ii) update premium, servicing, default notice and modification provisions to align with industry practice; and (iii) clarify claim settlement and other terms. The 2020 Master Policy governs the terms of coverage for NIW associated with applications received on or after March 1, 2020. NIW associated with applications received before March 1, 2020 continues to be covered under the 2014 Master Policy. The 2014 Master Policy and 2020 Master Policy (taken together, the Master Policies) are publicly available on our website.

Upon receipt of an insurable loan, we issue a certificate of insurance that extends coverage for such loan under the applicable Master Policy. See "*Business - Underwriting*," below for a description of our underwriting processes. Our MI coverage attaches at a loan level and remains in effect whether a mortgage is retained by the originating lender or sold, assigned or otherwise transferred in the secondary market. We generally consider the original lender or any subsequent servicer of an insured loan to be our insured or, with respect to subsequent owners and the GSEs, third-party beneficiaries under our Master Policies.

Premium payments for primary MI are the contractual responsibility of our insureds; however, depending on how the loan is structured, the premium payments may be paid by either the lender or the borrower, notwithstanding that the borrower is not a beneficiary under the terms of the policy. Policies with premium payments made by the borrower are referred to as borrower paid mortgage insurance (BPMI) and those with premium payments made by the lender are referred to as lender paid mortgage insurance (LPMI). Lenders may structure loans to recover LPMI premiums from borrowers, including through increases in mortgage note rates or higher origination fees.

Our premiums are based on statutory rating rules and rates that we file with various state insurance departments. We establish our premium rates based on models that assess risk across a spectrum of variables, including coverage percentages, LTV ratios, loan and property attributes, borrower debt-to-income (DTI) and credit score profiles, and market and macroeconomic

conditions. We have discretion under our rates and rating rules to flex our premium rates to a limited degree, and we may choose to do so for lenders or programs that meet certain criteria. We generally cannot change premium rates on insured loans after coverage is established.

In general, premiums are calculated as a percentage of the original principal balance of an insured loan. We have four premium plans:

- single — entire premium is paid upfront at the time coverage is placed;
- annual — premiums are paid in advance for a subsequent twelve-month period over the life of a policy;
- monthly — premiums are paid in advance on a monthly basis over the life of the policy; and
- Monthly Advantage[®] — premiums are billed upon our receipt of notice of a mortgage close and then paid in arrears on a monthly basis over the life of the policy.

In general, we may not terminate MI coverage except when an insured fails to pay premium as due or for certain material violations of our Master Policy; although, as discussed below in "*Business - Underwriting - Independent Validation and Rescission Relief*," the terms of our Master Policy restrict our ability to rescind coverage when certain criteria are met. Insureds may cancel coverage on a loan at any time at their option or upon mortgage repayment, which may be accelerated because a borrower refinances a mortgage or sells the underlying property. GSE guidelines generally provide that a borrower on a GSE-owned or guaranteed loan meeting certain conditions may require their mortgage servicer to cancel BPMI upon the borrower's request when the principal balance of the loan is 80% or less of the property's current assessed value. The federal Homeowners Protection Act of 1998 (HOPA) also requires the automatic termination of BPMI on most current loans when the LTV ratio (based on the original value of the underlying property and original amortization schedule of the loan) is first scheduled to reach 78%. The HOPA also provides for cancellation of BPMI upon a borrower's request when the LTV ratio (based on the original value of the underlying property and original amortization schedule of the loan) is first scheduled to reach or, based on actual payments, reaches 80%, upon satisfaction of the conditions set forth in the HOPA, including that the loan be current at the time. In addition, some states impose their own MI notice and cancellation requirements on mortgage loan servicers.

Pool Insurance

Pool insurance is generally used to provide additional "credit enhancement" for certain secondary market mortgage transactions. Pool insurance generally covers the excess of loss on a defaulted mortgage loan that exceeds the claim payment under the primary MI coverage, if such loan has primary coverage, as well as the total loss on a defaulted mortgage loan that did not have primary coverage. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the mortgage insurer until the aggregate loss on the pool of loans exceeds the deductible.

In 2013, NMIC entered into a pool agreement with Fannie Mae, pursuant to which NMIC initially insured 21,921 loans with IIF of \$5.2 billion (as of September 1, 2013). Fannie Mae pays monthly premiums for this transaction, which are recorded as written and earned in the month received. The agreement has a term of 10 years from September 1, 2013, the coverage effective date. The RIF to NMIC is \$93.1 million, which represents the difference between a deductible payable by Fannie Mae on initial losses and a stop loss above which losses are borne by Fannie Mae. NMIC provides this same level of risk coverage over the term of the agreement. 100% of this pool risk is reinsured under the Company's September 2016 quota-share reinsurance transaction (2016 QSR Transaction), discussed below at "*Business - Reinsurance - Third-Party Reinsurance - Quota Share Reinsurance*."

We did not write any pool insurance in 2020 and at present do not expect to write any meaningful amount of pool insurance in the near future.

Loan Review Services

We offer outsourced loan review services to mortgage originators through NMIS. In connection with these services, NMIS reviews loan data and documentation and assesses whether individual loan applications comply with the originator's and/or GSEs' underwriting guidelines. We provide loan review services for mortgages that require MI and those that do not. Under the terms of its loan review agreements, NMIS provides customers with limited indemnification against losses for certain material loan review errors. The indemnification may be in the form of monetary or other remedies, subject to per loan and annual limits. NMIS utilizes third-party service providers to conduct individual loan reviews. NMIS third parties have represented and warranted to NMIS that they comply with the requirements of the federal Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) in all applicable jurisdictions. See "*Business - U.S. Mortgage Insurance Regulation - Other U.S. Regulation - SAFE Act*," below.

Customers

Since our inception, we have sought to establish customer relationships with a broad group of mortgage lenders. As of December 31, 2020, we had Master Policies with 1,570 customers. We classify our customers into two primary categories, which we refer to as "National Accounts" and "Regional Accounts." We consider National Accounts to be the most significant residential mortgage originators as determined by the combined volume of their own "retail" originations and insured business they acquire from "correspondents," or other smaller mortgage originators. National Account lenders primarily sell their loans to the GSEs or, less frequently, to private label secondary markets. National Account lenders may also retain loans they originate or purchase in their portfolios. Regional Account lenders typically originate loans on a local or regional level. Some Regional Account lenders have origination platforms that span multiple regions; however, their primary lending focus is local. Regional Account lenders sell the majority of their origination volume to National Accounts; however, they may also retain loans in their portfolios or sell portions of their production directly to the GSEs.

We further define customers as "centralized" or "decentralized" based on how they manage their mortgage insurance purchasing decisions across each of their MI providers. Centralized lenders make decisions about the placement and choice of private mortgage insurance at a centralized, corporate level. Decentralized lenders make decisions about the placement and choice of private mortgage insurance at a loan level by loan production personnel, such as loan officers, processors, and underwriters. National Account lenders primarily utilize the centralized decision model and Regional Account lenders primarily utilize the decentralized decision model. There are, however, a number of National Account lenders who opt for a decentralized approach and a number of Regional Account lenders who opt for a centralized approach.

The GSEs, as major purchasers of conventional mortgage loans in the U.S., are the primary beneficiaries of our mortgage insurance coverage. Revenues from our customers have been generated in the U.S. only.

Customers exceeding 10% of consolidated revenues

No individual customer accounted for greater than 10% of our consolidated revenues in 2020.

Sales and Marketing

Our sales and marketing efforts are designed to help us establish and maintain high-quality customer relationships. Our sales force consists of qualified mortgage professionals that generally have well-established relationships with industry leading lenders and significant experience in both MI and mortgage lending. We structure our sales force into National Accounts that focus on relationships with national or large regional lenders, and Regional Accounts that focus on relationships with regional lenders, such as community banks, credit unions and mortgage bankers. We also maintain a dedicated customer service team, which we refer to as the Solution Center, which offers support in loan submission and underwriting services as well as risk management and technology to support our sales efforts.

We also have a product development and marketing department that has primary responsibility for the creation, launch and management of our MI products and technological offerings, and coordination of our marketing strategy. Our marketing efforts seek to raise brand awareness through advertising and marketing campaigns, customer training programs, sponsorship of industry and educational events, and our web-based presence and proprietary mobile technology.

Underwriting

We have established underwriting and risk management guidelines based on what we believe to be the major factors that influence the performance of mortgage credit. Our underwriting guidelines incorporate credit eligibility requirements that, among other things, restrict our coverage to mortgages that meet our thresholds with respect to borrower credit scores (FICO), maximum DTI levels, maximum LTVs and documentation requirements. Our underwriting guidelines also limit the coverage we provide for certain higher-risk mortgages, including those for cash-out refinancings, second homes or investment properties.

We gather extensive data, perform detailed loan-level risk analysis and continuously monitor and assess trends in key macroeconomic factors such as housing prices, interest rates and employment, to refine and adapt our underwriting guidelines and pricing assumptions within the context of the current risk environment.

We evaluate loans and issue policies through two underwriting platforms:

- *Non-Delegated:* Customers submit loan information and documentation to us so that we may individually underwrite each application to reach a decision as to whether we will insure a loan. On receipt of a non-delegated submission, we review the information, documentation and data provided by the lender to underwrite the MI application.
- *Delegated:* We provide eligible customers who have been vetted and approved, and comply with a defined set of delegated underwriting program requirements with the ability to directly underwrite our policies and bind our coverage based on pre-established eligibility rules, approved underwriting guidelines and according to the terms of the Master Policy. We offer delegated underwriting to lenders that have a track record of originating quality mortgage loans and meet our delegated authority approval requirements. To complete the underwriting process and bind coverage, delegated lenders are required to provide us with certain loan characteristics to demonstrate such loans meet our threshold eligibility rules. Our delegated eligibility rules are programmed into our insurance management system, which provides us the ability to automatically reject policies that fail to meet threshold requirements.

Lenders elect whether to be non-delegated or delegated customers at the time they apply to become Master Policy holders. Non-delegated lenders deliver all MI applications to us on a non-delegated basis. Certain delegated lenders may choose to deliver some or all of their MI applications to us on a non-delegated basis, but retain their authority to underwrite our MI on a delegated basis.

We employ a team of experienced underwriters who review and evaluate our non-delegated loan submissions. Our underwriters are located remotely, facilitating our ability to service our customers nationwide across the different time zones. We also engage third-party underwriting service providers (USPs) who provide us with incremental underwriting capacity. We train and require our USPs to follow the same processes and underwriting guidelines that our own employees follow when rendering insurance decisions.

We have processes in place to manage the risk associated with outsourcing a component of our underwriting function. In collaboration with our USPs' management teams, we monitor our USPs' day-to-day underwriting performance and MI decisioning. We also review the qualifications of each individual underwriter assigned by our USPs to service our account and provide them with NMI specific systems and guideline training to ensure they have the necessary training to render underwriting decisions consistent with our underwriting guidelines and credit policies. Our outsourcing agreements require our USPs to perform and provide us with the results of internal quality control reviews on a periodic basis. Individual underwriters with unacceptable performance records are monitored and generally subject to replacement with 30 days' notice. We also perform quarterly quality control reviews of a statistically relevant sample of our non-delegated underwriting decisions, including those made by our USPs.

Our business has been subject to modest seasonality in NIW production. Consistent with the seasonality of home sales, purchase origination volumes typically increase in late spring and peak during the summer months, leading to a rise in NIW volume during the second and third quarters of a given year. Refinancing volume, however, does not follow a set seasonal trend and instead is primarily influenced by mortgage rates. An increase in refinancing volume may limit the seasonal effect of home purchase patterns on mortgage insurance NIW.

Independent Validation and Rescission Relief

We offer post-closing underwriting reviews, which we refer to as "independent validations," for both non-delegated and delegated loans, as described below. Upon satisfactory completion of an independent validation, which involves reviewing certain post-close documentation to confirm our original assessment of non-delegated loans and performing a comprehensive full-file review for delegated loans, we agree – on an accelerated basis – that we will not rescind coverage under most circumstances. We refer to such accelerated agreement as "early rescission relief."

Our Master Policies generally provide us with the ability to rescind coverage of a loan if there are material misrepresentations, significant underwriting defects and/or fraud later identified in the origination process of such loan. When we rescind coverage of a loan, we cancel the certificate as of the original certificate effective date and return all premiums received related to the impacted loan. Rescission relief generally limits our ability to pursue rescission rights, except under certain life-of-coverage exclusions, such as fraud and pattern activity. Rescission relief also limits our ability to initiate certain investigations or to request information from our insureds.

In September 2018, the GSEs issued revised RRP that outline the rescission relief provisions that are generally required to be included in the master policies of GSE-approved mortgage insurers. Under our 2014 Master Policy, a loan may be eligible for early rescission relief if the borrower has made the first 12 mortgage payments on time and we have satisfactorily completed our independent validation. Under the 2020 Master Policy, which incorporates the RRP, a loan may be eligible for early rescission relief following our satisfactory completion of an independent validation, with no set requirement for a minimum number of timely mortgage payments by the borrower.

Insured loans that do not qualify for early rescission relief may still achieve rescission relief based on a borrower's payment history at the 36th or 60th month, provided the conditions in the applicable Master Policy are satisfied. Under the Master Policies, if a lender has elected not to pursue independent validation and early rescission relief, a loan is still eligible for rescission relief if it is current after 36 months and the borrower has had no more than two 30-day delinquencies and no 60-day or greater delinquencies during such 36-month period. The 2020 Master Policy further provides for a sunset of our rescission rights at the 60-month anniversary of the inception of coverage of an insured loan, provided such loan is then current or subsequently cures.

Lenders have the ability to select whether or not to pursue early rescission relief and subject their insured loans to our post-close independent validation processes. Non-delegated lenders who pursue independent validation are required to submit additional loan documentation post-closing that allows us to independently validate such loans, including a loan's closing disclosures, note, executed mortgage and title insurance commitment. Our 2020 Master Policy provides for a "closing document exception," which permits eligible non-delegated lenders to obtain early rescission relief without post-close independent validations of qualifying loans, if the borrower timely makes the first 12 mortgage payments. Loans from non-delegated lenders who do not pursue or submit the documentation necessary for us to complete our independent validation, and are not eligible for a closing document exception remain eligible for 36 or 60-month rescission relief in accordance with the terms of the applicable Master Policy.

Delegated lenders who pursue early rescission relief and subject their insured loans to our post-close independent validation process are required to submit a full file (which contains all the underwriting information and documentation otherwise required by us for a non-delegated underwrite and the above-referenced post-closing documentation) after a loan's coverage effective date. We refer to our independent validation of delegated loans as our "Delegated Assurance Review" or "DAR" process. Through DAR, we assess and validate the MI underwriting process and decisions made by our delegated customers on an individual loan level basis. Loans from delegated lenders who do not pursue or submit the documentation necessary for us to complete our DAR process remain eligible for 36 or 60-month rescission relief in accordance with the terms of the applicable Master Policy.

All loans, whether included in our post-close validation processes or not, are eligible for review under our quality control (QC) process, and such QC reviews qualify as independent validations for such loans, making them eligible for early rescission relief.

We engage USPs to perform the majority of our delegated and non-delegated independent validation work. As with our non-delegated USPs, we review the qualifications of each individual underwriter engaged by our USPs to service our account and provide them with NMI specific systems and guideline training to ensure they have the necessary training to render independent validation decisions consistent with our underwriting guidelines and credit policies.

Policy Pricing

We utilize a proprietary risk-based pricing platform, which we refer to as Rate GPS, to establish individualized premium rates for most new loans that we insure based on our modeled view of the relative risk and anticipated performance of each loan. Rate GPS considers a broad range of variables, including property type, type of loan product, borrower credit characteristics, and lender and market factors, and provides us with the ability to set and charge premium rates commensurate with the underlying risk of each loan that we insure.

We introduced Rate GPS in June 2018 to replace our previous rate card pricing system. While most of our new business is priced through Rate GPS, we continue to offer a rate card pricing option to a limited number of lender customers who require a rate card for business process reasons.

Our pricing approach targets through-the-cycle returns that exceed our cost of capital. We believe that Rate GPS provides us with a more granular and analytical approach to evaluating and pricing risk, and that it enhances our ability to continue building a high-quality mortgage insurance portfolio and delivering attractive risk-adjusted returns.

Policy Servicing

Our Policy Servicing Department is responsible for various servicing activities related to Master Policy and certificate administration, premium billing and payment processing. Our Policy Servicing Department primarily interfaces with our insureds' mortgage loan servicers. Some insureds retain the servicing rights and responsibilities for their own loan originations, while others transfer such rights and responsibilities to third-party servicers. A residential mortgage loan servicer handles the day-to-day tasks of managing a lender's loan portfolio, including processing borrowers' loan payments, paying MI premiums to the mortgage insurer, responding to borrower inquiries, keeping track of principal and interest payments, managing escrow accounts and initiating loss mitigation and foreclosure activities. We assign servicing specialists to our servicers to assist with day-to-day transactions and monitoring of insured loans.

Over time, a servicer may change on an insured loan if the related servicing rights are transferred to a different servicer during the life of such loan. Servicing rights and responsibilities related to an insured loan may be sold, assigned or transferred, subject to all of the terms and conditions of the applicable Master Policy. Under the Master Policies, if the servicing rights for an insured loan are sold, assigned or transferred to a servicer we approve, coverage of the loan will continue. We have the right under our Master Policies to revoke approval of a servicer; if the impacted insureds wish to maintain coverage of insured loans serviced by the disapproved provider, such insureds must find another servicer that we approve.

Our policies and procedures accommodate various methods for servicers to communicate loan and certificate information to us. Our Master Policies require our insureds, typically through their servicers, to regularly provide us with reports regarding the statuses of their insured loans, including information on both current and delinquent loans. Generally, servicers submit reports to us on a monthly basis. We are currently integrated with the two largest third-party mortgage servicing systems, Black Knight Financial Services and FiServ. We are also integrated directly with certain lender customers who manage their own servicing systems. These parties' servicing platforms are used by the majority of our larger servicing accounts to exchange billing, payment and certificate level information on a daily or monthly basis. Servicers may also use our own external facing servicing website to process their servicing transactions.

Defaults and Claims; Loss Mitigation

Defaults and Claims

The MI claim cycle begins with the receipt of a Notice of Default (NOD) for an insured loan from a loan servicer. Generally, our Master Policies require our insureds to notify us after a loan is two payments in arrears. We include a loan in our default population and establish claim reserves on such loan when we have received notice from the servicer that as of a particular payment date, the borrower has missed the preceding two or more consecutive monthly payments. The incidence of default is affected by a variety of factors, many of which are unforeseen, including a borrowers' loss of income, unemployment, divorce, illness or death. Defaults that are not cured result in a claim to us. A default may be cured by a borrower remitting all delinquent loan payments, achieving a modification of loan terms, or refinancing the loan or selling the property and satisfying all amounts due under the loan.

Claims result from foreclosures following uncured defaults, losses on approved pre-foreclosure short sales (short sales) or borrowers surrendering their property deeds to their lenders in lieu of foreclosure (deeds-in-lieu). A range of factors impact the frequency and severity of claims, including the macroeconomic environment, local housing prices, loan and borrower level risk profiles, and the size and coverage level of a loan. If a default is not cured and we receive a claim, we refund any unearned premium collected between the date of default and the date of the claim payment.

Our claim exposure includes, subject to certain limitations, the covered portion of unpaid loan principal, delinquent interest (subject to a three-year limit) and certain expenses incurred in connection with the default and subsequent foreclosure or sale of the property securing the insured loan.

Under the terms of our Master Policies, our insureds are generally required to file claims within 60 days of acquiring title to a property securing an insured loan (typically through foreclosure) or when there has been an approved short sale. In the years following the 2008 financial crisis, foreclosure time-lines and the average time from initial default by a borrower to MI claim submission extended due to legislation and GSE programs requiring mortgage servicers to mitigate losses by offering forbearance and loan modifications prior to pursuing foreclosure on delinquent loans.

Such timelines have been further extended in connection with legislation and GSE action following the onset of the COVID pandemic to aid distressed borrowers. On March 27, 2020, the U.S. Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Among many other things, the CARES Act suspended foreclosures and evictions for at least 60 days from March 18, 2020 on mortgages purchased or securitized by the GSEs, which moratorium has been extended by

the GSEs on such mortgages through at least March 31, 2021 and may be further extended. In addition, the CARES Act provides for payment forbearance to borrowers facing hardship caused by COVID-19 for up to 360 days. Consistent with the CARES Act, the GSEs permit payment forbearance for borrowers facing financial hardship from COVID-19 for a cumulative 12-month term, and for certain borrowers, if their hardships have not been resolved at the end of the 12-month term, they may extend their forbearance terms for up to three additional months. The GSEs may extend this period further in the future.

We have rights under our Master Policies to deny a claim under certain conditions, such as when a loan servicer does not produce documents necessary to perfect a claim or when the reason for the underlying loss associated with a claim is not covered by our Master Policies.

When we approve a claim, our Master Policies give us the option to pay (i) the coverage percentage specified for a loan, with the insured retaining title to the underlying property and receiving all proceeds from an eventual sale of the property (the percentage option), (ii) the actual loss incurred by the insured upon sale of the property to a third party, if less than the percentage option, or (iii) 100% of the insured's claim amount (*i.e.*, the insured's loss on an insured loan, as defined in the Master Policy) in exchange for the insured's conveyance of good and marketable title to the property to us. If we elect to receive title to a property, we will market and sell the acquired property and retain all proceeds.

Loss Mitigation

Before paying a claim, we review loan and servicing files to determine the appropriateness of the claim submission and claim amount, and to ensure we only pay for expenses covered under the applicable Master Policy. We periodically receive claims submissions that include costs and expenses not covered by our Master Policies, such as mortgage insurance premiums, hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired, and deny coverage for such items. Our Master Policies also provide us with the ability to reduce or deny a claim if the servicer did not comply with its obligations, including a requirement to pursue reasonable loss mitigation efforts. Such efforts may include pursuing foreclosure or bankruptcy relief in a timely and diligent manner. We deem a reduction in the claim amount to be a "curtailment."

Under our Master Policies, insureds, typically through their servicers, must obtain prior approval from us before executing a deed-in-lieu of foreclosure, short sale or loan modification. Our right to pre-approve these transactions provides us the ability to mitigate actual or potential loss on an insured loan by ensuring that properties are being marketed and sold at reasonable values and that, in appropriate cases, borrowers are offered modified loan terms that are structured to help them sustain their mortgage payments. Proceeds from approved third-party sales occurring before we settle a claim are factored into the claim settlement and can often mitigate the size of the insurance benefit we are responsible to pay. In connection with our approval rights for short sales or deed-in-lieu of foreclosure transactions, our Master Policies also provide us the right to obtain a contribution from borrowers with appropriate financial capacity, either in the form of cash or promissory notes, to cover a portion of our claim payments. We have entered into delegation agreements with the GSEs that provide them and their designated servicers the right to approve certain transactions on our behalf including pre-foreclosure sales, deeds-in-lieu and loan modifications for most GSE-owned loans that we insure.

Reinsurance

Internal Reinsurance

Prior to January 10, 2019, Ohio regulation limited the amount of risk a mortgage insurer was permitted to retain on a single loan to 25% of the borrower's indebtedness (after giving effect to third-party reinsurance) and, as a result, the portion of such insurance in excess of 25% was required to be reinsured. Ohio has repealed this requirement for future periods beginning January 10, 2019. Several other states previously imposed the same or similar coverage restrictions and repealed these measures prior to 2018. To comply with these previous state coverage limits, NMIC and Re One have reinsurance agreements in place under which Re One provides reinsurance to NMIC on insured loans with coverage levels in excess of 25%, after giving effect to third-party reinsurance.

Third-Party Reinsurance

We utilize third-party reinsurance to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements and support the growth of our business. We currently have both excess of loss and quota share reinsurance agreements in place.

Excess-of-loss reinsurance

NMIC entered into excess-of-loss reinsurance agreements with Oaktown Re Ltd., Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd., and Oaktown Re V Ltd. (special purpose reinsurance entities collectively referred to as the Oaktown Re Vehicles) effective May 2, 2017, July 25, 2018, July 30, 2019, July 30, 2020 and October 29, 2020 respectively. Each agreement provides NMIC with aggregate excess-of-loss reinsurance coverage on a defined portfolio of mortgage insurance policies written during a discrete period. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

Under the terms of each excess-of-loss reinsurance agreement, the Oaktown Re Vehicles are required to fully collateralize their outstanding reinsurance coverage amount to NMIC with funds deposited into segregated reinsurance trusts. Such trust funds are required to be invested in short-term U.S. Treasury money market funds at all times. Each Oaktown Re Vehicle financed its respective collateral requirement through the issuance of mortgage insurance-linked notes to unaffiliated investors. Such insurance-linked notes mature ten years from the inception date of each reinsurance agreement. We refer to NMIC's reinsurance agreements with and the insurance-linked note issuances by Oaktown Re Ltd., Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd. and Oaktown Re V Ltd., individually as the 2017 ILN Transaction, 2018 ILN Transaction, 2019 ILN Transaction, 2020-1 ILN Transaction and 2020-2 ILN Transaction, and collectively as the ILN Transactions.

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. As the reinsurance coverage decreases, a prescribed amount of collateral held in trust by the Oaktown Re Vehicles is distributed to ILN Transaction noteholders as amortization of the outstanding insurance-linked note principal balances. The outstanding reinsurance coverage amounts stop amortizing, and the collateral distribution to ILN Transaction noteholders and amortization of insurance-linked note principal is suspended if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered (each, a Lock-Out Event). Effective June 25, 2020, a Lock-Out Event was deemed to have occurred for each of the 2017, 2018 and 2019 ILN Transactions and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period assets will be preserved in the applicable reinsurance trust account to collateralize the excess-of-loss reinsurance coverage provided to NMIC.

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

<i>(\$ values in thousands)</i>	Inception Date	Covered Production	Initial Reinsurance Coverage	Initial First Layer Retained Loss⁽¹⁾
2017 ILN Transaction	May 2, 2017	1/1/2013 - 12/31/2016	\$211,320	\$126,793
2018 ILN Transaction	July 25, 2018	1/1/2017 - 5/31/2018	264,545	125,312
2019 ILN Transaction	July 30, 2019	6/1/2018 - 6/30/2019	326,905	123,424
2020-1 ILN Transaction	July 30, 2020	7/1/2019 - 3/31/2020	322,076	169,514
2020-2 ILN Transaction	October 29, 2020	4/1/2020 - 9/30/2020 ⁽²⁾	242,351	121,777

⁽¹⁾ NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure and cedes reserves for incurred claims and claims expenses to each applicable ILN Transaction and recognizes a reinsurance recoverable if such incurred claims and claims expenses exceed its current first layer retained loss.

⁽²⁾ Less than 1% of the production covered by the 2020-2 ILN Transaction has coverage reporting dates between July 1, 2019 and March 31, 2020.

NMIC holds optional termination rights under each ILN Transaction, including, among others, an optional call feature which provides NMIC the discretion to terminate the transaction on or after a prescribed date, and a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under a given agreement. In addition, there are certain events that trigger mandatory termination of an agreement, including NMIC's failure to pay premiums or consent to reductions in a trust account to make principal payments to noteholders, among others.

Under the terms of the 2018, 2019, 2020-1 and 2020-2 ILN Transactions, we are required to maintain a certain level of restricted funds in premium deposit accounts with Bank of New York Mellon until the respective notes have been redeemed in full. We are not required to deposit additional funds into the premium deposit accounts in the future for these transactions and the restricted balances will decrease over time as the outstanding principal balances of the respective insurance-linked notes decline.

Quota share reinsurance

Under a quota share reinsurance agreement, the ceding insurer pays a premium in exchange for coverage on an agreed-upon portion of incurred losses. Quota share arrangements reduce net premiums written and earned and also reduce net RIF, providing capital relief to the ceding insurer 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. NMIC entered into three quota share reinsurance treaties each with a syndicate of third-party reinsurers, effective September 1, 2016 (the 2016 QSR Transaction), January 1, 2018 (the 2018 QSR Transaction) and April 1, 2020 (the 2020 QSR Transaction), which we collectively refer to as the QSR Transactions.

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

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

Under the terms of the 2020 QSR Transaction, NMIC cedes premiums earned related to 21% of the risk on eligible policies written from April 1, 2020 through December 31, 2020, in exchange for reimbursement of ceded claims and claim expenses on covered policies, a 20% ceding commission, and a profit commission of up to 50% that varies directly and inversely with ceded claims.

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

Effective April 1, 2019, NMIC elected to terminate its engagement with one reinsurer under the 2016 QSR Transaction on a cut-off basis. In connection with the termination, ceded premiums written under the 2016 QSR Transaction decreased from 25% to 20.5% on eligible policies. The termination had no effect on the cession of pool risk under the 2016 QSR Transaction.

For further discussion of the effect of reinsurance on our business, see Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Conditions and Trends Impacting our Business - Net Premiums Written and Net Premiums Earned - Effect of reinsurance on our results.*"

Enterprise Risk Management

We have established enterprise wide policies, procedures and processes to allow us to identify, assess, monitor and manage credit market and operational risks in our business, as well as other risks discussed below in Item 1A, "*Risk Factors.*" Management of these risks is an interdepartmental endeavor including specific operational responsibilities and ongoing senior management and compliance personnel oversight. The Risk Committee of our Board of Directors (Board) has responsibility for oversight and review of our enterprise risk management approach and is supported by a management enterprise risk committee comprised of senior members of our management team and led by our Head of Internal Audit and Enterprise Risk. Our internal audit function, which reports to the Audit Committee of our Board, provides independent ongoing assessments of our management of certain enterprise risks and reports its findings to our Board's Risk Committee. Our internal audit function also engages external resources to assist in the assessment of enterprise risks and our related control and monitoring processes.

Credit Market Risk

We have implemented a complementary range of strategies to actively monitor and manage the credit performance of our insured portfolio, including:

- establishing prudential underwriting standards and loan-level eligibility matrices which describe the maximum LTV, minimum FICO, maximum borrower DTI ratio, maximum loan size, property type and occupancy status of loans that we will insure, and memorializing these standards and eligibility matrices in our underwriting guidelines;
- conducting diligence of our lender customers before and after we formally engage with them to ensure they have appropriate financial resources, operational capabilities, management experience and a track record of strong origination quality, and subjecting them to well-defined parameters regarding underwriting delegation status, credit guideline requirements and, on a more limited basis, variances;
- implementing a quality control process to ensure ongoing adherence with our underwriting guidelines and eligibility criteria, under which our quality control group performs audits of insured loans identified on a random, high risk and targeted basis to measure the quality of the underwriting decision and loan closing process, and specifically assess the accuracy and adequacy of the information and documentation used to underwrite our MI;
- setting concentration limits to regulate the aggregation of loan-level risks in our overall portfolio and manage our overall portfolio exposure to certain risk classes that typically experience greater volatility and loss during periods of economic and housing market downturns, such as higher LTV loans, loans with higher borrower DTIs, investor loans, cash-out refinances, certain state concentration levels and several other borrower or loan attributes;
- individually underwriting the significant majority of the loans we insure through our non-delegated platform and DAR validation process, in order to evaluate borrower and loan-level risk characteristics on an individual policy level, and monitor and assess the manufacturing capabilities of our lender customers in order to provide them feedback to help enhance their own production and control processes;
- deploying Rate GPS, our proprietary risk-based pricing platform, to dynamically consider a granular set of risk attributes in our policy pricing process and assign individualized premium rates based on the relative risk and anticipated performance of each loan we insure;
- further utilizing Rate GPS to actively manage the flow of business into our portfolio and target loans with higher quality risk characteristics that typically experience lower volatility and loss across market cycles; and
- securing reinsurance coverage under quota share and excess-of-loss transactions that are structured to absorb losses in periods of economic and/or housing market stress and, in doing so, mitigate the impact of credit volatility on our financial results.

We view our comprehensive approach to credit risk management as a core competency and believe that it provides us with the ability to actively manage the aggregation of borrower default risk in our insured loan portfolio and mitigate the impact of such exposure under a range of macroeconomic scenarios.

Operational Risk

Operational risks are inherent in our daily business activities, and include, among others, the risk of damage to physical assets, reliance on outside vendors, continued access to qualified underwriting resources, cyber security threats, including breaches of our system or other compromises resulting in unauthorized access to confidential, private and proprietary information, reliance on a complex IT system and employee fraud or negligence. We seek to manage our operational exposures through a variety of standard risk management practices and procedures, such as purchasing hazard and cyber insurance coverage, maintaining oversight of third-party vendors, establishing IT system redundancy and security and disaster recovery practices, maintaining internal controls and ensuring appropriate segregation of duties.

Information Technology Systems and Intellectual Property

We rely on information technology to directly engage with our lender customers, receive MI applications and supporting documentation, stream-line our underwriting and validation processes, deliver binding policy certificates, and facilitate post-close MI policy servicing. Our customers and regulators require us to provide and service our products in a secure manner, either electronically via our internet website or through direct electronic data transmissions.

We have invested in our infrastructure and technology through the design, development, integration and implementation of what we believe is an efficient, secure, scalable platform that supports our current business activities and provides capacity for significant future growth. We underwrite and service our MI portfolio within this proprietary insurance management platform, which we refer to as AXIS.

Since the initial development of AXIS, we have continued to upgrade and enhance our systems and technical capabilities, including:

- deploying technology that enables our customers to transact business faster and easier, whether via a secure internet connection or through a secure system-to-system interface;
- integrating our platform with third-party technology providers used by our customers in their loan origination process to price and order our MI and in their servicing processes for servicing and maintaining their MI policies;
- implementing advanced document and business process management software that focuses on improving our underwriting productivity and that may also be used to improve our quality assurance and loss management functions;
- launching our award-winning mobile applications, which enable customers to view and access information through mobile devices, including our premium rate calculators, guideline updates and other resources and information notices; and
- designing, developing and deploying Rate GPS, our risk-based pricing platform, which allows us to dynamically consider a granular set of risk attributes in our policy pricing process and assign individualized rates based on the relative risk and anticipated performance of each loan we insure.

We utilize and develop technology that enhances our current operating capabilities and supports future growth, while allowing us to realize current efficiencies. Effective March 31, 2020, we entered into an IT services agreement with Tata Consultancy Services (TCS). Under the agreement, TCS is providing IT services over a seven-year period across such functions as application development and support, infrastructure support, (service desk, end user computing and engineering services), and information security. We expect the engagement with TCS will further our ability to provide innovative IT solutions for our internal and external constituents, while realizing cost efficiencies by leveraging TCS's global platform. In connection with the agreement, a majority of our IT employees at that time transitioned to TCS.

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 as to type, quality, maturity, industry and issuer. At December 31, 2020, our investment portfolio was comprised entirely of investment grade fixed maturity securities, including U.S. Treasury securities and obligations of U.S. government agencies, municipal debt securities, corporate debt securities, and asset-backed securities. We also held short-term investments, such as commercial paper.

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 includes benchmarks for asset duration. Our investments are rated by one or more nationally recognized statistical rating organizations. Our investment policies and strategies are subject to change depending upon regulatory, economic and market conditions, and our existing or anticipated financial condition and operating requirements.

We engage a third-party investment manager, Wells Capital Management, Inc., to assist with day-to-day management of our portfolio and implementation of our investment policy.

Human Capital Management

As of December 31, 2020, we had 262 full- and part-time employees, including 113 who typically work at our corporate headquarters in Emeryville, CA and 149 who typically work from home in locations across the country. We also engage third-party vendors to provide IT, underwriting and other support services.

Our ability to operate efficiently and profitably, to offer products and services that meet the expectations of our customers, and to maintain an effective risk management framework is highly dependent on the competence and integrity of our employees, as well as the employees of the third-party service providers, vendors and others on which we rely. As such, we prioritize human capital management with the goal to attract, retain and develop a high-quality, diverse employee base. We offer

competitive salaries and benefits, and have sought to build a performance-driven corporate culture that fosters employee engagement, collaboration and innovation.

We have developed a broad framework to organize and support our cultural goals, which we refer to as People, Profit, Customer and Community or PPCC. Our PPCC framework is designed to create an employee-driven, collaborative and productive work environment, that emphasizes balance between organizational, community and personal goals.

We value diversity as a company, and believe that diverse perspectives promote innovation and are crucial to the long-term success of our business. We are committed to supporting diversity, equity and inclusion in our workplace, and have aimed to create an environment that welcomes and supports differences and encourages input from all. We have and will continue to take action to (i) enhance cultural awareness throughout our organization by creating substantive learning opportunities for all employees; (ii) improve our executive pipeline by creating and supporting programs and policies that foster leadership development; (iii) increase the representation of diverse candidates on our Board and amongst our management team; (iv) address potential biases during our hiring, promotion and evaluation processes; and (vii) engage in initiatives that foster economic mobility, community development and financial education.

Our employees bring a rich and diverse mosaic of cultural and lifestyle perspectives, and we encourage them to actively invest in our community and contribute to a global sustainable environment. National MI was recognized as a Fortune Great Place to Work[®] for the fifth consecutive year in 2020.

Available Information

Our principal office is located at 2100 Powell Street, 12th floor, Emeryville, CA 94608. Our main telephone number is (855) 530 - NMIC (6642), and our website address is www.nationalmi.com. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). In addition, a written copy of the Company's Business Conduct Policy, containing our code of ethics that is applicable to all of our directors, officers and employees, is available on our website. Information contained or referenced on our website is not incorporated by reference into, and does not form a part of, this report.

U.S. MORTGAGE INSURANCE REGULATION

As discussed below, private mortgage insurers operating in the U.S. are subject to comprehensive state and federal regulation and to significant oversight by the GSEs, the primary beneficiaries of our insurance coverage. NMIC and Re One are principally regulated by our domiciliary and primary regulator, the Wisconsin OCI and by state insurance departments in each state in which these companies are licensed. We are also significantly impacted and, in some cases, directly regulated by federal laws and regulations affecting the housing finance system.

We believe that a strong, viable private MI market is a critical component of the U.S. housing finance system. We routinely meet with regulatory agencies, including our state insurance regulators and the Federal Housing Finance Agency (FHFA), the GSEs, our customers and other industry participants to promote the role and value of private mortgage insurance and exchange views on the U.S. housing finance system. We believe we have an open dialogue with the Wisconsin OCI and often share our views on current matters regarding the MI industry. We actively participate in industry discussions regarding potential changes to the laws impacting private mortgage insurers and the regulatory environment. We intend to continue to promote legislative and regulatory policies that support a viable and competitive private MI industry and a well-functioning U.S. housing finance system. We are a member of U.S. Mortgage Insurers (USMI[®]), an organization formed to promote the use of private MI as a credit risk mitigant in the U.S. residential mortgage market.

GSE Oversight

The GSEs are the principal purchasers of mortgages insured by private mortgage insurers. As a result, the nature of the private MI industry in the U.S. is driven in large part by the requirements and practices of the GSEs, which include:

- the PMIERS, including operational, business and remedial requirements and minimum capital levels applicable to GSE-qualified MI providers;
- the terms that the GSEs require to be included in MI policies for loans that they purchase, including terms governing rescission relief;
- the underwriting standards and loan amount limits that determine what loans are eligible for purchase by the GSEs, which affects the quality of the risk insured by the mortgage insurer and the availability of mortgage loans;
- the level of MI coverage, subject to the requirements of the GSEs' charters, when MI is used as the required credit enhancement on high-LTV mortgages;
- the circumstances in which MI coverage can be canceled before reaching the cancellation thresholds established by law, including under the HOPA;
- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require private MI, which impacts private MI providers' ability to compete with government MIs and other forms of credit enhancement used by the GSEs in lieu of private MI;
- the terms on which the GSEs offer lenders relief on their representations and warranties made to a GSE at the time of sale of a loan to a GSE, which creates pressure on private mortgage insurers to alter their rescission rights to conform to the GSE relief;
- loss mitigation programs established by the GSEs that impact insured mortgages and the circumstances under which servicers must implement such programs; and
- the availability and scope of different loan purchase programs, including first time home buyer and affordable lending initiatives, from the GSEs that allow different levels of MI coverage.

In January 2013, the GSEs approved NMIC as a qualified mortgage insurer (as defined in the PMIERS, an *approved insurer*). (*Italicized terms have the same meaning that such terms have in the PMIERS.*) As an *approved insurer*, NMIC is subject to ongoing compliance with the PMIERS. The PMIERS establish operational, business, remedial and financial requirements applicable to *approved insurers*. The GSEs have significant discretion under the PMIERS as well as a broad range of consent rights and notice requirements with respect to various actions of an *approved insurer*. 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, *approved insurers* must maintain *available assets* that equal or exceed *minimum required assets*,

which is an amount equal to the greater of (i) \$400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *approved insurer's* RIF, assessed on a loan-by-loan basis and considered against certain risk-based factors derived from tables set out in the PMIERS to gross RIF, which is then adjusted on an aggregate basis for reinsurance transactions approved by the GSEs, such as with respect to our ILN Transactions and QSR Transactions. The *risk-based required asset amount* for performing, primary insurance is subject to a floor of 5.6% of *performing primary adjusted RIF*, and the *risk-based required asset amount* for pool insurance considers both factors in the PMIERS tables and the *net remaining stop loss* for each pool insurance policy. The PMIERS include a comprehensive reinsurance counter-party grading framework, which includes a modest haircut (based on the credit rating of the *reinsurer*) to the capital credit available to an *approved insurer* for any un-collateralized reinsurance coverage.

On June 30, 2020, the GSEs issued PMIERS Guidance 2020-01, which the GSEs subsequently amended and restated on September 29, 2020 (2020 PMIERS Guidance). Among other things, the 2020 PMIERS Guidance: (i) temporarily amended PMIERS, effective as of June 30, 2020, to recognize the COVID-19 pandemic as a nationwide major disaster and to reduce the *risk-based required asset amount* factor under PMIERS for certain COVID-19 defaulted loans (the COVID Guidance) and (ii) permanently amended PMIERS, effective December 31, 2020, to clarify delinquency reporting requirements for non-performing loans under PMIERS. In the COVID Guidance, the GSEs clarified that for each non-performing loan that: (i) has an initial missed payment (as defined in the COVID Guidance) occurring on or after March 1, 2020 and prior to April 1, 2021 (COVID-19 Crisis Period); or (ii) is subject to a forbearance plan granted in response to a financial hardship related to COVID-19 (which shall be assumed to be the case for any loan that has an initial missed payment (as defined in the COVID Guidance) occurring during the COVID-19 Crisis Period and is subject to a forbearance plan), the PMIERS charge on such non-performing loans is adjusted by a 30% multiplier (inversely, a 70% haircut). As such, the PMIERS *risk-based required asset amount* for all newly delinquent loans nationwide (including those that go delinquent under a forbearance program) are reduced by 70%. Under the COVID Guidance, non-performing loans that are subject to a forbearance program granted in response to a financial hardship related to COVID-19 will benefit from the *risk-based required asset* haircut for the duration of the forbearance period and subsequent repayment plan or trial modification period. In addition, as set forth in the COVID Guidance, during the COVID-19 Crisis Period, if one or more servicers are unable to continue to remit premiums on loans in default, we, and other *approved insurers*, have agreed to notify the relevant GSE and give such GSE the opportunity to pay the premium to keep the coverage in force.

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, 2020 that NMIC was in full compliance with the PMIERS as of December 31, 2019. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a failure to meet one or more of the PMIERS requirements. We continuously monitor NMIC's compliance with the PMIERS.

State Mortgage Insurance Regulation

Certificates of Authority

NMIC holds a certificate of authority, or insurance license, in all 50 states and D.C. As a licensed insurer in these jurisdictions, NMIC is subject to ongoing financial reporting, examination and disclosure requirements relating to its business, operations, management or affiliate arrangements.

State Insurance Laws

Our insurance subsidiaries are subject to comprehensive regulation by state insurance departments. As mandated by certain state insurance laws, private MI companies are restricted to writing only MI business. We understand that the primary purpose underlying this restriction, which is referred to in the industry as a "monoline" requirement, is to make it easier for regulators to assess the overall risk in a mortgage insurer's insurance portfolio, to determine its capital adequacy under varying economic scenarios and to prevent the depletion of capital due to the diversion of financial resources in support of non-MI lines of business. State insurance laws and regulations are principally designed for the protection of insured policyholders rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to insurance regulatory officials to examine insurance companies and interpret and/or enforce rules or exercise discretion affecting almost every significant aspect of the insurance business.

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

- licenses to transact business;
- policy forms;
- premium rates;

- insurable loans;
- annual and quarterly financial reports prepared in accordance with statutory accounting principles;
- determination of loss, unearned premium and contingency reserves;
- minimum capital levels and adequacy ratios;
- affiliate transactions;
- reinsurance requirements;
- limitations on the types of investment instruments which may be held in an investment portfolio;
- the size of risks and limits on coverage of individual risks which may be insured;
- special deposits of securities;
- stockholder dividends;
- insurance policy sales practices; and
- claims handling.

As the ultimate controlling parent of an insurance holding company system, NMIH is registered with the Wisconsin OCI, which is NMIC and Re One's primary regulator, and must provide insurance holding company annual audited consolidated financial statements and other information to the Wisconsin OCI on an ongoing basis. We, as an insurance holding company, and each of our affiliates, are prohibited from engaging in certain transactions with our insurance subsidiaries without disclosure to, and in some instances, prior approval by, the Wisconsin OCI. Like all other states, Wisconsin regulates transactions between domestic insurance companies and their controlling stockholders or affiliates. Under Wisconsin law, all transactions involving us, or an affiliate, and an insurance subsidiary, must conform to certain standards including that the transaction be "reasonable and fair" to the insurance subsidiary. Wisconsin law also provides that disclosure of certain transactions must be filed with the Wisconsin OCI at least 30 days before the transaction is entered into and that these transactions may be disapproved by the Wisconsin OCI within that period.

Under Wisconsin law, domestic insurers, such as NMIC, are required to submit and obtain prior Wisconsin OCI approval on all reinsurance agreements with non-affiliate reinsurers. In addition, the Wisconsin OCI requires that reinsurance agreements with non-authorized and non-accredited reinsurers be collateralized through letters of credit and/or trust accounts in order for a domestic insurer to take credit for reinsurance on its statutory balance sheet.

Wisconsin's insurance regulations generally provide that no person may merge with or acquire control (which is defined as possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, by common management or otherwise) of us or our insurance subsidiaries unless the merger or transaction in which control is acquired has been approved by the Wisconsin OCI. Wisconsin law provides for a rebuttable presumption of control when a person owns or has the right to vote, directly or indirectly, more than 10% of the voting securities of a company. Pursuant to applicable Wisconsin regulations, voting securities include securities convertible into or evidencing the right to acquire securities with the right to vote. For purposes of determining whether control exists, the Wisconsin OCI may aggregate the direct or indirect ownership of us by entities under common control with one another. Notwithstanding the presumption of control, any person or persons acting in concert or whose shares may be aggregated for purposes of determining control, may file a disclaimer of affiliation with the Wisconsin OCI if they do not intend to control or direct or influence the management of a domestic insurer. Such disclaimer will become effective unless it is expressly "disapproved" by the Wisconsin OCI within 30 days. In addition, the insurance regulations of certain states require prior notification to the state's insurance department before a person acquires control of an insurance company licensed in such state. An insurance company's licenses to conduct business in those states could be affected by any such change in control. As of the date of this report, we are aware of one NMIH stockholder that owns more than 10% of our shares of common stock. We understand that this stockholder has filed a disclaimer of control with the Wisconsin OCI in connection therewith, which has not been disapproved.

Our insurance subsidiaries are subject to Wisconsin statutory requirements as to maintenance of minimum policyholders' surplus and payment of dividends or distributions to stockholders. Under Wisconsin law, our insurance subsidiaries may pay "ordinary" stockholder dividends with 30 days' prior notice to the Wisconsin OCI. Ordinary dividends are defined as payments or distributions to stockholders in any twelve-month period that do not exceed the lesser of (i) 10% of statutory policyholders' surplus as of the preceding calendar year end or (ii) adjusted statutory net income. Adjusted statutory net income is defined for this purpose to be the greater of the following:

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

The Wisconsin OCI may prohibit the payment of ordinary dividends or other payments by our insurance subsidiaries to us if they determine that such payments could be adverse to policyholders. In addition, our insurance subsidiaries may make or pay "extraordinary" stockholder dividends (*i.e.*, amounts in excess of ordinary dividends) only with the prior approval of the Wisconsin OCI.

In addition to Wisconsin, other states may limit or restrict our insurance subsidiaries' ability to pay stockholder dividends. For example, California and New York prohibit mortgage insurers licensed in such states from declaring dividends except from undivided profits remaining above the aggregate of their paid-in capital, paid-in surplus and contingency reserves. In addition, Florida requires mortgage insurers to hold capital and surplus not less than the lesser of (i) 10% of its total liabilities, or (ii) \$100 million. It is possible that Wisconsin, or other states, will adopt revised statutory provisions or interpretations of existing statutory provisions that will be more or less restrictive than those described above or will otherwise take actions that may further restrict the ability of our insurance subsidiaries to pay dividends or make distributions or returns of capital.

Mortgage insurers licensed in Wisconsin are required to establish a contingency loss reserve for purposes of statutory accounting, with annual contributions equal to the greater of (i) 50% of net earned premiums for such year or (ii) the minimum policyholders' position (as described below) relating to NIW in the period, divided by 7. These additions to contingency reserves cannot be withdrawn for a period of 10 years, except as permitted by insurance regulations. With prior approval from the Wisconsin OCI, an MI company may make early withdrawals from the contingency reserve when incurred losses for a calendar quarter exceed the greater of either (i) 35% of net premiums earned in a calendar year or (ii) 70% of the annual amount contributed to the contingency loss reserve.

Under applicable Wisconsin law and the laws of 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to its RIF in order for the mortgage insurer to continue to write new business. These are typically referred to as "risk-to-capital (RTC) requirements." While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted RTC ratio of 25:1. Wisconsin has formula-based limits that generally result in RTC limits slightly higher than the 25:1 ratio.

We compute RTC ratios for each of our insurance subsidiaries, as well as for our combined insurance operations. The RTC ratio is our net RIF divided by our statutory capital. Our net RIF includes both direct and assumed primary and pool RIF, less risk ceded and excluding risk on policies that are currently in default and for which loss reserves have been established. Wisconsin requires a mortgage insurer to maintain a "minimum policyholders' position" as calculated in accordance with the applicable regulations. Policyholders' position, which is also known as statutory capital, is generally the sum of statutory policyholders' surplus (which increases as a result of statutory net income and capital contributions, and decreases as a result of statutory net loss and capital distributions), plus the statutory contingency reserve. Under statutory accounting rules, the contingency reserve is reported as a liability on the statutory balance sheet; however, for purposes of statutory capital and RTC ratio calculations, it is included in capital.

State insurance regulators also have the authority to make changes to current regulations governing mortgage insurance, including, among other things, capital requirements, underwriting standards, claims practices and market conduct regulation. The National Association of Insurance Commissioners (NAIC) has formed a working group within its Financial Condition (E) Committee, the Mortgage Guaranty Insurance Working Group (the Working Group), to discuss, develop and recommend changes to the solvency and market practices regulation of mortgage insurers, including changes to the Mortgage Guaranty Insurers Model Act (Model Act). Proposed amendments to the Model Act include, among other changes, adoption of a risk-based capital model. We, along with other mortgage insurers, have provided feedback to the Working Group since early 2013, including comments on the risk-based capital approach.

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

MI premium rates are subject to prior approval in certain states, which requirement is designed to protect policyholders against rates that are excessive, inadequate or unfairly discriminatory. In these states, any change in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses and future trend analysis. Trends in mortgage default rates are also considered.

State insurance receivership law, not federal bankruptcy law, would govern any insolvency or financially hazardous condition of our insurance subsidiaries. The Wisconsin OCI has substantial authority to issue orders or seek to control a state insurance receivership proceeding to address the insolvency or financially hazardous condition of an insurance company that it regulates. Under Wisconsin law, the Wisconsin OCI has substantial flexibility to restructure an insurance company in a receivership proceeding. The Wisconsin OCI is obligated to maximize the value of an insolvent insurer's estate for the benefit of its policyholders. In all insurance receiverships under state insurance law, policyholder claims are prioritized relative to the claims of stockholders.

Other U.S. Regulation

Federal laws and regulations applicable to participants in the housing finance industry, including mortgage originators and servicers, purchasers of mortgage loans, such as the GSEs, and the government MIs directly and indirectly impact private mortgage insurers. Changes in federal housing legislation may have significant effects on the demand for private MI and, therefore, may materially affect our business.

We are also impacted by federal regulation of residential mortgage transactions. Mortgage origination and servicing transactions are subject to compliance with various federal and state consumer protection laws, including the Real Estate Settlement Procedures Act of 1974 (RESPA), the Truth in Lending Act (TILA), the Equal Credit Opportunity Act (ECOA), the Fair Housing Act, the HOPA, the Fair Credit Reporting Act of 1970 (FCRA), the Fair Debt Collection Practices Act, the Gramm-Leach-Bliley Act of 1999 (GLBA) and others. Among other things, these laws and their implementing regulations prohibit payments for referrals of real estate settlement service business, require fairness and non-discrimination in granting or facilitating the granting of credit and insurance, govern the circumstances under which companies may obtain and use consumer credit information, establish standards for cancellation of BPMI, define the manner in which companies may pursue collection activities, require disclosures of the cost of credit and provide for other consumer protections.

Housing Finance Reform

The federal government currently plays a dominant role in the U.S. housing finance system through the GSEs and government MIs (*i.e.*, the FHA, USDA and VA) and Ginnie Mae. There is broad policy consensus toward the need for increasing private capital participation and decreasing government exposure to credit risk in the U.S. housing finance system. However, to date there has been a lack of consensus on the specific changes necessary to return to a larger role for private capital and what size the government's role should be.

On September 6, 2008, the FHFA used its authority to place the GSEs into conservatorship. As the GSEs' conservator, the FHFA has the authority to control and direct the GSEs' operations, and the FHFA's policy objectives can result in changes to the GSEs' requirements and practices. While in conservatorship, each GSE has been subject to the terms of Senior Preferred Stock Purchase Agreements with the Treasury Department (PSPAs). Pursuant to the PSPAs, the Treasury Department committed to invest in the GSEs to the extent required for each to maintain a positive net worth. In exchange for its investment, the Treasury Department received shares of the GSEs' senior preferred stock and warrants to purchase 79.9% of the GSEs' common stock. The PSPAs have also historically required the GSEs to, among other things, make quarterly dividend payments to the Treasury Department, and also provide the Treasury Department with a liquidation preference.

At the direction of the FHFA, the GSEs have expanded their credit and mortgage risk transfer programs with no public notice or opportunity to comment. These programs have included the use of structured finance vehicles, obtaining insurance from non-mortgage insurers, including off-shore reinsurance, engaging in credit-linked note transactions in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors. In particular, in 2018, each GSE began piloting a new credit risk transfer program under which the GSE purchases high-LTV loans (*i.e.*, LTVs above 80%) without MI and subsequently places mortgage insurance with a captive insurer controlled by one of our competitors, which captive in turn cedes 100% of the risk to a panel of offshore reinsurers. Freddie Mac's program is known as IMAGIN and Fannie Mae's program is known as Enterprise-Paid Mortgage Insurance or EPMI. Any success of these programs or even the perception that some of these risk-sharing structures have beneficial features in comparison to private MI (*e.g.*, lower costs, reduced counterparty risk due to collateral requirements or more diversified insurance exposures) may create increased competition for private MI on loans traditionally sold to the GSEs with private MI.

On October 19, 2020, the FHFA announced that it was seeking comments on a notice of proposed rulemaking that requires the GSEs to provide advance notice to the FHFA of new activities and obtain prior approval before launching new products. Additionally, the proposed rule establishes revised criteria for determining whether new activity requires notice to FHFA and for determining if that activity is a new product that merits public notice and comment. The proposed rule's requirements would also outline the process for FHFA's review of any new activity and the timelines for approving a new product, including issuing a public notice and requesting public comment about a new product. Written comments on this notice of proposed rulemaking were due January 8, 2021, and it is too early to determine what restrictions any final rule may impose on the GSEs.

With the GSEs in a prolonged conservatorship, there has been ongoing debate over the future role and purpose of the GSEs in the U.S. housing market. Since 2011, there have been numerous legislative proposals intended to incrementally scale back or eliminate the GSEs (such as a statutory mandate for the GSEs to transfer mortgage credit risk to the private sector) or to completely reform the housing finance system. Congress, however, has not enacted any legislation to date.

Under the prior administration, there was increased focus on the possibility of administrative reform that the White House and Treasury Department, in collaboration with the Director of the FHFA, may pursue independent of any legislative action. On September 5, 2019, in response to a Presidential Memorandum issued on March 27, 2019, the Treasury Department released a Housing Reform Plan that included a compilation of legislative and administrative recommendations for reforms to achieve the goals of (i) ending the conservatorships of the GSEs, (ii) advancing competition in the housing finance market, (iii) setting regulations for the GSEs that provide for their safety and soundness and limit their risk to the financial stability of the United States, and (iv) providing proper compensation to the United States government for any explicit or implicit support it provides to the GSEs. Additionally, the Director of the FHFA has publicly stated his priority for exiting the GSEs from conservatorship during his five-year term which began in April 2019. On November 18, 2020, the FHFA announced that it had finalized and sent for publication a rule establishing a new regulatory capital framework for the GSEs, noting that the rule was another step toward ending the conservatorships of the GSEs. Between the Director of the FHFA and the Treasury Department, they possess significant capacity to effect administrative GSE reforms.

On January 14, 2021, the FHFA announced that it had agreed with the Treasury Department to amend the PSPAs. Among other things, these amendments increased the GSEs' permissible capital retention to approximately \$283 billion, continued the suspension of quarterly dividend payments in favor of dollar-for-dollar increases in the Treasury Department's liquidation preference, and allowed each GSE to issue up to \$70 billion in new stock. The amendments also imposed specific conditions required for the GSEs to exit conservatorship, including the resolution or settlement of all material litigation relating to the conservatorship, and each GSE achieving common equity tier 1 capital of at least 3% of its total assets. These amendments provide the most direct path for the GSEs to exit conservatorship established to date.

The passage and timing of comprehensive GSE reform or incremental change (whether legislative or administrative in nature) is uncertain, especially considering the recent change in administration, making the actual impact on us and our industry difficult to predict. Any such changes that come to pass could have a significant impact on our business. In addition, while the GSEs remain in conservatorship, the Director of the FHFA may exercise his oversight authority over the GSEs differently than previous Directors and/or have different objectives with regard to the GSEs' operations. Any such changes in how the FHFA engages with and influences the GSEs could have a significant impact on our business.

FHA Reform

We compete with the single-family MI programs of the FHA, which is part of the U.S. Department of Housing and Urban Development (HUD). During the financial crisis, the FHA captured an increasing share of the high-LTV MI market as incumbent private MIs came under significant financial stress. Previous FHA rate actions and product introductions continue to impact its market share, and by extension, the private MI market. In recent years, the FHA has not reduced its mortgage insurance rates; however, we believe the current Presidential administration is more likely to support an FHA rate reduction than the prior administration.

The FHA's role in the mortgage insurance industry is significantly dependent upon regulatory developments. Since 2012, there have been several legislative proposals intended to reform the FHA; however, no legislation has been enacted to date. The prospect for future unilateral FHA action on premium rates, which may be more likely under the current administration, or the passage of FHA reform legislation in either the House or Senate, and how differences in proposed reforms between the House and Senate might be resolved in any final legislation, remain uncertain.

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) amended certain provisions of TILA, RESPA and other statutes that have had a significant impact on our business and the residential mortgage market. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), a federal agency with responsibility for regulating and enforcing the offering and provision of consumer financial products and services under the federal consumer financial laws. Actions taken or rules implemented by the CFPB have the potential to impact the overall housing finance market, and by extension the private MI industry and our business. Leadership at the CFPB changes from time-to-time. Given that the Director of the CFPB is removable by the President at will, the agency's agenda, policies and actions likely will be significantly influenced by the then current administration. Accordingly, it is difficult to predict whether or how the CFPB might seek to implement these laws beyond the current administration's term.

Ability-to-Repay and Qualified Mortgage Rules

In January 2014, the CFPB implemented the Dodd-Frank Act Ability to Repay (ATR) mortgage provisions, which govern the obligation of lenders to determine a borrower's ability to pay when originating a mortgage loan covered by the rule. A subset of mortgages within the ATR rule are known as "qualified mortgages" (QMs). The original ATR/QM rule established two different categories of QMs, one referred to as the "General QM" category and a second temporary QM category, typically referred to as the "QM Patch." Currently, General QMs are generally defined as loans without certain risky features, such as negative amortization, points and fees in excess of 3% of the loan amount, borrowers with DTI ratios in excess of 43% and terms exceeding 30 years. Loans may qualify as QMs under the QM Patch so long as they (i) satisfy the general product feature requirements of QMs (other than borrower DTI) and (ii) meet the underwriting requirements of the GSEs. The QM Patch was scheduled to phase out upon the earlier to occur of the end of conservatorship or receivership of the GSEs or January 10, 2021. QMs under the rule benefit from a statutory presumption of compliance with the ATR rule, thus potentially mitigating the risk of the liability of the creditor and assignees of the loan under TILA.

On October 20, 2020, the CFPB released a final rule that replaced the January 10, 2021 sunset date for the QM Patch with a provision stating that the GSE Patch will be available only for covered transactions for which the creditor receives the consumer's application before July 1, 2021, the mandatory compliance date of the CFPB's final General QM and new "Seasoned QM" rules. Following its October rulemaking, on December 10, 2020, the CFPB released two additional final rules amending the definition of a General QM by replacing the current 43% DTI ratio limit with price-based thresholds, among other changes, and defining and providing for a Seasoned QM category of mortgage.

The new General QM and its safe-harbor statutory compliance protection will apply, under the final rule, to a covered transaction with the following characteristics:

- The loan has an annual percentage rate ("APR") that does not exceed the average prime offer rate ("APOR") for comparable transactions by 2.25 or more percentage points;
- The loan meets the existing QM product feature and underwriting requirements and limits on points and fees; and
- The creditor has considered and verified the prospective borrower's current or reasonably expected income or assets, debt obligations, alimony, child support, and DTI ratio or residual income.

The General QM final rule does not prescribe particular underwriting standards for meeting the rule's "consider and verify" requirements, other than to require that such standards be reasonable. The General QM final rule clarifies that to meet the "consider" requirement and thus preserve General QM status, a creditor must maintain written policies and procedures governing the creditor's treatment of income, assets and debt obligations, among others, and retain documentation showing its application of such policies and procedures at the individual loan level. In addition, to satisfy the General QM final rule's "verify" requirement, the rule provides for a safe harbor if the creditor follows specific verification standards, including the single-family underwriting manuals of Fannie Mae and Freddie Mac. The General QM final rule is effective on March 1, 2021 with a mandatory compliance date of July 1, 2021. Between the effective date and mandatory compliance date, creditors may opt to use the new, price-based General QM definition.

Seasoned QM

Under the Seasoned QM final rule, subject to certain exceptions, first-lien, fixed-rate covered loans with terms of 30 years or less, which (i) satisfy certain timely payment requirements, (ii) are not "high-cost mortgages" and (iii) are held in portfolio by the originating creditor for 36 months, will receive QM safe harbor status as "Seasoned QMs." During the 36-month seasoning period, a loan must have no more than two delinquencies (as defined in the rule) of 30 or more days and no delinquencies of 60 or more days. The rule allows payment deficiencies of \$50 or less during the seasoning period, provided there

are no more than three such deficiencies. Payment accommodations that meet certain requirements and are extended in connection with a disaster or pandemic-related national emergency do not disqualify the loan from achieving Seasoned QM status; however, time spent in such accommodations also does not count toward the 36-month seasoning period requirement. The Seasoned QM final rule includes the points and fees limit and consider and verify standards set forth in the General QM final rule. The final rule is effective on March 1, 2021, with loans for which creditors receive applications on or after the effective date would be eligible to qualify for Seasoned QM status.

On February 23, 2021, the CFPB released a statement disclosing that it expects to issue shortly a proposed rule that would delay the July 1, 2021 mandatory compliance date for the General QM final rule. If the mandatory compliance date for the General QM final rule is delayed, the GSE Patch will remain in place until such later date or sooner, if the GSEs exit conservatorship. The CFPB's statement also indicated that it is considering whether to initiate new rulemakings to (i) reconsider certain aspects of the General QM final rule and (ii) revisit the Seasoned QM final rule.

The Dodd-Frank Act also gave statutory authority to HUD, the VA, and the USDA to develop their own definitions of QM. The General QM Final Rule does not affect the QM definitions adopted by these agencies. To the extent lenders find that these agencies' definitions of QM are more favorable to certain segments of their borrowers, they may choose government MI products over private MI products.

We, along with other industry participants, have observed that the significant majority of covered loans made after the effective date of the CFPB's ATR rule have been QMs. We expect that most lenders will continue to be reluctant to make loans that do not qualify as QMs because absent full compliance with the ATR rule, such loans will not be entitled to a "safe-harbor" presumption of compliance with the ability-to-pay requirements.

It is unclear whether the revised General QM rule or the new Seasoned QM category will have a beneficial or negative impact on access to mortgage credit or the size of the mortgage market.

Basel III

The Basel Capital Accord, as updated, sets out international benchmarks for assessing banks' capital adequacy requirements, which, among other factors, governs the capital treatment of MI purchased and held on balance sheet by domestic and international banks in respect of their residential mortgage loan origination and securitization activities. In July 2013, U.S. banking regulators promulgated regulations to implement significant elements of the Basel framework, which we refer to as Basel III. The effective date for the U.S. Basel III regulations was January 1, 2014, although the majority of its provisions are subject to multi-year phase-in periods to achieve full implementation.

Under the "Standardized Approach" in the U.S. Basel III capital rules, loans secured by one-to-four-family residential properties (residential mortgage exposures) receive a 50% or 100% risk weight. Generally, first lien residential mortgage exposures that are prudently underwritten, including with respect to regulatory standards for LTV limits, and that are performing according to their original terms receive a 50% risk weight, while all other residential mortgage exposures are assigned a 100% risk weight. The banking regulators clarified that LTV ratios can account for private MI in determining whether a loan is made in accordance with prudent underwriting standards for purposes of receiving a 50% risk weight; however, mortgage exposure guaranteed by a government MI will have a lower risk weight, putting private MI at a disadvantage relative to government MI.

The Basel Committee on Banking Supervision (Basel Committee) previously proposed rules that would further reduce the benefit of private MI by not taking into consideration any credit enhancement, including private MI; however, those revisions were not implemented, retaining the treatment of mortgage insurance.

We believe the existing U.S. implementation of the Basel III capital framework supports continued use of private MI by portfolio lenders as a risk and capital management tool; however, with the ongoing implementation of Basel III and the continued evolution of the Basel framework, it is difficult to predict the impact, if any, on the MI industry and the ultimate form of any potential future modifications to the regulations by federal banking regulators. If the Basel Committee revises the Basel III framework to reduce or eliminate the capital benefit banks receive from insuring low down payment loans with private MI, our current and future business may be adversely affected.

Mortgage Servicing Rules

Residential mortgage servicing rules under RESPA and TILA, promulgated by the CFPB, went into effect in 2014. These rules included new or enhanced servicer requirements for handling escrow accounts, responding to borrower assertions of error and inquiries from borrowers, special handling of loans that are in default and loss mitigation when borrowers default, along with other provisions. A provision of the required loss mitigation procedures prohibits the servicer from commencing foreclosure

until 120 days after a borrower defaults. Additional servicing regulations became effective in October 2017, providing some borrowers with foreclosure protections more than once over the life of the loan, imposing specific timing requirements for loss mitigation activities when servicing rights are transferred, and requiring that loss mitigation applications be properly dispositioned before allowing pursuit of a foreclosure action, among other requirements. Violation of these loss mitigation rules, which mandate special notices, handling and processing procedures (with deadlines) based on borrower submissions, may subject the servicer to private rights of action under consumer protection laws. Such actions or threats of such actions could cause delays in and increase costs and expenses associated with default servicing, including foreclosure. As to servicing of delinquent mortgage loans covered by our insurance policies, these rules could contribute to delays in and increased costs associated with foreclosure proceedings and have a negative impact on the cost and resolution of claims.

Homeowners Protection Act of 1998

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

Section 8 of RESPA

Section 8 of RESPA applies to most residential mortgages insured by us. Subject to limited exceptions, Section 8 of RESPA prohibits persons from giving or accepting anything of value pursuant to an agreement or understanding to refer a "settlement service." MI generally may be considered to be a "settlement service" for purposes of Section 8 of RESPA under applicable regulations. Section 8 of RESPA affects how we structure ancillary services that we may provide to our customers, if any, including loan review services, risk-share arrangements and customer training programs. RESPA authorizes the CFPB and other regulators to bring civil enforcement actions and also provides for criminal penalties and private rights of action. The CFPB has brought a number of enforcement actions under Section 8 of RESPA, including settlements with several private mortgage insurers. The CFPB's interpretation and enforcement of Section 8 of RESPA presents regulatory risk for many providers of "settlement services," including private mortgage insurers.

Mortgage Insurance Tax Deduction

In 2006, Congress enacted a private mortgage insurance tax deduction on a temporary basis through the end of 2011. Upon expiration in 2011, Congress temporarily extended the deduction for each tax year from 2012 through 2017. Congress recently temporarily extended the deduction through December 31, 2021. Elimination of the private mortgage insurance tax deduction could have the effect of reducing demand for private MI products. Congress has periodically considered proposed legislation that would make the private mortgage insurance tax deduction permanent, but to date has not enacted any such legislation. Under the Tax Cuts and Jobs Act (TCJA) enacted in December 2017, Congress increased the standard deduction for individuals and maintained the tax deductibility of second mortgages. The combination of maintaining the deduction for second mortgages and not extending deductibility for private MI under the TCJA could have the effect of reducing demand for private MI products.

SAFE Act

The federal SAFE Act, enacted by Congress in 2008, establishes minimum standards for the licensing and registration of state-licensed "mortgage loan originators," as defined under state law. The SAFE Act also requires the establishment of a nationwide mortgage licensing system and registry for the residential mortgage industry and certain of its employees. As part of this licensing and registration process, loan originators who are employees of certain covered institutions must generally be licensed under the SAFE Act guidelines enacted by each state in which they engage in loan originator activities and registered with the registry. The CFPB administers and enforces the SAFE Act. Employees of NMIC are not required to be licensed and/or registered under the SAFE Act as NMIC does not originate, process or underwrite mortgage loans. NMIS currently offers loan review services that are performed by SAFE Act-licensed third-party service providers, which have represented and warranted to NMIS that they comply with SAFE Act requirements in all applicable jurisdictions.

Privacy and Information Security

We provide mortgage insurance products and services to financial institutions with which we have business relationships. In the normal course of providing our products and services, we may receive non-public personal information regarding such financial institutions' customers. The GLBA and related state and federal regulations implementing its privacy and safeguarding provisions impose privacy and information security requirements on financial institutions, including obligations to protect and safeguard consumers' non-public personal information. GLBA and its implementing regulations are enforced by state insurance regulators and state attorneys general, and by the U.S. Federal Trade Commission (FTC) and the CFPB. In addition, many states have enacted privacy and data security laws which impose compliance obligations beyond GLBA, including obligations to protect social security numbers, maintain comprehensive information security programs and provide notification if a security breach results in a reasonable belief that unauthorized persons may have obtained access to consumer non-public personal information. We have adopted certain risk management and security practices designed to facilitate our compliance with these federal and state privacy and information security laws.

Fair Credit Reporting Act

FCRA imposes restrictions on the permissible use of credit report information. The CFPB and FTC each have authority to enforce the FCRA. FCRA has been interpreted by some FTC staff and federal courts to require mortgage insurers to provide "adverse action" notices to consumers if an application for mortgage insurance is declined or offered at higher than the best available rate for the program applied for on the basis of a review of the consumer's credit. We provide such notices when required.

Anti-Discrimination Laws

ECOA requires creditors and insurers to handle applications for credit and for insurance in accordance with specified requirements and prohibits discrimination in lending or insurance based on prohibited factors such as gender, race, ethnicity, age and familial status. The Fair Housing Act prohibits discrimination on the basis of race, gender and other prohibited bases in connection with housing-secured credit transactions.

Item 1A. Risk Factors

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

This report contains forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" on page 3 of this report. Our actual results could differ materially and adversely from those anticipated in these forward-looking statements, including any such statements made in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risk Factors Summary

The following is a summary of the principal risks that could materially adversely affect our business, operations and financial results:

Risk Related to Our Business Operations

- *We face intense competition for business in our industry, and if we are unable to compete effectively, we may not be able to achieve our business goals, which would adversely affect our business, financial condition and operating results.*
- *Our NIW volumes could be adversely affected if lenders and investors select alternatives to private MI.*
- *If we are unable to continue to attract and retain the most significant mortgage originators as customers, our ability to achieve our business goals could be negatively impacted.*
- *If the volume of high-LTV loan originations declines, our NIW volume could decline, which would reduce our revenues.*
- *Our underwriting and credit risk management policies and practices may not anticipate all risks and/or the magnitude of potential for loss as the result of unforeseen risks.*
- *Unexpected material increases in borrower defaults could cause our actual losses to materially exceed our expected loss rates, including in certain geographic regions in which our business may be concentrated and more susceptible to downturns.*
- *The premiums we charge may be insufficient to cover claim payments and our operating costs.*
- *Changes in factors that impact the length of time that our policies remain in force may adversely affect our future revenues and claims experience.*
- *We are outsourcing the underwriting of our mortgage insurance on certain loans to third-party underwriting service providers (USPs). If these USPs fail to adequately perform their underwriting services or place our coverage on loans we would deem ineligible, we could experience increased claims on loans underwritten by them and our customer relationships could be negatively impacted.*
- *Our Master Policies contain restrictions on our ability to rescind coverage for certain material misrepresentations (including fraud) and underwriting defects, and if we were to fail to timely discover any such misrepresentations or underwriting defects, our rights of rescission would be significantly limited, and we could suffer increased losses as a result of paying claims on loans with unacceptable risk characteristics.*
- *The mix of business we write affects our revenue stream and the likelihood of losses occurring.*
- *We expect our claims to increase as our insured loan portfolio grows and matures.*
- *Our business depends, in part, on effective and reliable loan servicing.*
- *If the estimates we use in establishing claims reserves are incorrect, the actual claim payments we make may materially exceed the amount of our corresponding claims reserves, resulting in unexpected charges to income, which could be material and adversely affect our results of operations.*
- *The COVID-19 outbreak may continue to materially adversely impact our financial results and may also materially adversely affect our business, liquidity and financial condition.*
- *The occurrence of natural or man-made disasters or pandemics other than COVID-19 could adversely affect our business, financial condition and operating results.*
- *We are exposed to certain risks associated with our third-party reinsurance transactions, including the possibility that our reinsurers will fail to perform their obligations or that we will lose the capital credit we expected to receive when we entered*

into the transactions as a result of future GSE or Wisconsin OCI action or if any of our reinsurers experiences a downgrade or other adverse business event.

- Our operating results depend in large part on our ability to manage the risks related to the growth of our business and on maintaining and enhancing effective operating procedures and internal controls.*
- We are exposed to operational risk from fraud, malfeasance or error by employees and third-party service providers, and any such fraud, malfeasance or error could materially and adversely affect us.*
- If we do not maintain connectivity with or otherwise meet the technological demands of our customers or are unable to develop, enhance and maintain our proprietary technology platform, our business and financial performance could be adversely affected.*
- We may not be able to prevent the unauthorized disclosure or misuse of confidential, personal or proprietary information.*
- Adverse investment performance may affect our financial results and ability to conduct business.*
- We face regulatory and litigation risks associated with offering loan review services.*

Risk Related to Regulation of the Mortgage Insurance Industry

- There can be no assurance that the GSEs will continue to treat us as an approved insurer in the future, and our failure to maintain compliance with the GSEs' PMIERS could adversely impact our business, financial condition and operating results.*
- Changes in the business practices of the GSEs, including a decision to decrease or discontinue the use of private MI, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.*
- We are subject to comprehensive state insurance regulations and capital adequacy requirements, which we must satisfy to continue to operate our MI business.*
- The private MI industry is, and as a participant we are, subject to litigation and regulatory enforcement risk generally.*
- Our business prospects and operating results could be adversely impacted if, and to the extent that, the Consumer Financial Protection Bureau's ATR Rules defining a QM negatively impact the size of the origination market.*
- The Company may be adversely impacted by the phasing out of LIBOR.*

Risks Related to Our Holding Company and Capital Structure

- Our holding company structure and certain regulatory and other constraints could affect our ability to satisfy our obligations and potentially require us to raise more capital.*
- Our substantial indebtedness could adversely affect our financial condition.*
- Our existing, and any future, variable rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.*
- Despite our substantial level of debt, we may incur more debt, which could exacerbate any or all of the risks described above.*
- Our current credit ratings may adversely affect our ability to access capital and the cost of such capital, which could have a material adverse effect on our business, financial condition and operating results.*

General Risks Related to Ownership of Our Common Stock

- We do not anticipate paying any dividends on our common stock in the near future, and payment of any declared dividends may be delayed.*
- The market price of our common stock may be volatile, which could cause the value of an investment in our common stock to decline.*
- The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale, and future issuances of our common stock may depress our share price and dilute the book value of our common stock.*
- Future issuance of debt or preferred stock, which would rank senior to our Class A common stock upon our liquidation, may adversely affect the market value of our common stock.*
- Provisions contained in our organizational documents, as well as provisions of Delaware law and Wisconsin insurance law, could delay or prevent a change of control of us, which could adversely affect the price of shares of our common stock.*

For a more complete discussion of the material risks facing our business, see below.

Risks Related to Our Business Operations

We face intense competition for business in our industry, and if we are unable to compete effectively, we may not be able to achieve our business goals, which would adversely affect our business, financial condition and operating results.

The MI industry is highly competitive. With six private MI companies actively competing for business from the same residential mortgage originators, it is important that we continue to differentiate ourselves from the other mortgage insurers, each of which sells substantially similar products to ours. One or more of our competitors may seek to capture increased market share from the government MIs or from other private mortgage insurers by reducing prices, offering alternative coverage and product options, including offerings for loans not intended to be sold to the GSEs, loosening their underwriting guidelines or relaxing risk management policies, which could, in turn, improve their competitive positions in the industry and negatively impact our ability to achieve our business goals. Competition within the private mortgage insurance industry could result in our loss of customers, lower premiums, riskier credit guidelines and other changes that could lower our revenues or increase our expenses. If our IT systems are inferior to our competitors', existing and potential customers may choose our competitors' products over ours. If we are unable to compete effectively against our competitors and attract and retain our target customers, our revenue may be adversely impacted, which could adversely impact our growth and profitability.

In addition, we and most of our competitors, either directly or indirectly, offer certain ancillary services to mortgage lenders with which we also conduct MI business, including loan review, training and other services. For various reasons, including those related to resources or compliance, we may choose not to offer some or all of these services or not to offer them in a form or to the extent that is similar to the prevailing offerings of our competitors. If we choose not to offer these services, or if we were to offer ancillary services that are not well-received by the market and fail to perform as anticipated, we could be at a competitive disadvantage which could adversely impact our profitability.

Certain of our competitors are subsidiaries of larger and more diversified corporations that may have access to greater amounts of capital and financial resources than we do, or a lower cost of capital, and some have better financial strength ratings than we have. As a result, they may be better positioned to compete in and outside of the traditional MI market, including when the GSEs pursue alternative forms of credit enhancement or credit risk transfer other than private MI, such as their IMAGIN and EPMI programs.

Our financial strength ratings are important for our customers to maintain confidence in our products and our competitive position. PMIERS require all *approved insurers*, except newly-approved insurers, to maintain at least one rating with a rating agency acceptable to the GSEs. A downgrade in NMIC's ratings or ratings outlook, or our failure to maintain a rating acceptable to one or both of the GSEs, could have an adverse effect on our business, including (i) potentially impacting our eligibility as an *approved insurer*, (ii) increased scrutiny of our financial condition by our customers, resulting in potential reduction in our NIW or (iii) negative impacts to our ability to conduct business in the non-GSE mortgage market, where financial strength ratings may be a more important counter-party consideration for lenders.

Our NIW volumes could be adversely affected if lenders and investors select alternatives to private MI.

If lenders and investors select alternatives to private MI on high-LTV loans, our business could be adversely affected. These alternatives to private MI include, but are not limited to:

- lenders using government mortgage insurance programs, including those of the FHA, USDA and VA, and state-supported mortgage insurance funds in several states, including Massachusetts and California;
- lenders and other investors holding mortgages in their portfolios and self-insuring;
- GSEs and other investors using credit enhancements other than MI (including alternative forms of credit risk transfer such as IMAGIN and EPMI), using other credit enhancements in conjunction with reduced levels of MI coverage, or accepting credit risk without credit enhancement;
- lenders originating mortgages using "piggy-back" or other structures to avoid MI, such as a first mortgage with an 80% LTV and a second mortgage with a 10%, 15% or 20% LTV (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with an LTV above 80% that has MI; and
- borrowers paying cash or making large down payments versus securing mortgage financing.

Any of these alternatives to private MI could reduce or eliminate the need for our products, could cause us to lose business and/or could limit our ability to attract the business that we would prefer to insure.

Further, at the direction of the FHFA, the GSEs have expanded their credit and mortgage risk transfer programs. These programs have included the use of structured finance vehicles, obtaining insurance from non-mortgage insurers (e.g., IMAGIN and EPMI), including off-shore reinsurance, engaging in credit-linked note transactions in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors. The growing success of these programs and the perception that some of these risk-sharing structures have beneficial features in comparison to private MI (e.g., lower costs, reduced counter-party risk due to collateral requirements or more diversified insurance exposures) may create increased competition for private MI on loans traditionally sold to the GSEs with private MI.

During the 2008 financial crisis, the government MIs, principally the FHA and VA, captured an increasing share of the high-LTV MI market. While declining from peak market share, government MIs' market share remains substantially above their historical levels. Government mortgage insurance programs are not subject to the same capital requirements, costs of capital, risk tolerance or business objectives that we and other private mortgage insurers are, and therefore, generally have greater financial flexibility in setting their pricing, guidelines and capacity, which could put us at a competitive disadvantage. 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 the government MIs will recede to pre-2008 levels. These agencies may continue to maintain a strong combined market position and could increase their market share in the future.

Factors that could cause government-supported mortgage insurance programs to remain significant include:

- change to federal housing policy and/or priorities, including government MIs reducing their premiums, which may be more likely under the current Presidential administration, or loosening their underwriting guidelines;
- increase in premium rates or tightening of underwriting guidelines by private mortgage insurers;
- capital constraints in the private MI industry;
- increase in capital requirements imposed on private mortgage insurers by the GSEs or states;
- continuation of increases to or imposition of new GSE loan delivery fees on loans that require MI, which may result in higher borrower costs for MI loans compared to loans insured by government MIs;
- loans insured under federal government-supported mortgage insurance programs are eligible for securitization in Ginnie Mae securities, which may be viewed by investors as more desirable than GSE securities due to the explicit backing of Ginnie Mae securities by the full faith and credit of the U.S. federal government;
- difference in the spread between GSE mortgage-backed securities and Ginnie Mae mortgage-backed securities;
- increase in government MIs' loan limits above GSE loan limits;
- change in GSEs' demand to participate in the high-LTV or first-time homebuyer origination market; and
- perceived operational ease of using insurance from government MIs compared to private MI.

If the government MIs maintain or increase their share of the mortgage insurance market, our business and industry could be negatively affected.

The degree to which lenders or borrowers may select these alternatives now, or in the future, is difficult to predict. As one or more of the alternatives described above, or new alternatives that enter the market, are chosen over MI, our revenues could be adversely impacted. The loss of business in general or the specific loss of more profitable business could have a material adverse effect on our financial position and operating results.

If we are unable to continue to attract and retain the most significant mortgage originators as customers, our ability to achieve our business goals could be negatively impacted.

The success of our mortgage insurance business is highly dependent on our ability to attract and retain as customers the most significant mortgage lenders in the U.S., measured through the combined volume of their retail originations and/or the insured loans they may acquire from other originators. As a result of their size and market share, these entities originate a significant majority of high-LTV mortgages in the U.S. and, therefore, influence the size and pricing of the MI market. We are currently doing business with a majority of these lenders. However, there is no assurance we will receive approvals from each of the remaining lenders to transact MI business with them or that those lenders who have approved us will continue to maintain our business relationship. If we are unable to maintain our approved status with one or more of these mortgage lenders, our business, financial condition and operating results could be adversely impacted.

We cannot be certain that any loss of business from one or more customers would be replaced from other new or existing lender customers. Some lenders may decide to write business only with certain mortgage insurers based on their views with respect to an insurer's pricing, price delivery system, service levels, underwriting guidelines, servicing and loss mitigation practices, financial strength or other factors. Our customers may choose to diversify the mortgage insurers with which they do business, which could negatively affect our level of NIW and our market share. In addition, our Master Policy does not require our customers to do business with us. Loss of business from significant customers, if not offset by additional business from other customers, could have an adverse effect on the amount of new business we are able to write, and consequently, our financial condition and operating results.

If the volume of high-LTV loan originations declines, our NIW volume could decline, which would reduce our revenues.

Our NIW volume and revenues, in part, depend on the volume of high-LTV loan originations and may be negatively affected if the volume declines. The factors that affect the volume of high-LTV loan originations include, among other things:

- the level of loan interest rates. Higher interest rates may increase the potential housing costs of consumers hoping to purchase homes, which may have the effect of reducing the pool of potential borrowers available to purchase homes;
- restrictions on mortgage credit due to more stringent underwriting standards, more restrictive regulatory and capital requirements and lender liquidity issues;
- the health of the real estate industry and the national economy and conditions in regional and local economies, which currently is impacted by the COVID-19 pandemic and related containment measures;
- housing affordability;
- population trends, including the rate of household formation, preferences of potential mortgage borrowers and cultural shifts;
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have LTVs that require MI;
- deductibility of mortgage interest or other changes in tax policy, including the TCJA of 2017, which may have an effect on the residential housing market;
- U.S. government housing policy encouraging loans to first-time homebuyers;
- GSEs' demand to participate in the high-LTV or first-time homebuyer origination market; and
- the extent to which the GSEs' guaranty and other fees, credit underwriting guidelines and other business terms affect lenders' willingness to extend credit for high-LTV mortgages.

A decline in the volume of high-LTV loan originations could decrease demand for MI, decrease our NIW and therefore reduce our revenues and have a material adverse effect on our operating results.

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

We have established underwriting and credit risk management policies and practices that seek to mitigate our exposure to borrower default risk in our insured loan portfolio by anticipating future risks and the magnitude of those risks. Our underwriting and credit risk management guidelines are based on what we believe to be the major factors that influence the performance of mortgage credit, including borrower and loan-level risk characteristics, lender origination practices and macroeconomic variables that influence the housing market. The presence of multiple higher-risk characteristics (*i.e.*, layered risk) in a loan materially increases the likelihood of a default on such a loan unless, and to the extent, there are other characteristics to mitigate the risk.

The frequency and severity of claims we incur is uncertain and depends largely on general economic conditions, including unemployment and interest rates and trends in home prices, which currently have been impacted by the effects of the COVID-19 pandemic and related containment measures. To the extent that a risk is unforeseen or is underestimated in terms of frequency and/or severity of loss, our underwriting and credit risk management policies and practices may not be sufficient to mitigate the effects of those risks. If these policies and practices do not correctly anticipate risk or the potential for loss, we may underwrite business for which we have not charged premium commensurate with the risk, which could result in material adverse effects on our business, financial condition and operating results.

Unexpected material increases in borrower defaults could cause our actual losses to materially exceed our expected loss rates, including in certain geographic regions in which our business may be concentrated and more susceptible to downturns.

Losses result from events that reduce a borrower's ability or willingness to continue to make mortgage payments, which include borrower-specific factors, such as job loss, illness, death and divorce, and macroeconomic factors, such as rising unemployment, market deterioration, rising interest rates and home price depreciation. Borrowers of high-LTV mortgages often have more difficulty weathering personal financial hardships caused by unforeseen events, because they may not have sufficient personal savings or available credit to structure viable workout solutions. Rising unemployment rates and deterioration in economic conditions for extended periods of time, including as a result of the COVID-19 pandemic, across the U.S. or in specific regional economies, generally increases the likelihood of borrower defaults. An increase in interest rates typically leads to higher monthly payments for borrowers with existing adjustable-rate mortgages (ARMs) and could materially impact the cost and availability of refinance options for borrowers. A decline in home values typically makes it more difficult for borrowers to sell or refinance their homes, generally increasing the likelihood of a default followed by a claim when borrowers are impacted by events that reduce their incomes or increase their expenses. In addition, home price depreciation may also decrease the willingness of borrowers with sufficient resources to make mortgage payments when their mortgage balances exceed the values of their homes. Declines in home values typically increase the severity of any claims we may pay. Home values may decline even absent deterioration in economic conditions due to declines in demand for homes, which may result from changes in buyers' perceptions of the potential for future home price appreciation, rising interest rates or availability of mortgage credit. If our default and loss projections are materially inaccurate, our actual losses could materially exceed our expectations and adversely affect our financial condition and operating results.

Additionally, while we seek to diversify our insured loan portfolio geographically, the availability of business might lead to concentrations in specific regions in the U.S., which could make our business more susceptible to economic downturns in these regions. Certain regions of the U.S. from time to time will experience weaker economic conditions, higher unemployment, lower property values or weaker housing markets. Consequently, loans in these regions will experience higher rates of default, foreclosure and loss than on loans nationally, and struggling borrowers in regions with an oversupply of homes may be unable to sell their homes as a means to avoid foreclosure. Any deterioration in housing prices, housing markets or economic conditions in regions in which we have a significant concentration of IIF and which adversely affects the ability of borrowers to make payments on their insured loans may increase the likelihood and severity of our losses, which could have a material adverse effect on our financial condition and operating results.

The premiums we charge may be insufficient to cover claim payments and our operating costs.

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

Changes in factors that impact the length of time that our policies remain in force may adversely affect our future revenues and claims experience.

We set premiums at the time our policies are issued based on a broad range of variables, including property, loan, borrower, lender and market (e.g., tax reform) factors to target through-the-cycle returns that exceed our cost of capital. The premium from a single premium policy is collected up front and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy and generally cannot be adjusted after coverage is placed. Each year, most of our premiums will be from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is also generally referred to as persistency, is a primary determinant of our future revenues and claims paying resources.

A lower level of persistency could reduce our future revenues from our monthly-paid premium products, which constituted about 75% of our primary IIF at year-end 2020. Higher than expected persistency rates could negatively impact our future profitability on monthly premium policies if market and economic conditions change significantly from those we expected when we established the premium rates. In addition, a higher than expected persistency rate will decrease the profitability from single premium policies if they will remain in force longer than was estimated when the policies were written.

The factors affecting persistency include:

- the level of current mortgage interest rates compared to the mortgage rates on the IIF, which affects the sensitivity of the IIF to refinancings (i.e., lower current interest rates make it more attractive for borrowers to refinance and receive a lower interest rate);
- amount of equity in a home, as homeowners with more equity in their homes can more readily move to a new residence or refinance their existing mortgage;
- changes in rates of home price appreciation or depreciation;
- economic conditions that affect a borrower's decision to pay-off a mortgage earlier than required;
- lenders' credit policies, which may make it more difficult for borrowers to refinance their loans;
- efforts of lenders to solicit borrower refinancing; and
- cancellation of BPMI mandated by the HOPA, with the time-frames for HOPA required cancellations generally accelerating in a lower interest rate environment relative to a higher interest rate environment, and mortgage insurance cancellation policies of the GSEs and other mortgage investors.

In 2020, mortgage interest rates have remained near historical lows, primarily as a result of changes in monetary policy by the Federal Reserve. We expect the low interest rate environment to drive higher levels of refinancings in the mortgage market, including with respect to loans we insure with interest rates that are higher than the current prevailing rates. We could experience significant turnover in our IIF if the current low-rate environment persists over a prolonged period of time, which could negatively impact our future revenues. We are unsure, however, what the ultimate impact on our revenues will be as insured mortgages are refinanced, because the number of policies we write for replacement mortgages may be more or less than the terminated policies associated with the refinanced mortgages and could be written at lower premium rates.

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

If our USPs fail to adequately perform their underwriting services, such as mishandling of customer inquiries or an inability to underwrite a sufficient volume of applications per day, we may lose opportunities to place mortgage insurance coverage on particular loans, our reputation may suffer and customers may choose not to do business with us. In addition, if our USPs place our MI coverage on loans that are ineligible for coverage under our underwriting guidelines, our risk of claims will be increased on those loans or the premiums we charge may be inadequate for the corresponding risk. We do not have the right under our Master Policy to cancel coverage of an ineligible loan as a result of a USP making an incorrect decision. Further, other than being able to terminate our contracts with these USPs, we generally do not have express loan-level monetary contractual remedies against these USPs if we are obligated to pay claims on ineligible loans that they improperly agreed to insure on our behalf. If these USPs fail to perform their services as expected, we could experience increased claims on loans underwritten by them and our customer relationships could be negatively impacted, which would have an adverse impact on our business, financial condition and operating results.

Our Master Policies contain restrictions on our ability to rescind coverage for certain material misrepresentations (including fraud) and underwriting defects, and if we were to fail to timely discover any such misrepresentations or underwriting defects, our rights of rescission would be significantly limited, and we could suffer increased losses as a result of paying claims on loans with unacceptable risk characteristics.

Under our Master Policies' rescission relief provisions, we agree that we will not rescind coverage of an insured loan for material misrepresentation (including borrower fraud) or underwriting defects if the conditions for such relief are satisfied as specified in the applicable Master Policy. In addition, after a loan has achieved rescission relief, we have agreed to limitations on our ability to initiate certain investigations of fraud or misrepresentation by parties involved in the origination of an insured loan. Our earliest rescission relief on an insured loan is subject to our successful completion of an independent validation on such loan. The current processes we have in place to validate insured loans may be ineffective in detecting material misrepresentations and/or underwriting defects. After a loan meets the conditions for rescission relief, we are contractually prohibited from exercising our rights of rescission for material underwriting defects and certain misrepresentations (including borrower fraud) made in connection with the origination of the insured loan and placement of our mortgage insurance. In addition, following a loan's attainment of rescission relief, our rights to conduct investigations of potential fraud or misrepresentation are significantly curtailed and the evidentiary standards we must meet to pursue rescission for fraud are more stringent. See Item 1, "*Business - Underwriting - Independent Validation and Rescission Relief.*" With these provisions in our Master Policies, we may be obligated to pay claims on certain loans with unacceptable risk characteristics or which failed to meet our underwriting guidelines at the time of origination. As a result, we could suffer unexpected losses, which could adversely impact our business, financial condition and operating results.

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with LTVs over 95% (or in certain markets that have experienced declining housing values, over 90%), lower credit scores, with lower scores tending to have higher probabilities of claims, or higher total DTI ratios (*i.e.*, DTIs greater than 45%). Loans with high LTVs leave the borrower with little, no or negative equity in the related property, which may result in increased defaults by such borrowers. In addition, depreciation in the values of properties underpinning our insured loans may increase the likelihood of default, and consequently the frequency or severity of losses. Loans with combinations of these risk factors have a higher degree of layered risk. In general, we charge higher premiums for loans with higher risk characteristics; however, there is no guarantee that our premiums will compensate us for any losses we incur on such loans. From time to time, in response to market conditions, we may change the types of loans that we insure and the guidelines under which we insure them, and in doing so, the concentration of insured loans with higher risk characteristics in our portfolio may increase. In addition, we may make programmatic or loan-by-loan exceptions to our underwriting guidelines, including for certain customer programs. We could incur greater than expected claims incidence and claim severity on insured loans that fall outside of our guidelines, which could negatively impact our revenues and operating results.

We expect our claims to increase as our insured loan portfolio grows and matures.

The actual claims we incur as our portfolio matures are difficult to predict and depend on the specific characteristics of our current in-force book (including the credit score and DTI of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the risk profile of new business we write in the future. In addition, our claims experience is affected by macroeconomic factors such as housing prices, interest rates, unemployment rates and other events, such as natural disasters or global pandemics (including COVID-19), and any federal, state or local governmental response thereto. See Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Insurance Claims and Claim Expenses.*" Incurred losses and claims may exceed our expectations in the event of general economic weakness or decreases in housing values. An increase in the number or size of claims, compared to what we anticipate, could adversely affect our operating results and financial condition.

Our business depends, in part, on effective and reliable loan servicing.

We depend on reliable, consistent third-party servicing of the loans that we insure. Among other things, our Master Policy requires our insureds and their servicers to timely submit premium and IIF and default reports, use commercially reasonable efforts to limit and mitigate loss when a loan is in default and if loss mitigation efforts are unsuccessful, to pursue foreclosure of the underlying property in accordance with required time lines and practices, which are generally set by the GSEs. Servicers are required to comply with a multitude of legal, regulatory and GSE requirements, procedures and standards for servicing residential mortgage loans. If servicers of our insured loans fail to adhere to applicable requirements, procedures and standards, our losses may unexpectedly increase.

We have delegated the authority to implement certain loss mitigation options on loans we insure (e.g., modifications, short sales and deeds-in-lieu) to the GSEs, who have in turn delegated such authority to most of their approved servicers, pursuant to the delegation agreements. Servicers who service GSE-owned loans are required to operate under the GSEs' required standards in accepting certain loss mitigation alternatives. We are dependent on these servicers to appropriately make these decisions under their delegated authority to mitigate our exposure to loss. In some cases, loss mitigation decisions favorable to the GSEs may not be favorable to us and may increase the incidence of paid claims. Inappropriate delegation procedures or failure of servicers to adhere to required standards may increase the magnitude of our losses and have an adverse effect on our business, financial condition and operating results. Our delegation of loss management decisions to the GSEs is subject to cancellation; however, exercise of these rights may have an adverse effect on our relationship with the GSEs and servicers.

The COVID-19 pandemic has placed additional burdens on servicers, which may make it more difficult for such servicers to effectively service the loans we insure. Servicers of our insured loans could experience liquidity impacts, which may affect their willingness and/or ability to continue to pay premiums to us. Although our master policies do not require payment of premiums after a loan has gone into default, most servicers continue to remit premiums to us to avoid a lapse in coverage if the borrower cures the default; however, in the current environment, it remains uncertain whether servicers will continue to do so. In 2020, the GSEs temporarily amended PMIERS to require GSE-approved mortgage insurers, including NMIC, to notify the relevant GSE if one or more servicers are unable to continue to remit premiums on loans in default, and give such GSE the opportunity to pay the premium to keep coverage in force. However, if the GSEs choose not to remit premiums under the foregoing circumstances, we could experience adverse impacts to our liquidity, which could be material.

If one or more servicers were to experience adverse effects to its business as a result of the COVID-19 pandemic or otherwise, such servicers could experience delays in meeting their reporting requirements, which could result in our inability to correctly record new loans as they are underwritten and/or properly recognize and establish loss reserves on loans when defaults exist or occur but are not reported timely or at all. Significant failures by large servicers or disruptions in the servicing of mortgage loans we insure would adversely impact our business, financial condition and operating results.

If the estimates we use in establishing claims reserves are incorrect, the actual claim payments we make may materially exceed the amount of our corresponding claims reserves, resulting in unexpected charges to income, which could be material and adversely affect our results of operations.

We establish reserves for claims and claim expenses for insured mortgage loans that are in default. A loan is considered to be in default as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as "IBNR." We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees and other general expenses of administering the claim settlement process.

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property value.

The establishment of claims and IBNR reserves is subject to inherent uncertainty and requires significant judgment by management. Our estimates of claim frequency and severity are strongly influenced by prevailing economic conditions, including current rates or trends in unemployment, housing price appreciation and/or interest rates, the availability of forbearance, foreclosure moratorium, modification and other assistance programs available to defaulted borrowers, and our best judgments as to the future values or trends of these macroeconomic factors. These factors are outside of our control and difficult to predict. Further, our expectations regarding future claims may change significantly over time. If prevailing economic conditions deteriorate suddenly and/or unexpectedly, including as a result of the COVID-19 pandemic, our estimates of loss reserves could be materially understated. Due to the inherent uncertainty and significant judgment involved in the numerous assumptions required to estimate our losses, our loss estimates may vary widely. Because claims and IBNR reserves are based on such estimates and judgments, there can be no assurance that even in a stable economic environment, actual claims paid by us will not be substantially different than the reserves we established for such claims. Our business, operating results and financial condition will be adversely impacted if, and to the extent, our actual losses are greater than our claims and IBNR reserves.

Further, consistent with industry practice, our reserving method does not take account of losses that could occur from insured loans that are not in default. Thus, future potential losses that may develop from loans not currently in default are not reflected in our financial statements, except in the case where we are required to establish a premium deficiency reserve. As a

result, future losses on loans that are not currently in default may have a material impact on future results if, and when, such losses emerge.

The COVID-19 outbreak may continue to materially adversely impact our financial results and may also materially adversely affect our business, liquidity and financial condition.

We continue to closely monitor developments related to the COVID-19 pandemic to assess its impact on our business. As a result of the COVID-19 pandemic, the U.S. federal government and certain U.S. states have adopted numerous measures to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, social-distancing measures and business shut-downs. The COVID-19 pandemic and related containment measures have had, and are expected to continue to have, a substantial negative impact on nearly every sector of the U.S. economy and on the financial, capital and credit markets.

Since the outbreak of the COVID-19 pandemic, there have been a number of governmental and GSE efforts to implement programs designed to assist individuals and businesses impacted by the virus. On March 27, 2020, the U.S. Congress enacted the CARES Act, and on December 21, 2020, the U.S. Congress passed the Consolidated Appropriations Act, 2021 (2021 Appropriations Act), which President Trump signed into law on December 27, 2020. The CARES Act and the 2021 Appropriations Act provide financial assistance for businesses and individuals, and targeted regulatory relief for financial institutions. Among many other things, the CARES Act suspended foreclosures and evictions for at least 60 days from March 18, 2020, on mortgages purchased or securitized by the GSEs, which moratorium has been extended by the GSEs on such mortgages through at least March 31, 2021 and may be further extended. In addition, the CARES Act enacts into law a requirement to provide payment forbearance for up to 360 days on mortgages to borrowers experiencing hardship during the COVID-19 emergency. Consistent with the CARES Act, the GSEs permit payment forbearance for borrowers facing financial hardship from COVID-19 for a cumulative 12-month term, and for certain borrowers, if their hardships have not been resolved at the end of their 12-month terms, they may extend their forbearance terms for up to three additional months. The GSEs may extend this period further in the future. The CARES Act and the 2021 Appropriations Act also provide for enhanced unemployment benefits, direct aid to individuals, and increased flexibility under retirement plans, among other things.

The GSEs, the primary purchasers of mortgages we insure, have also adopted certain measures to assist borrowers impacted by COVID-19. Consistent with the CARES Act, the GSEs will provide a forbearance plan to any borrower who requests a forbearance with an attestation of the financial hardship, directly or indirectly caused by the COVID-19 emergency; and no additional documentation other than the borrower's attestation to a financial hardship caused by the COVID-19 emergency is required. Borrowers that avail themselves of forbearance relief will not incur interest or late fees on deferred amounts. In addition, the GSEs have announced that, at the end of a forbearance plan, the affected borrower will not be required to pay back their reduced or suspended mortgage payments in one lump sum, but may be eligible for a number of different options offered by their mortgage servicer depending on their financial situation, including:

- if the borrower is unable to repay their deferred payments all at once and can afford to pay a higher monthly mortgage payment for a period of time, the borrower may be eligible for a repayment plan that allows them to repay past due amounts over a period of time;
- if the borrower can afford to resume their monthly mortgage payment, they may be eligible for a payment deferral in which missed mortgage payments are due at the sale or refinancing of the home or are moved to the end of the maturity of the loan; and
- if the borrower has a sustained reduction in income and is unable to afford their regular monthly mortgage payment, they may be eligible for a loan modification that changes the terms of the mortgage loan to enable an affordable payment, including through a change to the maturity and amortization schedule of the mortgage loan.

Notwithstanding the GSE and other programs, there can be no assurance that borrowers will be able to remain current on their mortgages after a forbearance period ends, and a significant percentage could remain in default and result in mortgage insurance claims.

The COVID-19 crisis continues to evolve and create significant uncertainty about the impacts it will have on the markets in which we operate and on our business, but the impacts are material and adversely affecting our financial results and may adversely impact our business, operations and financial condition. We are currently unable to estimate precisely the magnitude of the impact that the pandemic will ultimately have on our business, operations and financial condition. We believe there are and will be a range of adverse effects on our markets, customers, new business, revenues, loss development and related impacts to our capital needs, employee health and productivity, investment portfolio performance, and ability to access capital and reinsurance markets in the future, if we need to. In turn, these impacts may cause changes, which also cannot be precisely determined at this time, to our estimates of future earnings and other guidance we have provided to the markets. In particular, we believe we will experience the following impacts, among others:

- Containment measures implemented to mitigate the negative effects of the pandemic could adversely impact our ability to continue to conduct our business. Although we have been able to continue operations under our business continuity program, the spread of COVID-19 could negatively impact a significant number of our employees and the availability of key personnel necessary to conduct our business activities. Such a spread or outbreak could also negatively impact the business and operations of our customers and critical third-party service providers. Further, extreme market volatility may leave us unable to react to market events in a manner consistent with our historical practices in dealing with more orderly markets.
- The COVID-19 pandemic and related containment measures could also affect the number of new mortgages available for us to insure. Our NIW volume and future revenues are significantly dependent on the volume of high-LTV loan originations. If there is a significant decline in our NIW, our future revenue could be negatively impacted.
- Mortgage delinquencies are typically affected by a variety of factors, including illness, death, unemployment and other life events, among others, many of which are likely exacerbated by the COVID-19 pandemic. While there are efforts underway and introduction of vaccines to combat the spread and severity of COVID-19 and the related economic impacts, these measures may be ineffective in mitigating the spike in defaults we have received and may continue to receive as a direct result of the COVID-19 pandemic. It is unclear how many borrowers will obtain forbearance plans, the length of assistance borrowers will require, and whether borrowers will be able to resume their mortgage payments thereafter. Increases in unemployment as well as borrowers entering into forbearance plans could result in further increases in the defaults we receive in the near term. In addition, as a result of COVID-19-related relief programs, the defaults related to the pandemic, if not cured, could remain in our default inventory for a protracted period of time, potentially resulting in higher levels of claim severity for those loans that ultimately result in claims. There may be additional, extended or extensive forbearance programs or other changes in regulations or laws which may adversely impact us.
- We include a loan in our default population and establish loss reserves on such loan when we have received notice from the servicer that as of a particular payment date, the borrower has missed the preceding two or more consecutive monthly payments. In addition, PMIERS generally requires us to treat such loans as non-performing, which then increases the capital we are required to hold against such loans. Under PMIERS, non-performing loans that have missed two or more payments are generally assessed a significantly higher capital charge than performing loans. As set forth in the COVID Guidance, the GSEs temporarily amended PMIERS to reduce the *risk-based required asset amount* factor under PMIERS for certain COVID-19 loans that default during the COVID-19 Crisis Period for the duration of their forbearance periods and any subsequent repayment plans or trial modification periods. As a result of costs incurred in connection with rising defaults associated with the COVID-19 crisis, the impact to our capital needs and incurred losses could be material and adversely impact our NIW opportunity and our business, results of operations and financial condition.
- Whether delinquencies ultimately result in claims will depend on a variety of factors, including the length of the crisis and ultimate success of forbearance, government stimulus and other initiatives established to assist homeowners with curing their delinquencies. Due to the inherent uncertainty and significant judgment involved in our assumptions when we establish loss estimates for loans in default, they may turn out to be materially inaccurate and we can provide no assurance that actual claims paid by us, if any, with respect to defaults arising from the pandemic will not be substantially more than the reserves we establish for such defaults.
- Our Master Policies require insureds to file a claim no later than 60-days after completion of a foreclosure, and in connection with the claim, the insured is generally entitled to include in the claim amount (i) interest (capped at three years) and (ii) certain advances, each as incurred through the date the claim is filed. Under our Master Policies, a national foreclosure moratorium of the type currently required will not limit the amount of accrued interest (subject to the three-year limit) or advances that may be included in the claim amount. If the duration of the current foreclosure moratorium mandated by the GSEs is continued beyond March 31, 2021 for an extended period of time, loans in our default inventory, including those with defaults unrelated to the COVID-19 crisis that had not yet gone through foreclosure, may remain in a pre-foreclosure default status for a prolonged period of time, which would delay our receipt of certain claims for loans that do not cure and could increase the severity of claims we may ultimately be required to pay after the moratorium is lifted.
- Home values could materially decline as a result of a persistent economic downturn arising from the COVID-19 pandemic. Depreciation in the values of properties underpinning our insured loans may increase the likelihood of default and negatively impact borrowers' abilities to sell their properties for amounts sufficient to cover their unpaid principal. In turn, the frequency or severity of losses we may incur would be negatively impacted.

- Servicers of our insured loans could experience liquidity impacts, which may affect their willingness and/or ability to continue to pay premiums to us. Although our master policies do not require payment of premiums after a loan has gone into default, most servicers continue to remit premiums to us to avoid a lapse in coverage if the borrower cures the default; however, in the current environment, it remains uncertain whether servicers will continue to do so. As set forth in the COVID Guidance, during the COVID-19 Crisis Period, if one or more servicers are unable to continue to remit premiums on loans in default, we, and other *approved insurers*, have agreed to notify the relevant GSE and give such GSE the opportunity to pay the premium to keep the coverage in force. Notwithstanding our agreement with the GSEs, if there are wide-spread servicer liquidity issues and the GSEs choose not to remit premiums, we could experience adverse impacts to our liquidity, which could be material.
- Our investment portfolio (and, specifically, the valuations of investment assets we hold) has been, and may continue to be, adversely affected as a result of market deterioration caused by the COVID-19 pandemic and uncertainty regarding its outcome.
- The COVID-19 pandemic initially caused significant volatility and disruption to the financial, capital and reinsurance markets and such volatility may continue, making access to such markets difficult. To the extent that our current sources of income and capitalization are insufficient to meet GSE and state capital requirements (respectively, as defined therein) or to fund our future operations, we would need to raise additional funds through future financing activities, including through the issuance of additional debt, equity, or a combination of both, reduce our RIF, including through additional reinsurance, or curtail our growth and reduce our expenses. We can give no assurance that any such efforts to raise capital, obtain additional reinsurance or otherwise reduce our RIF would be successful. If we cannot obtain adequate capital, our business, results of operations and financial condition could be adversely affected.

The above impacts of the COVID-19 pandemic and containment measures are likely to continue and in some cases, may worsen. The ultimate significance of COVID-19 on our business will depend on, among other things: the extent and duration of, and severity of illness caused by, the pandemic; the effectiveness of anti-viral and other medical treatments; the effectiveness and availability of vaccines and the willingness of people to be vaccinated; the effects on the economy and the time it takes to stabilize; the extent and duration of current and future containment measures implemented by governmental authorities; current and future governmental assistance programs; and the long-term impact on the mortgage origination and mortgage insurance markets. While at this time we cannot estimate the short or long-term impacts of COVID-19 on our business, the above factors could have a material adverse effect on our business, liquidity, results of operations and financial condition.

The occurrence of natural or man-made disasters or pandemics other than COVID-19 could adversely affect our business, financial condition and operating results.

We are exposed to various risks arising out of natural disasters, including earthquakes, wildfires, hurricanes, floods and tornadoes and man-made disasters, including acts of terrorism, military actions and pandemics. For example, a disaster event could lead to unexpected changes in persistency rates as policyholders and borrowers who are affected by the disaster may be unable to meet their contractual obligations, such as payment of premiums on our insurance policies and mortgage payments on loans we insure. The continued threat of terrorism may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in new business and increased claims from those areas, and adverse effects on home prices in those areas, which could result in unexpected loss experience in our business. These events also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, the value of the assets in our investment portfolio could be adversely affected if such an event affects companies' ability to pay us principal or interest on their securities.

We insure mortgages for homes in areas that have been impacted by natural disasters, including from hurricanes and wildfires. Following such natural disasters, we and other MIs typically experience an increase in defaults on insured mortgages secured by homes in the impacted areas that negatively impact our incurred losses. Our ultimate claims exposure when we experience these events depends on the number of loans in default, proximate cause of each default and cure rate of the default population. Cure rates on loan defaults following natural disasters are influenced by the adequacy of homeowners and other hazard insurance carried on a related property, GSE-sponsored forbearance and other assistance programs, and a borrower's access to aid from government entities and private organizations, in addition to other factors which generally impact cure rates in unaffected areas. We have observed that loans in default in disaster zones typically cure at a higher rate than non-disaster related loans in default. As such, we historically have established lower reserves for these type of defaults than we otherwise do for similarly situated loans in default in non-disaster zones. Due to the inherent uncertainty and significant judgment involved in our assumptions, our loss estimates may turn out to be materially inaccurate and we can provide no assurance that actual claims paid by us, if any, on defaulted loans in disaster zones will not be substantially different than the reserves we establish for such claims.

We are exposed to certain risks associated with our third-party reinsurance transactions, including the possibility that our reinsurers will fail to perform their obligations or that we will lose the capital credit we expected to receive when we entered into the transactions as a result of future GSE or Wisconsin OCI action or if any of our reinsurers experiences a downgrade or other adverse business event.

We use third-party reinsurance, including the QSR Transactions and the ILN Transactions, to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements and support the growth of our business. There is a risk that these transactions will not continue to provide the benefits we expected when we entered into them, including as a result of our counter-parties under the QSR Transactions (which are not fully collateralized like the ILN Transactions) not performing their obligations, the GSEs or the Wisconsin OCI not continuing to give us full capital credit as anticipated for the duration of the contracts, or if one or more reinsurers under the QSR Transactions experiences a downgrade or other adverse business event. Any of these events could have negative impacts on the credit for the risk transferred under the reinsurance agreements and, in turn, on our capital needs, PMIERS position and growth potential.

Reinsurance does not relieve us of our direct liability to our insureds to pay claims, even when there are reinsurance recoverables available to us under the QSR Transactions. Accordingly, we bear credit risk with respect to such reinsurers. To mitigate this risk, there are certain contractual protections that establish sources from which we may directly obtain our reinsurance recoverables under the QSR Transactions. The ILN Transactions are fully collateralized with funds deposited into trust accounts to secure the obligations of the reinsurers to NMIC under the respective reinsurance agreement. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reinsurance," below. To the extent the amounts in the QSR trust accounts are insufficient to cover loss recoveries and other amounts to which we are entitled under the QSR Transactions, we would attempt to recover such amounts directly from the reinsurers. One or more reinsurers may be unable or unwilling to pay reinsurance recoverables owed to us in the future, which could have an adverse effect on our financial condition.

If any reinsurer under the QSR Transactions experiences a ratings downgrade, the related reinsurance agreements obligate any such reinsurer, consistent with PMIERS requirements, to increase collateral in the related trust account. If the reinsurer breaches its collateral obligations, and fails to cure after notice, we may terminate the agreement with respect to such reinsurer. The QSR Transactions also give us the right to terminate the agreements in certain other circumstances, including, among other reasons, if a reinsurer becomes insolvent, has its license revoked or reinsures its entire liability under the relevant QSR Transaction with another entity. If we experience an early termination, we would be required to re-assume the risk ceded to the breaching reinsurer and the PMIERS and statutory capital credit we received when we entered into the agreement would be reversed. Depending on the timing and severity, such an event could have a material adverse effect on our financial condition, growth potential and future capital needs.

In addition, the GSEs and the Wisconsin OCI have the right periodically to review performance under our third-party reinsurance transactions, including the reinsurers' financial strength and other factors the GSEs and Wisconsin OCI may believe are important to an evaluation of the transactions, which factors may be unknown to us. As a result of such reviews, the GSEs or the Wisconsin OCI could withdraw their approvals or continue their approvals, but grant less than full capital credit. If we do not continue to receive full capital credit in connection with these transactions, we would likely need to seek other sources of capital or reductions in RIF sooner than we would have expected with full capital credit under PMIERS and state insurance laws. Future sources of capital will depend on the cost, availability and terms and conditions that are acceptable to us, our regulators and the GSEs. We cannot be sure that we will be able to secure other sources of capital or substitute reductions in RIF in the amounts we require and on favorable terms, if at all.

Our operating results depend in large part on our ability to manage the risks related to the growth of our business and on maintaining and enhancing effective operating procedures and internal controls.

We have experienced significant growth since we started our mortgage insurance business in 2013. Our future operating results depend to a large extent on our ability to successfully manage the continued growth of our business and the demands such growth places on our operations personnel and senior management team. The unexpected loss of key management and other personnel, or the inability to recruit, develop and retain qualified management talent in the future, could have an adverse effect on our business, financial condition or operating results. If we are unable to manage future expansion in our operations, we may experience compliance and operational problems, be required to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could have an adverse effect on our business, financial condition or operating results.

Our future operating results also depend on our ability to continue to implement and improve our operational, credit, financial, management and other disclosure and internal risk controls and procedures and our reporting systems and procedures.

Our management does not expect that our disclosure and internal risk controls and procedures will prevent all potential errors and fraud. We may not successfully implement improvements to, or integrate, our controls and procedures in an efficient or timely manner and may discover deficiencies in existing controls and procedures. There can be no guarantee that we will not experience flaws in our internal controls and procedures in the future.

The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. If our controls are not effective or not properly implemented, we could suffer financial or other loss, disruption of our business, regulatory sanctions or damage to our reputation. Losses resulting from these failures can vary significantly in size, scope and scale and may have a material adverse effect on our business, financial condition and operating results.

We are exposed to operational risk from fraud, malfeasance or error by employees and third-party service providers, and any such fraud, malfeasance or error could materially and adversely affect us.

We are exposed to many types of operational risk, including the risk of fraud or malfeasance by employees and outsiders, including third-party service providers, clerical record-keeping errors and transactional errors. Our business depends on our employees and third parties to process a large number of transactions. We could be materially and adversely affected if one of our employees or one of our systems causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business also could be sources of operational risk to us, including breakdowns or failures of such parties' own systems or employees. In response to the COVID-19 pandemic, we activated our business continuity program and instituted work-from-home practices for our Emeryville-based staff. As a result of the current remote work environment, the effectiveness of our compliance programs and overall ability to prevent and detect fraud or malfeasance by our employees or contractors may be diminished. Any of these occurrences could result in a diminished ability to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could result in a material adverse effect on our financial position and operating results.

If we do not maintain connectivity with or otherwise meet the technological demands of our customers or are unable to develop, enhance and maintain our proprietary technology platform, our business and financial performance could be adversely affected.

We primarily rely on e-commerce and other technologies to provide and distribute our MI products and services. Our customers require us to provide and service our MI products in a secure manner, including through our proprietary technology platform, our internet website or direct electronic data transmissions. In furtherance of this, we are party to an agreement with TCS, whereby TCS provides services across business functions, such as application development and support, infrastructure support (service desk, end user computing and engineering services), and information security. Our customers may choose to do business only with mortgage insurers with which they are already technologically compatible and may choose to retain existing MI providers rather than invest the time and resources to integrate with a new MI provider. Our business, financial condition and operating results may be adversely impacted if we do not successfully establish and maintain these arrangements and relationships, or otherwise keep pace with the technological demands of customers.

The success of our business depends on our ability to timely and effectively resolve any significant issues that may arise with the operation of our technology platform. While we anticipate that our engagement with TCS will enhance our ability to further develop, deploy, and service our technology platform, any delays caused by the outsourcing of these functions, deterioration in our relationship with TCS, or termination of our engagement with TCS could lead to significant disruptions in our operations. If our technology platform fails to perform in the manner we expect, our business, financial condition and operating results may be significantly harmed. Further, our business would be negatively impacted if we are unable to enhance our platform when necessary to support our primary business functions, including to match or exceed the technological capabilities of our competitors over time. We cannot predict with certainty the cost of maintaining and improving our platform, but failure to make necessary improvements and any significant shortfall in any technology enhancements or negative variance in the time-line in which system enhancements are delivered could have an adverse effect on our business, financial condition and operating results.

We may not be able to prevent the unauthorized disclosure or misuse of confidential, personal or proprietary information.

Our IT systems process, transmit, store and protect large amounts of personal information of borrowers whose mortgages we insure, in addition to the confidential, proprietary, financial and other information that are critical to our business. Our technology systems and networks, including those functions that we may outsource, are vulnerable to unauthorized access, interruptions or failures due to events that are often beyond our control, including cyber-attacks, natural disasters, theft, terrorist attacks and general technology failures. We have outsourced certain technology and business functions to third parties, and may continue to do so in the future. This may expose us to increased risk related to data and information security and unexpected

service disruptions, which could result in monetary and reputational damage or harm to our competitive position. Remote working arrangements adopted in response to the COVID-19 pandemic may also increase the risk of cyber-security attacks or data security incidents. In particular, in a remote environment, our employees and vendors rely on the use of portable computers and mobile devices, which can be stolen, lost or misused, making information accessible through such devices more vulnerable to unauthorized access, including by employee malfeasance. We have adopted information security procedures and controls to safeguard our systems and the information that we process, transmit and store. Despite these efforts, we may not be able to anticipate or implement effective preventive measures against all cyber threats, or detect and contain a breach in a timely manner, including because employees may not follow the controls we have implemented, the invasive techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources and methods. The COVID-19 pandemic has exacerbated these risks. Our employees, customers or other users of our systems are from time-to-time subject to fraudulent inducements by parties attempting to gain access to our data or that of our customers. There is no assurance that our information security policies and systems in place can prevent unauthorized use or disclosure of confidential information, including nonpublic personal information. Any compromise of the security of our IT systems may result in loss of personally identifiable information, financial losses, loss of customers and the inability to transact business; could be costly and time-consuming to address and resolve; could expose us to liability for damages, harm our reputation, subject us to regulatory scrutiny and/or expose us to civil litigation. If any of these were to occur, our business, financial condition and operating results could be materially adversely affected. Further, the technology errors and omissions insurance coverage we maintain may be inadequate to cover claims and/or costs associated with incidents that may occur in the future.

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

Income from our investment portfolio provides a growing source of revenue and cash flow to support our operations and claim payments. If we improperly structure our investments to meet those future liabilities or have unexpected losses in our portfolio, including losses resulting from impairments or the forced liquidation of investments before their maturity, we may be unable to meet those obligations. NMIC's investments and investment policies are subject to state insurance laws, which results in our portfolio being predominantly limited to highly rated fixed income securities. To date, our investment portfolio has been established at a time of historically low interest rates. If interest rates rise above the rates on our fixed income securities, the market value of our investment portfolio would decrease. Any significant decrease in the value of our investment portfolio would adversely impact our financial condition.

We may be required or find it advisable to change our investments or investment policies depending upon regulatory, economic and market conditions, or our existing or anticipated financial condition and operating requirements, including the tax position, of our business. Our investment objectives may not be achieved. The success of our investment activity is affected by general economic conditions, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. In addition, our investment portfolio (and, specifically, the valuations of investment assets we hold) has been, and may continue to be, adversely affected as a result of market deterioration caused by the COVID-19 pandemic and uncertainty regarding its outcome.

We face regulatory and litigation risks associated with offering loan review services.

NMIS offers loan review services for certain of our customers that are performed by SAFE Act-licensed third-party service providers, including on loans for which NMIC is not providing mortgage insurance. Under the terms of our service agreements and subject to such agreements' contractual limitations on liability, we provide limited indemnity rights for "material errors," if such errors materially impair the saleability of a reviewed loan, results in a material reduction in the value of such loan or results in the customer being required to repurchase such loan. The indemnification may be in the form of monetary or other remedies, subject to per loan and annual limitations. Accordingly, we have assumed some credit risk in connection with providing these services. NMIS contracts with SAFE Act-licensed third-party service providers to provide loan review services, and we believe we have structured NMIS' operations so that it does not itself engage in any activities that would trigger licensure under the SAFE Act. However, the CFPB or other regulators could take a different position, thereby increasing the risk of regulatory scrutiny and potential enforcement action and/or litigation involving these loan review services. Any such scrutiny, enforcement action or litigation could result in a diminished ability to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could in turn result in a material adverse effect on our financial position and operating results. See "*The private MI industry is, and as a participant we are, subject to litigation and regulatory enforcement risk generally,*" below.

Risks Related to Regulation of the Mortgage Insurance Industry

There can be no assurance that the GSEs will continue to treat us as an approved insurer in the future, and our failure to maintain compliance with the GSEs' PMIERS could adversely impact our business, financial condition and operating results.

NMIC is a GSE *approved insurer*, and the significant majority of insurance we write is on loans sold to the GSEs. The GSEs set their own counter-party standards for private mortgage insurers, known as PMIERS. (*Italicized terms have the same meaning that such terms have in the PMIERS.*) As a result, our compliance with the PMIERS is necessary to maintain NMIC's status as an *approved insurer*. The PMIERS establish operational, business, remedial and financial requirements applicable to *approved insurers*. By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of its failure to meet one or more of the PMIERS requirements, some of which do not have materiality thresholds. We certified to the GSEs by April 15, 2020 that NMIC was in full compliance with the PMIERS as of December 31, 2019.

There can be no assurance, however, that NMIC will continue to comply with the PMIERS financial requirements. If NMIC were to experience a material reduction to revenues or an unexpected, significant increase in losses, NMIC's available assets could fall below the minimum required assets mandated by the PMIERS financial requirements. In addition, as NMIC continues to grow its business and increase its net RIF, NMIC may need to raise additional capital or reduce its net RIF, including through the use of additional reinsurance, to remain in compliance with the PMIERS financial requirements and to continue to support new business writings. Any future growth capital may be in the form of debt, equity, or a combination of both. We can give no assurance that our efforts to raise capital, obtain additional reinsurance or otherwise reduce our RIF would be successful.

The PMIERS provide that the table of factors that determine minimum required assets will be updated every two years or more frequently to reflect macroeconomic conditions, loan performance or to address other issues the GSEs deem important. In addition, the GSEs may amend or clarify other aspects of the PMIERS at any time. For example, in 2020, the 2020 PMIERS Guidance, among other things: (i) temporarily amended PMIERS, effective as of June 30, 2020, to recognize the COVID-19 pandemic as a nationwide major disaster and to reduce the risk-based required asset amount factor under PMIERS for certain COVID-19 defaulted loans (the COVID Guidance) and (ii) permanently amended PMIERS, effective December 31, 2020, to clarify delinquency reporting requirements for non-performing loans under PMIERS. There is no assurance NMIC will remain in compliance or that the GSEs will not make the PMIERS financial requirements more onerous in the future. If any future updates to the PMIERS would require NMIC to materially increase the amount of available assets to support its business writings, the amount of capital NMIC is required to hold will increase, which may have a negative effect on our returns. Any such effect could have a negative impact on our flexibility to meet our business plans and our future operating results.

Compliance with PMIERS requires us to seek the GSEs' prior approval before taking many actions, including implementing new products or services or entering into inter-company agreements among other actions. In addition, for an approved insurer to receive a reduction in its risk-based required asset amount for new or revised reinsurance transactions, the approved insurer must obtain the GSEs' written approval. PMIERS' approval requirements could prohibit, materially modify or delay us in our intended course of action. Further, the GSEs may modify or change their interpretation of terms they require us to include in our mortgage insurance policies for loans purchased by them, requiring us to modify our terms of coverage or operational procedures to remain an approved insurer, and such changes could have a material adverse impact on our financial position and operating results. For example, we and other approved insurers were required to implement new master policies to, among other things, include terms that conform to the GSEs' RRP. In addition, consistent with the 2020 PMIERS Guidance and in response to the COVID-19 crisis, we agreed with the GSEs to implement for a limited period of time certain operational and contractual flexibilities, including providing the GSEs the opportunity to pay premiums to keep coverage in force if one or more servicers are unable to continue to remit premiums on loans in default. It is possible the GSEs could, in their own discretion, require additional limitations and/or conditions on certain of our activities and practices that are not currently in the PMIERS or otherwise required by the GSEs for us to remain an approved insurer. Additional requirements or conditions imposed by the GSEs could further limit our operating flexibility and the areas in which we may write new business.

If, in the future, NMIC fails to comply with the PMIERS, including the financial requirements, it may lose its approved insurer status from one or both GSEs, or may have to enter into a remediation plan (with the approval of the GSEs), curtail its business writings or cease transacting new business altogether. Any of these events would have a material adverse impact on our financial condition and future business prospects.

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

The requirements and practices of the GSEs impact the operating results and financial performance of approved insurers, including NMIC. Changes in the charters or business practices of Freddie Mac or Fannie Mae could materially reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. The GSEs could be directed to make such changes by the FHFA, which was appointed as their conservator in September 2008 and has the authority to control and direct the operations of the GSEs.

With the GSEs in a prolonged conservatorship, there has been ongoing debate over the future role and purpose of the GSEs in the U.S. housing market. The U.S. Congress may legislate, or the administration may implement through administrative reform, structural and other changes to the GSEs and the functioning of the secondary mortgage market. Since 2011, there have been numerous legislative proposals intended to incrementally scale back the GSEs (such as a statutory mandate for the GSEs to transfer mortgage credit risk to the private sector) or to completely reform the housing finance system. Congress, however, has not enacted any legislation to date. The proposals vary with regard to the government's role in the housing market, and more specifically, with regard to the existence of an explicit or implicit government guarantee. Recently, there has been increased focus on and discussion of administrative reform independent of legislative action. On September 5, 2019, the Treasury Department released its Housing Reform Plan that included a compilation of legislative and administrative recommendations for reforms to achieve the goals of (i) ending the conservatorships of the GSEs, (ii) advancing competition in the housing finance market, (iii) setting regulations for the GSEs that provide for their safety and soundness and limit their risk to the financial stability of the United States, and (iv) providing proper compensation to the United States government for any explicit or implicit support it provides to the GSEs. Additionally, the Director of the FHFA has publicly stated his priority for exiting the GSEs from conservatorship during his five-year term which began April 2019. Between the Director of the FHFA and the Treasury Department, they possess significant capacity to effect administrative GSE reforms. If any GSE reform is adopted, whether through legislation or administrative action, it could impact the current role of private mortgage insurance as credit enhancement, including its reduction or elimination, which would have an adverse effect on our revenue, operating results, prospects or financial condition. As a result of these matters, it is uncertain what role private capital, including MI, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. Any changes to the charters or statutory authorities of the GSEs would require Congressional action to implement. Passage and timing of any comprehensive GSE reform or incremental change (legislative or administrative) is uncertain, making the actual impact on us and our industry difficult to predict. Any such changes that come to pass could have a significant impact on our business.

On November 18, 2020 the FHFA announced that it had finalized and sent for publication a rule establishing a new regulatory capital framework for the GSEs, which included provisions governing the capital relief allowed to the GSEs for loans with private MI. The final rule established that loans with private MI as opposed to loans without private MI, provide more favorable capital relief to the GSEs. Notwithstanding this beneficial capital treatment for loans with private MI, the total capital required to be held by the GSEs upon implementation of the final rule is significant. It is too early to predict the impact, if any, on us as a counterparty to the GSEs or any future implications for PMIERS. An increase in the capital required to be held by us under PMIERS could make our products more expensive and could have a material adverse impact on our financial condition and future business prospects.

In recent years, the FHFA has set goals for the GSEs to transfer significant portions of the GSEs' mortgage credit risk to the private sector. To date, several credit risk transfer products have been created under the program, including IMAGIN and EPMI and others discussed above in "*Our NIW volumes could be adversely affected if lenders and investors select alternatives to private MI.*" To the extent these credit risk products evolve in a manner that displaces primary MI coverage, the amount of insurance we write may be reduced. It is difficult to predict the impact of alternative credit risk transfer products, if any, that are developed to meet the goals established by the FHFA.

We are subject to comprehensive state insurance regulations and capital adequacy requirements, which we must satisfy to continue to operate our MI business.

The U.S. MI industry and our insurance subsidiaries are subject to comprehensive state regulation in each jurisdiction in which they are licensed or authorized to do business. Regulatory scrutiny could lead to new legal precedents, new regulations or new practices, or regulatory actions or investigations, which could adversely affect our financial condition and operating results. Although their scope varies, state insurance laws generally grant broad supervisory powers to state insurance regulatory authorities to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including premium rates, trade and claims practices, accounting methods, marketing practices, policy forms and capital adequacy. These state insurance regulatory authorities could take actions that could materially impact the types of products and services we and our industry are permitted to offer, including requiring us (and other MI companies) to modify

current pricing and business practices. Further, failure to comply with the applicable regulations could lead to enforcement or disciplinary action, including the imposition of penalties and the revocation of our authorization to operate.

NMIC's principal regulator is the Wisconsin OCI. Under applicable Wisconsin law, as well as that of 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to its RIF for the mortgage insurer to continue to write new business. While formulations of minimum capital may vary in each jurisdiction that has such a requirement, the most common measure applied allows for a maximum permitted RTC ratio of 25:1. Wisconsin and certain other states, including California and Illinois, apply a substantially similar requirement referred to as minimum policyholders' position. If our business grows faster (*i.e.*, our RIF grows faster than expected) or is less profitable than expected (*i.e.*, our revenues do not generate the return we expect), our actual RTC ratios over the short to mid-term could exceed our expected RTC ratios and could begin to approach the limits to which we are subject, which could require us to enter into alternative arrangements to reduce our RIF, including through additional reinsurance or raising additional capital. If this were to occur, we can give no assurance that our efforts to obtain additional reinsurance or otherwise reduce our RIF, or to raise capital would be successful, and if such efforts are unsuccessful, we could exceed state-imposed capital requirements. Accordingly, if we fail to meet the capital adequacy requirements in one or more states, we could be required to suspend writing business in some or all of the states in which we do business.

The NAIC has formed the Working Group to discuss and recommend changes to the solvency and market practices regulation of mortgage insurers, including changes to the Model Act. Proposed amendments to the Model Act include, among other changes, adoption of a risk-based capital model. We, along with other mortgage insurers, have provided feedback to the Working Group since early 2013, including comments on the risk-based capital approach. The Working Group's discussions are ongoing and the ultimate outcome of these discussions and any potential actions taken by the NAIC cannot be predicted at this time. If the Working Group's final proposal to the NAIC contains more stringent capital requirements, this could ultimately lead to NMIC being obligated to hold more capital for its insured business than we are required to hold under PMIERS, which would reduce our profitability compared to the profitability we expect under the existing capital requirements.

The private MI industry is, and as a participant we are, subject to litigation and regulatory enforcement risk generally.

We operate in highly regulated industries that inherently pose a heightened risk of litigation and regulatory proceedings. As a result, the members of the MI industry, including NMIC, face litigation risk, including the risk of class action lawsuits, and administrative enforcement by federal regulators and state insurance agencies in the ordinary course of operations. In addition, the private MI industry, including NMIC, may be affected by changes in the laws and regulations to which we are subject or the way they are interpreted or applied. See "Item 1 - Business - U.S. Mortgage Insurance Regulation."

In the past, mortgage insurers (excluding NMIC) have been involved in litigation and regulatory enforcement actions alleging violations of Section 8 of RESPA. Among other things, Section 8 of RESPA generally precludes mortgage insurers from paying referral fees to mortgage lenders for the referral of MI business. This limitation also can prohibit providing services or products to mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that mortgage lenders provide that are higher than their reasonable or fair market value, in exchange for the referral of MI business. Various regulators, including the CFPB, state insurance commissioners and state attorneys general, may bring actions seeking various forms of relief in connection with alleged violations of the referral fee limitations of RESPA, as can private litigants in class actions. In the years following the most recent financial crisis, the CFPB pursued a higher volume of enforcement actions against mortgage industry participants, including mortgage insurers. In particular, the CFPB focused on challenging mortgage insurers' captive reinsurance arrangements under Section 8 of RESPA. The insurance law provisions of many states also prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. New leadership at the CFPB or any changes made under the new presidential administration may also have an impact on future CFPB enforcement activity. The CFPB's interpretation and enforcement of Section 8 of RESPA presents regulatory risk for many providers of "settlement services," including mortgage insurers.

We currently are not a party to any federal or state regulatory enforcement actions; however, such proceedings could arise in the future. The cost to defend, and the ultimate resolution of, any such action or proceeding could have a material adverse impact on our business, financial condition and operating results. Should we become a party to an action by any of these regulators, the ultimate outcome is difficult to predict, and it is possible that any outcome could be negative to us specifically or the industry in general and such a negative outcome could have an adverse effect on our business, financial position and operating results.

From time-to-time, we have been involved in certain legal proceedings in the ordinary course of business. To date, we have not recognized a material liability related to any of our legal proceedings. However, the outcome of litigation and other legal

and regulatory matters is inherently uncertain, and it is possible that one or more of any such matters in the future could have an unanticipated material adverse effect on our liquidity, financial position and operating results.

Our business prospects and operating results could be adversely impacted if, and to the extent that, the Consumer Financial Protection Bureau's ATR Rules defining a QM negatively impact the size of the origination market.

In January 2014, the CFPB implemented the Dodd-Frank Act ATR mortgage provisions, which govern the obligation of lenders to determine a borrower's ability to pay when originating a mortgage loan covered by the rule. A subset of mortgages within the ATR rule are known as QMs. The original ATR/QM rule established two different categories of QMs, one referred to as the "General QM" category and a second, temporary QM category, typically referred to as the QM Patch. In the fourth quarter of 2020, the CFPB released a series of final rules to (i) eliminate the QM Patch, (ii) amend the definition of a General QM, and (iii) provide for a new, Seasoned QM category. See "Item 1, "Business - U.S. Mortgage Insurance Regulation - Other U.S. Regulation - Housing Finance Reform" above for a summary of the GSEs final rules related to QMs. The expiration of the QM Patch or eventual implementation of the General QM and Seasoned QM final rules could affect the residential mortgage market and demand for private mortgage insurance.

The Dodd-Frank Act also gave statutory authority to the HUD, the VA, and the USDA to develop their own definitions of "QM," which those agencies have completed. To the extent lenders find that the HUD definition of QM is more favorable to certain segments of their borrowers, they may choose FHA products over private MI products.

We, along with other industry participants, have observed that the significant majority of covered loans made after the effective date of the ATR rule have been QMs. We expect that most lenders will continue to be reluctant to make loans that do not qualify as QMs because absent full compliance with the ATR rule, such loans will not be entitled to a safe-harbor presumption of compliance with the ability-to-pay requirements. As a result, we believe ATR regulations have given rise to a subset of borrowers who cannot meet the regulatory QM standards, thus restricting their access to mortgage credit and reducing the size of the residential mortgage market. It is unclear whether the expiration of the QM Patch or the revised General QM rule or the new Seasoned QM category will have any impact on access to mortgage credit or the size of the mortgage market. Our business prospects and operating results could be adversely impacted if, and to the extent that, the QM regulations or the CFPB's actions negatively impact the size of the origination market.

The Company may be adversely impacted by the phasing out of LIBOR.

We have exposure to LIBOR-indexed financial instruments, including our credit instruments and ILN Transactions. As of December 31, 2020, we held \$61.7 million of floating-rate securities in our investment portfolio that yield interest based on an index rate, predominantly LIBOR, plus a margin (the LIBOR-indexed securities). In addition, we believe most ARMs in our IIF are indexed to LIBOR. In 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the banks that sustain LIBOR to submit rate quotations after December 31, 2021. On November 30, 2020, ICE Benchmark Administration Ltd. (IBA), the administrator of LIBOR, announced it will consult with constituents on its intention to cease the publication of the one week and two month U.S. dollar LIBOR (USD LIBOR) settings immediately following the LIBOR publication on December 31, 2021, and the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. IBA expressly stated that its announcement should not be construed as a decision by the IBA to either cease or continue the provision of any LIBOR settings after December 31, 2021 or June 30, 2023. That same day, U.S. financial regulators issued supervisory guidance noting that "the agencies encourage banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021." Accordingly, it remains uncertain whether USD LIBOR will continue to be quoted after 2021, or if it does continue to be quoted, whether it will be reliable.

Efforts to identify and transition to a set of alternative U.S. dollar reference rates have been underway, including proposals by the Alternative Reference Rates Committee of the Federal Reserve Board (ARRC). In 2017, the ARRC recommended an alternative reference rate referred to as the Secured Overnight Financing Rate (SOFR), a combination of certain overnight repo rates, to replace USD LIBOR, and the Federal Reserve Bank of New York began publishing SOFR in 2018.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal and market risks. We have created an enterprise plan focused on this transition, including identifying and monitoring our exposure to LIBOR and monitoring the market adoption of alternative reference rates and industry-standard contractual fall-back provisions.

Each of our LIBOR-indexed financial instruments and we believe most of our LIBOR-indexed securities provides for determining an alternative reference rate if LIBOR is discontinued. LIBOR-indexed ARMs typically provide lenders with the option to choose a comparable rate if LIBOR ceases to exist. However, there is considerable uncertainty as to how the financial services industry will address the discontinuance of LIBOR in these financial instruments. Alternative reference rates that replace

LIBOR may not yield the same or similar economic results over the lives of these financial instruments. In addition, while the ARRC was created to ensure a successful transition from LIBOR, there can be no assurance that the ARRC will endorse practices that create a smooth transition and minimize value transfers between market participants, or that its endorsed practices will be broadly adopted by market participants. In addition, we cannot anticipate how long it will take to develop the systems and processes necessary to adopt SOFR or other benchmark replacements, which may delay and contribute to uncertainty and volatility surrounding the LIBOR transition.

Accordingly, a change or transition away from LIBOR as a common reference rate in the financial market could have a range of adverse effects on our business. In particular any such transition could:

- adversely affect the interest rates we pay on our LIBOR-indexed financial instruments;
- cause volatility in the yield of our LIBOR-indexed securities and investment income;
- prompt additional inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with our counterparties regarding the interpretation and enforceability of certain fall-back language in LIBOR-based instruments and securities we hold; and
- disrupt the residential mortgage market, including with respect to ARMs, if replacement indices unilaterally chosen by lenders negatively impact borrowers, which could give rise to higher than expected rates of default on such loans and increased litigation.

Risks Related to Our Holding Company and Capital Structure

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

NMIH serves as the holding company for our operating subsidiaries and does not have any significant operations of its own. NMIH's principal source of operating cash is investment income, and could in the future include dividends from NMIC and Re One. Re One currently has the capacity to pay aggregate ordinary dividends of \$1.6 million to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI. NMIH also has access to \$110 million of undrawn revolving credit capacity under the senior secured credit facilities. In addition, NMIH currently receives cash from our insurance subsidiaries, consisting of payments made under our tax and expense-sharing arrangements. Among such agreements, the Wisconsin OCI has approved the allocation of interest expense on our \$400 million aggregate principal amount of senior secured notes that mature on June 1, 2025 (the Notes) and senior secured credit facilities to NMIC to the extent proceeds from the Notes offering and facility are distributed to NMIC or used to repay, redeem or otherwise defease amounts raised by NMIC under prior credit arrangements that have previously been distributed to NMIC. The expense-sharing arrangements between us and our subsidiaries, as amended, have been approved by the Wisconsin OCI, but such approval may be revoked at any time. NMIH depends on these sources of liquidity to make principal and interest payments under its current debt arrangements and to pay certain corporate expenses and income taxes, among other things. If payments to NMIH were curtailed or limited, there is a risk that NMIH would be unable to satisfy its financial obligations.

NMIH's dividend income is limited to upstream dividend payments from our subsidiaries. With respect to our insurance subsidiaries, under Wisconsin law, dividends in excess of prescribed limits are deemed "extraordinary" and require approval of the Wisconsin OCI. Other states in which our insurance subsidiaries are licensed also limit or restrict their ability to pay dividends. It is possible that Wisconsin and other states that have dividend restrictions will adopt revised statutory provisions or interpretations of existing statutory provisions that could be more restrictive than those currently in effect or will otherwise take actions that may further restrict the ability of our insurance subsidiaries to pay dividends or make distributions or returns of capital. In addition, under the PMIERS, if an approved insurer fails to meet the PMIERS financial requirements, such approved insurer may not pay dividends without the prior written approval of the GSEs.

In addition, to support NMIC's future growth, we could be required to provide additional capital support for NMIC if additional capital is required by the GSEs or pursuant to insurance laws and regulations. If we were unable to meet our obligations, NMIC could lose GSE approval and/or be required to cease writing business in one or more states, which would adversely impact our business, financial condition and operating results.

To the extent that the funds generated from investment income or by our ongoing operations and capitalization are insufficient to fund future operating requirements, we may need to raise additional funds through future financing activities, including through the issuance of additional debt, equity, or a combination of both, reduce our RIF, including through additional reinsurance, or curtail our growth and reduce our expenses. NMIH's future capital requirements depend on many factors, including NMIC's 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. We can give no assurance that our efforts to raise capital, obtain additional reinsurance or otherwise reduce our RIF would be successful. If we cannot obtain adequate capital, our business, financial condition and operating results could be adversely affected.

Our substantial indebtedness could adversely affect our financial condition.

We currently have and will continue to have a substantial amount of indebtedness. As of December 31, 2020 our debt totaled approximately \$393.3 million

Our indebtedness could have significant negative consequences for our business, financial condition and operating results, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of the cash flow from our subsidiaries' operations to service our indebtedness, thereby reducing the amount of cash flow available for other purposes;
- making it more difficult for us to retain our existing ratings or to obtain investment-grade credit ratings in the future;
- making it more difficult to conduct our business successfully or to grow our business, or limiting our flexibility in planning for, or reacting to, changes in our business; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

In addition, our senior secured credit facilities and the indenture governing our senior secured notes contain certain restrictive covenants that, among other things, limit our ability to incur additional indebtedness, make investments, incur liens, transfer or dispose of assets, merge with or acquire other companies and pay dividends. Our senior secured credit facilities require us to comply with certain financial and other maintenance covenants. A failure to comply with covenants or the other terms of our senior secured credit facilities and the indenture governing our senior secured notes could result in an event of default under such indebtedness, which, if not remedied, may trigger an event of default under certain other indebtedness.

If the lenders under our senior secured credit facilities terminate their commitments or we are unable to satisfy certain covenants or representations, we may not have access to funding in a timely manner, or at all, when we require it. If funding is not available under the senior secured credit facilities when we require it, our ability to continue our business practices or pursue our current strategy could be limited. If any indebtedness under the senior secured credit facilities or our senior notes is accelerated, we cannot assure you that our assets would be sufficient to repay such amounts in full, and the lenders and/or noteholders could foreclose on the collateral securing the obligations under the senior secured credit facilities and the senior notes, including, subject to regulatory approval, the stock of NMIC and Re One. Any of these actions could have a material adverse effect on our business, financial condition and operating results.

Our existing, and any future, variable rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

Any indebtedness we may incur under our senior secured credit facilities and our future indebtedness may be subject to variable rates of interest, exposing us to interest rate risk. If interest rates increase, our debt service obligations on such variable rate indebtedness would increase, resulting in a reduction of our net income that could be significant, even though the principal amount borrowed would remain the same.

Despite our substantial level of debt, we may incur more debt, which could exacerbate any or all of the risks described above.

We may incur substantial additional debt in the future, including up to \$110 million in borrowings we may choose to make under the senior secured credit facilities. Although the credit agreement governing our senior secured credit facilities and the indenture governing our senior secured notes each limit our ability and the ability of certain of our subsidiaries to incur additional debt, these restrictions are subject to a number of qualifications and exceptions, and, under certain circumstances, we may incur additional debt in compliance with these restrictions. In addition, the applicable credit agreement and indenture does

not prevent us from incurring certain obligations that do not constitute "indebtedness" as defined therein. To the extent that we incur additional debt or such other obligations, the risks associated with our credit agreement and indenture described above, including our possible inability to service our debt or other obligations, would increase.

Our current credit ratings may adversely affect our ability to access capital and the cost of such capital, which could have a material adverse effect on our business, financial condition and operating results.

Our current issuer credit and debt ratings are below investment grade. Our current credit ratings, or any future negative actions the credit agencies may take, could affect our ability to access the reinsurance, credit and capital markets in the future and could lead to worsened trade terms, adversely affecting the cost. An inability to access reinsurance, capital and credit markets when needed to continue to grow our business, refinance our existing debt or raise new debt or equity could have a material adverse effect on our business, financial condition, operating results and liquidity.

Risks Related to Ownership of Our Common Stock

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

We have not declared or paid dividends in the past, and we do not expect to pay dividends in the near future. We currently intend to retain all of our earnings, if any, to fund our growth. As a result, only appreciation in the price of our common stock, which may not occur, will provide a return to investors. Any future declaration and payment of dividends by our Board will depend on many factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal requirements and other factors that our Board deems relevant. In addition, we may enter into additional credit agreements or other debt arrangements in the future that could restrict our ability to declare or pay cash dividends on our common stock.

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

The market price of our common stock may fluctuate substantially and be highly volatile, which may make it difficult for stockholders to sell their shares of our common stock at the volume, prices and times desired. There are many factors that impact the market price of our common stock, including, without limitation:

- general market conditions, including price levels and volume and changes in interest rates;
- national, regional and local economic or business conditions;
- the effects of, and changes in, trade, tax, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- changes in U.S. housing and housing finance policy, including changes to the GSEs and the role of government MIs;
- our actual or projected financial condition, liquidity, operating results, cash flows and capital levels;
- changes in, or failure to meet, our publicly disclosed expectations as to our future financial and operating performance;
- publication of research reports about us, our competitors or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- market valuations, as well as the financial and operating performance and prospects, of similar companies;
- future issuances or sales, or anticipated issuances or sales, of our common stock or other securities convertible into or exchangeable or exercisable for our common stock;
- additional indebtedness we may incur in the future;
- expenses incurred in connection with changes in our stock price, such as changes in the value of the liability reflected on our financial statements associated with outstanding warrants;
- the potential failure to establish and maintain effective internal controls over financial reporting;
- additions or departures of key personnel and management;
- our failure to satisfy the continued listing requirements of the NASDAQ; and
- our failure to comply with the Sarbanes-Oxley Act of 2002.

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

The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale, and future issuances of our common stock may depress our share price and dilute the book value of our common stock.

As of December 31, 2020, we had 85,163,039 shares of our common stock issued and outstanding. Sales of substantial amounts of our common stock in the public market in the future, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future, at a time and place that we deem appropriate.

In addition, we have filed registration statements on Form S-8 under the Securities Act to register an aggregate of 5.5 million shares of our common stock for issuance under our 2012 Stock Incentive Plan (2012 Plan) and an aggregate of 6 million shares of our common stock for issuance under our Amended and Restated 2014 Omnibus Incentive Plan (2014 Plan, and together with the 2012 Plan, the Stock Plans). Any shares issued under our Stock Plans, including as a result of the exercise of stock options, would dilute the percentage ownership held by investors who purchase our shares prior to such issuance.

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

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

Shares of our common stock are equity interests and do not constitute indebtedness of NMIH. In the future, we may attempt to increase our capital resources by issuing additional debt, including bank debt, commercial paper, medium-term notes, senior or subordinated notes or classes of shares of preferred stock. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of shares of our common stock. Accordingly, if we were liquidated, holders of our debt securities and preferred stock and lenders with respect to our Credit Agreement or other future borrowings, if any, would receive a distribution of our available assets prior to the holders of shares of our common stock. Any decision to issue debt or preferred stock in the future will depend on market conditions and other factors, some of which will be beyond our control. We cannot predict or estimate the amount, timing or nature of such future issuances. Holders of our common stock bear the risk of such future issuances of debt or preferred stock reducing the market value of our common stock.

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

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

- provide that special meetings of our stockholders generally can only be called by the chairman of the Board or the president or by resolution of the Board;
- provide our Board the ability to issue undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may grant preferred holders voting, special approval, dividend or other rights or preferences superior to the rights of the holder of common stock;
- provide our Board the ability to issue common stock and warrants within the amount of authorized capital;
- provide that, subject to the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any action required or permitted to be taken by our stockholders must be effected at a

duly called annual or special meeting of our stockholders and may not be effected by any consent in writing by such stockholders; and

- provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, generally must provide timely advance notice of their intent in writing and certain other information not less than 90 days nor more than 120 days prior to the meeting.

These provisions, alone or together, could delay hostile takeovers and changes of control of the Company or changes in our management. Additionally, cumulative voting in the election of our directors is not allowed.

As a Delaware corporation, we are also subject to anti-takeover provisions of Delaware law, including Section 203 of The Delaware General Corporation Law, which, subject to certain exceptions, prohibits a public Delaware corporation from engaging in a business combination (as defined in such section) with an "interested stockholder" (defined generally as any person who beneficially owns 15% or more of the outstanding voting stock of such corporation or any person affiliated with such person) for a period of three years following the time that such stockholder became an interested stockholder, unless (i) prior to such time, the board of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

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

Any provision of our certificate of incorporation or bylaws or Delaware law or under the Wisconsin insurance regulations that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of common stock, and could also affect the price that some investors are willing to pay for shares of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease approximately 47,000 square feet of office space in Emeryville, California pursuant to an office facility lease that we initially entered into in 2012 (as amended, the Lease). The term of the Lease extends through March 2023. We do not own or lease any other facilities.

Item 3. 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 reasonably 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 disclose information relating to any such potential loss, whether in excess of any established accruals or where there is no established accrual. We 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 on 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NASDAQ under the symbol "NMIH." On February 22, 2021, there were 85,302,579 shares of our Class A common stock outstanding and approximately twelve holders of record. There are no shares of our Class B common stock outstanding. The closing price of our common stock on NASDAQ on February 22, 2021 was \$23.10.

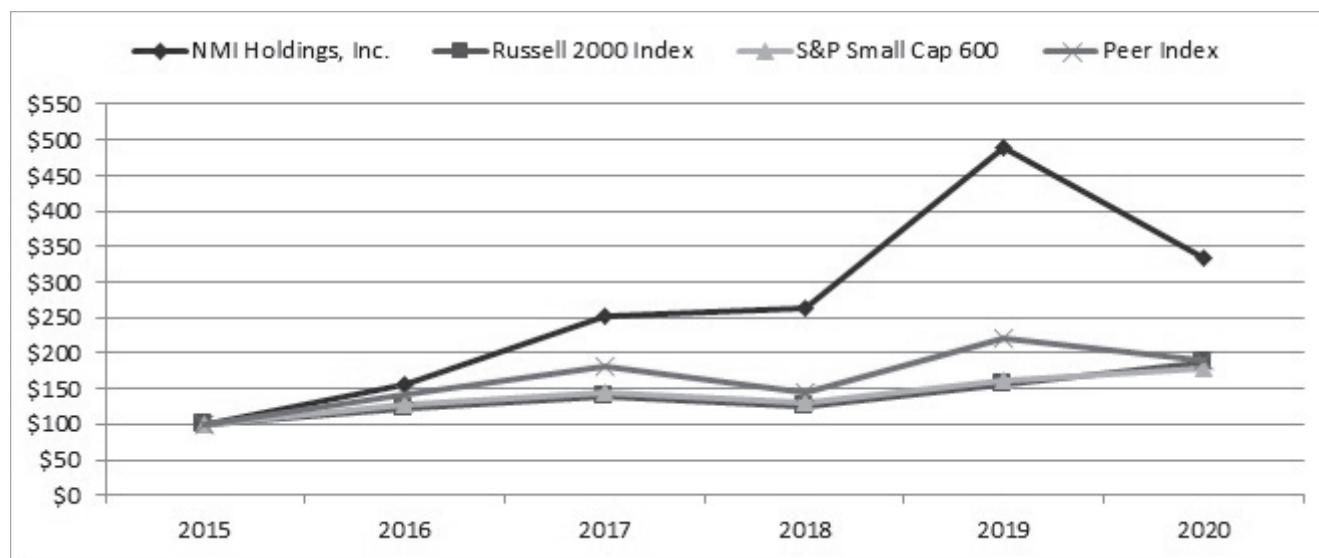
No dividends on our common stock have previously been declared or paid, and we do not expect to declare or pay dividends in the near future. For information on our ability to pay dividends, see Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*" and Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 16, Regulatory Information - Dividend Restrictions.*"

Issuer Purchases of Equity Securities

We did not repurchase any shares of our common stock during 2020.

Common Stock Performance Graph

The following graph compares the cumulative total stockholder return on our Class A common stock from December 31, 2015 until December 31, 2020, with the cumulative total stockholder return on the Russell 2000 Index, S&P Small Cap 600 Index and an index of selected mortgage insurance companies (Peer Index). The Peer Index includes Essent, MGIC and Radian. The total stockholder's returns are not necessarily indicative of future returns. Information contained or referenced in the stock performance graph below is being furnished with this report 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.



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
NMI Holdings, Inc.	\$ 100	\$ 157	\$ 251	\$ 264	\$ 490	\$ 335
Russell 2000 Index	100	121	139	124	155	186
S&P Small Cap 600	100	127	143	131	161	179
Peer Index (ESNT, MTG, RDN)	100	141	182	144	222	190

Item 6. Selected Financial Data

The information in the following table should be read in conjunction with the information included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data."

	For the years ended December 31,				
	2020	2019	2018	2017	2016
Consolidated statements of operations					
	<i>(In Thousands, except for per share data)</i>				
Net premiums earned	\$ 397,172	\$ 345,015	\$ 251,197	\$ 165,740	\$ 110,481
Net investment income	31,897	30,856	23,538	16,273	13,751
Net realized investment gains (losses)	930	45	57	208	(693)
Total revenues	433,283	378,771	275,025	182,743	123,815
Insurance claims & claim expenses	59,247	12,507	5,452	5,339	2,392
Underwriting and operating expenses ⁽¹⁾	131,610	126,621	116,966	106,362	92,731
Net income	171,566	171,957	107,927	22,050	64,001
Basic earnings per share	\$ 2.20	\$ 2.54	\$ 1.66	\$ 0.37	\$ 1.08
Basic weighted average shares outstanding	78,023	67,573	65,019	59,816	59,071
	2020	2019	2018	2017	2016
Consolidated balance sheets					
	<i>(In Thousands, except for ratios)</i>				
Total investments	\$1,804,286	\$1,140,940	\$ 911,490	\$ 715,875	\$ 628,969
Cash and cash equivalents	126,937	41,089	25,294	19,196	47,746
Total assets	2,166,666	1,364,818	1,092,043	894,848	839,897
Term loan	393,301	145,764	146,757	143,882	144,353
Unearned premiums	118,817	136,642	158,893	163,166	152,906
Reserve for insurance claims and claim expenses	90,567	23,752	12,811	8,761	3,001
Shareholders' equity	1,369,591	930,420	701,500	509,077	475,509
Book value per share	\$ 16.08	\$ 13.61	\$ 10.58	\$ 8.41	\$ 8.04
Selected ratios					
Loss ratio ⁽²⁾	14.9 %	3.6 %	2.2 %	3.2 %	2.2 %
Expense ratio ⁽³⁾	33.1 %	36.7 %	46.6 %	64.2 %	83.9 %
Combined ratio	48.1 %	40.3 %	48.8 %	67.4 %	86.1 %
Risk-to-capital ratio	11.7:1	15.8:1	13.1:1	13.2:1	11.6:1
	2019	2019	2018	2017	2016
Other data					
	<i>(In Millions, except for noted below)</i>				
New primary insurance written	\$ 62,702	45,141	\$ 27,295	\$ 21,587	\$ 21,189
New primary risk written	15,602	11,715	6,909	5,271	5,086
Direct primary insurance in force	111,252	94,754	68,551	48,465	32,168
Direct primary risk in force	28,164	24,173	17,091	11,843	7,790
Direct pool risk in force	93	93	93	93	93
Available Assets ⁽⁴⁾ (\$ thousand)	1,750,668	1,016,387	733,762	527,897	453,523
Net Risk-Based Required Assets ⁽⁴⁾ (\$ thousand)	984,372	773,474	511,268	446,226	366,584

⁽¹⁾ Prior periods have been reclassified for consistency and presentation purposes.

⁽²⁾ Loss ratio is calculated by dividing the provision for insurance claims and claim expenses by net premiums earned.

⁽³⁾ Expense ratio is calculated by dividing other underwriting and operating expenses by net premiums earned.

⁽⁴⁾ As reported by NMIC under the PMIERS financial requirements, which took effect as of December 31, 2015 and further amended by the GSEs that became applicable to NMIC on March 31, 2019.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes thereto included below in Item 8 of this report and the Risk Factors included above in Item 1A of this report. In addition, investors should review the "Cautionary Note Regarding Forward Looking Statements" above.

Overview

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

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

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of December 31, 2020, we had master policies with 1,570 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders, internet-sourced lenders and other non-bank lenders. As of December 31, 2020, we had \$113.1 billion of total IIF, including primary IIF of \$111.3 billion, and \$28.3 billion of gross RIF, including primary RIF of \$28.2 billion.

We believe that our success in acquiring a large and diverse group of lender customers and growing a portfolio of high-quality IIF traces to our founding principles, whereby we aim to help qualified individuals achieve their homeownership goals, ensure that we remain a strong and credible counter-party, deliver a unique customer service experience, establish a differentiated risk management approach that emphasizes the individual underwriting review or validation of the vast majority of the loans we insure, utilizing our proprietary Rate GPS pricing platform to dynamically evaluate risk and price our policies, and foster a culture of collaboration and excellence that helps us attract and retain experienced industry leaders.

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

Our common stock trades on the NASDAQ under the symbol "NMIH." Our headquarters is located in Emeryville, California. As of December 31, 2020, we had 262 employees. Our corporate website is located at www.nationalmi.com. Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

We discuss below our results of operations for the periods presented, as well as the conditions and trends that have impacted or are expected to impact our business, including new insurance writings, the composition of our insurance portfolio and other factors that we expect to impact our results.

COVID-19 Developments

On January 30, 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 a global health emergency and characterized the outbreak as a global pandemic on March 11, 2020. In an effort to stem contagion and control the COVID-19 pandemic, the population at large has severely curtailed day-to-day activity and local, state and federal regulators have imposed a broad set of restrictions on personal and business conduct nationwide. The COVID-19 pandemic, along with the widespread public and regulatory response, has caused a dramatic slowdown in U.S. and global economic activity and a record number of Americans have been furloughed or laid-off.

The global dislocation caused by COVID-19 is unprecedented and, while there is broad hope that the recent development, distribution and administration of new vaccines may relieve the crisis and provide for a near-term return to normalized activity, it is not known how long the dislocation will persist. In response to the COVID-19 outbreak and continuing

uncertainties, we activated our disaster continuity program to ensure our employees are safe and able to manage our business without interruption. We pursued a broad series of capital and reinsurance transactions to bolster our balance sheet and expand our ability to serve our customers and their borrowers, and we updated our underwriting guidelines and policy pricing in consideration for the increased level of macroeconomic volatility. While the U.S. housing market has demonstrated significant resiliency since the onset of the pandemic, with record levels of demand, mortgage origination activity and house price appreciation, much uncertainty remains. Given the uncertainty that prevails, we cannot fully assess or estimate the ultimate impact of COVID-19 on the mortgage insurance market, our business performance or our financial position including our new business production, default and claims experience, and investment portfolio results.

Potential Impact on the U.S. Housing Market and Mortgage Insurance Industry

The U.S. housing market has demonstrated notable resiliency amidst the broader economic dislocation caused by the outbreak of COVID-19. Low interest rates are helping to support housing affordability, medical concerns and lifestyle preferences are driving people to move from densely populated urban areas to suburban communities where social distancing is more easily achieved, and shelter-in-place directives are reinforcing the value of homeownership – all of which are contributing to an influx of new home buyers, record levels of purchase demand, and generally stable to rising house prices nationally.

While the possibility remains that the housing market will soften, we believe the general strength of the market coming into the COVID-19 crisis will help to mitigate the risk of a severe pullback. We observe several favorable differences in the current environment compared to the period leading up to and through the 2008 Financial Crisis – the last period of significant economic volatility in the U.S. and one noted for its significant housing market dislocation. Such differences include:

- (i) the generally higher quality borrower base (as measured by weighted average FICO scores and LTV ratios) and tighter underwriting standards (with, among other items, full-documentation required to verify borrower income and asset positions) that prevail in the current market;
- (ii) the lower concentration of higher risk loan structures, such as negative amortizing, interest-only or short-termed option adjustable-rate mortgages being originated and outstanding in the current market;
- (iii) the meaningfully higher proportion of loans used for lower risk purposes, such as the purchase of a primary residence or rate-term refinancing in the current market, as opposed to cash-out refinancings, investment properties or second home purchases, which prevailed to a far greater degree in the lead up to the 2008 Financial Crisis;
- (iv) the availability and immediate application by the government, regulators, lenders, loan servicers and others of a broad toolkit of resources designed to aid distressed borrowers, including forbearance, foreclosure moratoriums and other assistance programs codified under the CARES Act, enacted on March 27, 2020; and
- (v) the broader and equally immediate application of significant fiscal and monetary stimulus by the federal government under the CARES Act, and more recently under the Consolidated Appropriations Act, enacted on December 27, 2020, as well as across a range of other programs designed to assist unemployed individuals and distressed businesses, and support the smooth functioning of various capital and risk markets.

We also perceive the house price environment in the period leading up to the COVID-crisis to be anchored by more balanced market fundamentals than that in the period leading up to the 2008 Financial Crisis. We believe the 2008 Financial Crisis was directly precipitated by irresponsible behavior in the housing market that drove home prices to unsustainable heights (a so-called "bubble"). We see a causal link between the housing market and the 2008 Financial Crisis that we do not see in the COVID-19 outbreak, and we believe this will further contribute to housing market stability through the COVID-19 pandemic.

Purchase mortgage origination volume has increased significantly as factors related to the COVID-19 crisis have spurred significant incremental demand for homeownership. Refinancing origination volume has also grown dramatically as declining mortgage rates have created refinancing opportunities for a large number of existing borrowers.

Growth in total mortgage origination volume increases the addressable market for the U.S. mortgage insurance industry, while accelerated refinancing activity increases prepayment speed on outstanding insured mortgages. In this context, total U.S. mortgage insurance industry NIW volume has increased to record levels, while the persistency of existing in-force insured risk across the industry has declined meaningfully.

While we currently observe broad resiliency in the housing and high-LTV mortgage markets and, for the reasons discussed above, expect this trend to continue in the near term, the ultimate impact of COVID-19 remains highly uncertain. See

Item 1A, "Risk Factors - The COVID-19 outbreak may continue to materially adversely affect our business, results of operations and financial condition."

Potential Impact on NMI's Business Performance and Financial Position

Operations

We had 262 employees at December 31, 2020, including 113 who typically work at our corporate headquarters in Emeryville, CA and 149 who typically work from home in locations across the country. In response to the COVID-19 outbreak, we activated our business continuity program and instituted additional work-from-home practices for our 113 Emeryville-based staff. We have transitioned our operations seamlessly and continue to positively engage with customers on a remote basis. Our IT environment, underwriting capabilities, policy servicing platform and risk architecture have continued without interruption, and our internal control environment and internal controls over financial reporting are unchanged. We have achieved this transition without incurring additional capital expenditures or operating expenses and we believe our current operating platform can continue to support our newly distributed needs for an extended period without further investment beyond that planned in the ordinary course.

New Business Production

Our NIW volume increased significantly following the onset of the COVID-19 pandemic driven by the broad resiliency of the housing market, growth in total mortgage origination volume and increasing size of the U.S. mortgage insurance market, as well as the continued expansion of our customer franchise. We wrote \$62.7 billion of NIW during the year ended December 31, 2020, up 39% compared to the year ended December 31, 2019 and 130% compared to the year ended December 31, 2018.

While we currently expect our new business production will remain elevated, the potential onset of a new viral wave and rising case counts, reintroduction of broad-based shelter in place directives, increased unemployment or other potential outcomes related to COVID-19 could drive a moderation or decline in our volume going forward.

We have broadly defined underwriting standards and loan-level eligibility criteria that are designed to limit our exposure to higher risk loans, and have used Rate GPS to actively shape the mix of our new business production and insured portfolio by, among other risk factors, borrower FICO score, DTI ratio and LTV ratio. In the weeks following the outbreak of COVID-19, we adopted changes to our underwriting guidelines, including changes to our loan documentation requirements, asset reserve requirements, employment verification process and income continuance determinations, that have further strengthened the credit risk profile of our NIW volume and IIF. At December 31, 2020, the weighted average FICO score of our RIF was 755 and we had a 3% mix of below 680 FICO score risk. Similarly, at December 31, 2020, the weighted average LTV ratio (at origination) of our insured portfolio was 92.4% and we had a 10% mix of 97% LTV risk.

We set our premium rates based on a broad range of individual and market variables, including property type, type of loan product, borrower credit characteristics, and lender profile. Given the significant economic dislocation caused thus far by the COVID-19 outbreak, the uncertain duration and ultimate global impact of this crisis, and the continued potential that it will have a deleterious effect on the residential housing market, we have taken action to increase the premium rates we charge on all new business production, in accordance with our filed rates and applicable rating rules.

Delinquency Trends and Claims Expense

We had 12,209 defaulted loans in our primary insured portfolio at December 31, 2020, which represented a 3.06% default rate against our 399,429 total policies in-force. Our default population has increased significantly since the outbreak of the pandemic as borrowers have faced increasing challenges related to COVID-19 and chosen to access the forbearance program for federally backed loans codified under the CARES Act or other similar assistance programs made available by the GSEs and private lenders.

At December 31, 2020, 19,464 or 4.9% of the loans we insured in our primary portfolio were enrolled in a forbearance program, including 11,232 of the loans in our default population, 1,108 loans that had missed at least one payment, but not progressed into default status and 7,124 additional loans that were fully performing without any missed payments.

As of January 31, 2021, our default population had decreased to 11,905, representing a 2.9% default rate and identified 17,820 loans in forbearance programs.

The table below highlights default and forbearance activity in our primary portfolio as of the dates indicated.

Default and Forbearance Activity as of

	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Number of loans in default	1,448	1,449	10,816	13,765	12,209
Default rate ⁽¹⁾	0.40%	0.38%	2.90%	3.60%	3.06%
Number of loans in forbearance	436	3,122	28,555	24,809	19,464
Forbearance rate ⁽²⁾	0.12%	0.83%	7.66%	6.50%	4.87%

⁽¹⁾ Default rate is calculated as the number of loans in default divided by total policies in force

⁽²⁾ Forbearance rate is calculated as the number of loans in forbearance divided by total policies in force.

While we are encouraged by the decline in our forbearance and default populations, and the rising level of cure activity amongst COVID impacted borrowers, the continued social and economic dislocation caused by the pandemic may contribute to an increase in our forbearance and default counts in future periods.

We establish reserves for claims and allocated claim expenses when we are notified that a borrower is in default. The size of the reserve we establish for each defaulted loan (and by extension our aggregate reserve and claims expense) reflects our best estimate of the future claim payment to be made under each individual policy. Our future claims exposure is a function of the number of delinquent loans that progress to claim payment (which we refer to as frequency) and the amount to be paid to settle such claims (which we refer to as severity). Our estimates of claims frequency and severity are not formulaic, rather they are broadly synthesized based on historical observed experience for similarly situated loans and assumptions about future macroeconomic factors.

We generally observe that forbearance programs are an effective tool to bridge dislocated borrowers from a time of acute stress to a future date when they can resume timely payment of their mortgage obligations. The effectiveness of forbearance programs is enhanced by the availability of various repayment and loan modification options, which allow borrowers to amortize, or in certain instances fully defer the payments otherwise due during the forbearance period, over an extended length of time. In response to the onset of the COVID-19 outbreak, the GSEs have introduced new repayment and loan modification options to further assist borrowers with their transition out of forbearance and back into performing status. Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. At December 31, 2020, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs.

Our Master Policies require insureds to file a claim no later than 60-days after completion of a foreclosure, and in connection with the claim, the insured is generally entitled to include in the claim amount (i) interest (capped at three years) and (ii) certain advances, each as incurred through the date the claim is filed. Under our Master Policies, a national foreclosure moratorium of the type currently required will not limit the amount of accrued interest (subject to the three-year limit) or advances that may be included in the claim amount. If the duration of the current foreclosure moratorium mandated by the GSEs is extended beyond March 31, 2021 by a significant period of time, loans in our default inventory, including those with defaults unrelated to the COVID-19 crisis that had not yet gone through foreclosure, may remain in a pre-foreclosure default status for a prolonged period of time, which would delay our receipt of certain claims for loans that do not cure and could increase the severity of claims we may ultimately be required to pay after the moratorium is lifted.

Regulatory Capital Position

As an approved mortgage insurer and Wisconsin-domiciled carrier, we are required to satisfy financial and/or capitalization requirements stipulated by each of the GSEs and the Wisconsin OCI.

The financial requirements stipulated by the GSEs are outlined in the PMIERS. Under the PMIERS, we must maintain available assets that are equal to or exceed a minimum risk-based required asset amount, subject to a minimum floor of \$400 million. At December 31, 2020, we reported \$1,751 million available assets against \$984 million risk-based required assets for a \$766 million "excess" funding position.

The risk-based required asset amount under PMIERS is determined at an individual policy-level based on the risk characteristics of each insured loan. Loans with higher risk factors, such as higher LTVs or lower borrower FICO scores, are assessed a higher charge. Non-performing loans that have missed two or more payments are generally assessed a significantly

higher charge than performing loans, regardless of the underlying borrower or loan risk profile; however, special consideration is given under PMIERS to loans that are delinquent on homes located in an area declared by the Federal Emergency Management Agency (FEMA) to be a Major Disaster zone. In June 2020, the GSEs issued guidance (subsequently amended and restated in September 2020) on the risk-based treatment of loans affected by the COVID-19 crisis and the reporting of non-performing loans by aging category. Under the guidance, non-performing loans that are subject to a forbearance program granted in response to a financial hardship related to COVID-19 will benefit from a permanent 70% risk-based required asset haircut for the duration of the forbearance period and subsequent repayment plan or trial modification period.

Our PMIERS minimum risk-based required asset amount is also adjusted for our reinsurance transactions (as approved by the GSEs). Under our quota share reinsurance treaties, we receive credit for the PMIERS risk-based required asset amount on ceded RIF. As our gross PMIERS risk-based required asset amount on ceded RIF increases, our PMIERS credit for ceded RIF automatically increases as well (in an unlimited amount). Under our ILN transactions, we generally receive credit for the PMIERS risk-based required asset amount on ceded RIF to the extent such requirement is within the subordinated coverage (excess of loss detachment threshold) afforded by the transaction. We have structured our ILN transactions to be overcollateralized, such that there are more ILN notes outstanding and cash held in trust than we currently receive credit for under the PMIERS. To the extent our PMIERS risk-based required asset amount on RIF ceded under the ILN transactions grows, we receive increased PMIERS credit under the treaties. The increasing PMIERS credit we receive under the ILN treaties is further enhanced by their delinquency lockout triggers. In the event of certain credit enhancement or delinquency events, the ILN notes stop amortizing and the cash held in trust is secured for our benefit (a Lock-Out Event). As the underlying RIF continues to run-off, this has the effect of increasing the overcollateralization within, and excess PMIERS capacity provided by, each ILN structure.

Effective June 25, 2020, a Lock-Out Event was deemed to have occurred for each of the 2017, 2018 and 2019 ILN Transactions and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period the overcollateralization within and PMIERS capacity provided by each ILN Transaction will grow as assets are preserved in the applicable reinsurance trust account.

The following table provides detail on the level of overcollateralization of each of our ILN Transactions at December 31, 2020:

<i>(\$ values in thousands)</i>	2017 ILN Transaction	2018 ILN Transaction	2019 ILN Transaction	2020-1 ILN Transaction	2020-2 ILN Transaction
Ceded RIF	\$ 1,920,096	\$ 2,238,154	\$ 2,764,120	\$ 5,175,978	\$ 5,820,747
First Layer Retained Loss	121,423	123,234	122,874	169,514	121,177
Reinsurance Coverage	40,226	158,489	231,877	250,685	242,351
Eligible Coverage	\$ 161,649	\$ 281,723	\$ 354,751	\$ 420,199	\$ 363,528
Subordinated Coverage ⁽¹⁾	8.42%	12.59%	12.83%	8.00%	6.25%
PMIERS Charge on Ceded RIF	6.11%	7.78%	7.99%	6.28%	5.37%
Overcollateralization ⁽²⁾	\$ 40,226	\$ 107,612	\$ 133,941	\$ 94,929	\$ 50,852
Delinquency Trigger ⁽³⁾	4.0%	4.0%	4.0%	6.0%	4.7%

⁽¹⁾ For the 2020-1 ILN Transaction, absent a delinquency trigger, the subordinated coverage is capped at 8%.

⁽²⁾ Overcollateralization of the 2017 ILN Transaction is equal to its current reinsurance coverage as the PMIERS required asset amount on RIF ceded under the transaction is currently below the remaining first layer retained loss.

⁽³⁾ Delinquency triggers for 2017, 2018 and 2019 ILN Transactions are set at a fixed 4.0% and assessed on a discrete monthly basis; delinquency triggers for the 2020-1 and 2020-2 ILN Transactions are equal to seventy-five percent of the subordinated coverage level and assessed on the basis of a three-month rolling average.

At December 31, 2020, we had an aggregate \$428 million of overcollateralization available across our ILN Transactions to absorb an increase in the PMIERS risk-based required asset amount on ceded RIF. Assuming the Lock-Out Events remain in effect for each of the 2017, 2018 and 2019 ILN Transactions and our underlying RIF continues to run-off at the same rate as it did during the three months ended December 31, 2020, we estimate that our total overcollateralization would increase by up to approximately \$45 million per quarter.

Our PMIERS funding requirement will go up in future periods based on the volume and risk profile of our new business production, and performance of our in-force insurance portfolio. We estimate, however, that we will remain in compliance with our PMIERS asset requirements even if the forbearance-driven default rate on our in-force portfolio materially exceeds its current level, given our \$766 million excess available asset position at December 31, 2020, the nationwide applicability of the 70% haircut on delinquent policies affected by the COVID-19 crisis, the increasing PMIERS relief automatically provided under each of our quota share treaties and ILN Transactions.

NMIC is also subject to state regulatory minimum capital requirements based on its RIF. Formulations of this minimum capital vary by state, however, the most common measure allows for a maximum ratio of RIF to statutory capital (commonly referred to as RTC) of 25:1. The RTC calculation does not assess a different charge or impose a different threshold RTC limit based on the underlying risk characteristics of the insured portfolio. Non-performing loans are generally treated the same as performing loans under the RTC framework. As such, the PMIERS generally imposes a stricter financial requirement than the state RTC standard, and we expect this to remain the case in the aftermath of the COVID-19 outbreak.

Liquidity

We evaluate our liquidity position at both a holding company (NMIH) and primary operating subsidiary (NMIC) level. As of December 31, 2020, we had \$1.9 billion of consolidated cash and investments, including \$72 million of cash and investments at NMIH.

On June 8, 2020, NMIH completed the sale of 15.9 million shares of common stock, including the exercise of a 15% over-allotment option, and raised proceeds of approximately \$220 million, net of underwriting discounts, commissions and other direct offering expenses. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 15, Common Stock.*" On June 19, 2020, NMIH also completed the sale of \$400 million aggregate principal amount of senior secured notes, raising net proceeds of \$244 million after giving effect to offering expenses and the repayment of the principal amount outstanding under our existing \$150 million term loan. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Debt.*" NMIH contributed approximately \$445 million of capital to NMIC following completion of its respective Notes and common stock offerings.

NMIH also has access to \$110 million of undrawn revolving credit capacity (the 2020 Revolving Credit Facility) and \$1.6 million of ordinary course dividend capacity available from Re One without the prior approval of the Wisconsin OCI. Amounts drawn under the 2020 Revolving Credit Facility are available as directed for NMIH needs or may be down-streamed to support the requirements of our operating subsidiaries if we so decide. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Debt.*"

NMIH's principal liquidity demands include funds for the payment of (i) certain corporate expenses, (ii) certain reimbursable expenses of our insurance subsidiaries, including NMIC, and (iii) principal and interest as due on our outstanding debt. NMIH generates cash interest income on its investment portfolio and benefits from tax, expense-sharing and debt service agreements with its subsidiaries. Such agreements have been approved by the Wisconsin OCI and provide for the reimbursement of substantially all of NMIH's annual cash expenditures. While such agreements are subject to revocation by the Wisconsin OCI, we do not expect such action to be taken at this time. The Wisconsin OCI has refreshed its approval of the debt service agreement providing for the additional reimbursement by NMIC of interest expense due on our newly issued Notes and 2020 Revolving Credit Facility.

NMIC's principal sources of liquidity include (i) premium receipts on its insured portfolio and new business production, (ii) interest income on its investment portfolio and principal repayments on maturities therein, and (iii) existing cash and cash equivalent holdings. At December 31, 2020, NMIC had \$1.8 billion of cash and investments, including \$104 million of cash and equivalents. NMIC's principal liquidity demands include funds for the payment of (i) reimbursable holding company expenses, (ii) premiums ceded under our reinsurance transactions (iii) claims payments, and (iv) taxes as due or otherwise deferred through the purchase of tax and loss bonds. NMIC's cash inflow is generally significantly in excess of its cash outflow in any given period. During the twelve-month period ended December 31, 2020, NMIC generated \$250 million of cash flow from operations and received an additional \$406 million of cash flow on the maturity, sale and redemption of securities held in its investment portfolio. NMIC is not a party to any contracts (derivative or otherwise) that require it to post an increasing amount of collateral to any counterparty and NMIC's principal liquidity demands (other than claims payments) generally develop along a scheduled path (*i.e.*, are of a contractually predetermined amount and due at a contractually predetermined date). NMIC's only use of cash that develops along an unscheduled path is claims payments. Given the breadth and duration of forbearance programs available to borrowers, separate foreclosure moratoriums that have been enacted at a local, state and federal level, and the general duration of the default to foreclosure to claim cycle, we do not expect NMIC to use a meaningful amount of cash to settle claims in the near-term.

Premiums paid to NMIC on monthly policies are generally collected and remitted by loan servicers. We have noted the broad discussion about the liquidity challenges loan servicers may themselves face in the event of widespread borrower utilization of forbearance programs. We do not currently believe that loan servicer liquidity issues will have a material impact on NMIC's premium receipts or liquidity profile. Loan servicers are contractually obligated to advance mortgage insurance premiums in a timely manner, even if the underlying borrowers fail to remit their monthly mortgage payments. In June 2020, the GSEs issued guidance to the PMIERS (subsequently amended and restated in September 2020) that, among other items, requires us to notify them of our intent to cancel coverage on policies for which servicers have failed to make timely premium payments so that the GSEs can pay the premiums directly to us and preserve the mortgage insurance coverage. Through December 31, 2020, we did not see any notable changes in servicer payment practices, with servicers generally continuing to remit monthly premium payments as scheduled, including those for policies covering loans that are in a forbearance program.

Investment portfolio

At December 31, 2020, we had \$1.9 billion of cash and invested assets. Our investment strategy equally prioritizes capital preservation alongside income generation, and we have a long-established investment policy that sets conservative limits for asset types, industry sectors, single issuers and instrument credit ratings. At December 31, 2020, our investment portfolio was comprised of 100% fixed income assets with 100% of our holdings rated investment grade and our portfolio having an average rating of "A+." At December 31, 2020, our portfolio was in a \$73 million aggregate unrealized gain position; it was highly liquid and highly diversified with no Level 3 asset positions and no single issuer concentration greater than 1.6%. We did not record any allowance for credit losses in the portfolio during the year ended December 31, 2020, as we expect to recover the amortized cost basis of all securities held.

The pre-tax book yield on our investment portfolio was 2.2% for the year ended December 31, 2020. At the onset of the COVID-19 crisis, we decided to prioritize liquidity and increased our cash and equivalent holdings as a percentage of our total portfolio. We believe such action was prudent in light of the heightened market volatility and general uncertainty developing in the early stages of the COVID-19 pandemic. We have since redeployed much of our excess liquidity position.

Taxes

The CARES Act and 2021 Appropriations Act, among other things, include provisions relating to refundable payroll tax credits, deferment of social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, technical corrections to tax depreciation methods for qualified improvement property, and temporary 100% deduction for business meals. We continue to monitor the impact that the CARES Act and the 2021 Appropriations Act may have on our business, financial condition and results of operations.

Other Conditions and Trends Impacting Our Business

Customer Development

We have important relationships with customers across all categories and allocation profiles, including National Accounts and Regional Accounts, and centralized and decentralized lenders. Our sales and marketing efforts are broadly focused on expanding our presence with existing customers and activating new customer relationships. We consider an activation to be the point at which we have signed a Master Policy, established IT connectivity and generated a first application or first dollar of NIW from a customer. During the year ended December 31, 2020, we activated 101 lenders, compared to 94 and 121 for the years ended December 31, 2019 and December 31, 2018, respectively. We also continued to expand our business with existing customers, deepening our existing relationships and capturing what we believe to be an increasing portion of their annual MI volume. At December 31, 2020, we had 1,570 Master Policies and 1,195 active customer relationships, compared to 1,476 and 1,095, respectively, as of December 31, 2019 and 1,374 and 1,005, respectively, as of December 31, 2018.

New Insurance Written, Insurance-In-Force and Risk-In-Force

NIW is the aggregate unpaid principal balance of mortgages underpinning new policies written during a given period. Our NIW is affected by the overall size of the mortgage origination market and the volume of high-LTV mortgage originations. Our NIW is also affected by the percentage of such high-LTV originations covered by private versus government MI or other alternative credit enhancement structures and our share of the private MI market. NIW, together with persistency, drives our IIF. IIF is the aggregate unpaid principal balance of the mortgages we insure, as reported to us by servicers at a given date, and represents the sum total of NIW from all prior periods less principal payments on insured mortgages and policy cancellations (including for prepayment, nonpayment of premiums, coverage rescission and claim payments). RIF is related to IIF and represents the aggregate amount of coverage we provide on all outstanding policies at a given date. RIF is calculated as the sum total of the coverage percentage of each individual policy in our portfolio applied to the unpaid principal balance of such insured mortgage. RIF is affected by IIF and the LTV profile of our insured mortgages, with lower LTV loans generally having a lower coverage percentage and higher LTV loans having a higher coverage percentage. Gross RIF represents RIF before consideration of reinsurance. Net RIF is gross RIF net of ceded reinsurance.

Net Premiums Written and Net Premiums Earned

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

Premiums are generally fixed for the duration of our coverage of the underlying loans. Net premiums written are equal to gross premiums written minus ceded premiums written under our reinsurance arrangements, less premium refunds and premium write-offs. As a result, net premiums written are generally influenced by:

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

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium). Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is earned over the estimated life of the policy. Substantially all of our single premium policies in force as of December 31, 2020 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 twelve-month period is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher persistency rates can have a significant impact on our net premiums earned and profitability. Generally, faster speeds of mortgage prepayment lead to lower persistency. Prepayment speeds and the relative mix of business between single and monthly premium policies also impact our profitability. Our premium rates include certain assumptions regarding repayment or prepayment speeds of the mortgages underlying our policies. Because premiums are paid at origination on single premium policies and our single premium policies are generally non-refundable on cancellation, assuming all other factors remain constant, if single premium loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than anticipated, we do not earn any more premium

with respect to those loans and, unless we replace the repaid monthly premium loan with a new loan at the same premium rate or higher, our revenue is likely to decline.

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements, and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERS asset positions. Under a quota share reinsurance agreement, the reinsurer receives a premium in exchange for covering an agreed-upon portion of incurred losses. Such a quota share arrangement reduces premiums written and earned and also reduces RIF, providing capital relief to the ceding insurance company and reducing incurred claims in accordance with the terms of the reinsurance agreement. In addition, reinsurers typically pay ceding commissions as part of quota share transactions, which offset the ceding company's acquisition and underwriting expenses. Certain quota share agreements include profit commissions that are earned based on loss performance and serve to reduce ceded premiums. Under an excess-of-loss agreement, the ceding insurer is typically responsible for losses up to an agreed-upon threshold and the reinsurer then provides coverage in excess of such threshold up to a maximum agreed-upon limit. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

Quota share reinsurance

NMIC is a party to three outstanding quota share reinsurance treaties – the 2016 QSR Transaction, effective September 1, 2016, the 2018 QSR Transaction, effective January 1, 2018, and the 2020 QSR Transaction, effective April 1, 2020. Under each of the QSR Transactions, NMIC cedes a proportional share of its risk on eligible policies written during a discrete period to panels of third-party reinsurance providers. Each of the third-party reinsurance providers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both.

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

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

Under the terms of the 2020 QSR Transaction, NMIC cedes premiums earned related to 21% of the risk on eligible policies written from April 1, 2020 through December 31, 2020, in exchange for reimbursement of ceded claims and claim expenses on covered policies, a 20% ceding commission, and a profit commission of up to 50% that varies directly and inversely with ceded claims.

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

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

Excess-of-loss reinsurance

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

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. As the reinsurance coverage decreases, a prescribed amount of collateral held in trust by the Oaktown Re Vehicles is distributed to ILN Transaction note-holders as amortization of the outstanding insurance-linked note principal balances occurs. The outstanding reinsurance coverage amounts stop amortizing, and the collateral distribution to ILN Transaction note-holders and amortization of insurance-linked note principal is suspended if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered (each, a Lock-Out Event). Effective June 25, 2020, a Lock-Out Event was deemed to have occurred for each of the 2017, 2018 and 2019 ILN Transactions and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period assets will be preserved in the applicable reinsurance trust account to collateralize the excess-of-loss reinsurance coverage provided to NMIC.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions. Current amounts are presented as of December 31, 2020.

<i>(\$ values in thousands)</i>	Inception Date	Covered Production	Initial Reinsurance Coverage	Current Reinsurance Coverage	Initial First Layer Retained Loss	Current First Layer Retained Loss ⁽¹⁾
2017 ILN Transaction	May 2, 2017	1/1/2013 - 12/31/2016	\$ 211,320	\$ 40,226	\$ 126,793	\$ 121,423
2018 ILN Transaction	July 25, 2018	1/1/2017 - 5/31/2018	264,545	158,489	125,312	123,234
2019 ILN Transaction	July 30, 2019	6/1/2018 - 6/30/2019	326,905	231,877	123,424	122,874
2020-1 ILN Transaction	July 30, 2020	7/1/2019 - 3/31/2020	322,076	250,685	169,514	169,514
2020-2 ILN Transaction	October 29, 2020	4/1/2020 - 9/30/2020 ⁽²⁾	242,351	242,351	121,777	121,177

⁽¹⁾ NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure, and cedes reserves for incurred claims and claims expenses to each applicable ILN Transaction and recognizes a reinsurance recoverable if such incurred claims and claims expenses exceed its current first layer retained loss.

⁽²⁾ Less than 1% of the production covered by the 2020-2 ILN Transaction has coverage reporting dates between July 1, 2019 and March 31, 2020.

See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, 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 years ended					
	December 31, 2020		December 31, 2019		December 31, 2018		December 31, 2020		December 31, 2019		December 31, 2018	
	IIF	NIW	IIF	NIW	IIF	NIW	IIF	NIW	IIF	NIW	IIF	NIW
	<i>(In Millions)</i>											
Monthly	\$ 95,336	\$ 56,651	\$ 77,097	\$ 41,357	\$ 51,655	\$ 24,122	\$ 95,336	\$ 56,651	\$ 77,097	\$ 41,357	\$ 51,655	\$ 24,122
Single	15,916	6,051	17,657	3,784	16,896	3,173	15,916	6,051	17,657	3,784	16,896	3,173
Primary	111,252	62,702	94,754	45,141	68,551	27,295	111,252	62,702	94,754	45,141	68,551	27,295
Pool	1,855	—	2,570	—	2,901	—	1,855	—	2,570	—	2,901	—
Total	\$ 113,107	\$ 62,702	\$ 97,324	\$ 45,141	\$ 71,452	\$ 27,295	\$ 113,107	\$ 62,702	\$ 97,324	\$ 45,141	\$ 71,452	\$ 27,295

For the year ended December 31, 2020, primary NIW increased 39% compared to the year ended December 31, 2019, due to growth in our monthly and single premium policy production tied to growth in the size of the total mortgage insurance market, as well as the increased penetration of existing customer accounts and new customer account activations. For the year ended December 31, 2019, primary NIW increased 65% compared to the year ended December 31, 2018, due to growth in our monthly and single premium policy production.

For the year ended December 31, 2020, monthly premium polices accounted for 90% of our NIW, compared to 92% and 88% for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2020, monthly premium policies accounted for 86% of our primary IIF, compared to 81% at December 31, 2019 and 75% at December 31, 2018.

Total IIF grew 16% at December 31, 2020 compared to December 31, 2019, which in turn grew 36% compared to December 31, 2018, primarily due to the NIW generated between such measurement dates, partially offset by the run-off of our in-force policies. Our persistency rate decreased to 56% at December 31, 2020 from 77% at December 31, 2019 and 87% at December 31, 2018, reflecting the impact of increased refinancing activity during the year ended December 31, 2020 tied to record low interest rates.

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

Primary and pool premiums written and earned	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Net premiums written	\$ 388,644	\$ 332,652	\$ 256,803
Net premiums earned	397,172	345,015	251,197

For the year ended December 31, 2020, net premiums written and earned grew 17% and 15%, respectively, compared to the year ended December 31, 2019. The growth in net premiums written and earned was primarily due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR and ILN Transactions. Net premiums earned for the year ended December 31, 2020 were larger than net premiums written during the period primarily due to the cancellation of single premium policies and the accelerated recognition of associated unearned premium reserves.

For the year ended December 31, 2019, net premiums written and earned grew 30% and 37%, respectively, compared to the year ended December 31, 2018. The growth in net premiums written and earned was primarily due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR Transactions and 2018 and 2019 ILN Transactions.

Pool premiums written and earned for the years ended December 31, 2020, 2019 and 2018, were \$2.5 million, \$3.0 million and \$3.4 million, respectively, before giving effect to the 2016 QSR Transaction, under which all of our written and earned pool premiums are ceded. A portion of our ceded pool premiums written and earned are recouped through profit commission.

Portfolio Statistics

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

Primary portfolio trends	As of and for the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	(\$ Values In Millions)		
New insurance written	\$ 62,702	\$ 45,141	\$ 27,295
Percentage of monthly premium	90 %	92 %	88 %
Percentage of single premium	10 %	8 %	12 %
New risk written	\$ 15,602	\$ 11,715	\$ 6,909
Insurance-in-force ⁽¹⁾	111,252	94,754	68,551
Percentage of monthly premium	86 %	81 %	75 %
Percentage of single premium	14 %	19 %	25 %
Risk-in-force ⁽¹⁾	\$ 28,164	\$ 24,173	\$ 17,091
Policies in force (count) ⁽¹⁾	399,429	366,039	280,825
Average loan size (\$ value in thousands) ⁽¹⁾	\$ 279	\$ 259	\$ 244
Coverage percentage ⁽²⁾	25 %	26 %	25 %
Loans in default (count) ⁽¹⁾	12,209	1,448	877
Default rate ⁽¹⁾	3.06 %	0.40 %	0.31 %
Risk-in-force on defaulted loans ⁽¹⁾	\$ 874	\$ 84	\$ 48
Average premium yield ⁽³⁾	0.39 %	0.42 %	0.43 %
Earnings from cancellations	\$ 48	\$ 22	\$ 11
Annual persistency ⁽⁴⁾	56 %	77 %	87 %
Quarterly run-off ⁽⁵⁾	12.5 %	7.7 %	3.1 %

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

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

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

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

⁽⁵⁾ Defined as the percentage of IIF that is no longer on our books after a given three month period. Figures shown represent fourth quarter values for the respective years.

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

Primary IIF	As of and for the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	(In Millions)		
IIF, beginning of period	\$ 94,754	\$ 68,551	\$ 48,465
NIW	62,702	45,141	27,295
Cancellations, principal repayments and other reductions	(46,204)	(18,938)	(7,209)
IIF, end of period	\$ 111,252	\$ 94,754	\$ 68,551

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					
	December 31, 2020		December 31, 2019		December 31, 2018	
	IIF	RIF	IIF	RIF	IIF	RIF
	<i>(In Millions)</i>					
December 31, 2020	58,232	14,510	—	—	—	—
2019	25,038	6,548	42,060	10,916	—	—
2018	9,788	2,494	19,579	4,977	26,310	6,664
2017	8,009	2,002	14,961	3,710	18,858	4,627
2016	6,756	1,732	11,944	2,995	15,400	3,795
2015 and before	3,429	878	6,210	1,575	7,983	2,005
Total	<u>\$ 111,252</u>	<u>\$ 28,164</u>	<u>94,754</u>	<u>24,173</u>	<u>68,551</u>	<u>17,091</u>

We utilize certain risk principles that form the basis of how we underwrite and originate NIW. We have established prudential underwriting standards and loan-level eligibility matrices which prescribe the maximum LTV, minimum borrower FICO score, maximum borrower DTI ratio, maximum loan size, property type, loan type, loan term and occupancy status of loans that we will insure and memorialized these standards and eligibility matrices in our Underwriting Guideline Manual that is publicly available on our website. Our underwriting standards and eligibility criteria are designed to limit the layering of risk in a single insurance policy. "Layered risk" refers to the accumulation of borrower, loan and property risk. For example, we have higher credit score and lower maximum allowed LTV requirements for investor-owned properties, compared to owner-occupied properties. We monitor the concentrations of various risk attributes in our insurance portfolio, which may change over time, in part, as a result of regional conditions or public policy shifts.

In response to the outbreak of COVID-19, we adopted changes to our underwriting guidelines, including changes to our loan documentation requirements, asset reserve requirements, employment verification process and income continuance determinations, that have further strengthened the credit risk profile of our NIW volume and IIF.

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 year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Millions)</i>		
>= 760	\$ 37,437	\$ 21,931	\$ 11,741
740-759	9,443	7,541	4,629
720-739	7,820	6,643	4,006
700-719	4,644	4,783	3,232
680-699	2,692	3,021	2,227
<=679	666	1,222	1,460
Total	<u>\$ 62,702</u>	<u>\$ 45,141</u>	<u>\$ 27,295</u>
Weighted average FICO	<u>761</u>	<u>753</u>	<u>747</u>

Primary NIW by LTV

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Millions)</i>		
95.01% and above	\$ 3,732	\$ 3,192	\$ 3,226
90.01% to 95.00%	26,000	21,475	12,658
85.01% to 90.00%	22,356	15,555	8,240
85.00% and below	10,614	4,919	3,171
Total	\$ 62,702	\$ 45,141	\$ 27,295
Weighted average LTV	90.9 %	91.8 %	92.2 %

Primary NIW by purchase/refinance mix

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Millions)</i>		
Purchase	\$ 41,616	\$ 37,405	\$ 25,210
Refinance	21,086	7,736	2,085
Total	\$ 62,702	\$ 45,141	\$ 27,295

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					
	December 31, 2020		December 31, 2019		December 31, 2018	
	<i>(\$ Values In Millions)</i>					
>= 760	\$ 58,368	52 %	\$ 44,793	47 %	\$ 31,870	47 %
740-759	17,442	16	15,728	17	11,294	16
720-739	15,091	14	13,417	14	9,338	14
700-719	10,442	9	10,284	11	7,574	11
680-699	6,777	6	6,774	7	5,062	7
<=679	3,132	3	3,758	4	3,413	5
Total	\$ 111,252	100 %	\$ 94,754	100 %	\$ 68,551	100 %

Primary RIF by FICO

	As of					
	December 31, 2020		December 31, 2019		December 31, 2018	
	<i>(\$ Values In Millions)</i>					
>= 760	\$ 14,634	52 %	\$ 11,388	47 %	\$ 7,955	47 %
740-759	4,449	16	4,034	17	2,836	16
720-739	3,868	14	3,465	14	2,341	14
700-719	2,692	9	2,632	11	1,886	11
680-699	1,748	6	1,728	7	1,256	7
<=679	773	3	926	4	817	5
Total	\$ 28,164	100 %	\$ 24,173	100 %	\$ 17,091	100 %

Primary IIF by LTV	As of					
	December 31, 2020		December 31, 2019		December 31, 2018	
	(\$ Values In Millions)					
95.01% and above	\$ 9,129	8 %	\$ 8,640	9 %	\$ 6,774	10 %
90.01% to 95.00%	49,898	45	44,668	47	31,507	46
85.01% to 90.00%	36,972	33	30,163	32	20,668	30
85.00% and below	15,253	14	11,283	12	9,602	14
Total	<u>\$ 111,252</u>	<u>100 %</u>	<u>\$ 94,754</u>	<u>100 %</u>	<u>\$ 68,551</u>	<u>100 %</u>

Primary RIF by LTV	As of					
	December 31, 2020		December 31, 2019		December 31, 2018	
	(\$ Values In Millions)					
95.01% and above	\$ 2,637	10 %	\$ 2,390	10 %	\$ 1,801	11 %
90.01% to 95.00%	14,673	52	13,086	54	9,185	54
85.01% to 90.00%	9,067	32	7,376	31	4,994	29
85.00% and below	1,787	6	1,321	5	1,111	6
Total	<u>\$ 28,164</u>	<u>100 %</u>	<u>\$ 24,173</u>	<u>100 %</u>	<u>\$ 17,091</u>	<u>100 %</u>

Primary RIF by Loan Type	As of		
	December 31, 2020	December 31, 2019	December 31, 2018
Fixed	99 %	98 %	98 %
Adjustable rate mortgages:			
Less than five years	—	—	—
Five years and longer	1	2	2
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The table below presents selected primary portfolio statistics, by book year, as of December 31, 2020.

Book year	As of December 31, 2020									
	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) ⁽¹⁾	Cumulative Default Rate ⁽²⁾	Current Default Rate ⁽³⁾
(\$ Values in Millions)										
2013	\$ 162	\$ 12	7 %	655	74	1	1	0.2 %	0.3 %	1.4 %
2014	3,451	478	14 %	14,786	2,783	128	48	4.2 %	1.2 %	4.6 %
2015	12,422	2,939	24 %	52,548	15,201	597	111	3.2 %	1.3 %	3.9 %
2016	21,187	6,756	32 %	83,626	31,635	1,417	118	2.9 %	1.8 %	4.5 %
2017	21,582	8,009	37 %	85,897	37,919	2,219	82	4.6 %	2.7 %	5.9 %
2018	27,295	9,788	36 %	104,043	44,969	2,962	57	8.4 %	2.9 %	6.6 %
2019	45,141	25,038	55 %	148,423	91,657	3,724	8	14.7 %	2.5 %	4.1 %
2020	62,702	58,232	93 %	186,174	175,191	1,161	—	9.4 %	0.6 %	0.7 %
Total	<u>\$193,942</u>	<u>\$111,252</u>		<u>676,152</u>	<u>399,429</u>	<u>12,209</u>	<u>425</u>			

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

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

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

Geographic Dispersion

The following table shows the distribution by state of our primary RIF as of the periods indicated. As of December 31, 2020 our RIF continues to be modestly more concentrated in California, primarily as a result of the size of the California mortgage market relative to the rest of the country and the location and timing of our acquisition of new customers. The distribution of our primary RIF as of December 31, 2020 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state as of December 31, 2020

	As of		
	December 31, 2020	December 31, 2019	December 31, 2018
California	11.2 %	11.8 %	13.0 %
Texas	8.8	8.2	8.2
Florida	7.3	5.7	5.0
Virginia	5.1	5.3	4.9
Colorado	4.1	3.4	3.5
Illinois	3.8	3.8	3.4
Maryland	3.7	3.4	3.2
Washington	3.5	3.3	2.9
Pennsylvania	3.4	3.6	3.6
Massachusetts	3.3	3.3	2.3
Total	<u>54.2 %</u>	<u>51.8 %</u>	<u>50.0 %</u>

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 are generally affected by a variety of factors, including:

- future macroeconomic factors, including national and regional unemployment rates, which affect the likelihood that borrowers may default on their loans and probability of claims, and interest rates, which tend to drive increased persistency as they rise, thereby extending the average life of our insured portfolio and increasing expected future claims and decrease persistency as they fall, thereby shortening the average life of our insured portfolio and moderating future expected claims;
- changes in housing values, as such changes affect loss mitigation opportunities (available to us and a borrower) on loans in default, as well as borrowers' behaviors and willingness to default if the values of their homes are below or perceived to be below the balance of their mortgage;
- borrowers' FICO scores, with lower FICO scores tending to have a higher probability of claims;
- borrowers' DTI ratios, with higher DTI ratios tending to have a higher probability of claims;
- LTV ratios, with higher average LTV ratios tending to increase the probability of claims;
- the percentage of coverage on insured loans, with higher percentages of insurance coverage tending to result in higher incurred claim amounts than lower percentages of insurance coverage;
- the size of loans insured, with higher loan amounts tending to result in higher incurred claim amounts than smaller loan amounts;
- other borrower, property-type and loan level risk characteristics, such as cash-out refinancings, second homes or investment properties; and
- the level and amount of reinsurance coverage maintained with third parties.

Reserves for claims and claim expenses are established for mortgage loans that are in default. A loan is considered to be in default as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as IBNR. We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees and other general expenses of administering the claim settlement process. Reserves are not established for future claims on insured loans which are not currently reported or which we estimate are not currently in default.

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property value. Reserves are released the month in which a loan in default is brought current by the borrower, which is referred to as a cure. Adjustments to reserve estimates are reflected in the period in which the adjustment is made. Reserves are also ceded to reinsurers under the QSR Transactions and ILN Transactions, as applicable under each treaty. We have not yet ceded any reserves under the ILN Transactions as incurred claims and claims expenses on each respective reference pool remain within our retained coverage layer of each transaction. Our pool insurance agreement with Fannie Mae contains a claim deductible through which Fannie Mae absorbs specified losses before we are obligated to pay any claims. We have not established any claims or claim expense reserves for pool exposure to date.

The actual claims we incur as our portfolio matures are difficult to predict and depend on the specific characteristics of our current in-force book (including the credit score and DTI of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the risk profile of new business we write in the future. In addition, claims experience will be affected by macroeconomic factors such as housing prices, interest rates, unemployment rates and other events, such as natural disasters or global pandemics, and any federal, state or local governmental response thereto.

Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. We generally observe that forbearance programs are an effective tool to bridge dislocated borrowers from a time of acute stress to a future date when they can resume timely payment of their mortgage obligations. The effectiveness of forbearance programs is enhanced by the availability of various repayment and loan

modification options which allow borrowers to amortize or, in certain instances, outright defer payments otherwise due during the forbearance period over an extended length of time.

In response to the COVID-19 outbreak, politicians, regulators, lenders, loan servicers and others have offered extraordinary assistance to dislocated borrowers through, among other programs, the forbearance, foreclosure moratorium and other assistance programs codified under the CARES Act. The FHFA and GSEs have offered further assistance by introducing new repayment and loan modification options to assist borrowers with their transition out of forbearance programs and default status. At December 31, 2020, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak, given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs.

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Beginning balance	\$ 23,752	\$ 12,811	\$ 8,761
Less reinsurance recoverables ⁽¹⁾	(4,939)	(3,001)	(1,902)
Beginning balance, net of reinsurance recoverables	18,813	9,810	6,859
Add claims incurred:			
Claims and claim expenses incurred:			
Current year ⁽²⁾	66,943	14,737	7,860
Prior years ⁽³⁾	(7,696)	(2,230)	(2,408)
Total claims and claim expenses incurred	59,247	12,507	5,452
Less claims paid:			
Claims and claim expenses paid:			
Current year ⁽²⁾	586	204	130
Prior years ⁽³⁾	4,515	3,849	2,371
Reinsurance terminations ⁽⁴⁾	—	(549)	—
Total claims and claim expenses paid	5,101	3,504	2,501
Reserve at end of period, net of reinsurance recoverables	72,959	18,813	9,810
Add reinsurance recoverables ⁽¹⁾	17,608	4,939	3,001
Ending balance	\$ 90,567	\$ 23,752	\$ 12,811

⁽¹⁾ Related to ceded losses recoverable under the QSR Transactions. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reinsurance," for additional information.

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

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

⁽⁴⁾ Represents the settlement of reinsurance recoverables in conjunction with the termination of one reinsurer under the 2016 QSR Transaction on a cut-off basis. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reinsurance," for additional information.

The "claims incurred" section of the table above shows claims and claim expenses incurred on defaults occurring in current and prior years, including IBNR reserves and is presented net of reinsurance. The amount of claims incurred for current year defaults represents the estimated amount of claims and claim expenses to be ultimately be paid on such loans. The decreases during the periods presented in reserves held for prior year defaults represent favorable development and are generally the result of the curing of previously reported defaults. We may increase or decrease our claim estimates and reserves as we learn additional information about individual defaulted loans, and continue to observe and analyze loss development trends in our portfolio. Gross reserves of \$8.3 million related to prior year defaults remained as of December 31, 2020.

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Beginning default inventory	1,448	877	928
Plus: new defaults	19,459	2,429	1,559
Less: cures	(8,548)	(1,702)	(1,521)
Less: claims paid	(143)	(152)	(89)
Less: claims denied	(7)	(4)	—
Ending default inventory	12,209	1,448	877

The increase in the ending default inventory at December 31, 2020 compared to December 31, 2019, is primarily attributable to the COVID-19 outbreak as borrowers have faced increasing challenges and chosen to access the forbearance program for federally backed loans codified under the CARES Act and other similar assistance programs made available by private lenders. At December 31, 2020, 10,803 of our 12,209 ending default inventory were in a COVID-related forbearance program.

The increase in the ending default inventory at December 31, 2019 compared to December 31, 2018, primarily relates to an increase in new defaults tied to the growth in the number of policies in force and the aging of our earlier book years. The increase in new defaults was partially offset by cure activity on our beginning default population. The ratio of cures to new defaults decreased during the year ended December 31, 2019 compared to the year ended December 31, 2018 due to the elevated level of defaults on insured loans in areas declared by FEMA to be individual disaster zones following Hurricanes Harvey and Irma, and the California wildfires in 2017, and the subsequent curing of the majority of such defaults in 2018. While we insure mortgages for homes in areas that are impacted by natural disasters, we do not provide coverage for property or casualty claims related to physical damage of a home underpinning an insured mortgage. As such, the cure rate on defaults that emerge following natural disasters tends to be meaningfully higher than the cure rate on similarly situated defaulted loans in unaffected areas.

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(\$ Values In Thousands)</i>		
Number of claims paid ⁽¹⁾	143	152	89
Total amount paid for claims	\$ 6,434	\$ 5,030	\$ 3,164
Average amount paid per claim	\$ 45	\$ 33	\$ 36
Severity ⁽²⁾	80 %	74 %	72 %

⁽¹⁾ Count includes nine, 19 and eight claims settled without payment for the years ended December 31, 2020, 2019 and 2018, respectively.

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

The number of claims paid for the year ended December 31, 2020 decreased compared to the year ended December 31, 2019 despite the growth and seasoning of our insured portfolio, and significant increase in our default population, primarily as a result of the forbearance program and foreclosure moratorium implemented by the GSEs in response to the COVID outbreak and codified under the CARES Act. Such forbearance and foreclosure programs have extended, and may ultimately interrupt, the timeline over which loans would otherwise progress through the default cycle to a paid claim.

Our claims severity for the year ended December 31, 2020 was 80% compared to 74% and 72% for the years ended December 31, 2019 and 2018, respectively. The increase in claims severity for the year ended December 31, 2020 relates to an increase in the portion of claims settled using the percent option instead of through third-party sales during the first half of the year as third-party marketing and sales activity was broadly constrained in the period immediately following the outbreak of the COVID-19 pandemic. Claims severity moderated in the second half of the year, benefiting from the resiliency of the housing market and broad national house price appreciation. An increase in the value of the homes collateralizing the mortgages we

insure provides additional equity support to our risk exposure and raises the prospect of a third-party sale of a foreclosed property, which can mitigate the Severity of our settled claims.

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

Average reserve per default:	As of		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Case ⁽¹⁾	\$ 6.8	\$ 15.0	\$ 13.5
IBNR ⁽¹⁾⁽²⁾	0.6	1.4	1.1
Total	\$ 7.4	\$ 16.4	\$ 14.6

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

⁽²⁾ Amount includes claims adjustment expenses.

The average reserve per default at December 31, 2020 decreased from December 31, 2019, primarily due to new COVID-19 related defaults. At December 31, 2020, we established lower reserves that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs. While we established lower reserves per defaulted loan at December 31, 2020, our total reserve position and claims and claims expenses increased substantially as of and during the year ended December 31, 2020 due to the increase in the size of our default population.

The average reserve per default at December 31, 2019 increased from December 31, 2018, primarily due to the aging of our default population and to a lesser extent cure activity on defaults outstanding at December 31, 2018 for loans in areas impacted by natural disasters, which carried lower average reserves per defaulted loan.

Seasonality

Historically, our business has been subject to modest seasonality in both NIW production and default experience. Consistent with the seasonality of home sales, purchase origination volumes typically increase in late spring and peak during the summer months, leading to a rise in NIW volume during the second and third quarters of a given year.

The COVID pandemic interrupted this typical seasonal pattern. The COVID outbreak and resulting shelter-in-place directives spurred record purchase origination activity and mortgage insurance industry volume during the year ended December 31, 2020. Our purchase origination NIW increased consistently through the year and peaked in the fourth quarter, and our refinancing origination volume grew similarly through the year as mortgage rates declined precipitously in connection with COVID-related fiscal and monetary stimulus policies. Refinancing volume does not follow a set seasonal trend and is instead primarily influenced by available note rates. As rates declined consistently through the year, our refinancing origination volume accelerated.

GSE Oversight

As an *approved insurer*, NMIC is subject to ongoing compliance with the PMIERS established by each of the GSEs (*italicized* terms have the same meaning that such terms have in the PMIERS, as described below). The PMIERS establish operational, business, remedial and financial requirements applicable to *approved insurers*. The PMIERS financial requirements prescribe a risk-based methodology whereby the amount of assets required to be held against each insured loan is determined based on certain loan-level risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (*i.e.*, current vs. delinquent), LTV ratio and other risk features. In general, higher quality loans carry lower asset charges.

Under the PMIERS, *approved insurers* must maintain *available assets* that equal or exceed *minimum required assets*, which is an amount equal to the greater of (i) \$400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *approved insurer's* RIF, assessed on a loan-by-loan basis and considered against certain risk-based factors derived from tables set out in the PMIERS, which is then adjusted on an aggregate basis for reinsurance transactions approved by the GSEs, such as with respect to our ILN Transactions and QSR Transactions. The *aggregate gross risk-based required asset amount* for performing, primary insurance is subject to a floor of 5.6% of *performing primary adjusted RIF*, and the *risk-based required asset amount* for pool insurance considers both factors in the PMIERS tables and the *net remaining stop loss* for each pool insurance policy.

By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2020 that NMIC was in full compliance with the PMIERS as of December 31, 2019. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a failure to meet one or more of the PMIERS requirements. We continuously monitor NMIC's compliance with the PMIERS.

The following table provides a comparison of the PMIERS *available assets* and *risk-based required asset amount* as reported by NMIC as of the dates indicated.

	As of		
	December 31, 2020	December 31, 2019	December 31, 2018
	(\$ values in thousands)		
Available assets	\$ 1,750,668	\$ 1,016,387	\$ 733,762
Risk-based required asset amount	984,372	773,474	511,268

Available assets were \$1.8 billion at December 31, 2020, compared to \$1.0 billion at December 31, 2019 and \$734 million at December 31, 2018. In June 2020, NMIH completed the sale of 15.9 million shares of common stock raising net proceeds of approximately \$220 million and the sale of the \$400 million aggregate principal amount of senior secured notes. NMIH contributed approximately \$445 million of capital to NMIC following completion of the Notes and equity offerings. The \$734 million increase in NMIC's *available assets* in 2020 was driven by the NMIH capital contribution and NMIC's positive cash flow from operations during the year.

The \$283 million increase in NMIC's *available assets* in 2019, was primarily driven by NMIC's positive cash flow from operations during the year, with additional benefit realized on the adoption of revised PMIERS guidance effective March 31, 2019, which among other changes, allowed for the inclusion of premium receivables in *available assets*.

The increase in the *risk-based required asset amount* between the dates presented was primarily due to the growth of our gross RIF, partially offset by the increased cession of risk under our third-party reinsurance agreements. The *risk-based required asset amount* further increased in 2020 as a result of the growth in our default population related to the onset of the COVID-19 pandemic. See "- COVID-19 Developments," above.

Competition

The MI industry is highly competitive and currently consists of six private mortgage insurers, including NMIC, as well as government MIs such as the FHA, USDA or VA. Private MI companies compete based on service, customer relationships, underwriting and other factors, including price, credit risk tolerance and information technology capabilities. See Item 1, "*Business - Overview of Residential Mortgage Finance and the Role of the Private MI Industry in the Current Operating Environment - Competition*," above. We expect the private MI market to remain competitive, with pressure for industry participants to maintain or grow their market share.

The private MI industry overall competes more broadly with government MIs who significantly increased their share in the MI market following the 2008 Financial Crisis. Although there has been broad policy consensus toward the need for increasing private capital participation and decreasing government exposure to credit risk in the U.S. housing finance system, it remains difficult to predict whether the combined market share of government MIs will recede to pre-2008 levels. A range of factors influence a lender's and borrower's decision to choose private over government MI, including among others, premium rates and other charges, loan eligibility requirements, the cancelability of private coverage, loan size limits and the relative ease of use of private MI products compared to government MI alternatives.

Cybersecurity

We rely on technology to engage with customers, access borrower information and deliver our products and services. We have established and implemented security measures, controls and procedures to safeguard our IT systems, and prevent and detect unauthorized access to such systems or any data processed and/or stored therein. We periodically engage third parties to evaluate and test the adequacy of such security measures, controls and procedures. In addition, we have a business continuity plan that is designed to allow us to continue to operate in the midst of certain disruptive events, including disruptions to our IT systems, and we have an incident response plan that is designed to address information security incidents, including any breaches of our IT systems. Despite these safeguards, disruptions to and breaches of our IT systems are possible and may negatively impact our business.

We maintain a cybersecurity errors and omissions insurance policy to limit our exposure to loss in the event of an incident. This policy provides coverage for (i) claims related to, among other things, unauthorized network or computer access, unintentional disclosure or misuse of personally identifiable information in our possession, and unintentional failure to disclose a breach, and (ii) certain costs related to privacy notification, crisis management, cyber extortion, data recovery, business interruption and reputational harm.

Information Technology

Effective March 31, 2020, we entered into an IT services agreement with TCS. Under the agreement, TCS is providing IT services over a seven-year period across such functions as application development and support, infrastructure support, (service desk, end user computing and engineering services), and information security. We expect the engagement with TCS will further our ability to provide innovative IT solutions for our internal and external constituents, while realizing cost efficiencies by leveraging TCS's global platform. In connection with the agreement, a majority of our IT employees transitioned to TCS. We have the ability to terminate the agreement at any time with 120 days' prior notice, subject to the payment of a termination fee and other obligations as specified in the agreement.

LIBOR Transition

In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to render these widely used reference rates unavailable or unreliable. We have exposure to LIBOR-based financial instruments, such as LIBOR-based securities held in our investment portfolio, and our 2020 Revolving Credit Facility and ILN Transactions require LIBOR-based payments. We are in the process of reviewing our LIBOR-based contracts that extend beyond 2021 and transitioning to a set of alternative reference rates. We will continue to monitor, assess and plan for the phase out of LIBOR; however, we cannot currently estimate the impact such transition will have on our operations or financial results.

Consolidated Results of Operations

Consolidated statements of operations	For the year ended December 31,		
	2020	2019	2018
Revenues	(\$ in thousands, except for per share data)		
Net premiums earned	\$ 397,172	\$ 345,015	\$ 251,197
Net investment income	31,897	30,856	23,538
Net realized investment gains	930	45	57
Other revenues	3,284	2,855	233
Total revenues	433,283	378,771	275,025
Expenses			
Insurance claims and claim expenses	59,247	12,507	5,452
Underwriting and operating expenses	131,610	126,621	116,966
Service expenses	2,840	2,248	270
Interest expense	24,387	12,085	14,979
(Gain) loss from change in fair value of warrant liability	(2,907)	8,657	1,397
Total expenses	215,177	162,118	139,064
Income before income taxes	218,106	216,653	135,961
Income tax expense	46,540	44,696	28,034
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Earnings per share - Basic	\$ 2.20	\$ 2.54	\$ 1.66
Earnings per share - Diluted	\$ 2.13	\$ 2.47	\$ 1.60
Loss ratio ⁽¹⁾	14.9 %	3.6 %	2.2 %
Expense ratio ⁽²⁾	33.1 %	36.7 %	46.6 %
Combined ratio ⁽³⁾	48.1 %	40.3 %	48.8 %

Non-GAAP financial measures ⁽⁴⁾	2020	2019	2018
Adjusted income before tax	\$ 221,506	\$ 227,618	\$ 142,195
Adjusted net income	173,642	182,437	113,256
Adjusted diluted EPS	2.19	2.62	1.67

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

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

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

⁽⁴⁾ See "Explanation and Reconciliation of Our Use of Non-GAAP Financial Measures," below.

Revenues

Net premiums earned were \$397.2 million, \$345.0 million and \$251.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The sequential increase in net premiums earned during each successive year was primarily driven by the growth of our IIF, a rise in monthly policy production and higher single premium policy cancellations, partially offset by increased cessions under the relevant QSR and ILN Transactions.

Net investment income was \$31.9 million, \$30.9 million and \$23.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. The increase in net investment income during the year ended December 31, 2020 was driven by an increase in the size of our total investment portfolio, partially offset by a decline in book yield tied to the prevailing interest rate and credit spread environment. The increase in net investment income for the year ended December 31, 2019 was driven by growth in the size of our investment portfolio and an improvement in book yield during the period.

Other revenues were \$3.3 million, \$2.9 million and \$0.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. Other revenues represent underwriting fee revenue generated by our subsidiary, NMIS, which provides outsourced loan review services to mortgage loan originators. The sequential growth in other revenues in 2019 and 2020 relates to increases in NMIS' outsourced loan review volume. Amounts recognized in other revenues generally correspond with amounts incurred as service expenses for outsourced loan review activities in the same periods.

Expenses

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

Insurance claims and claim expenses were \$59.2 million, \$12.5 million and \$5.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. Insurance claims and claim expenses increased \$46.7 million during the year ended December 31, 2020, primarily due to the outbreak of the COVID pandemic and resulting increase in our default population, partially offset by the release of certain prior period reserves upon the cure of their related defaults. Insurance claims and claim expenses increased \$7.1 million during the year ended December 31, 2019, primarily due to an increase in our default population tied to the growth in the number of policies in force and aging of our earlier book years.

Underwriting and operating expenses were \$131.6 million, \$126.6 million and \$117.0 million for the years ended December 31, 2020, 2019 and 2018, respectively. The increase for the year ended December 31, 2020 primarily relates to the recognition of previously deferred policy acquisition costs (DAC) taken in connection with in-force portfolio run-off and an increase in issuance expenses incurred in connection with capital market reinsurance transaction activity, partially offset by reductions in travel and entertainment, and office administration expenses as a result of the COVID-19 outbreak. The increase for the year ended December 31, 2019 was primarily driven by increases in certain employee compensation and technology costs to support the growth of our business, and an increase in variable expenses, such as premium taxes, tied to the growth in our NIW and IIF, partially offset by increased ceding commissions under the 2016 and 2018 QSR Transactions. Issuance costs incurred in connection with our ILN Transactions are included in underwriting and operating expenses and were \$4.6 million, \$2.4 million and \$2.7 million in 2020, 2019 and 2018, respectively.

Service expenses were \$2.8 million, \$2.2 million and \$0.3 million for the years ended December 31, 2020, 2019 and 2018, respectively. Service expenses represent third-party costs incurred by NMIS in connection with the services it provides. The sequential growth in service expenses in 2019 and 2020 relates to increases in NMIS' outsourced loan review volume. Amounts incurred as service expenses generally correspond with amounts recognized in other revenues in the same periods.

Interest expense was \$24.4 million, \$12.1 million and \$15.0 million for the years ended December 31, 2020, 2019 and 2018, respectively. Interest expense increased for the year ended December 31, 2020 in connection with the \$400 million Notes issuance and retirement of the \$150 million 2018 Term Loan completed in June 2020. Interest expense for the year ended December 31, 2020 includes \$2.6 million of costs related to the extinguishment of the 2018 Term Loan. Interest expense for the year ended December 31, 2019 benefited from a lower interest rate environment on borrowings under the 2018 Term Loan. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Debt.*"

Income tax expense was \$46.5 million, \$44.7 million and \$28.0 million for the years ended December 31, 2020, 2019 and 2018. Income tax expense increased sequentially in each period shown primarily due to the growth in our pre-tax income. As a U.S. taxpayer, we were subject to a U.S. federal corporate income tax rate of 21%. Our effective income tax rate on our pre-tax income was 21.3% for the year ended December 31, 2020 and 20.6% for each of the years ended December 31, 2019 and 2018. The increase in our effective tax rate for the year ended December 31, 2020 compared to the years ended December 31, 2019 and 2018 was primarily driven by the decrease in tax benefits from excess share-based compensation for vested restricted stock units (RSUs) and exercised stock options. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes.*"

Net Income

Net income was \$171.6 million, \$172.0 million and \$107.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. Adjusted net income was \$173.6 million, \$182.4 million and \$113.3 million, for the same periods, respectively. Net income and adjusted net income in 2020 benefited from an increase in total revenues, which was largely offset by an increase in insurance claims and claim expenses due to significant COVID-related default experience, and further offset by

an increase in effective tax rate and income tax expense. Net income and adjusted net income grew in 2019 due to an increase in total revenue, partially offset by an increase in total expenses.

Diluted earnings per share (EPS) was \$2.13, \$2.47 and \$1.60 for the years ended December 31, 2020, 2019 and 2018, respectively. Adjusted diluted EPS was \$2.19, \$2.62 and \$1.67 for the same periods, respectively. Diluted and adjusted EPS decreased in 2020, primarily due to an increase in weighted average diluted shares outstanding in connection with the issuance of 15.9 million shares of common stock in June 2020, as well as a decrease in net income and adjusted net income during the year. Diluted and adjusted diluted EPS growth in 2019 was driven by growth in net income and adjusted net income, respectively, partially offset by an increase in weighted average diluted shares outstanding

The non-GAAP financial measures adjusted income before tax, adjusted net income and adjusted diluted EPS are presented to enhance the comparability of financial results between periods.

Non-GAAP Financial Measure Reconciliations	For the year ended December 31,		
	2020	2019	2018
As reported			
Income before income tax	\$ 218,106	\$ 216,653	\$ 135,961
Income tax expense	46,540	44,696	28,034
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Adjustments			
Net realized investment gains	(930)	(45)	(57)
(Gain) loss from change in fair value warrant liability	(2,907)	8,657	1,397
Capital market transaction costs	7,237	2,353	4,894
Adjusted income before tax	221,506	227,618	142,195
Income tax expense on adjustments	1,324	485	905
Adjusted net income	\$ 173,642	\$ 182,437	\$ 113,256
Weighted average diluted shares outstanding	79,263	69,721	67,652
Adjusted diluted effect of non-vested shares	—	—	—
Adjusted weighted average diluted shares outstanding	79,263	69,721	67,652
Adjusted diluted EPS	\$ 2.19	\$ 2.62	\$ 1.67

Explanation and Reconciliation of Our Use of Non-GAAP Financial Measures

We believe the use of the non-GAAP measures of adjusted income before tax, adjusted net income and adjusted diluted EPS enhances the comparability of our fundamental financial performance between periods, and provides relevant information to investors. These non-GAAP financial measures align with the way the company's business performance is evaluated by management. These measures are not prepared in accordance with GAAP and should not be viewed as alternatives to GAAP measures of performance. These measures have been presented to increase transparency and enhance the comparability of our fundamental operating trends across periods. Other companies may calculate these measures differently; their measures may not be comparable to those we calculate and present.

Adjusted income before tax is defined as GAAP income before tax, excluding the pre-tax effects of the gain or loss related to the change in fair value of our warrant liability, periodic costs incurred in connection with capital markets transactions, net realized gains or losses from our investment portfolio, and discrete, non-recurring and non-operating items in the periods in which such items are incurred.

Adjusted net income is defined as GAAP net income, excluding the after-tax effects of the gain or loss related to the change in fair value of our warrant liability, periodic costs incurred in connection with capital markets transactions, net realized gains or losses from our investment portfolio, and discrete, non-recurring and non-operating items in the periods in which such items are incurred. Adjustments to components of pre-tax income are tax effected using the applicable federal statutory tax rate for the respective periods.

Adjusted diluted EPS is defined as adjusted net income divided by adjusted weighted average diluted shares outstanding. Adjusted weighted average diluted shares outstanding is defined as weighted average diluted shares outstanding,

adjusted for changes in the dilutive effect of non-vested shares that would otherwise have occurred had GAAP net income been calculated in accordance with adjusted net income. There will be no adjustment to weighted average diluted shares outstanding in the years that non-vested shares are anti-dilutive under GAAP.

Although adjusted income before tax, adjusted net income and adjusted diluted EPS exclude certain items that have occurred in the past and are expected to occur in the future, the excluded items: (1) are not viewed as part of the operating performance of our primary activities; or (2) are impacted by market, economic or regulatory factors and are not necessarily indicative of operating trends, or both. These adjustments, and the reasons for their treatment, are described below.

- *Change in fair value of warrant liability.* Outstanding warrants at the end of each reporting period are revalued, and any change in fair value is reported in the statement of operations in the period in which the change occurred. The change in fair value of our warrant liability can vary significantly across periods and is influenced principally by equity market and general economic factors that do not impact or reflect our current period operating results. We believe trends in our operating performance can be more clearly identified by excluding fluctuations related to the change in fair value of our warrant liability.
- *Capital markets transaction costs.* Capital markets transaction costs result from activities that are undertaken to improve our debt profile or enhance our capital position through activities such as debt refinancing and capital markets reinsurance transactions that may vary in their size and timing due to factors such as market opportunities, tax and capital profile, and overall market cycles.
- *Net realized investment gains and losses.* The recognition of the net realized investment gains or losses can vary significantly across periods as the timing is highly discretionary and is influenced by factors such as market opportunities, tax and capital profile, and overall market cycles that do not reflect our current period operating results.
- *Infrequent or unusual non-operating items.* Items that are the result of unforeseen or uncommon events, which occur separately from operating earnings and are not expected to recur in the future. Identification and exclusion of these items provides clarity about the impact special or rare occurrences may have on our current financial performance. Past adjustments under this category include the effects of the release of the valuation allowance recorded against our net federal and certain state net deferred tax assets in 2016 and the re-measurement of our net deferred tax assets in connection with tax reform in 2017. We believe such items are non-recurring in nature, are not part of our primary operating activities and do not reflect our current period operating results.

Consolidated balance sheets	December 31, 2020		December 31, 2019	
	<i>(In Thousands)</i>			
Total investment portfolio	\$	1,804,286	\$	1,140,940
Cash and cash equivalents		126,937		41,089
Premiums receivable		49,779		46,085
Deferred policy acquisition costs, net		62,225		59,972
Software and equipment, net		29,665		26,096
Prepaid reinsurance premiums		6,190		15,488
Reinsurance recoverable ⁽¹⁾		17,608		4,939
Other assets ⁽¹⁾		69,976		30,209
Total assets	\$	2,166,666	\$	1,364,818
Debt	\$	393,301	\$	145,764
Unearned premiums		118,817		136,642
Accounts payable and accrued expenses		61,716		39,904
Reserve for insurance claims and claim expenses		90,567		23,752
Reinsurance funds withheld		8,653		14,310
Warrant liability		4,409		7,641
Deferred tax liability, net		112,586		56,360
Other liabilities		7,026		10,025
Total liabilities		797,075		434,398
Total shareholders' equity		1,369,591		930,420
Total liabilities and shareholders' equity	\$	2,166,666	\$	1,364,818

⁽¹⁾ Reinsurance recoverable has been reclassified from "Other assets" in prior periods.

As of December 31, 2020, we had \$1.9 billion in cash and investments, compared to \$1.2 billion as of December 31, 2019. Cash and cash equivalents held by NMIH were \$72.0 million at December 31, 2020. The increase in cash and investments related to net proceeds raised of approximately \$220 million from the issuance of common stock and approximately \$245 million from the issuance of the Notes, both of which were completed in June 2020, as well as cash generated from operations.

Net deferred policy acquisition costs (DAC) were \$62.2 million as of December 31, 2020, compared to \$60.0 million as of December 31, 2019. The increase was primarily driven by growth in the number of policies written during the year ended December 31, 2020 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 \$6.2 million as of December 31, 2020, compared to \$15.5 million as of December 31, 2019. Prepaid reinsurance premiums, which represent the unearned premiums on single premium policies ceded under the 2016 QSR Transaction, decreased due to the continued amortization of previously ceded unearned premiums.

Reinsurance recoverable was \$17.6 million as of December 31, 2020, compared to \$4.9 million as of December 31, 2019. The increase in reinsurance recoverable was primarily driven by an increase in ceded losses recoverable associated with our QSR transactions due to an increase in defaults and related reserves for insurance claims and claims expense resulting from the COVID-19 pandemic.

Other assets were \$70.0 million as of December 31, 2020, compared to \$30.2 million as of December 31, 2019. The increase was primarily driven by the purchase of additional tax and loss bonds during the year ended December 31, 2020. At December 31, 2020, we held \$46.4 million of tax and loss bonds, compared to \$7.6 million as of December 31, 2019. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes."

Debt was \$393.3 million as of December 31, 2020, compared to \$145.8 million as of December 31, 2019. Debt at December 31, 2019, represented the carrying value of the \$150 million 2018 Term Loan, which was repaid in full during the second quarter of 2020. Debt at December 31, 2020, represented the carrying value of the Notes issued in June 2020.

Unearned premiums were \$118.8 million as of December 31, 2020, compared to \$136.6 million as of December 31, 2019. The decrease was primarily due to the amortization of existing unearned premiums through earnings in accordance with the expiration of risk on related single premium policies and the cancellation of other single premium policies, partially offset by single premium policy originations during the year ended December 31, 2020.

Accounts payable and accrued expenses were \$61.7 million as of December 31, 2020, compared to \$39.9 million as of December 31, 2019. The increase primarily relates to an increase in reinsurance premiums payable, accrued interest due and payable semi-annually on the Notes, and unsettled payments due on the purchase of certain securities.

Reserve for insurance claims and claim expenses was \$90.6 million as of December 31, 2020, compared to \$23.8 million as of December 31, 2019. The increase was primarily due to an increase in defaults, driven by new defaults on insured loans impacted by the COVID-19 outbreak, and an increase in the overall number of policies in our portfolio and aging of earlier book years. This was partially offset by the release of prior year reserves primarily tied to default cures. See "Insurance Claims and Claim Expenses" above for further details.

Reinsurance funds withheld, which represents our ceded reinsurance premiums written, less our profit and ceding commission receivables related to the 2016 QSR Transaction, was \$8.7 million as of December 31, 2020, compared to \$14.3 million at December 31, 2019. The decrease relates to the continued decline in ceded premiums written on single premium policies, due to the end of the reinsurance coverage period for new business under the 2016 QSR Transaction at December 31, 2017. See, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reinsurance."

Warrant liability was \$4.4 million at December 31, 2020, compared to \$7.6 million at December 31, 2019. The decrease was primarily due to a decline in our stock price between the respective measurement dates. For further information regarding the valuation of our warrant liability and its impact on our results of operations and financial position, see Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 4, Fair Value of Financial Instruments."

Net deferred tax liability was \$112.6 million at December 31, 2020, compared to \$56.4 million at December 31, 2019. The increase was primarily due to an increase in the claimed deductibility of our statutory contingency reserve and the change in unrealized gains recorded in other comprehensive income. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes."

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

Consolidated cash flows	For the years ended December 31,		
	2020	2019	2018
Net cash provided by (used in):	<i>(In Thousands)</i>		
Operating activities	\$ 252,598	\$ 208,150	\$ 145,861
Investing activities	(629,554)	(194,355)	(220,650)
Financing activities	462,804	2,000	80,887
Net increase in cash and cash equivalents	<u>\$ 85,848</u>	<u>\$ 15,795</u>	<u>\$ 6,098</u>

Net cash provided by operating activities was \$252.6 million for the year ended December 31, 2020, compared to \$208.2 million for the year ended December 31, 2019 and \$145.9 million for the year ended December 31, 2018. The increase in cash generated by operating activities in each successive year was primarily driven by growth in premiums written, partially offset by an increase in claims paid and an increase in the purchase of tax and loss bonds during respective periods.

Cash used in investing activities for the years presented reflects the purchase of fixed and short-term maturities with cash provided by operating activities and, as available, financing activities, and the reinvestment of coupon payments, maturities and sale proceeds within our investment portfolio. Cash used in investing activities as of December 31, 2020, reflects, in part, the investment of net cash proceeds from the common stock and Notes offerings we completed in June 2020. Cash used in investing activities for the year ended December 31, 2018 reflects, in part, the investment of net cash proceeds raised in the common stock offering we completed in March 2018.

Cash provided by financing activities was \$462.8 million for the year ended December 31, 2020, compared to \$2.0 million for the year ended December 31, 2019 and \$80.9 million for the year ended December 31, 2018. Cash provided by financing activities for the year ended December 31, 2020 primarily reflects \$219.7 million of net cash proceeds raised in the

common stock offering and \$244.4 million of net cash proceeds raised in the Notes offering we completed in June 2020. Cash provided by financing activities for the year ended December 31, 2019 primarily relates to proceeds from the issuance of common stock generated in connection with the exercise of employee stock options. Cash provided by financing activities for the year ended December 31, 2018 primarily reflects \$79.2 million of net cash proceeds raised in the common stock offering we completed in March 2018.

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 the interest related to the Notes and 2020 Revolving Credit Facility; (iv) tax payments to the Internal Revenue Service; (v) capital support for its subsidiaries; and (vi) payment of dividends, if any, on its common stock. NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations).

As of December 31, 2020, NMIH had \$72.0 million of cash and investments. NMIH's principal source of net cash is investment income. NMIH also has access to \$110 million of undrawn revolving credit capacity under the 2020 Revolving Credit Facility. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Debt*". Re One also has the capacity, under Wisconsin law, to pay \$1.6 million of aggregate ordinary dividends to NMIH during the twelve-month period ending December 31, 2021. In the future, NMIH may benefit from ordinary course dividend capacity available from NMIC as well.

In June 2020, NMIH completed the sale of (i) 15.9 million shares of common stock, including the exercise of a 15% over-allotment option, raising proceeds of approximately \$220 million, net of underwriting discounts, commissions and other direct offering expenses, and (ii) \$400 million aggregate principal amount of senior secured notes, raising net proceeds of \$244 million after giving effect to offering expenses and the repayment of the principal amount outstanding under our \$150 million 2018 Term Loan. See Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 15, Common Stock*" and "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Debt*." Following completion of the deals, NMIH contributed approximately \$445 million of the net proceeds raised in the common stock and Notes offerings as capital to NMIC.

NMIH has entered into tax and expense-sharing agreements with its subsidiaries which have been approved by the Wisconsin OCI, with such approvals subject to change or revocation at any time. Among such agreements, the Wisconsin OCI has approved the allocation of interest expense on the Notes and 2020 Revolving Credit Facility to NMIC to the extent proceeds from such offering and facility are distributed to NMIC or used to repay, redeem or otherwise defease amounts raised by NMIC under prior credit arrangements that have previously been distributed to NMIC.

The Notes mature on June 19, 2025 and bear interest at a rate of 7.375%, payable semi-annually on June 1 and December 1. The 2020 Revolving Credit Facility matures on February 22, 2023 and accrues interest at a variable rate equal to, at our discretion, (i) a base rate (as defined in the Credit Agreement, subject to a floor of 1.00% per annum) plus a margin of 0.375% to 1.875% per annum or (ii) the Eurodollar Rate (subject to a floor of 0.00% per annum) plus a margin of 1.375% to 2.875% per annum, in each case based on the applicable corporate credit rating at the time. Borrowings under the 2020 Revolving Credit Facility may be used for general corporate purposes, including to support the growth of our new business production and operations.

Under the 2020 Revolving Credit Facility, NMIH is required to pay a quarterly commitment fee on the average daily undrawn amount of 0.175% to 0.525%, based on the applicable corporate credit rating at the time. As of December 31, 2020, the applicable commitment fee was 0.35%.

We are subject to certain covenants under the Notes and 2020 Revolving Credit Facility. Under the 2020 Revolving Credit Facility (and as defined in the Credit Agreement), NMIH may not permit (i) our debt to total capitalization ratio to exceed 35% as of the last day of any fiscal quarter, (ii) the aggregate amount of our unrestricted cash and cash equivalents to be less than \$10 million at any time when NMIH does not have an investment-grade credit rating from both S&P and Moody's, (iii) the statutory capital of NMIC to be less than \$414,424,624 as of the last day of any fiscal quarter, or (iv) our consolidated net worth to be, as of the last day of any fiscal quarter, less than the sum of (A) \$461,607,905, plus (B) 50% of our cumulative consolidated net income for each fiscal quarter for which such consolidated net income is positive, plus (C) 50% of any increase in our consolidated net worth after March 31, 2018 resulting from certain issuances of equity by or capital contributions to NMIH or our subsidiaries. In addition, NMIC must remain at all times in compliance with all applicable "financial requirements" imposed

pursuant to the PMIERS, subject to any allowed transition period or forbearance thereunder. The Credit Agreement also prohibits, restricts or limits, among other things, NMIH's and its subsidiaries' ability to (i) incur additional indebtedness, (ii) incur liens on their property, (iii) pay dividends or make other distributions, (iv) sell their assets, (v) make certain loans or investments, (vi) merge or consolidate and (vii) enter into transactions with affiliates, in each case subject to certain limitations, exceptions and qualifications as set forth in the Credit Agreement. We were in compliance with all covenants as of December 31, 2020.

NMIC and Re One are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs. Under Wisconsin law, NMIC and Re One may pay dividends up to specified levels (*i.e.*, "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts, or "extraordinary" dividends, are subject to the Wisconsin OCI's prior approval. Under Wisconsin insurance laws, an extraordinary dividend is defined as any payment or distribution that, together with other dividends and distributions made within the preceding twelve 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 twelve-month period ending the preceding December 31. Re One has the capacity to pay \$1.6 million of aggregate ordinary dividends to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI. Since inception, neither NMIC nor Re One have paid any dividends to NMIH.

As an *approved insurer* under PMIERS, NMIC would generally be subject to prior GSE approval of its ability to pay dividends to NMIH if it failed to meet the financial requirements prescribed by PMIERS. In response to the COVID pandemic, the GSEs issued temporary PMIERS guidance, effective for the period from June 30, 2020 to June 30, 2021, that requires *approved insurers* to secure approval from the GSEs, even if the *approved insurer* otherwise satisfies the financial requirements prescribed by PMIERS, prior to taking any of the following actions: (i) pay dividends, make payments of principal or increase payments of interest beyond those commitments made prior to the guidance effective date associated with surplus notes issued by the *approved insurer*, make any other payments, unless related to expenses incurred in the normal course of business or to commitments made prior to the guidance effective date, or pledge or transfer asset(s) to any affiliate or investor, or (ii) enter into any new arrangements or alter any existing arrangements under tax sharing and intercompany expense-sharing agreements other than renewals and extensions of agreements in effect prior to the guidance effective date.

NMIH may require liquidity to fund the capital needs of its insurance subsidiaries. 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, access the reinsurance markets and meet *minimum required asset* thresholds under the PMIERS and minimum state capital requirements (respectively, as defined therein).

As an approved mortgage insurer and Wisconsin-domiciled carrier, NMIC is required to satisfy financial and/or capitalization requirements stipulated by each of the GSEs and the Wisconsin OCI. The financial requirements stipulated by the GSEs are outlined in the PMIERS. Under the PMIERS, NMIC must maintain available assets that are equal to or exceed a minimum risk-based required asset amount, subject to a minimum floor of \$400 million. At December 31, 2020, NMIC reported \$1,751 million available assets against \$984 million risk-based required assets for a \$766 million "excess" funding position.

The risk-based required asset amount under PMIERS is determined at an individual policy-level based on the risk characteristics of each insured loan. Loans with higher risk factors, such as higher LTVs or lower borrower FICO scores, are assessed a higher charge. Non-performing loans that have missed two or more payments are generally assessed a significantly higher charge than performing loans, regardless of the underlying borrower or loan risk profile; however, special consideration is given under PMIERS to loans that are delinquent on homes located in an area declared by FEMA to be a Major Disaster zone. In June 2020, the GSEs issued guidance (subsequently amended and restated in September 2020) on the risk-based treatment of loans affected by the COVID-19 crisis. Under the guidance, non-performing loans that are subject to a forbearance program granted in response to a financial hardship related to COVID-19 will benefit from a permanent 70% risk-based required asset haircut for the duration of the forbearance period and subsequent repayment plan or trial modification period.

NMIC's PMIERS minimum risk-based required asset amount is also adjusted for its reinsurance transactions (as approved by the GSEs). Under NMIC's quota share reinsurance treaties, it receives credit for the PMIERS risk-based required asset amount on ceded RIF. As its gross PMIERS risk-based required asset amount on ceded RIF increases, the PMIERS credit for ceded RIF automatically increases as well (in an unlimited amount). Under NMIC's ILN transactions, it generally receives credit for the PMIERS risk-based required asset amount on ceded RIF to the extent such requirement is within the subordinated coverage (excess of loss detachment threshold) afforded by the transaction.

NMIC is also subject to state regulatory minimum capital requirements based on its RIF. Formulations of this minimum capital vary by state, however, the most common measure allows for a maximum ratio of RIF to statutory capital (commonly

referred to as RTC) of 25:1. The RTC calculation does not assess a different charge or impose a different threshold RTC limit based on the underlying risk characteristics of the insured portfolio. Non-performing loans are treated the same as performing loans under the RTC framework. As such, the PMIERS generally imposes a stricter financial requirement than the state RTC standard.

As of December 31, 2020, NMIC's performing primary RIF, net of reinsurance, was approximately \$19.4 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory capital of \$1.6 billion (including contingency reserves) as of December 31, 2020, NMIC's RTC ratio was 12.0:1. Re One had total statutory capital of \$37 million as of December 31, 2020 and a RTC ratio of 1.4:1.

NMIC's principal sources of liquidity include (i) premium receipts on its insured portfolio and new business production, (ii) interest income on its investment portfolio and principal repayments on maturities therein, and (iii) existing cash and cash equivalent holdings. At December 31, 2020, NMIC had \$1.8 billion of cash and investments, including \$104 million of cash and equivalents. NMIC's principal liquidity demands include funds for the payment of (i) reimbursable holding company expenses, (ii) premiums ceded under our reinsurance transactions (iii) claims payments, and (iv) taxes as due or otherwise deferred through the purchase of tax and loss bonds. NMIC's cash inflow is generally significantly in excess of its cash outflow in any given period. During the twelve-month period ended December 31, 2020, NMIC generated \$250 million of cash flow from operations and received an additional \$406 million of cash flow on the maturity, sale and redemption of securities held in its investment portfolio. NMIC is not a party to any contracts (derivative or otherwise) that require it to post an increasing amount of collateral to any counterparty and NMIC's principal liquidity demands (other than claims payments) generally develop along a scheduled path (*i.e.*, are of a contractually predetermined amount and due at a contractually predetermined date). NMIC's only use of cash that develops along an unscheduled path is claims payments. Given the breadth and duration of forbearance programs available to borrowers, separate foreclosure moratoriums that have been enacted at a local, state and federal level, and the general duration of the default to foreclosure to claim cycle, we do not expect NMIC to use a meaningful amount of cash to settle claims in the near-term.

Debt and Financial Strength Ratings

NMIC's financial strength is rated "Baa2" by Moody's and "BBB" by S&P. In June 2020, Moody's affirmed its financial strength rating of NMIC and its "Ba2" rating of NMIH's 2020 Revolving Credit Facility, and assigned a "Ba2" rating to the Notes. Moody's ratings outlook is stable. In March 2020, S&P updated its outlook from stable to negative for the mortgage insurance sector, including its financial strength rating of NMIC's and its "BB" rating of NMIH's long-term counter-party credit profile. In June 3, 2020, S&P assigned a "BB" rating to NMIH's senior secured Notes.

Consolidated Investment Portfolio

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

Our investment portfolio is comprised entirely of fixed maturity instruments. As of December 31, 2020, the fair value of our investment portfolio was \$1.8 billion and we held an additional \$126.9 million of cash and equivalents. Pre-tax book yield on the investment portfolio for the year ended December 31, 2020 was 2.2%. Book yield is calculated as period-to-date net investment income divided by the average amortized cost of the investment portfolio. The yield on our investment portfolio is likely to change over time based on movements in interest rates, credit spreads, the duration or mix of our holdings 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	December 31, 2020	December 31, 2019
Corporate debt securities	63 %	58 %
Municipal debt securities	22	16
Asset-backed securities	7	15
Cash, cash equivalents, and short-term investments	6	7
U.S. treasury securities and obligations of U.S. government agencies	2	4
Total	100 %	100 %

Investment portfolio ratings at fair value ⁽¹⁾	December 31, 2020	December 31, 2019
AAA	12 %	20 %
AA ⁽²⁾	27	19
A ⁽²⁾	43	47
BBB ⁽²⁾	18	14
Total	100 %	100 %

⁽¹⁾ Excluding certain operating cash accounts.

⁽²⁾ Includes +/- ratings.

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

Investment Securities - Allowance for credit losses

As of December 31, 2020, we did not recognize an allowance for credit loss for any security in our investment portfolio and we did not record any provision for credit loss for investment securities during the year ended December 31, 2020.

During the year ended December 31, 2019, we recognized a \$0.4 million loss in earnings related to an other-than-temporarily impaired (OTTI) holding. We did not recognize any OTTI loss during the year ended December 31, 2018.

Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries.

Our effective income tax rate on pre-tax income was 21.3% for the year ended December 31, 2020 and 20.6% for each of the years ended December 31, 2019 and 2018. Our effective income tax rate may vary from the statutory tax rate in a given period due to the inclusions and exclusions of income and deductions for tax purposes. Inclusions of tax deductions may include tax benefits from excess share based compensation for vested RSUs and exercised stock options; and exclusions from income may include the fair value fluctuation of our warrant liability.

At December 31, 2020, we had federal net operating loss carryforwards of \$2.1 million, which expire in varying amounts in 2030 and 2031, and state net operating loss carryforwards of \$111.6 million, which expire in varying amounts from 2031 to 2041. Our ability to utilize our remaining federal net operating loss carryforwards is restricted by Section 382 of the Internal Revenue Code (IRC), which imposes annual limitations if there is an "ownership change." As a result of the acquisition of our insurance subsidiaries in 2012, \$7.3 million of federal NOLs were subject to annual limitations of \$0.8 million through 2016, and \$0.3 million thereafter. Our remaining federal net operating loss carryforwards balance is a result of this limitation.

As a mortgage guaranty insurance company, we are eligible to claim a tax deduction for our statutory contingency reserve balance, subject to certain limitations outlined under Section 832(e) of the IRC, and only to the extent we acquire tax and loss bonds in an amount equal to the tax benefit derived from the claimed deduction. As of December 31, 2020, we held \$46.4 million of tax and loss bonds, which are reported as prepaid federal income tax and grouped in "Other assets" in our consolidated balance sheet.

We record a valuation allowance against the state net operating losses generated by NMIH as NMIH operates at a loss, and we do not expect to utilize such net deferred tax assets in the future. We continue to evaluate the realizability of our state net

deferred tax asset position, and our examination of results through December 31, 2020 and review of future expectations support the continued application of a valuation allowance against such state net deferred tax assets.

NMIH and its subsidiaries entered into a tax sharing agreement effective August 23, 2012, which was subsequently amended on September 1, 2016. Under original and amended agreements, each of the parties agreed to file consolidated federal income tax returns for all tax years beginning in and subsequent to 2012, with NMIH as the direct tax filer. The tax liability of each subsidiary that is party to the agreement is limited to the amount of the liability it would incur if it filed separate returns.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with GAAP. In preparing our consolidated financial statements, management has made estimates and assumptions, and applied judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. As a result, actual results could differ materially from those estimates. A summary of the accounting policies that management believes are critical to the preparation of our consolidated financial statements is set forth below.

Insurance Premium Revenue Recognition

Premiums for primary mortgage insurance policies may be paid in a single, monthly or annual premium, with such election and payment type fixed at policy inception. Premiums written at origination for single premium policies are initially deferred as unearned premiums and amortized into earnings over the estimated policy life in accordance with the anticipated expiration of risk. Monthly premiums are recognized as revenue in the month billed and when coverage is effective. Annual premiums are initially deferred and earned on a straight-line basis over the year of coverage. Upon cancellation of a policy, all remaining non-refundable deferred and unearned premium is immediately earned, and any refundable deferred premium is returned to the policyholder and recorded as a reduction to written premium and unearned premium reserve in the period paid.

Premiums written on pool transactions are earned over the period that coverage is provided.

Reserve for Insurance Claims and Claim Expenses

We establish reserves for claims based on our best estimate of the ultimate claim costs for defaulted loans using the general principles contained in ASC 944, Financial Services - Insurance (ASC 944). We consider a loan to be in "default" as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claim settlement process. Claim expense reserves are either allocated (*i.e.*, associated with a specific claim) or unallocated (*i.e.*, not associated with a specific claim).

The establishment of claims and claim expense reserves is subject to inherent uncertainty and requires significant judgment by management. 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 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, size of the loan and LTV ratios, and are strongly influenced by assumptions about the path of certain economic factors, such as house price appreciation, trends in unemployment and mortgage rates. We consider the appropriateness of such inputs at each fiscal quarter and conduct an actuarial review annually to evaluate and, if necessary, update these assumptions.

At December 31, 2020, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs. It is possible that a relatively small change in our estimates for claim frequency or claim severity could have a material impact on our reserve position and our consolidated results of operations, even in a stable macroeconomic environment. At December 31, 2020, assuming all other estimates remain constant, a \$1,000 increase/decrease in our average claim severity factor would cause approximately a +/- \$1.1 million change in our reserve position, and a one percentage point increase/decrease in our average claim frequency factor cause approximately a +/- \$2.5 million change in our reserve position.

Investments

We have designated our investment portfolio as available-for-sale and report our invested assets at fair value. Unrealized gains and losses in the portfolio, net of related tax expense or benefit, are recognized as a component of accumulated other comprehensive income (AOCI) in shareholders' equity.

We measure fair value and classify invested assets in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Item 8, *Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 4, Fair Value of Financial Instruments.*"

Purchases and sales of investments are recorded on a trade date basis. Net investment income is recognized when earned, and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method, and is net of investment management fees and other investment related expenses. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to changes in effective yields and prepayment assumptions are recognized on a prospective basis.

We recognize an impairment on a security through the statement of operations if (i) we intend to sell the impaired security; or (ii) it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis. If a sale is intended or likely to be required, we write down the amortized cost basis of the security to fair value and recognize the full amount of the impairment through the statement of operations as a "*Realized Investment Loss.*"

For securities in an unrealized loss position where a sale is not intended or likely to be required, we further assess if the decline in fair value below amortized cost is driven by a credit related impairment, considering several items including, but not limited to:

- the severity of the decline in fair value;
- the financial condition of the issuer;
- the failure of the issuer to make scheduled interest or principal payments;
- recent rating downgrades of the applicable security or issuer by one or more nationally recognized statistical ratings organization; and
- other adverse conditions related to or impacting the security or issuer.

To the extent we determine that a security impairment is credit-related, an impairment loss is recognized through the statement of operations as a provision for credit loss expense, and presented as a "*Realized Investment Loss.*" We recognize an allowance for credit losses for the difference between the amortized cost and present value of future expected cash flows, limited by the amount the fair value of the security is below its amortized cost. Subsequent changes (favorable and unfavorable) in credit losses are recognized through the statement of operations as a provision for or a reversal of credit loss expense, and presented as a "*Realized Investment Gain or Loss.*" The portion of a security impairment attributed to other non-credit related factors is recognized in other comprehensive income, net of taxes.

Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of certain selling expenses and other policy issuance and underwriting expenses, are initially deferred and reported as DAC. DAC is reviewed periodically to determine that it does not exceed recoverable amounts. DAC is amortized to expense in proportion to estimated gross profits over the life of the associated policies. We revise the rate of amortization to reflect actual experience and changes to our persistency or loss development assumptions, and may accelerate or slow such rate in future periods as experience and future changes to estimates dictate. For the year ended December 31, 2020, we recognized an additional \$8.6 million of DAC amortization due to the significant increase in mortgage refinancing activity and material decline in persistency on certain prior book years' insurance in-force experienced during the period.

Premium Deficiency Reserves

We consider whether a premium deficiency exists and premium deficiency reserve is required at each fiscal quarter using best estimate assumptions as of the testing date. Per ASC 944, a premium deficiency reserve shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and maintenance costs exceeds future premiums, existing reserves and anticipated investment income. The premium deficiency

assessment requires the use of significant judgment and estimates to determine the present value of future premiums, and expected claim costs and expenses. The present value of future premiums relies on, among other things, assumptions about persistency and repayment patterns on the underlying insured loans. The present value of expected claim costs and expenses relies on assumptions about the severity of claims, claim rates on current defaults and expected defaults in future periods. Assumptions used in the premium deficiency calculation can be affected by changes in the macroeconomic environment, including the rate of house price appreciation and prevailing interest rates. Relatively small changes in estimated claim rates or estimated claim amounts could have a significant impact on our premium deficiency analysis. If we determine it is necessary and appropriate to establish a premium deficiency reserve, and actual premium patterns and claims experience differ from the assumptions used to establish the reserve, the difference between the actual results and our estimates would affect our consolidated results of operations in future periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large investment 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's Risk Committee. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

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

The carrying value of our investment portfolio as of December 31, 2020 and 2019 was \$1.8 billion and \$1.1 billion, 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 December 31, 2020, the duration of our fixed income portfolio, including cash and cash equivalents, was 4.83 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 4.83% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 4.98 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 4.98% in fair value of our fixed income portfolio.

We are also subject to market risk related to the ILN Transactions. 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 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of NMI Holdings, Inc.
NMI Holdings, Inc.
Emeryville, CA

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of NMI Holdings, Inc. (the "Company") and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedules included in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 24, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Reserve for Insurance Claims and Claims Expense

As described in Notes 2 and 7 to the consolidated financial statements, the Company recorded \$90.6 million of reserve for insurance claims and claim expenses at December 31, 2020. The establishment of insurance claims and claim expenses reserve is subject to inherent uncertainty and requires significant judgment by management. The reserve is established by estimating: (i) claim severity which is the amount of the claim payment expected to be paid on each loan in default, and (ii) claim frequency which is the number of loans in default expected to result in a claim payment. The claim frequency is determined based on historical observed experience regarding certain loan factors. The claim severity and claim frequency estimates are also strongly influenced by current economic conditions.

We identified the Company's estimation of the reserve for insurance claims and claim expenses as a critical audit matter. The principal consideration for our determination is the high degree of subjectivity in estimating claim severity and claim frequency. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the completeness and accuracy of the underlying loans and claims data used in management's reserve calculations which supported claim severity and claim frequency estimates.
- Utilizing personnel with specialized knowledge and skill in actuarial methods to assist in: (i) evaluating the appropriateness of the methodology and the assumptions used by management and management's specialist, including assessment of the reasonableness of changes in assumptions and inputs used in developing claim severity and claim frequency, which included comparing to third-party publications of current economic conditions and evaluating the current and historical loan factors, and (ii) performing a retrospective review of the prior year reserve estimate against historical figures and economic trends.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2011.

San Francisco, California

February 24, 2021

NMI HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
<i>(In Thousands, except for share data)</i>		
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$1,730,835 and \$1,113,779 as of December 31, 2020 and December 31, 2019, respectively)	\$ 1,804,286	\$ 1,140,940
Cash and cash equivalents (including restricted cash of \$5,555 and \$2,662 as of December 31, 2020 and December 31, 2019, respectively)	126,937	41,089
Premiums receivable	49,779	46,085
Accrued investment income	9,862	6,831
Prepaid expenses	3,292	3,512
Deferred policy acquisition costs, net	62,225	59,972
Software and equipment, net	29,665	26,096
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	6,190	15,488
Reinsurance recoverable ⁽¹⁾	17,608	4,939
Other assets ⁽¹⁾	53,188	16,232
Total assets	\$ 2,166,666	\$ 1,364,818
Liabilities		
Debt	\$ 393,301	\$ 145,764
Unearned premiums	118,817	136,642
Accounts payable and accrued expenses	61,716	39,904
Reserve for insurance claims and claim expenses	90,567	23,752
Reinsurance funds withheld	8,653	14,310
Warrant liability, at fair value	4,409	7,641
Deferred tax liability, net	112,586	56,360
Other liabilities	7,026	10,025
Total liabilities	797,075	434,398
Commitments and contingencies (see Note 14)		
Shareholders' equity		
Common stock - class A shares, \$0.01 par value; 85,163,039 and 68,358,074 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively (250,000,000 shares authorized)	852	684
Additional paid-in capital	937,872	707,003
Accumulated other comprehensive income, net of tax	53,856	17,288
Retained earnings	377,011	205,445
Total shareholders' equity	1,369,591	930,420
Total liabilities and shareholders' equity	\$ 2,166,666	\$ 1,364,818

⁽¹⁾ Reinsurance recoverable has been reclassified from "Other assets" in the prior period.

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the years ended December 31,		
	2020	2019	2018
	<i>(In Thousands, except for per share data)</i>		
Revenues			
Net premiums earned	\$ 397,172	\$ 345,015	\$ 251,197
Net investment income	31,897	30,856	23,538
Net realized investment gains	930	45	57
Other revenues	3,284	2,855	233
Total revenues	433,283	378,771	275,025
Expenses			
Insurance claims and claim expenses	59,247	12,507	5,452
Underwriting and operating expenses	131,610	126,621	116,966
Service expenses	2,840	2,248	270
Interest expense	24,387	12,085	14,979
(Gain) loss from change in fair value of warrant liability	(2,907)	8,657	1,397
Total expenses	215,177	162,118	139,064
Income before income taxes	218,106	216,653	135,961
Income tax expense	46,540	44,696	28,034
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Earnings per share			
Basic	\$ 2.20	\$ 2.54	\$ 1.66
Diluted	\$ 2.13	\$ 2.47	\$ 1.60
Weighted average common shares outstanding			
Basic	78,023	67,573	65,019
Diluted	79,263	69,721	67,652
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) in accumulated other comprehensive income, net of tax expense (benefit) of \$9,525, \$8,548 and (\$3,285) for each of the years in the three-year period ended December 31, 2020, respectively	35,829	32,155	(12,357)
Reclassification adjustment for realized losses (gains) included in net income, net of tax (benefit) expense of (\$196), \$9 and (\$27) for each of the years in the three-years ended December 31, 2020, respectively	739	(35)	102
Other comprehensive income (loss), net of tax	36,568	32,120	(12,255)
Comprehensive income	\$ 208,134	\$ 204,077	\$ 95,672

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount				
<i>(In Thousands)</i>						
Balances, December 31, 2017	60,518	\$ 605	\$ 585,488	\$ (2,859)	\$ (74,157)	\$ 509,077
Cumulative effect of change in accounting principle	—	\$ —	\$ —	\$ 282	\$ (282)	\$ —
Common stock: class A shares issued related to public offering	4,255	43	79,122	—	—	79,165
Common stock: class A shares issued related to warrant exercises	91	1	1,893	—	—	1,894
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,455	14	3,121	—	—	3,135
Share-based compensation expense	—	—	12,557	—	—	12,557
Change in unrealized investment gains/losses, net of tax benefit of \$3,258	—	—	—	(12,255)	—	(12,255)
Net income	—	—	—	—	107,927	107,927
Balances, December 31, 2018	66,319	\$ 663	\$ 682,181	\$ (14,832)	\$ 33,488	\$ 701,500
Common stock: class A shares issued related to warrant exercises	289	3	8,309	—	—	8,312
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,750	18	3,482	—	—	3,500
Share-based compensation expense	—	—	13,031	—	—	13,031
Change in unrealized investment gains/losses, net of tax expense of \$8,539	—	—	—	32,120	—	32,120
Net income	—	—	—	—	171,957	171,957
Balances, December 31, 2019	68,358	\$ 684	\$ 707,003	\$ 17,288	\$ 205,445	\$ 930,420
Common stock: class A shares issued related to public offering	15,870	159	219,528	—	—	219,687
Common stock: class A shares issued related to warrant exercises	11	*	325	—	—	325
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	924	9	(99)	—	—	(90)
Share-based compensation expense	—	—	11,115	—	—	11,115
Change in unrealized investment gains/losses, net of tax expense of \$9,721	—	—	—	36,568	—	36,568
Net income	—	—	—	—	171,566	171,566
Balances, December 31, 2020	85,163	\$ 852	\$ 937,872	\$ 53,856	\$ 377,011	\$ 1,369,591

* During 2020, we issued 11,368 common shares with a par value of \$0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2020	2019	2018
<i>(In Thousands)</i>			
Cash flows from operating activities			
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized investment gains	(930)	(45)	(57)
(Gain) loss from change in fair value of warrant liability	(2,907)	8,657	1,397
Depreciation and amortization	9,930	9,299	7,811
Net amortization of premium on investment securities	3,668	1,252	1,519
Amortization of debt discount and debt issuance costs	4,036	1,011	3,390
Deferred income taxes	46,506	45,082	25,927
Share-based compensation expense	11,115	13,031	12,557
Changes in operating assets and liabilities:			
Premiums receivable	(3,694)	(10,078)	(10,828)
Accrued investment income	(3,031)	(1,137)	(1,482)
Prepaid expenses	220	(472)	(1,090)
Deferred policy acquisition costs, net	(2,253)	(13,132)	(8,915)
Other assets	(38,804)	(8,831)	1,304
Unearned premiums	(17,825)	(22,251)	(4,273)
Reserve for insurance claims and claim expenses	66,815	10,941	4,050
Reinsurance recoverable ⁽¹⁾	(12,669)	(1,939)	(1,099)
Reinsurance balances, net ⁽¹⁾	2,783	917	1,659
Accounts payable and accrued expenses	18,072	3,888	6,064
Net cash provided by operating activities	<u>252,598</u>	<u>208,150</u>	<u>145,861</u>
Cash flows from investing activities			
Purchase of short-term investments	(42,241)	(230,362)	(257,916)
Purchase of fixed-maturity investments, available-for-sale	(1,065,916)	(290,533)	(356,337)
Proceeds from maturity of short-term investments	86,045	244,921	221,685
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	404,717	91,575	179,978
Software and equipment	(12,159)	(9,956)	(8,060)
Net cash (used in) investing activities	<u>(629,554)</u>	<u>(194,355)</u>	<u>(220,650)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock related to public offering, net of issuance costs	219,687	—	79,165
Proceeds from issuance of common stock related to employee equity plans	8,871	21,748	12,857
Proceeds from issuance of common stock related to warrant exercises	—	—	321
Taxes paid related to net share settlement of equity awards	(8,961)	(18,248)	(9,722)
Proceeds from senior secured notes	400,000	—	149,250
Repayments of term loan	(147,750)	(1,500)	(147,375)
Payments of debt issuance costs	(9,043)	—	(3,609)
Net cash provided by financing activities	<u>462,804</u>	<u>2,000</u>	<u>80,887</u>
Net increase in cash, cash equivalents and restricted cash	85,848	15,795	6,098
Cash, cash equivalents and restricted cash, beginning of period	41,089	25,294	19,196
Cash, cash equivalents and restricted cash, end of period	<u>\$ 126,937</u>	<u>\$ 41,089</u>	<u>\$ 25,294</u>
Supplemental disclosures of cash flow information			
Interest paid	\$ 17,561	\$ 10,691	\$ 12,093
Income taxes (refunded) paid	(70)	(64)	867

⁽¹⁾ Reinsurance recoverable has been reclassified from "Reinsurance balance, net" in prior periods.

See accompanying notes to consolidated financial statements.

1. Organization and Basis of Presentation

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011 to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly-owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One). Our common stock is listed on the NASDAQ exchange under the ticker symbol "NMIH."

NMIC, our primary insurance subsidiary, issued its first mortgage insurance policy in April 2013. NMIC is licensed to write mortgage insurance in all 50 states and the District of Columbia (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 consolidated financial statements include the results of NMIH and its wholly-owned subsidiaries. All inter-company transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) and our accounts are maintained in US dollars. 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 previously reported financial information have been made to conform to our current period presentation.

COVID-19 Developments

On January 30, 2020, the World Health Organization (WHO) declared the outbreak of coronavirus (COVID-19) a global health emergency and characterized the outbreak as a global pandemic on March 11, 2020. In an effort to stem contagion and control the COVID-19 pandemic, the population at large has severely curtailed day-to-day activity and local, state and federal regulators have imposed a broad set of restrictions on personal and business conduct nationwide. The COVID-19 pandemic, along with the widespread public and regulatory response, has caused a dramatic slowdown in U.S. and global economic activity and a record number of Americans have been furloughed or laid-off.

The global dislocation caused by COVID-19 is unprecedented and, while there is broad hope that the recent development, distribution and administration of new vaccines may relieve the crisis and provide for a near-term return to normalized activity, it is not known how long the dislocation will persist. In response to the COVID-19 outbreak and continuing uncertainties, we activated our disaster continuity program to ensure our employees are safe and able to manage our business without interruption. We pursued a broad series of capital and reinsurance transactions to bolster our balance sheet and provide an expanded ability to serve our customers and their borrowers, and we updated our underwriting guidelines and policy pricing in consideration for the increased level macroeconomic volatility. While the U.S. housing market has demonstrated significant resiliency since the onset of the pandemic, with record levels of demand, mortgage origination activity and house price appreciation, much uncertainty remains. Given the uncertainty that prevails, we cannot fully assess or estimate the ultimate impact of COVID-19 on the mortgage insurance market, our business performance or our financial position including our new business production, default and claims experience, and investment portfolio results.

2. Summary of Accounting Principles

Use of Estimates

We use accounting principles and methods that conform to GAAP. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical.

Insurance Premium Revenue Recognition

Premiums for primary mortgage insurance policies may be paid in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium), with such election and payment type fixed at policy inception. Premiums written at origination for single premium policies are initially deferred as unearned premiums and amortized into earnings over the estimated policy life, in accordance with the anticipated expiration of risk. Monthly premiums are recognized as revenue in the month billed and when the coverage is effective. Annual premiums are initially deferred and earned on a straight-line basis over the year of coverage. Upon cancellation of a policy, all remaining non-refundable deferred and unearned premium is immediately earned, and any refundable deferred and unearned premium is returned to the policyholder and recorded as a reduction to written premium and unearned premium reserve in the period paid.

Premiums written on pool transactions are earned over the period that coverage is provided.

Concentrations

For the years ended December 31, 2020, December 31, 2019 and December 31, 2018 no customer accounted for more than 10% of our consolidated revenues. At December 31, 2020, December 31, 2019 and December 31, 2018 approximately 11%, 12% and 13% of our total risk-in-force (RIF) was concentrated in California.

Reserves for Insurance Claims and Claim Expenses

We establish reserves for claims based on our best estimate of the ultimate claim costs for defaulted loans using the general principles contained in ASC 944, *Financial Services - Insurance* (ASC 944). A loan is considered to be in "default" as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claim settlement process. Claim expense reserves are either allocated (*i.e.*, associated with a specific claim) or unallocated (*i.e.*, not associated with a specific claim).

The establishment of claims and claim expense reserves is subject to inherent uncertainty and requires significant judgment by management. 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 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, size of the loan and loan-to-value (LTV) ratios, and are strongly influenced by assumptions about the path of certain economic factors, such as house price appreciation, trends in unemployment and mortgage rates. We consider the appropriateness of such inputs at each fiscal quarter and conduct an actuarial review annually to evaluate and, if necessary, update these assumptions.

Investments

We have designated our investment portfolio as available-for-sale and report our invested assets at fair value. Unrealized gains and losses in the portfolio, net of related tax expense or benefit, are recognized as a component of accumulated other comprehensive income (AOCI) in shareholders' equity.

We measure fair value and classify invested assets in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Note 4, "*Fair Value of Financial Instruments*" for further discussion.

Purchases and sales of investments are recorded on a trade date basis. Net investment income is recognized when earned, and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method, and is net of investment management fees and other investment related expenses. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to changes in effective yields and prepayment assumptions are recognized on a prospective basis.

We recognize an impairment on a security through the statement of operations if (i) we intend to sell the impaired security; or (ii) it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized

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cost basis. If a sale is intended or likely to be required, we write down the amortized cost basis of the security to fair value and recognize the full amount of the impairment through the statement of operations as a "*Realized Investment Loss*."

For securities in an unrealized loss position where a sale is not intended or likely to be required, we further assess if the decline in fair value below amortized cost is driven by a credit related impairment, considering several items including, but not limited to:

- the severity of the decline in fair value;
- the financial condition of the issuer;
- the failure of the issuer to make scheduled interest or principal payments;
- recent rating downgrades of the applicable security or issuer by one or more nationally recognized statistical ratings organization; and
- other adverse conditions related to or impacting the security or issuer.

To the extent we determine that a security impairment is credit-related, an impairment loss is recognized through the statement of operations as a provision for credit loss expense, and presented as a "*Realized Investment Loss*." We recognize an allowance for credit losses for the difference between the amortized cost and present value of future expected cash flows, limited by the amount the fair value of the security is below its amortized cost. Subsequent changes (favorable and unfavorable) in credit losses are recognized through the statement of operations as a provision for or a reversal of credit loss expense, and presented as a "*Realized Investment Gain or Loss*." The portion of a security impairment attributed to other non-credit related factors is recognized in other comprehensive income, net of taxes.

We have elected to present accrued interest receivable separately from available for sale securities on our consolidated balance sheet. Accrued interest receivable was \$9.9 million as of December 31, 2020 and is included in "*Accrued Investment Income*." We have elected not to measure an allowance for credit losses for accrued interest receivable on available for sale securities. Accrued interest for available for sale securities is written off against interest income when the receivable has aged 90 days past due. We did not write off any accrued interest receivable during the twelve months ended December 31, 2020, 2019 or 2018.

We consider items such as commercial paper with original maturities of 90 days or less to be short-term investments.

Deferred Policy Acquisition Costs (DAC)

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of certain selling expenses and other policy issuance and underwriting expenses, are initially deferred and reported as DAC. DAC is reviewed periodically to determine that it does not exceed recoverable amounts. DAC is amortized to expense in proportion to estimated gross profits over the life of the associated policies. We revise the rate of amortization to reflect actual experience and any changes to persistency or loss development. Total amortization of DAC for the years ended December 31, 2020, 2019 and 2018, net of a portion of the ceding commissions earned under our quota share reinsurance agreements (see "*Reinsurance*", below), was \$19.1 million, \$8.4 million and \$8.1 million, respectively.

Premium Deficiency Reserves

We consider whether a premium deficiency exists and premium deficiency reserve is required at each fiscal quarter using best estimate assumptions as of the testing date. Per ASC 944, a premium deficiency reserve shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and maintenance costs exceeds future premiums, existing reserves and anticipated investment income. We have determined that no premium deficiency reserves were necessary for any of the years in the three-year period ended December 31, 2020.

Reinsurance

We account for premiums, claims and claim expenses that are ceded to reinsurers on basis consistent with that which 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 a reduction to premium revenue.

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NMIC entered into quota share reinsurance treaties effective September 1, 2016 (the 2016 QSR Transaction), January 1, 2018 (the 2018 QSR Transaction) and April 1, 2020 (the 2020 QSR Transaction), which we refer to collectively as the QSR Transactions. We earn profit and ceding commissions in connection with the QSR Transactions (see Note 6, "Reinsurance"). 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 an increase 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 and 2020 QSR Transactions, and are intended to cover our costs of acquiring and servicing direct policies. We recognize any ceding commissions generated under the QSR Transactions in a manner consistent with our recognition of earnings on the underlying reinsured policies. 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 and reserves to our reinsurers, and account for such ceded reserves as "Reinsurance Recoverables" on the consolidated balance sheets and such ceded expenses as reductions to claims and claim expenses on the consolidated statements of operations. As of December 31, 2020, we had \$17.6 million of reinsurance recoverables under the QSR Transactions. We remain directly liable for all claim payments if we are unable to collect the recoverables due from our reinsurers and, as such, we actively monitor and manage our counterparty credit exposure to our reinsurance providers. We establish an allowance for expected credit loss against our reinsurance recoverables if we do not expect to recover amounts due from one or more of our reinsurance counterparties, and report our reinsurance recoverables net of such allowance, if any. We actively monitor the counterparty credit profiles of our reinsurers and each is required to partially collateralize its obligations under the terms of our QSR Transactions. As of December 31, 2020, we did not recognize any allowance for credit loss with respect to our reinsurance recoverables.

Income Taxes

We account for income taxes using the liability method in accordance with ASC Topic 740, *Income Taxes*. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that would result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations.

Warrants

We account for 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*. Our outstanding warrants may be settled through either (i) physical settlement method, or (ii) cashless exercise, where the number of shares issued upon exercise of the warrants is reduced to cover the cost of the exercise in lieu of the holder remitting a cash payment for the exercise price. The warrants expire and are not exercisable after the 10th anniversary of the date issued. The number of warrants and exercise price are subject to anti-dilution provisions whereby the number of warrants may be increased and their exercise price may be adjusted downward under certain circumstances. The anti-dilutive adjustments may be in excess of any dilution incurred by the warrant holders, and may be triggered by events that are not dilutive. As a result, the warrants are classified as a liability. We revalue the warrants at the end of each reporting period, and any change in fair value is reported in the statements of operations in the period in which the change occurred. We calculated the fair value of the warrants using a Black-Scholes option-pricing model in combination with a binomial model.

Share-Based Compensation

We account for stock compensation in accordance with ASC 718, *Compensation - Stock Compensation*, which addresses accounting for share-based awards and recognition of compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based compensation includes restricted stock units (RSUs) and stock option grants under our Stock Plans. We calculate the fair value of stock option grants using a Black-Scholes option pricing model, which takes into account various subjective assumptions. Key assumptions used in the model include the expected volatility of our stock price, dividend yield and the risk-free interest rate, as well as the expected option term, giving consideration to the contractual terms of any award. RSU grants may contain a service condition, or performance and service conditions. RSU grants are valued at our stock price on the date of grant less the present value of anticipated dividends. We account for stock option and RSU forfeitures as they occur.

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Earnings per Share (EPS)

Basic earnings (loss) per share is based on the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is based on the weighted-average number of common shares outstanding and common share equivalents that would be issuable upon the vesting of existing service based and certain performance and service based RSUs, and exercise of vested and unvested stock options and outstanding warrants.

Cash and Cash Equivalents

We consider items such as certificates of deposit and money market funds with original maturities of 90 days or less to be cash equivalents.

Software and Equipment

We capitalize certain costs associated with the development of internal-use software and equipment. Software and equipment are stated at cost, less accumulated amortization and depreciation. Amortization of software and depreciation of equipment commences at the beginning of the month following our placement of the assets into use. Amortization and depreciation are calculated on a straight-line basis over the estimated useful life of the respective assets, typically from three to five years, unless factors indicate a shorter useful life. For further detail, see Note 12, "*Software and Equipment*."

Leases

We recognize right-of-use (ROU) assets and corresponding lease liabilities for our lease arrangements. Lease liabilities are established based on the estimated present value of lease payments over the relevant lease term. We estimate a discount rate for each lease based on our estimated incremental borrowing rate at the commencement date of the relevant lease. Estimated lease terms includes optional renewal periods and early termination payments when it is reasonably certain we will exercise those rights. ROU assets are measured as the associated lease liability plus any direct costs incurred in connection with the initial establishment of the lease, less any lease incentives received.

Business Combinations, Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired from a business combination. In accordance with ASC 350, *Intangibles - Goodwill and Other*, we test goodwill for impairment during the third quarter each year, or more frequently if we believe indicators of impairment exist. We have not identified any impairments of goodwill through December 31, 2020.

Our intangible assets consist of state licenses and Fannie Mae and Freddie Mac (collectively, the GSEs) applications which have indefinite lives. We test indefinite-lived intangible assets for impairment during the fourth quarter of each year or more frequently if we believe indicators of impairment exist. We have not identified any impairments of indefinite-lived intangible assets through December 31, 2020.

Premiums Receivable

Premiums receivable consists of premiums due on our mortgage insurance policies. If a mortgage insurance premium is unpaid for more than 120 days, the associated receivable is written off against earned premium and the related insurance policy is canceled. We recognize an allowance for credit losses for premiums receivable based on credit losses expected to arise over the life of the receivable. Due to the nature of our insurance policies (a necessary precondition for access to mortgage credit for covered borrowers) and the short duration of the related receivables, we do not typically experience credit losses against our premium receivables and did not establish an allowance for credit loss at December 31, 2020.

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Premiums receivable may be written off prior to 120 days in the ordinary course of business for non-credit events including, but not limited to, the modification or refinancing of an underlying insured loan. We have established a reserve for premium write-offs based on historical experience; such reserve was deemed to be immaterial at December 31, 2020 and December 31, 2019.

Variable Interest Entities

NMIC is a party to reinsurance agreements with Oaktown Re Ltd., Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd. and Oaktown Re V Ltd. (special purpose reinsurance entities collectively referred to as the Oaktown Re Vehicles) effective May 2, 2017, July 25, 2018, July 30, 2019, July 30, 2020 and October 29, 2020, respectively. At inception of the respective reinsurance agreements, we determined that each of the Oaktown Re Vehicles were variable interest entities (VIEs), as defined under GAAP Accounting Standards Codification (ASC) 810, because they did not have sufficient equity at risk to finance their respective activities. We evaluated the VIEs at inception to determine whether NMIC was the primary beneficiary under each deal and, if so, whether we were required to consolidate the assets and liabilities of each VIE. The primary beneficiary of a VIE is an enterprise that (1) has the power to direct the activities of the VIE, which most significantly impact its economic performance and (2) has significant economic exposure to the VIE, *i.e.*, the obligation to absorb losses or receive benefits that could potentially be significant. The determination of whether an entity is the primary beneficiary of a VIE is complex and requires management judgment regarding determinative factors, including the expected results of the VIE and how those results are absorbed by beneficial interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIE. We concluded that we are not the primary beneficiary of each VIE and as such, we do not consolidate them in our consolidated financial statements.

See Note 6, "*Reinsurance*" for further discussion of the reinsurance arrangements.

Other Revenues

Other revenues represent underwriting fee revenue from our subsidiary, NMIS, which provides outsourced loan review services to mortgage loan originators. NMIS fees are earned and recognized as services are provided.

Recent Accounting Pronouncements - Adopted

In June 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326)* and subsequently issued amendments to the initial guidance: ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses (Topic 815), Derivatives and Hedging*, and Topic 825, *Financial Instruments*, ASU 2019-05, *Financial Instruments-Credit Losses: Targeted Transition Relief*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*. These updates will require companies to measure and establish reserves for lifetime expected credit losses on many financial assets held at a given reporting date. Under the guidance, the methodology for measuring lifetime credit losses shifts from an incurred loss model, whereby losses are only recognized once probable and estimable, to a current expected credit loss (CECL) model, whereby losses are recognized upfront based on a future economic forecast. Credit losses relating to available-for-sale fixed maturity securities are recorded through an allowance for credit losses, rather than a write-down of the asset as was required, with the amount of the allowance limited to the amount by which fair value is less than amortized cost. The length of time an available-for sale fixed maturity security has been held in an unrealized loss position will no longer impact its credit loss determination. We adopted these updates on January 1, 2020. Adoption of the updated standards did not have a material impact on our consolidated financial statements, and had no impact on our accounting for insurance claims and claim expenses as these items are not in scope of the guidance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This update modifies the fair value measurement disclosure requirements of ASC 820. We adopted this ASU on January 1, 2020 and determined it did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*. This update applies to cloud computing arrangements structured as service contracts, and provides companies with guidance on the criteria for capitalizing implementation, set-up and other up-front costs incurred in association with these arrangements. We adopted this ASU on January 1, 2020 and applied it on a prospective basis for eligible costs incurred after the effective date. The adoption of this ASU did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements - Not Yet Adopted

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts*

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(Topic 944). This update provides guidance to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The FASB subsequently issued ASU 2019-09 in November 2019 and ASU 2020-11 in November 2020, which amended the effective date for this standard and provided transition relief to facilitate early application for long duration contracts. The standard will now take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). This update eliminates certain exceptions for recognizing deferred taxes for investments, performing intra-period allocations and calculating income taxes in interim periods. The ASU also includes guidance to reduce complexity in certain income tax areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. 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 adopted this ASU on January 1, 2021 and it did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848). This update with updates subsequently issued in January 2021 in ASU 2021-01. These updates provide optional guidance to ease the potential burden in accounting for reference rate reform on financial reporting. Reference rate reform refers to the global transition away from referencing the London Interbank Offered Rate (LIBOR) in financial contracts, which is expected to be discontinued in 2021. The ASU includes optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. These standards are effective immediately through December 31, 2022 for all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. We are currently evaluating the impact the adoption of the ASUs would have, if any, to our contract modifications that are affected by the discontinuation of LIBOR.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivatives and Hedging—Contracts in Entity's Own Equity* (Subtopic 815-40). This update simplifies the accounting for convertible instruments and contracts on an entity's own equity, including warrants, eliminating certain triggers for derivative accounting. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted, but no earlier than 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, including our warrant liability.

3. Investments

We hold all investments on an available-for-sale basis and evaluate each position quarterly for impairment. We recognize an impairment on a security through the statement of operations if (i) we intend to sell the impaired security; or (ii) it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis. If a sale is intended or likely to be required, we write down the amortized cost basis of the security to fair value and recognize the full amount of the impairment through the statement of operations as a "Realized Investment Loss." To the extent we determine that a security impairment is credit-related, an impairment loss is recognized through the statement of operations as a provision for credit loss expense. The portion of a security impairment attributed to other non-credit related factors is recognized in other comprehensive income, net of taxes.

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Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(In Thousands)</i>				
As of December 31, 2020				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 29,412	\$ 2,186	\$ —	\$ 31,598
Municipal debt securities	407,323	14,027	(2)	421,348
Corporate debt securities	1,165,260	55,014	(483)	1,219,791
Asset-backed securities	128,471	2,736	(27)	131,180
Total bonds	1,730,466	73,963	(512)	1,803,917
Short-term investments	369	—	—	369
Total investments	<u>\$ 1,730,835</u>	<u>\$ 73,963</u>	<u>\$ (512)</u>	<u>\$ 1,804,286</u>

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(In Thousands)</i>				
As of December 31, 2019				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 48,203	\$ 784	\$ (58)	\$ 48,929
Municipal debt securities	189,530	1,721	(1,035)	190,216
Corporate debt securities	661,719	23,373	(211)	684,881
Asset-backed securities	170,153	2,603	(114)	172,642
Total bonds	1,069,605	28,481	(1,418)	1,096,668
Short-term investments	44,174	98	—	44,272
Total investments	<u>\$ 1,113,779</u>	<u>\$ 28,579</u>	<u>\$ (1,418)</u>	<u>\$ 1,140,940</u>

We did not own any mortgage-backed securities in our asset-backed securities portfolio at December 31, 2020 or 2019.

The following table presents a breakdown of the fair value of our corporate debt securities by issuer industry group as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Financial	37 %	38 %
Consumer	23	26
Communications	10	10
Utilities	11	9
Industrial	9	8
Technology	10	7
Energy	—	2
Total	<u>100 %</u>	<u>100 %</u>

As of December 31, 2020 and 2019, approximately \$5.7 million and \$5.5 million, respectively, of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

Scheduled Maturities

The amortized cost and fair value of available-for-sale securities as of December 31, 2020 and 2019, 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.

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As of December 31, 2020	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 57,429	\$ 57,949
Due after one through five years	507,444	536,520
Due after five through ten years	1,016,230	1,056,098
Due after ten years	21,261	22,539
Asset-backed securities	128,471	131,180
Total investments	<u>\$ 1,730,835</u>	<u>\$ 1,804,286</u>

As of December 31, 2019	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 138,776	\$ 139,113
Due after one through five years	406,986	417,208
Due after five through ten years	380,737	394,180
Due after ten years	17,127	17,797
Asset-backed securities	170,153	172,642
Total investments	<u>\$ 1,113,779</u>	<u>\$ 1,140,940</u>

Aging of Unrealized Losses

As of December 31, 2020, the investment portfolio had gross unrealized losses of \$0.5 million, of which \$8 thousand had been in an unrealized loss position for a period of twelve months or longer. As of December 31, 2019, the investment portfolio had gross unrealized losses of \$1.4 million, of which \$84 thousand had been in an unrealized loss position for a period of twelve months or longer. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than Twelve Months			Twelve 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, 2020	(Dollars in Thousands)								
Municipal debt securities	4	3,548	(2)	—	—	—	4	3,548	(2)
Corporate debt securities	9	40,081	(483)	1	33	—	10	40,114	(483)
Asset-backed securities	2	5,191	(19)	1	2,495	(8)	3	7,686	(27)
Total	<u>15</u>	<u>\$ 48,820</u>	<u>\$ (504)</u>	<u>2</u>	<u>\$ 2,528</u>	<u>\$ (8)</u>	<u>17</u>	<u>\$ 51,348</u>	<u>\$ (512)</u>

	Less Than Twelve Months			Twelve 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, 2019	(Dollars in Thousands)								
U.S. Treasury securities and obligations of U.S. government agencies	4	\$ 12,001	\$ (58)	—	\$ —	\$ —	4	\$ 12,001	\$ (58)
Municipal debt securities	26	92,844	(1,034)	1	999	(1)	27	93,843	(1,035)
Corporate debt securities	10	30,481	(140)	14	23,976	(71)	24	54,457	(211)
Asset-backed securities	9	19,236	(102)	1	2,988	(12)	10	22,224	(114)
Total	<u>49</u>	<u>\$ 154,562</u>	<u>\$ (1,334)</u>	<u>16</u>	<u>\$ 27,963</u>	<u>\$ (84)</u>	<u>65</u>	<u>\$ 182,525</u>	<u>\$ (1,418)</u>

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Allowance for credit losses

As of December 31, 2020, we did not recognize an allowance for credit loss for any security in the investment portfolio and we did not record any provision for credit loss for investment securities during the year ended December 31, 2020. Based on current facts and circumstances, we believe the unrealized losses as of December 31, 2020 are not indicative of the ultimate collectability of the current amortized cost of the securities.

During the year ended December 31, 2019, we recognized \$0.4 million other-than-temporarily impaired (OTTI) losses in earnings. For the year ended December 31, 2018, we did not recognize any OTTI losses.

Net Investment Income

The following table presents the components of net investment income:

	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Investment income	\$ 33,140	\$ 31,332	\$ 24,342
Investment expenses	(1,243)	(476)	(804)
Net investment income	<u>\$ 31,897</u>	<u>\$ 30,856</u>	<u>\$ 23,538</u>

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

	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Gross realized investment gains	\$ 5,572	\$ 561	\$ 525
Gross realized investment losses	(4,642)	(516)	(468)
Net realized investment gains	<u>\$ 930</u>	<u>\$ 45</u>	<u>\$ 57</u>

4. 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.

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Assets classified as Level 1 and Level 2

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

Liabilities classified as Level 3

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

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

	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(In Thousands)</i>				
As of December 31, 2020				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 31,598	\$ —	\$ —	\$ 31,598
Municipal debt securities	—	421,348	—	421,348
Corporate debt securities	—	1,219,791	—	1,219,791
Asset-backed securities	—	131,180	—	131,180
Cash, cash equivalents and short-term investments	127,306	—	—	127,306
Total assets	\$ 158,904	\$ 1,772,319	\$ —	\$ 1,931,223
Warrant liability	—	—	4,409	4,409
Total liabilities	\$ —	\$ —	\$ 4,409	\$ 4,409

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	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of December 31, 2019				
	<i>(In Thousands)</i>			
U.S. Treasury securities and obligations of U.S. government agencies	\$ 48,929	\$ —	\$ —	\$ 48,929
Municipal debt securities	—	190,216	—	190,216
Corporate debt securities	—	684,881	—	684,881
Asset-backed securities	—	172,642	—	172,642
Cash, cash equivalents and short-term investments	85,361	—	—	85,361
Total assets	\$ 134,290	\$ 1,047,739	\$ —	\$ 1,182,029
Warrant liability	—	—	7,641	7,641
Total liabilities	\$ —	\$ —	\$ 7,641	\$ 7,641

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2020 or 2019.

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

Warrant Liability	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Balance, January 1	\$ 7,641	\$ 7,296	\$ 7,472
Change in fair value of warrant liability included in earnings	(2,907)	8,657	1,397
Issuance of common stock on warrant exercise	(325)	(8,312)	(1,573)
Balance, December 31	\$ 4,409	\$ 7,641	\$ 7,296

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 December 31,		
	2020	2019	2018
Common stock price	\$ 22.65	\$ 33.18	\$ 17.85
Risk free interest rate	0.11 %	1.59 %	2.46 - 2.47%
Expected life	1.31 years	2.31 years	2.58 - 3.31 years
Expected volatility	83.7 %	41.4 %	41.1 - 42.5%
Dividend yield	— %	— %	— %

The changes in fair value of the warrant liability for the years ended December 31, 2020, 2019, and 2018 are primarily attributable to changes in the price of our common stock during the respective periods, with additional impact related to changes in other Black-Scholes model inputs and the exercise of outstanding warrants.

Financial Instruments not Measured at Fair Value

On June 19, 2020, we issued \$400 million aggregate principal amount of senior secured notes that mature on June 1, 2025 (the Notes) and used a portion of the proceeds from the Notes offering to repay the outstanding amount due under our \$150 million term loan (2018 Term Loan). At December 31, 2020, the Notes were carried at a cost of \$393.3 million, net of unamortized debt issuance costs of \$6.7 million, and had a fair value of \$447.1 million as assessed under our Level 2 hierarchy. At December 31, 2019, the 2018 Term Loan was carried at a cost of \$145.8 million, net of unamortized debt issuance costs of \$2.0 million, and had a fair value of \$147.8 million.

5. Debt

Senior Secured Notes

At December 31, 2020, we had \$400 million aggregate principal amount of senior secured notes outstanding. The Notes were issued pursuant to an indenture dated June 19, 2020 (the Indenture) and bear interest at a rate of 7.375%, payable semi-annually on June 1 and December 1. \$244.4 million of proceeds from the Notes offering were contributed to our lead operating subsidiary, NMIC and remaining proceeds were used to repay the outstanding amount due under the 2018 Term Loan due on May 24, 2023 and to pay underwriting fees incurred connection with the offering.

The Notes mature on June 1, 2025. At any time, or from time to time, prior to March 1, 2025, we may elect to redeem the Notes in whole or in part at a price based on 100% of the aggregate principal amount of any Notes redeemed plus the "Applicable Premium," plus accrued and unpaid interest thereon. Applicable Premium is defined as the greater of (1) 1.0% of the principal amount of the Notes, or (2) the principal value of the Notes plus the present value of all future interest payments. At any time on or after March 1, 2025, we may elect to redeem the Notes in whole or in part at a price equal to 100% of the aggregate principal amount of the Notes to be redeemed plus accrued and unpaid interest thereon. From time to time prior to June 1, 2022, we may also elect to use proceeds raised from one or more equity offerings to redeem up to 40% of the aggregate principal amount of the Notes at a price equal to 107.375% of the aggregate principal amount thereof plus accrued and unpaid interest thereon, subject to certain exceptions.

Interest expense for the Notes includes interest and the amortization of capitalized debt issuance costs. In connection with the Notes offering, we recorded capitalized debt issuance costs of \$7.4 million. Such amounts will be amortized over the contractual life of the Notes using the effective interest method. At December 31, 2020, \$6.7 million of unamortized debt issuance costs remained.

Interest expense for the year ended December 31, 2020 includes \$2.6 million of costs related to the extinguishment of the 2018 Term Loan and issuance of the Notes.

At December 31, 2020, \$2.5 million of accrued and unpaid interest on the Notes is included in "Accounts Payable and Accrued Expenses" on the Consolidated Balance Sheet.

2020 Revolving Credit Facility

On March 20, 2020, we amended our \$85 million three-year secured revolving credit facility (the 2018 Revolving Credit Facility), increasing borrowing capacity under the facility to \$100 million, extending its maturity date from May 24, 2021 to February 22, 2023, and reducing the interest cost related to both undrawn commitments and drawn borrowings under the facility (as amended, the 2020 Revolving Credit Facility). Borrowings under the 2020 Revolving Credit Facility may be used for general corporate purposes, including to support the growth of our new business production and operations, and accrue interest at a variable rate equal to, at our discretion, (i) a base rate (as defined in our existing credit agreement (the Credit Agreement), subject to a floor of 1.00% per annum) plus a margin of 0.375% to 1.875% per annum or (ii) the Eurodollar Rate plus a margin of 1.375% to 2.875% per annum, based on the applicable corporate credit rating at the time.

On October 30, 2020, we entered into a Joinder Agreement to the Credit Agreement, increasing the aggregate principal amount of commitments under the 2020 Revolving Credit Facility from \$100 million to \$110 million. All other terms remained unchanged. As of December 31, 2020, no amounts were drawn under the 2020 Revolving Credit Facility.

Under the 2020 Revolving Credit Facility, we are required to pay a quarterly commitment fee on the average daily undrawn amount of 0.175% to 0.525%, based on the applicable corporate credit rating at the time. As of December 31, 2020, the applicable commitment fee was 0.35%. For the year ended December 31, 2020, we recorded \$0.4 million of commitment fees in interest expense, respectively.

We incurred debt issuance costs of \$0.8 million in connection with the 2020 Revolving Credit Facility and had \$0.6 million of unamortized debt issuance costs associated with the 2018 Revolving Credit Facility remaining at the time of its amendment and replacement. Combined unamortized debt issuance will be amortized through interest expense on a straight-line basis over the contractual life of the 2020 Revolving Credit Facility. At December 31, 2020, remaining unamortized deferred debt issuance costs were \$1.1 million.

We are subject to certain covenants under the 2020 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 private mortgage insurer eligibility requirements (PMIERS) financial requirements (subject to any GSE approved waivers), and minimum

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consolidated net worth and statutory capital requirements (respectively, as defined therein). We were in compliance with all covenants at December 31, 2020.

6. Reinsurance

We enter into third-party reinsurance transactions to actively manage our risk, ensure compliance with PMIERS, state regulatory and other applicable capital requirements, (respectively, as defined therein), and support the growth of our business. The Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) has approved and the GSEs have indicated their non-objection to 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 year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Net premiums written			
Direct	\$ 455,172	\$ 376,052	\$ 287,791
Ceded ⁽¹⁾	(66,528)	(43,400)	(30,988)
Net premiums written	<u>\$ 388,644</u>	<u>\$ 332,652</u>	<u>\$ 256,803</u>
Net premiums earned			
Direct	\$ 472,998	\$ 398,303	\$ 292,064
Ceded ⁽¹⁾	(75,826)	(53,288)	(40,867)
Net premiums earned	<u>\$ 397,172</u>	<u>\$ 345,015</u>	<u>\$ 251,197</u>

⁽¹⁾ Net of profit commission.

Excess-of-loss reinsurance

NMIC entered into excess-of-loss reinsurance agreements with the Oaktown Re Vehicles. Each agreement provides NMIC with aggregate excess-of-loss reinsurance coverage on a defined portfolio of mortgage insurance policies written during a discrete period. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

NMIC makes risk premium payments to the Oaktown Re Vehicles for the applicable outstanding reinsurance coverage amount and pays an additional amount for anticipated operating expenses (capped at \$300 thousand per year to Oaktown Re Ltd. and \$250 thousand per year to Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd. and Oaktown Re V Ltd.). NMIC ceded aggregate premiums to the Oaktown Re Vehicles of \$22.8 million, \$14.6 million and \$9.6 million during the years ended December 31, 2020, 2019 and 2018, respectively.

NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure under each excess-of-loss agreement. NMIC did not cede any incurred losses on covered policies to the Oaktown Re Vehicles during the years ended December 31, 2020, 2019 and 2018, respectively, as the aggregate first layer risk retention was not exhausted for each applicable agreement during such periods.

Under the terms of each excess-of-loss reinsurance agreement, the Oaktown Re Vehicles are required to fully collateralize their outstanding reinsurance coverage amount to NMIC with funds deposited into segregated reinsurance trusts. Such trust funds are required to be invested in short-term U.S. Treasury money market funds at all times. Each Oaktown Re Vehicle financed its respective collateral requirement through the issuance of mortgage insurance-linked notes to unaffiliated investors. Such insurance-linked notes mature ten years from the inception date of each reinsurance agreement. We refer to NMIC's reinsurance agreements with and the insurance-linked note issuances by Oaktown Re Ltd., Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd. and Oaktown Re V Ltd., individually as the 2017 ILN Transaction, 2018 ILN Transaction, 2019 ILN Transaction, 2020-1 ILN Transaction and 2020-2 ILN Transaction, and collectively as the ILN Transactions.

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. As the reinsurance coverage decreases, a prescribed amount of collateral held in trust by the Oaktown Re

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Vehicles is distributed to ILN Transaction noteholders as amortization of the outstanding insurance-linked note principal balances. The outstanding reinsurance coverage amounts stop amortizing, and the collateral distribution to ILN Transaction noteholders and amortization of insurance-linked note principal is suspended if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered (each, a Lock-Out Event). Effective June 25, 2020, a Lock-Out Event was deemed to have occurred for each of the 2017, 2018 and 2019 ILN Transactions and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period assets will be preserved in the applicable reinsurance trust account to collateralize the excess-of-loss reinsurance coverage provided to NMIC.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions. Current amounts are presented as of December 31, 2020.

<i>(\$ values in thousands)</i>	Inception Date	Covered Production	Initial Reinsurance Coverage	Current Reinsurance Coverage	Initial First Layer Retained Loss	Current First Layer Retained Loss ⁽¹⁾
2017 ILN Transaction	May 2, 2017	1/1/2013 - 12/31/2016	\$ 211,320	\$ 40,226	\$ 126,793	\$ 121,423
2018 ILN Transaction	July 25, 2018	1/1/2017 - 5/31/2018	264,545	158,489	125,312	123,234
2019 ILN Transaction	July 30, 2019	6/1/2018 - 6/30/2019	326,905	231,877	123,424	122,874
2020-1 ILN Transaction	July 30, 2020	7/1/2019 - 3/31/2020	322,076	250,685	169,514	169,514
2020-2 ILN Transaction	October 29, 2020	4/1/2020 - 9/30/2020 ⁽²⁾	242,351	242,351	121,777	121,177

⁽¹⁾ NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure and cedes reserves for incurred claims and claims expenses to each applicable ILN Transaction and recognizes a reinsurance recoverable if such incurred claims and claims expenses exceed its current first layer retained loss.

⁽²⁾ Less than 1% of the production covered by the 2020-2 ILN Transaction has coverage reporting dates between July 1, 2019 and March 31, 2020.

NMIC holds optional termination rights under each ILN Transaction, including, among others, an optional call feature which provides NMIC the discretion to terminate the transaction on or after a prescribed date, and a clean-up call if the outstanding reinsurance coverage amount amortizes to 10% or less of the reinsurance coverage amount at inception or if NMIC reasonably determines that changes to GSE or rating agency asset requirements would cause a material and adverse effect on the capital treatment afforded to NMIC under a given agreement. In addition, there are certain events that trigger mandatory termination of an agreement, including NMIC's failure to pay premiums or consent to reductions in a trust account to make principal payments to noteholders, among others.

Under the terms of the 2018, 2019, 2020-1 and 2020-2 ILN Transactions, we are required to maintain a certain level of restricted funds in premium deposit accounts with Bank of New York Mellon until the respective notes have been redeemed in full. "Cash and cash equivalents" on our consolidated balance sheet includes restricted amounts of \$5.6 million as of December 31, 2020. We are not required to deposit additional funds into the premium deposit accounts in the future and the restricted balances required under these transactions will decline over time as the outstanding principal balance of the respective insurance-linked notes are amortized.

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Quota share reinsurance

NMIC is a party to three outstanding quota share reinsurance treaties – the 2016 QSR Transaction, effective September 1, 2016, the 2018 QSR Transaction, effective January 1, 2018 and the 2020 QSR Transaction, effective April 1, 2020. Under each of the QSR Transactions, NMIC cedes a proportional share of its risk on eligible policies written during a discrete period to panels of third-party reinsurance providers. Each of the third-party reinsurance providers has an insurer financial strength rating of A- or better by Standard & Poor's Rating Service (S&P), A.M. Best Company, Inc. (A.M. Best) or both.

Under the terms of the 2016 QSR Transaction, NMIC cedes premiums written related to 25% of the risk on eligible primary policies written for all periods through December 31, 2017 and 100% of the risk under our pool agreement with Fannie Mae. The 2016 QSR Transaction is scheduled to terminate on December 31, 2027, except with respect to the ceded pool risk, which is scheduled to terminate on August 31, 2023. NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2020, or at the end of any calendar quarter thereafter, which would result in NMIC recapturing the related risk.

Under the terms of the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of the risk on eligible policies written in 2018 and 20% of the risk on eligible policies written in 2019. The 2018 QSR Transaction is scheduled to terminate on December 31, 2029. NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2022, or at the end of any calendar quarter thereafter, which would result in NMIC recapturing the related risk.

Under the terms of the 2020 QSR Transaction, NMIC cedes premiums earned related to 21% of the risk on eligible policies written from April 1, 2020 to December 31, 2020. The 2020 QSR Transaction is scheduled to terminate on December 31, 2030. NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2023, or at the end of any calendar quarter thereafter, which would result in NMIC recapturing the related risk.

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

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

The following table shows amounts related to the QSR Transactions:

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Ceded risk-in-force	\$ 5,543,969	\$ 5,137,249	\$ 4,292,450
Ceded premiums earned	(94,899)	(89,211)	(74,068)
Ceded claims and claim expenses	14,002	3,465	1,763
Ceding commission earned	18,526	17,652	14,585
Profit commission	41,902	50,513	42,846

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 and 2020 QSR Transactions, premiums are ceded on an earned basis as defined in the agreement. NMIC receives a 20% ceding commission for premiums ceded under the QSR Transactions. NMIC also receives a profit commission under each of the QSR Transactions, provided that the loss ratios on loans covered under the 2016 QSR

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Transaction, 2018 QSR Transaction and 2020 QSR Transaction, generally remain below 60%, 61% and 50%, respectively, as measured annually. Ceded claims and claim expenses under each of the QSR Transactions reduce the respective profit commission received by NMIC on a dollar-for-dollar basis.

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to the 2016 QSR Transaction was \$4.5 million as of December 31, 2020.

In accordance with the terms of the 2018 and 2020 QSR Transactions, 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 recognized 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 the 2018 QSR Transaction was \$12.6 million as of December 31, 2020. The reinsurance recoverable on loss reserves related to the 2020 QSR Transaction was \$0.5 million as of December 31, 2020.

7. Reserves for Insurance Claims and Claim Expenses

We hold gross reserves in an amount equal to the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. A loan is considered to be in "default" as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claim settlement process. As of December 31, 2020, we had 12,209 primary loans in default and held gross reserves for insurance claims and claim expenses of \$90.6 million. During the year ended December 31, 2020, we paid 143 claims totaling \$6.4 million, including 137 claims covered under the QSR Transactions representing \$1.3 million of ceded claims and claim expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At December 31, 2020, 219 loans in the pool were in default. These 219 loans represented approximately \$17.6 million of RIF. Due to the size of the remaining deductible, our expectation that a limited number of loans in default will progress to a claim and the expected severity on such claim submissions (all loans in the pool have LTV ratios under 80%), we did not establish any case or IBNR reserves for pool risk at December 31, 2020. In connection with the settlement of pool claims, we applied \$1.0 million to the pool deductible through December 31, 2020. At December 31, 2020, the remaining pool deductible was \$9.4 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

We had 12,209 loans in default in our primary insured portfolio as of December 31, 2020 which represented a 3.06% default rate against 399,429 total policies in-force. We had 1,448 loans in default in our primary insured portfolio as of December 31, 2019, which represented a 0.40% default rate against 366,039 total policies in-force. The increase in our default population is primarily due to challenges borrowers are facing related to the COVID-19 outbreak and their decision to access the forbearance program for federally backed loans codified under the Coronavirus Aid, Relief, and Economic Security (CARES) Act or similar programs made available by private lenders.

The size of the reserve we establish for each defaulted loan (and by extension our aggregate reserve for claims and claim expenses) reflects our best estimate of the future claim payment to be made for each individual loan in default. Our future claims exposure is a function of the number of defaulted loans that progress to claim payment (which we refer to as frequency) and the amount to be paid to settle such claims (which we refer to as severity). Our estimates of claims frequency and severity are not formulaic, rather they are broadly synthesized based on historical observed experience for similarly situated loans and assumptions about future macroeconomic factors. We generally observe that forbearance programs are an effective tool to bridge dislocated borrowers from a time of acute stress to a future date when they can resume timely payment of their mortgage obligations. The effectiveness of forbearance programs is enhanced by the availability of various repayment and loan modification options which allow borrowers to amortize or, in certain instances, outright defer payments otherwise due during the forbearance period over an extended length of time. In response to the COVID-19 outbreak, the Federal Housing Financing Agency (FHFA) and GSEs have introduced new repayment and loan modification options to further assist borrowers with their transition out of forbearance programs and default status.

Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. At December 31, 2020, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs. While we established lower reserves per defaulted loan at December 31, 2020, our total reserve position and claims and claim expenses increased as of and during the year ended December 31, 2020 due to the growth in the size of our default population.

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
	<i>(In Thousands)</i>		
Beginning balance	\$ 23,752	\$ 12,811	\$ 8,761
Less reinsurance recoverables ⁽¹⁾	(4,939)	(3,001)	(1,902)
Beginning balance, net of reinsurance recoverables	18,813	9,810	6,859
Add claims incurred:			
Claims and claim expenses incurred:			
Current year ⁽²⁾	66,943	14,737	7,860
Prior years ⁽³⁾	(7,696)	(2,230)	(2,408)
Total claims and claim expenses incurred	59,247	12,507	5,452
Less claims paid:			
Claims and claim expenses paid:			
Current year ⁽²⁾	586	204	130
Prior years ⁽³⁾	4,515	3,849	2,371
Reinsurance terminations ⁽⁴⁾	—	(549)	—
Total claims and claim expenses paid	5,101	3,504	2,501
Reserve at end of period, net of reinsurance recoverables	72,959	18,813	9,810
Add reinsurance recoverables ⁽¹⁾	17,608	4,939	3,001
Ending balance	\$ 90,567	\$ 23,752	\$ 12,811

⁽¹⁾ Related to ceded losses recoverable under the QSR Transactions. See Note 6, "Reinsurance" for additional information.

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

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

⁽⁴⁾ Represents the settlement of reinsurance recoverables in conjunction with the termination of one reinsurer under the 2016 QSR Transaction on a cut-off basis. See Note 6, "Reinsurance" for additional information.

The "claims incurred" section of the table above shows claims and claim expenses incurred on defaults occurring in current and prior years, including IBNR reserves and is presented net of reinsurance. The amount of claims incurred relating to current year defaults represents the estimated amount of claims and claim expenses to ultimately be paid on such loans. We recognized \$7.7 million, \$2.2 million, and \$2.4 million of favorable prior year development during the years ended December 31, 2020, 2019 and 2018, respectively, primarily due to the curing of previously reported defaults. We may increase or decrease our claim estimates and reserves as we learn additional information about individual defaulted loans, and continue to observe and analyze loss development trends in our portfolio. Gross reserves of \$8.3 million related to prior year defaults remained as of December 31, 2020.

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The following tables provide claim development data by accident year and a reconciliation to the reserve for insurance claims and claim expenses.

Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, net of Reinsurance ⁽¹⁾										As of December 31, 2020	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR	Defaults ⁽²⁾	
<i>(\$ Values In Thousands)</i>											
2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—	
2014		83	34	4	4	4	4	4	—	—	
2015			699	664	743	764	894	894	—	—	
2016				2,394	1,568	1,790	1,934	1,936	8	5	
2017					6,028	3,475	3,570	3,807	20	16	
2018						7,779	5,271	4,709	88	77	
2019							14,391	7,229	364	422	
2020								65,769	4,514	11,689	
							Total	\$ 84,348	\$ 4,994	12,209	

⁽¹⁾ Amounts include case and IBNR reserves.

⁽²⁾ Number of defaults outstanding as of December 31, 2020.

Cumulative Paid Claims and Claims Adjustment Expenses, net of Reinsurance									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	
<i>(In Thousands)</i>									
2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
2014		—	4	4	4	4	4	4	
2015			50	246	684	720	804	894	
2016				171	890	1,596	1,826	1,827	
2017					27	1,655	2,925	3,494	
2018						130	1,981	3,537	
2019							69	2,368	
2020								586	
							Total	\$ 12,710	

Reconciliation of Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses

(In Thousands)

		As of December 31, 2020
Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, net of Reinsurance	\$	84,348
Cumulative Paid Claims and Claims Adjustment Expenses, net of Reinsurance		12,710
Liabilities for unpaid claims and allocated claims adjustment expenses, net of reinsurance		71,638
Reinsurance recoverable on unpaid claims		17,608
Unallocated claims adjustment expenses		1,321
Total gross liability for unpaid claims and claim adjustment expenses	\$	90,567

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The following table shows the average percentage of claims and allocated claims adjustment expenses paid in the years following the incurrence of a claim.

	Average annual percentage payout of incurred claims and allocated claims adjustment expenses by age, net of reinsurance						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Claims duration disclosure	3%	37%	88%	95%	95%	100%	100%

8. Earnings per Share

Basic EPS is based on the weighted average number of shares of common stock outstanding. Diluted EPS is based on the weighted average number of shares of common stock outstanding and common stock equivalents that would be issuable upon the vesting of service based and performance and service based RSUs, and the exercise of vested and unvested stock options and outstanding warrants. The number of shares issuable for RSUs subject to performance and service based vesting requirements are only included in diluted shares if the relevant performance measurement period has commenced and results during such period meet the necessary performance criteria. The following table reconciles the net income and the weighted average shares of common stock outstanding used in the computations of basic and diluted EPS of common stock.

	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands, except for per share data)</i>		
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Basic weighted average shares outstanding	78,023	67,573	65,019
Basic earnings per share	<u>\$ 2.20</u>	<u>\$ 2.54</u>	<u>\$ 1.66</u>
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Gain from change in fair value of warrant liability	(2,907)	—	—
Diluted net income	\$ 168,659	\$ 171,957	\$ 107,927
Basic weighted average shares outstanding	78,023	67,573	65,019
Dilutive effect of issuable shares	1,240	2,148	2,633
Diluted weighted average shares outstanding	79,263	69,721	67,652
Diluted earnings per share	<u>\$ 2.13</u>	<u>\$ 2.47</u>	<u>\$ 1.60</u>
Anti-dilutive shares	58	565	843

9. Warrants

We issued 992 thousand warrants in connection with a private placement of our common stock in April 2012, of which 312 thousand remained outstanding available for exercise at December 31, 2020. 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 year ended December 31, 2020, 18 thousand warrants were exercised resulting in the issuance of 11 thousand shares of common stock. Upon exercise, we reclassified approximately \$0.3 million of warrant fair value from warrant liability to additional paid-in capital. During the year ended December 31, 2019, 448 thousand warrants were exercised resulting in the issuance of 289 thousand shares of common stock. Upon exercise, we reclassified approximately \$8.3 million of warrant fair value from warrant liability to additional paid-in capital.

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Changes in fair value of \$0.1 million, \$4.1 million, and \$0.4 million was recognized for warrants exercised during the years ended December 31, 2020, 2019 and 2018, respectively.

10. Share-Based Compensation

Share-based compensation includes stock options, service-based RSUs and performance and service based RSUs granted under our 2012 Stock Incentive Plan (2012 Plan) and our Amended and Restated 2014 Omnibus Incentive Plan (2014 Plan, and together with the 2012 Plan, the Stock Plans).

The 2012 Plan was approved by the Board on April 16, 2012 and authorized 5.5 million shares of common stock to be reserved for issuance, with limits of 3.85 million shares available for stock option issuance and 1.65 million shares available for RSU issuance. Options granted under the 2012 Plan are non-qualified stock options and may be granted to employees, directors and other key persons. The exercise price per share for options covered by the 2012 Plan is determined by the Board at the time of grant, but shall not be less than the fair market value of our common stock, defined as the closing price of our common stock, on the date of the grant. The term of the stock option grants is established by the Board, but no stock option shall be exercisable more than ten years after the date the stock option is granted. The vesting period of the stock option grants is also established by the Board at the time of grant and is generally a three-year period. Upon the exercise of stock options, we issue shares from the authorized, unissued share reserve.

The 2014 Plan was originally approved by our stockholders at our annual meeting on May 8, 2014 and authorized 4.0 million shares of common stock to be reserved for issuance. On May 11, 2017, our stockholders approved amendments to the 2014 Plan at our annual stockholder meeting, authorizing an additional 2.0 million shares of common stock for issuance, increasing the total shares of common stock reserved for issuance under the plan to 6.0 million. These shares may be either authorized but unissued shares or treasury shares.

For the years ended December 31, 2020, 2019 and 2018, we incurred \$11.1 million, \$13.0 million and \$12.6 million, respectively, of expenses related to awards granted under our Stock Plans. We recognized related income tax benefits of \$2.3 million, \$2.7 million and \$2.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

A summary of option activity during the years ended December 31, 2020, 2019 and 2018, is as follows:

For the year ended December 31, 2020	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
	<i>(Shares in Thousands)</i>		
Options outstanding at December 31, 2019	1,928	\$ 4.84	\$ 13.04
Options granted	—	—	—
Options exercised	(435)	4.21	11.17
Options forfeited	—	—	—
Options expired	—	—	—
Options outstanding at December 31, 2020	1,493	\$ 5.02	\$ 13.59
	<i>(Shares in Thousands)</i>		
For the year ended December 31, 2019	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
	<i>(Shares in Thousands)</i>		
Options outstanding at December 31, 2018	2,882	\$ 4.24	\$ 11.42
Options granted	163	8.85	22.19
Options exercised	(1,117)	3.88	10.19
Options forfeited	—	—	—
Options expired	—	—	—
Options outstanding at December 31, 2019	1,928	\$ 4.84	\$ 13.04

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For the Year Ended December 31, 2018	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
		(Shares in Thousands)	
Options outstanding at December 31, 2017	3,311	\$ 3.95	\$ 10.41
Options granted	383	6.32	18.08
Options exercised	(803)	4.06	10.43
Options forfeited	—	—	—
Options expired	(9)	4.05	10.51
Options outstanding at December 31, 2018	<u>2,882</u>	<u>\$ 4.24</u>	<u>\$ 11.42</u>

As of December 31, 2020, there were approximately 1.3 million fully vested and exercisable options. There were 0.4 million exercises during the year with an aggregate intrinsic value of \$6.0 million. The weighted average exercise price for the fully vested and exercisable options was \$12.39. The remaining weighted average contractual life of fully vested and exercisable options as of December 31, 2020 was 4.85 years. The aggregate grant date intrinsic value of fully vested and exercisable options was \$12.9 million as of December 31, 2020.

As of December 31, 2020, there was \$0.2 million of total unrecognized compensation cost related to non-vested stock options. The weighted-average period over which total remaining compensation costs related to non-vested stock options will be recognized is 0.86 years.

No stock options were granted during the year ended December 31, 2020. The estimated grant date fair values of the stock options granted during the years ended December 31, 2019 and 2018 were calculated using the Black-Scholes valuation model based on the following assumptions.

	For the years ended December 31,	
	2019	2018
Expected life	6 years	6 years
Risk free interest rate	2.57 %	2.66-2.89%
Dividend yield	— %	— %
Expected stock price volatility	36.8 %	30.1-30.6%

Expected life - is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. We use the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected life for options granted during the period as sufficient historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of 10 years.

Risk-free interest rate - is the U.S. Treasury rate on the date of the grant having a term approximating the expected life of the option.

Dividend yield - is calculated by dividing the expected annual dividend by our stock price at the valuation date.

Expected price volatility - is a measure of the amount by which a price has fluctuated or is expected to fluctuate.

A summary of RSU activity during the years ended December 31, 2020, 2019 and 2018 is as follows:

For the year ended December 31, 2020	Shares	Weighted Average Grant Date Fair Value per Share
	(Shares in Thousands)	
Non-vested restricted stock units at December 31, 2019	1,202	\$ 18.67
Restricted stock units granted	646	22.67
Restricted stock units vested	(664)	17.68
Restricted stock units forfeited	(122)	19.55
Non-vested restricted stock units at December 31, 2020	<u>1,062</u>	<u>\$ 21.61</u>

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For the year ended December 31, 2019	Shares	Weighted Average Grant Date Fair Value per Share
	<i>(Shares in Thousands)</i>	
Non-vested restricted stock units at December 31, 2018	1,753	\$ 12.06
Restricted stock units granted	470	24.42
Restricted stock units vested	(970)	9.71
Restricted stock units forfeited	(51)	15.06
Non-vested restricted stock units at December 31, 2019	1,202	\$ 18.67

For the Year Ended December 31, 2018	Shares	Weighted Average Grant Date Fair Value per Share
	<i>(Shares in Thousands)</i>	
Non-vested restricted stock units at December 31, 2017	2,065	\$ 8.15
Restricted stock units granted	701	17.22
Restricted stock units vested	(913)	7.42
Restricted stock units forfeited	(100)	9.89
Non-vested restricted stock units at December 31, 2018	1,753	\$ 12.06

At December 31, 2020, we had 1.1 million granted and non-vested RSUs, consisting of 1.0 million RSUs that are subject to service condition vesting requirements and 0.1 million RSUs that are subject to performance and service condition vesting requirements. The total fair value of RSUs vested during the year ended December 31, 2020 was \$11.7 million. The remaining weighted average contractual life of non-vested RSUs was 1.44 years. As of December 31, 2020, there was \$8.8 million of total unrecognized compensation costs related to non-vested RSUs, compared to \$7.2 million as of December 31, 2019. The weighted-average period over which total remaining compensation costs related to non-vested RSUs will be recognized is 1.49 years.

Non-vested RSUs subject to service condition vesting requirements vest over a period ranging from one to five years. Non-vested RSUs subject to performance and service condition vesting requirements vest over a three year period, with the number of shares issued upon vesting based on a compound annual book value per share growth target. The fair value of non-vested RSUs is measured as the closing price of our common stock on the date of grant less the present value of anticipated dividends to be paid during the vesting period.

401(k) Savings Plan

We offer our employees a 401(k) Savings Plan (401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (IRC). Under the 401(k) Plan, we match up to 100% of eligible employees' pre-tax contributions up to 5% of eligible compensation. During the years ended December 31, 2020, 2019 and 2018, we incurred approximately \$2.2 million, \$2.5 million and \$1.6 million of expense related to our matching 401(k) Plan contributions, respectively.

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11. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21%. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries.

Total income tax expense consists of the following components:

	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Current	\$ 34	\$ (386)	\$ 1,677
Deferred	46,506	45,082	26,357
Total income tax expense	<u>\$ 46,540</u>	<u>\$ 44,696</u>	<u>\$ 28,034</u>

For the years ended December 31, 2020, 2019 and 2018, we had income tax expenses of \$46.5 million, \$44.7 million, and \$28.0 million, respectively, including amounts related to current state income taxes and changes to our federal and state net deferred tax liability.

The following table presents a reconciliation between the federal statutory income tax rate and our effective income tax rate:

	For the year ended December 31,		
	2020	2019	2018
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State provision	0.5	0.5	0.7
Share-based and other compensation	0.1	(1.7)	(1.4)
Warrant gain/loss	(0.3)	0.9	0.2
Other	—	(0.1)	0.1
Effective income tax rate	<u>21.3 %</u>	<u>20.6 %</u>	<u>20.6 %</u>

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The components of our net deferred tax asset are summarized as follows:

	As of December 31,	
	2020	2019
Deferred tax asset	<i>(In Thousands)</i>	
Net operating loss carry forwards	\$ 7,938	\$ 9,244
Share-based compensation	5,067	5,959
Unearned premium reserve	4,844	5,213
Accrued expenses	3,198	4,539
Other ⁽¹⁾	1,592	1,972
Total gross deferred tax asset	<u>22,639</u>	<u>26,927</u>
Less: valuation allowance	<u>(7,610)</u>	<u>(7,857)</u>
Total deferred tax asset	<u>15,029</u>	<u>19,070</u>
Deferred tax liability		
Contingency reserve	(91,429)	(47,730)
Deferred acquisition costs	(13,381)	(12,902)
Unrealized gain on investments	(15,432)	(7,634)
Capitalized software	(5,569)	(5,107)
Other ⁽¹⁾	<u>(1,804)</u>	<u>(2,057)</u>
Total deferred tax liability	<u>(127,615)</u>	<u>(75,430)</u>
Net deferred income tax (liability)	<u>\$ (112,586)</u>	<u>\$ (56,360)</u>

⁽¹⁾ Prior periods have been reclassified for consistency and presentation purposes.

As a mortgage guaranty insurance company, we are eligible to claim a tax deduction for our statutory contingency reserve balance, subject to certain limitations outlined under IRC Section 832(e), to the extent we acquire tax and loss bonds in an amount equal to the tax benefit derived from the claimed deduction, which is our intent.

During the years ended December 31, 2020 and 2019, we purchased \$38.8 million and \$7.6 million of tax and loss bonds, respectively. As a result, we had no current federal income tax provision for the years ended December 31, 2020 and 2019. As of December 31, 2020 and 2019, we held \$46.4 million and \$7.6 million of tax and loss bonds, respectively, in "Other assets" in our consolidated balance sheet.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This update permits the reclassification of the disproportionate income tax effects, commonly referred to as "stranded tax," that result from the TCJA on items within AOCI to retained earnings. We adopted this update effective January 1, 2018, resulting in a \$0.3 million reduction to retained earnings as of January 1, 2018. The remaining \$4.2 million of stranded tax that remains in AOCI relates to our available-for-sale fixed income holdings.

At December 31, 2020, we had a federal net operating loss carryforward of \$2.1 million which expires in varying amounts in 2030 and 2031, and state net operating loss carryforward of \$111.6 million which expire in varying amounts from 2031 to 2041. Section 382 of the IRC imposes annual limitations on a corporation's ability to utilize its net operating loss carryforwards if it experiences an "ownership change." As a result of the acquisition of our insurance subsidiaries in 2012, \$7.3 million of federal net operating losses were subject to annual limitations of \$0.8 million through 2016, and \$0.3 million, thereafter, through 2028. Our federal net operating loss carryforward arises from this limitation and the constraint on our ability to utilize the net operating loss carryforward in full during the current period.

At December 31, 2020 and 2019, we recorded valuation allowances of \$7.6 million and \$7.9 million, respectively against state net deferred tax assets that may not be realized in future periods. The valuation allowances for both years primarily relate to state net operating losses generated by NMIH, as NMIH operates at a loss and currently only generates revenue from its investment portfolio.

As of December 31, 2020 and 2019, we had no reserves for unrecognized tax benefits as we have taken no material uncertain tax positions that would have required a reserve to be measured and recognized.

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We file income tax returns with the U.S. federal government and various state jurisdictions that are subject to potential examination by tax authorities. We are not currently under examination by federal or state jurisdictions. Our U.S. federal income tax returns for 2017 and subsequent years, and state income tax returns for 2016 and subsequent years, remain open by statute.

12. Software and Equipment

Software and equipment consist largely of capitalized software developed to support our mortgage insurance operations. Software and equipment, net of accumulated amortization and depreciation, as of December 31, 2020 and 2019, consists of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	<i>(In Thousands)</i>	
Software	\$ 59,678	\$ 46,522
Equipment	9,123	8,992
Leasehold improvements	3,402	3,442
Subtotal	72,203	58,956
Accumulated amortization and depreciation	(42,538)	(32,860)
Software and equipment, net	<u>\$ 29,665</u>	<u>\$ 26,096</u>

Capitalized costs for software, equipment, and leasehold improvements during the years ended December 31, 2020, 2019 and 2018, were \$14.5 million, \$10.6 million, and \$9.8 million, respectively. Amortization and depreciation expense for software, equipment, and leasehold improvements for the years ended December 31, 2020, 2019, and 2018 were \$9.9 million, \$9.3 million, and \$7.8 million, respectively.

13. Intangible Assets and Goodwill

Intangible assets and goodwill consist of identifiable intangible assets and goodwill purchased in connection with the acquisition of our insurance subsidiaries. Intangible assets and goodwill as of both December 31, 2020 and 2019 were as follows:

	<i>(In Thousands)</i>	<u>Expected Lives</u>
Goodwill	\$ 3,244	Indefinite
State licenses	260	Indefinite
GSE applications	130	Indefinite
Total intangible assets and goodwill	<u>\$ 3,634</u>	

We test goodwill and intangible assets for impairment in the third and fourth quarter, respectively, of every year, or more frequently if we believe indicators of impairment exist. No impairments of indefinite-lived intangibles or goodwill were identified during the years ended December 31, 2020, 2019 and 2018.

14. Commitments and Contingencies

PMIERS

As an *approved insurer*, NMIC is subject to ongoing compliance with the PMIERS established by each of the GSEs (*italicized* terms have the same meaning that such terms have in the PMIERS, as described below). The PMIERS establish operational, business, remedial and financial requirements applicable to *approved insurers*. The PMIERS financial requirements prescribe a risk-based methodology whereby the amount of assets required to be held against each insured loan is determined based on certain loan-level risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (*i.e.*, current vs. delinquent), LTV and other risk features. In general, higher quality loans carry lower charges.

Under the PMIERS, *approved insurers* must maintain *available assets* that equal or exceed *minimum required assets*, which is an amount equal to the greater of (i) \$400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *approved insurer's* net RIF, assessed on a loan-by-loan basis and considered against certain risk-based factors derived from tables set out in the PMIERS to gross RIF, which is then adjusted on an aggregate basis for reinsurance transactions approved by the GSEs, such as with respect to our ILN Transactions and QSR Transactions. The *aggregate gross risk-based required asset amount* for performing, primary insurance is subject to a floor of 5.6% of *performing, primary adjusted RIF*, and the *risk-based required asset amount* for pool insurance considers both factors in the PMIERS tables and the *net remaining stop loss* for each pool insurance policy.

By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2020, that NMIC was in full compliance with the PMIERS as of December 31, 2019. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a failure to meet one or more of the PMIERS requirements. We continuously monitor NMIC's compliance with the PMIERS.

Leases

We have two operating lease agreements related to our corporate headquarters and a data center facility for which we recognized operating ROU assets and lease liabilities of \$4.6 million and \$5.3 million in "Other assets" and "Other liabilities," respectively, on our consolidated balance sheet as of December 31, 2020. As of December 31, 2019, we recognized operating ROU assets and lease liabilities of \$6.4 million and \$7.4 million, respectively. As of December 31, 2020 and 2019, we did not have any finance leases.

We did not enter any new operating leases or recognize any new ROU assets or lease liabilities during the year ended December 31, 2020. ROU assets exchanged for new operating lease liabilities for the year ended December 31, 2019 were \$8.1 million, primarily in connection with our initial adoption of ASU 2016-02, *Leases* (Topic 842).

The following table provides a summary of our ROU asset and lease liability assumptions as of December 31, 2020:

Weighted-average remaining lease term	2.2 years
Weighted-average discount rate	6.21 %

Cash paid on our operating leases for the years ended December 31, 2020, 2019 and 2018 was \$2.5 million, \$2.5 million and \$2.3 million and lease expense incurred was \$2.3 million, \$2.2 million and \$2.1 million during each respective period, reflecting the net benefit of incentives received at inception of the lease.

Future payments due under our existing operating leases as of December 31, 2020 are as follows:

Years ending December 31,	<i>(In Thousands)</i>	
2021	\$	2,609
2022		2,574
2023		462
Total undiscounted lease payments		5,645
Less effects of discounting		(391)
Present value of lease payments	\$	5,254

Lease expense is recorded in underwriting and operating expenses on our consolidated statements of operations. Our existing operating leases have original terms that range from three to five years. The lease for our corporate headquarters includes

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an option to renew for an additional five years at prevailing market rates at time of renewal. We have not included this renewal option in our calculation of minimum lease payments as it is not reasonably certain to be exercised.

15. Common Stock

As of December 31, 2020, we had 85.2 million outstanding shares of Class A common stock. Holders of our common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. Each holder of our common stock is entitled to one vote per share on all matters to be voted upon by stockholders, and there are no cumulative voting rights. Holders of common stock are entitled to receive dividends ratably if any are declared.

On June 8, 2020, we completed the sale of 13.8 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 15.9 million shares of common stock issued. The common stock offering generated proceeds of \$219.7 million, net of underwriting discounts, commissions and other direct offering expenses.

16. Regulatory Information

Statutory Requirements

Our insurance subsidiaries, NMIC and Re One, file financial statements in conformity with statutory accounting principles (SAP) prescribed or permitted by the Wisconsin OCI, NMIC's principal regulator. Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC). 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.

The Wisconsin OCI has imposed a prescribed accounting practice for the treatment of statutory contingency reserves that differs from the treatment promulgated by the NAIC. Under Wisconsin OCI's prescribed practice mortgage guaranty insurers are required to reflect changes in their contingency reserves through statutory income. Such approach contrasts with the NAIC's treatment, which records changes to contingency reserves directly to unassigned funds. As a Wisconsin-domiciled insurer, NMIC's statutory net income reflects an expense associated with the change in its contingency reserve. While such treatment impacts NMIC's statutory net income, it does not have an effect on the company's statutory capital position.

NMIC and Re One's combined statutory net income (loss), statutory surplus, contingency reserve, statutory capital and risk-to-capital (RTC) ratios as of and for the years ended December 31, 2020, 2019 and 2018 were as follows:

	As of and for the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Statutory net (loss) gain	\$ (20,136)	\$ 15,233	\$ (19,784)
Statutory surplus	894,331	449,602	430,785
Contingency reserve	768,324	531,825	332,702
Statutory capital ⁽¹⁾	1,662,655	981,427	763,487
Risk-to-capital	11.7:1	15.8:1	13.1:1

⁽¹⁾ Represents the total of the statutory surplus and contingency reserve.

In June 2020, NMIH contributed approximately \$445 million of capital to NMIC following completion of its common stock and senior notes offerings.

Under applicable law in Wisconsin and 15 other states, mortgage insurers must maintain minimum amounts of statutory capital relative to RIF to continue writing new business. While formulations of minimum statutory capital may vary in each state, the most common measure allows for a maximum permitted RTC ratio of 25:1. Wisconsin and certain other states, including California and Illinois, apply a substantially similar requirement referred to as minimum policyholders' position.

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The NAIC formed a Mortgage Guaranty Insurance Working Group (the Working Group) in 2012 to discuss, develop and recommend changes to the regulatory oversight and solvency standards of the mortgage insurance industry, including changes to the Mortgage Guaranty Insurance Model Act (Model Act). The Working Group has proposed amendments to the Model Act that include, among other changes, adoption of a risk-based capital model. If adopted by the NAIC, some or all of the 16 states that currently have minimum statutory capital requirements, and potentially others that do not, are expected to enact a portion or all of the revised Model Act, including the loan-level capital model.

As of December 31, 2020, NMIC's performing primary RIF, net of reinsurance, was approximately \$19.4 billion and its RTC ratio was 12.0:1, significantly below applicable limits. As of December 31, 2019, NMIC's performing primary RIF, net of reinsurance, was approximately \$15.4 billion and its RTC ratio was 16.3:1.

Reinsurance

Prior to January 10, 2019, Ohio regulation limited the amount of risk a mortgage insurer was permitted to retain on a single loan to 25% of the borrower's indebtedness (after giving effect to third-party reinsurance) and, as a result, the portion of such insurance in excess of 25% was required to be reinsured. Ohio repealed this requirement for future periods beginning January 10, 2019. Several other states previously imposed similar coverage restrictions and repealed these measures prior to 2018. To comply with these previous state coverage limits, NMIC and Re One have reinsurance agreements in place under which Re One provides reinsurance to NMIC on certain insured loans with coverage levels in excess of 25%, after giving effect to third-party reinsurance.

Dividend Restrictions

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware corporate law provides that dividends are only payable out of a corporation's capital surplus or, subject to certain limitations, recent net profits.

NMIC and Re One are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs that may restrict their ability to pay dividends to NMIH. Under Wisconsin law, NMIC and Re One may pay dividends up to specified levels (*i.e.*, "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts (*i.e.*, "extraordinary" dividends), are subject to the Wisconsin OCI's prior approval. Under Wisconsin law, an extraordinary dividend is defined as any payment or distribution that together with other dividends and distributions made within the preceding twelve 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 twelve-month period ending the preceding December 31. NMIC and Re One have never paid dividends to NMIH. Re One has the capacity to pay aggregate ordinary dividends of \$1.6 million to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI.

The Wisconsin OCI has approved the allocation of interest expense on the \$400 million Notes and \$110 million 2020 Revolving Credit Facility to NMIC, to the extent proceeds from such offering and facility are distributed to NMIC or used to repay, redeem or otherwise defease amounts raised by NMIC under prior credit arrangements that have previously been distributed to NMIC.

As an *approved insurer* under PMIERS, NMIC would generally be subject to prior GSE approval of its ability to pay dividends to NMIH if it failed to meet the financial requirements prescribed by PMIERS. In response to the COVID pandemic, the GSEs issued temporary PMIERS guidance, effective for the period from June 30, 2020 to June 30, 2021, that requires *approved insurers* to secure approval from the GSEs prior to paying any dividends, even if the *approved insurer* otherwise satisfies the financial requirements prescribed by PMIERS.

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17. Quarterly Financial Data (Unaudited)

	2020 Quarters				2020
	First	Second	Third	Fourth	Year
	<i>(In Thousands, except per share data)</i>				
Net premiums earned	\$ 98,717	\$ 98,944	\$ 98,802	\$ 100,709	\$ 397,172
Net investment income	8,104	7,070	8,337	8,386	31,897
Net realized investment (losses) gains	(72)	711	(4)	295	930
Other revenues	900	1,223	648	513	3,284
Insurance claims and claim expenses	5,697	34,334	15,667	3,549	59,247
Underwriting and operating expenses	32,277	30,370	33,969	34,994	131,610
Service expenses	734	1,090	557	459	2,840
Interest expense	2,744	5,941	7,796	7,906	24,387
(Gain) loss from change in fair value of warrant liability	(5,959)	1,236	437	1,379	(2,907)
Pre-tax income	72,156	34,977	49,357	61,616	218,106
Income tax expense	13,885	8,129	11,178	13,348	46,540
Net income	\$ 58,271	\$ 26,848	\$ 38,179	\$ 48,268	\$ 171,566
Basic earnings per share ⁽¹⁾	\$ 0.85	\$ 0.36	\$ 0.45	\$ 0.57	\$ 2.20
Diluted earnings per share ⁽¹⁾	\$ 0.74	\$ 0.36	\$ 0.45	\$ 0.56	\$ 2.13
Weighted average common shares outstanding - basic	68,563	73,617	84,805	84,956	78,023
Weighted average common shares outstanding - diluted	70,401	74,174	85,599	86,250	79,263

⁽¹⁾ Due to the use of weighted average shares outstanding when calculating EPS, the sum of quarterly per share data may not equal the per share data for the year.

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	2019 Quarters				2019
	First	Second	Third	Fourth	Year
	<i>(In Thousands, except per share data)</i>				
Net premiums earned	\$ 73,868	\$ 83,249	\$ 92,381	\$ 95,517	\$ 345,015
Net investment income	7,383	7,629	7,882	7,962	\$ 30,856
Net realized investment (losses) gains	(187)	(113)	81	264	\$ 45
Other revenues	42	415	1,244	1,154	\$ 2,855
Insurance claims and claim expenses	2,743	2,923	2,572	4,269	\$ 12,507
Underwriting and operating expenses	30,800	32,190	32,335	31,296	\$ 126,621
Service expenses	49	353	909	937	\$ 2,248
Interest expense	3,061	3,071	2,979	2,974	\$ 12,085
Loss (gain) from change in fair value of warrant liability	5,479	1,685	(1,139)	2,632	\$ 8,657
Pre-tax income	38,974	50,958	63,932	62,789	\$ 216,653
Income tax expense	6,075	11,858	14,169	12,594	\$ 44,696
Net income	\$ 32,899	\$ 39,100	\$ 49,763	\$ 50,195	\$ 171,957
Basic earnings per share ⁽¹⁾	\$ 0.49	\$ 0.58	\$ 0.73	\$ 0.74	\$ 2.54
Diluted earnings per share ⁽¹⁾	\$ 0.48	\$ 0.56	\$ 0.69	\$ 0.71	\$ 2.47
Weighted average common shares outstanding - basic	66,692	67,590	67,849	68,140	67,573
Weighted average common shares outstanding - diluted	68,996	69,590	70,137	70,276	69,721

⁽¹⁾ Due to the use of weighted average shares outstanding when calculating EPS, the sum of quarterly per share data may not equal the per share data for the year.

18. Subsequent Event

Quota share reinsurance

Effective January 1, 2021, NMIC entered into its fourth quota share reinsurance treaty with a broad panel of highly rated reinsurers (2021 QSR Transaction). Under the 2021 QSR Transaction, NMIC will cede premiums earned related to 22.5% of the risk on eligible policies written from January 1, 2021 through December 31, 2021, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a 20% ceding commission, and a profit commission of up to 57.5% that varies directly and inversely with ceded claims. The 2021 QSR Transaction is scheduled to terminate on December 31, 2031. NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement at December 31, 2026, or at the end of any calendar quarter thereafter, which would result in NMIC recapturing the reinsured risk.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2020, 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 on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, 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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth in the Internal Control-Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2020. The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which appears below.

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.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
NMI Holdings, Inc.
Emeryville, California

Opinion on Internal Control over Financial Reporting

We have audited NMI Holdings, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries at December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020 and the related notes and financial statement schedules listed in the accompanying index and our report dated February 24, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Controls and Procedures." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

San Francisco, California
February 24, 2021

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2020. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2020. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2020. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2020. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2020. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements — See the "*Index to Financial Statements*" included in Item 8 of this report for a list of the financial statements filed as part of this report.
2. Financial Statement Schedules — See the "*Index to Financial Statement Schedules*" on page 141 of this report for a list of the financial statement schedules filed as part of this report.
3. 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)
4.7	Indenture, dated as of June 19, 2020, among NMI Holdings, Inc., NMI Services, Inc. as the Initial Guarantor, and the Bank of New York Mellon Trust Company, N.A. as Trustee and Notes Collateral Agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on June 19, 2020)
4.8	Description of Securities
10.1 ~	NMI Holdings Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (registration No. 333-191635), filed on October 9, 2013)
10.2 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.3 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.4 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.5 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)

- 10.6 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017)
- 10.7 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017)
- 10.8 ~ Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015)
- 10.9 ~ Offer Letter by and between NMI Holdings, Inc. and William Leatherberry, dated July 11, 2014 (incorporated herein by reference to Exhibit 10.10 to our Form 10-Q, filed on April 28, 2016)
- 10.10 ~ Offer Letter by and between NMI Holdings, Inc. and Adam Pollitzer, dated February 1, 2017 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 3, 2017)
- 10.11 ~ Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014)
- 10.12 + Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately \$5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
- 10.13 Credit Agreement, dated November 10, 2015, between NMI Holdings, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on November 10, 2015)
- 10.14 Amendment No. 1, dated February 10, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 10, 2017)
- 10.15 Amendment No. 2, dated October 25, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on October 26, 2017)
- 10.16 Credit Agreement, dated May 24, 2018, between NMI Holdings, Inc., the lender party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on May 25, 2018)
- 10.17 Extension Amendment, dated as of March 20, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, 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 March 20, 2020)
- 10.18 Joinder Agreement, dated as of March 20, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, JPMorgan Chase Bank, N.A. as administrative agent, and Citibank, N.A. (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on March 20, 2020)
- 10.19 Amendment No. 1, dated as of May 6, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, 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 May 6, 2020)
- 10.20 Joinder Agreement, dated as of October 29, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, JPMorgan Chase Bank, N.A. as administrative agent, and Citibank, N.A. (incorporated herein by reference to Exhibit 10.20 to our Form 10-Q, filed on November 11, 2020)
- 10.21 ~ 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)
- 10.22 ~ 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)
- 10.23 ~ 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)
- 10.24 ~ 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)
- 10.25 ~ 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)
- 10.26 ~ 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)

- 10.27 ~ 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)
- 10.28 ~ 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)
- 10.29 ~ NMI Holdings, Inc. Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016)
- 10.30 ~ NMI Holdings, Inc. Amended and Restated Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on October 30, 2018)
- 10.31 ~ NMI Holdings, Inc. Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
- 10.32 ~ Employment Letter by and between NMI Holdings, Inc. and Bradley M. Shuster, effective as of January 1, 2019 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 28, 2018)
- 10.33 ~ Employment Letter by and between NMI Holdings, Inc. and Claudia J. Merkle, effective as of January 1, 2019 (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on December 28, 2018)
- 10.34 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on May 2, 2019)
- 10.35 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.31 to our Form 10-Q, filed on May 2, 2019)
- 10.36 ~ Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Agreement for Employees (incorporated herein by reference to Exhibit 10.32 to our Form 10-Q, filed on May 2, 2019)
- 10.37 ~ Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.33 to our Form 10-Q, filed on May 2, 2019)
- 10.38 ~ Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.34 to our Form 10-Q, filed on May 2, 2019)
- 10.39 ~ Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Agreement for Employees (incorporated herein by reference to Exhibit 10.35 to our Form 10-Q, filed on May 2, 2019)
- 10.40 ~ Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement (Performance Based) (incorporated herein by reference to Exhibit 10.38 to our Form 10-Q, filed on May 7, 2020)
- 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)
- 23.1 Consent of BDO USA, LLP
- 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 Annual Report on Form 10-K for the year ended December 31, 2020 formatted in XBRL (eXtensible Business Reporting Language):
- (i) Consolidated Balance Sheets as of December 31, 2020 and 2019
 - (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2020
 - (iii) Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2020
 - (iv) Consolidated Statements of Cash Flows for each of the three years ended December 31, 2020, and
 - (v) Notes to Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.

- ~ Indicates a management contract or compensatory plan or contract.
- + Confidential treatment granted as to certain portions, which portions have been filed separately with the SEC.
- # In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32 hereto are deemed to accompany this Form 10-K 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: February 24, 2021

By: /s/ Claudia J. Merkle

Name: Claudia J. Merkle
Title: Chief Executive Officer

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Claudia J. Merkle</u> Claudia J. Merkle	<u>Chief Executive Officer</u> (Principal Executive Officer)	<u>February 24, 2021</u>
<u>/s/ Adam S. Pollitzer</u> Adam S. Pollitzer	<u>Chief Financial Officer</u> (Principal Financial Officer)	<u>February 24, 2021</u>
<u>/s/ Julie C. Norberg</u> Julie C. Norberg	<u>Controller</u>	<u>February 24, 2021</u>
<u>/s/ Bradley M. Shuster</u> Bradley M. Shuster	<u>Executive Chairman</u>	<u>February 24, 2021</u>
<u>/s/ Steven L. Scheid</u> Steven L. Scheid	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ James G. Jones</u> James G. Jones	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ Regina Muehlhauser</u> Regina Muehlhauser	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ Michael Montgomery</u> Michael Montgomery	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ Michael Embler</u> Michael Embler	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ James H. Ozanne</u> James H. Ozanne	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ Lynn S. McCreary</u> Lynn S. McCreary	<u>Director</u>	<u>February 24, 2021</u>
<u>/s/ Priya Huskins</u> Priya Huskins	<u>Director</u>	<u>February 24, 2021</u>

INDEX TO FINANCIAL STATEMENT SCHEDULES

Schedule I — Summary of Investments — other than investments in related parties as of December 31, 2020	<u>F-1</u>
Schedule II — Financial Information of Registrant as of December 31, 2020	<u>F-2</u>
Schedule IV — Reinsurance as of December 31, 2020	<u>F-6</u>

All other schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in our Consolidated Financial Statements and notes thereto.

NMI HOLDINGS, INC.
SCHEDULE I
SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2020	Amortized Cost	Fair Value	Amount Reflected on Balance Sheet
		<i>(In Thousands)</i>	
U.S. Treasury securities and obligations of U.S. government agencies	\$ 29,412	\$ 31,598	\$ 31,598
Municipal debt securities	407,323	421,348	421,348
Corporate debt securities	1,165,260	1,219,791	1,219,791
Asset-backed securities	128,471	131,180	131,180
Total bonds	1,730,466	1,803,917	1,803,917
Short-term investments	369	369	369
Total investments	<u>\$ 1,730,835</u>	<u>\$ 1,804,286</u>	<u>\$ 1,804,286</u>

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
PARENT COMPANY ONLY

	December 31, 2020	December 31, 2019
<i>(In Thousands, except for share data)</i>		
Assets		
Fixed maturities, available-for-sale, at fair value	\$ 52,867	\$ 41,220
Cash and cash equivalents	19,146	13,431
Investment in subsidiaries, at equity in net assets	1,724,360	1,025,286
Accrued investment income	263	219
Prepaid expenses	2,912	3,332
Due from affiliates, net	76,892	62,241
Software and equipment, net	29,665	26,096
Other assets	5,676	7,188
Total assets	\$ 1,911,781	\$ 1,179,013
Liabilities		
Debt	\$ 393,301	\$ 145,764
Accounts payable and accrued expenses	30,802	24,871
Warrant liability, at fair value	4,409	7,641
Deferred tax liability, net	108,424	62,921
Other liabilities	5,254	7,396
Total liabilities	542,190	248,593
Shareholders' equity		
Common stock - class A shares, \$0.01 par value; 85,163,039 and 68,358,074 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively (250,000,000 shares authorized)	852	684
Additional paid-in capital	937,872	707,003
Accumulated other comprehensive income, net of tax	53,856	17,288
Retained earnings	377,011	205,445
Total shareholders' equity	1,369,591	930,420
Total liabilities and shareholders' equity	\$ 1,911,781	\$ 1,179,013

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF OPERATIONS
PARENT COMPANY ONLY

	For the year ended December 31,		
	2020	2019	2018
	<i>(In Thousands)</i>		
Revenues			
Net investment income	\$ 398	\$ 1,124	\$ 1,145
Net realized investment gains	23	1	5
Total revenues	421	1,125	1,150
Expenses			
Other operating expenses	9,262	11,714	21,095
Interest expense	—	—	2,227
(Gain) loss from change in fair value of warrant liability	(2,907)	8,657	1,397
Total expenses	6,355	20,371	24,719
Equity in net income of subsidiaries	217,134	226,480	134,127
Income before income taxes	211,200	207,234	110,558
Income tax expense	39,634	35,277	2,631
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) in accumulated other comprehensive loss, net of tax expense (benefit) of \$25, \$82, and (\$34) for each of the years in the three-year period ended December 31, 2020, respectively	94	308	(128)
Reclassification adjustment for (gains) losses included in net loss, net of tax expense (benefit) of \$5, \$0 and (\$1) for each of the years in the three-year period ended December 31, 2020, respectively	(18)	—	2
Equity in other comprehensive income (loss) of subsidiaries	36,492	31,812	(12,129)
Other comprehensive income (loss), net of tax	36,568	32,120	(12,255)
Comprehensive income	\$ 208,134	\$ 204,077	\$ 95,672

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
PARENT COMPANY ONLY

	For the year ended December 31,		
	2020	2019	2018
Cash flows from operating activities	<i>(In Thousands)</i>		
Net income	\$ 171,566	\$ 171,957	\$ 107,927
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
(Gain) loss from change in fair value of warrant liability	(2,907)	8,657	1,397
Net realized investment gains	(23)	(1)	(5)
Depreciation and amortization	807	286	274
Amortization of debt discount and debt issuance costs	4,036	1,011	3,390
Deferred income taxes	45,483	44,030	25,163
Share-based compensation expense	11,115	13,031	12,557
Changes in operating assets and liabilities:			
Equity in net income of subsidiaries ⁽¹⁾	(217,134)	(226,480)	(133,837)
Accrued investment income	(44)	(3)	(14)
Receivable from affiliates	(14,651)	(20,902)	(18,932)
Prepaid expenses	420	(409)	(1,010)
Other assets	(336)	165	1,258
Accounts payable and accrued expenses	4,592	(1,640)	5,393
Net cash provided by (used in) operating activities	2,924	(10,298)	3,561
Cash flows from investing activities			
Capitalization of subsidiaries	(445,448)	(800)	(70,500)
Purchase of short-term investments	(19,897)	(104,192)	(134,376)
Purchase of fixed-maturity investments, available-for-sale	(53,504)	(2,186)	(12,906)
Proceeds from maturity of short-term investments	41,228	111,539	122,612
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	20,241	5,877	22,954
Software and equipment	(2,633)	(854)	(415)
Net cash (used in) provided by investing activities	(460,013)	9,384	(72,631)
Cash flows from financing activities			
Proceeds from issuance of common stock related to public offering, net of issuance costs	219,687	—	79,165
Proceeds from issuance of common stock related to employee equity plans	8,871	21,748	12,857
Proceeds from issuance of common stock related to warrant exercises	—	—	321
Taxes paid related to net share settlement of equity awards	(8,961)	(18,248)	(9,722)
Proceeds from senior secured notes	400,000	—	149,250
Repayments of term loan	(147,750)	(1,500)	(147,375)
Payments of debt issuance costs	(9,043)	—	(3,609)
Net cash provided by financing activities	462,804	2,000	80,887
Net increase in cash, cash equivalents and restricted cash	5,715	1,086	11,817
Cash, cash equivalents and restricted cash, beginning of period	13,431	12,345	528
Cash, cash equivalents and restricted cash, end of period	19,146	\$ 13,431	\$ 12,345

⁽¹⁾ Amount in 2018 includes \$0.3 million reduction to retained earnings as of January 1, 2018 as a result of the adoption of ASU 2018-02. For more information related to this adjustment, See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes."

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
SUPPLEMENTAL NOTES
PARENT COMPANY ONLY

Note A

The NMI Holdings, Inc. (Parent Company) financial statements represent the stand-alone financial statements of the Parent Company. These financial statements have been prepared on the same basis and using the same accounting policies as described in the consolidated financial statements included herein. Refer to the Parent Company's consolidated financial statements for additional information.

Note B

NMIC and Re One are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs that may restrict their ability to pay dividends to NMIH. Under Wisconsin law, NMIC and Re One may pay dividends up to specified levels (*i.e.*, "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts (*i.e.*, "extraordinary" dividends), are subject to the Wisconsin OCI's prior approval. Under Wisconsin law, an extraordinary dividend is defined as any payment or distribution that together with other dividends and distributions made within the preceding twelve 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 twelve-month period ending the preceding December 31.

Re One has the capacity to pay aggregate ordinary dividends of \$1.6 million to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI.

The remaining net assets from dividend capacity are considered restricted. As of December 31, 2020, the amount of restricted net assets held by our consolidated insurance subsidiaries, which represents our equity investment in those insurance subsidiaries less their aggregate dividend capacity, totaled \$1.7 billion, compared to \$1.0 billion as of December 31, 2019.

Note C

The Parent Company provides certain services to its subsidiaries. The Parent Company allocates to its subsidiaries corporate expense it incurs in the capacity of supporting those subsidiaries, based on either an allocated percentage of time spent or internally allocated capital. Total operating expenses allocated to subsidiaries for each of the years in the three year period ended December 31, 2020 were \$152.9 million, \$117.1 million and \$111.6 million, respectively. Amounts charged to the subsidiaries for operating expenses are based on actual cost, without any mark-up. The Parent Company considers these charges fair and reasonable. The subsidiaries reimburse the Parent Company for these costs in a timely manner, which has the impact of improving the cash flows of the Parent Company.

NMI HOLDINGS, INC.
SCHEDULE IV - FINANCIAL INFORMATION OF REGISTRANT
REINSURANCE

	<u>Gross Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed from Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
For the years ended December 31,			<i>(In thousands)</i>		
2020	\$ 472,998	\$ 75,826	\$ —	\$ 397,172	— %
2019	398,303	53,288	—	345,015	— %
2018	292,064	40,867	—	251,197	— %

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