

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

**FORM 10-Q**

- (Mark One)
- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **September 30, 2017**
- 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)

**2100 Powell Street, Emeryville, CA**

(Address of principal executive offices)

**45-4914248**

(I.R.S. Employer Identification No.)

**94608**

(Zip Code)

**(855) 530-6642**

(Registrant's telephone number, including area code)

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

**YES x NO o**

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

**YES x NO o**

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

**YES o NO x**

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on October 30, 2017 was 60,033,144 shares.

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## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the *Risk Factors* in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 10-K), as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

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

**PART I**

**Item 1. Financial Statements**

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

	September 30, 2017	December 31, 2016
<i>(In Thousands, except for share data)</i>		
<b>Assets</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$687,284 and \$630,688 as of September 30, 2017 and December 31, 2016, respectively)	\$ 692,729	\$ 628,969
Cash and cash equivalents	20,698	47,746
Premiums receivable	21,056	13,728
Accrued investment income	4,598	3,421
Prepaid expenses	2,651	1,991
Deferred policy acquisition costs, net	36,101	30,109
Software and equipment, net	21,767	20,402
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	39,915	37,921
Deferred tax asset, net	38,490	51,434
Other assets	4,973	542
<b>Total assets</b>	<b>\$ 886,612</b>	<b>\$ 839,897</b>
<b>Liabilities</b>		
Term loan	\$ 143,969	\$ 144,353
Unearned premiums	161,345	152,906
Accounts payable and accrued expenses	22,028	25,297
Reserve for insurance claims and claim expenses	6,123	3,001
Reinsurance funds withheld	33,105	30,633
Deferred ceding commission	4,971	4,831
Warrant liability, at fair value	4,046	3,367
<b>Total liabilities</b>	<b>375,587</b>	<b>364,388</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Common stock - class A shares, \$0.01 par value; 59,928,092 and 59,145,161 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively (250,000,000 shares authorized)	599	591
Additional paid-in capital	583,447	576,927
Accumulated other comprehensive loss, net of tax	(630)	(5,287)
Accumulated deficit	(72,391)	(96,722)
<b>Total shareholders' equity</b>	<b>511,025</b>	<b>475,509</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 886,612</b>	<b>\$ 839,897</b>

*See accompanying notes to consolidated financial statements.*

NMI HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<i>(In Thousands, except for share data)</i>				
<b>Revenues</b>				
Net premiums earned	\$ 44,519	\$ 31,808	\$ 115,661	\$ 77,656
Net investment income	4,170	3,544	11,885	10,117
Net realized investment gains (losses)	69	66	198	(758)
Other revenues	195	102	461	172
<b>Total revenues</b>	<b>48,953</b>	<b>35,520</b>	<b>128,205</b>	<b>87,187</b>
<b>Expenses</b>				
Insurance claims and claims expenses	957	664	2,965	1,592
Underwriting and operating expenses	24,645	24,037	78,682	69,943
<b>Total expenses</b>	<b>25,602</b>	<b>24,701</b>	<b>81,647</b>	<b>71,535</b>
<b>Other expense</b>				
Loss from change in fair value of warrant liability	(502)	(797)	(679)	(187)
Interest expense	(3,352)	(3,733)	(10,146)	(11,072)
<b>Total other expense</b>	<b>(3,854)</b>	<b>(4,530)</b>	<b>(10,825)</b>	<b>(11,259)</b>
<b>Income before income taxes</b>	<b>19,497</b>	<b>6,289</b>	<b>35,733</b>	<b>4,393</b>
Income tax expense	7,185	114	11,917	114
<b>Net income</b>	<b>\$ 12,312</b>	<b>\$ 6,175</b>	<b>\$ 23,816</b>	<b>\$ 4,279</b>
<b>Earnings per share</b>				
Basic	\$ 0.21	\$ 0.10	\$ 0.40	\$ 0.07
Diluted	\$ 0.20	\$ 0.10	\$ 0.38	\$ 0.07
<b>Weighted average common shares outstanding</b>				
Basic	59,883,629	59,130,401	59,680,166	59,047,758
Diluted	63,088,958	60,284,746	62,773,333	59,861,916
<b>Net income</b>	<b>\$ 12,312</b>	<b>\$ 6,175</b>	<b>\$ 23,816</b>	<b>\$ 4,279</b>
<b>Other comprehensive income (loss), net of tax:</b>				
Net unrealized gain (loss) in accumulated other comprehensive income, net of tax expense of \$366 and \$0 for the three months ended September 30, 2017 and 2016, respectively, and \$2,439 and \$0 for the nine months ended September 30, 2017 and 2016	768	(82)	4,786	17,690
Reclassification adjustment for realized losses (gains) included in net income, net of tax expense of \$24 and \$0 for the three months ended September 30, 2017 and 2016, respectively, and \$69 and \$0 for the nine months ended September 30, 2017 and 2016	(45)	(66)	(129)	758
<b>Other comprehensive income (loss), net of tax</b>	<b>723</b>	<b>(148)</b>	<b>4,657</b>	<b>18,448</b>
<b>Comprehensive income</b>	<b>\$ 13,035</b>	<b>\$ 6,027</b>	<b>\$ 28,473</b>	<b>\$ 22,727</b>

*See accompanying notes to consolidated financial statements.*

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

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
	<i>(In Thousands)</i>					
Balances, January 1, 2016	58,808	\$ 588	\$ 570,340	\$ (7,474)	\$ (160,723)	\$ 402,731
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	337	3	(227)	—	—	(224)
Share-based compensation expense	—	—	6,814	—	—	6,814
Change in unrealized investment gains/losses, net of tax expense of \$1,178	—	—	—	2,187	—	2,187
Net income	—	—	—	—	64,001	64,001
Balances, December 31, 2016	59,145	\$ 591	\$ 576,927	\$ (5,287)	\$ (96,722)	\$ 475,509
Cumulative effect of change in accounting principle	—	—	388	—	515	903
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	783	8	(801)	—	—	(793)
Share-based compensation expense	—	—	6,933	—	—	6,933
Change in unrealized investment gains/losses, net of tax expense of \$2,508	—	—	—	4,657	—	4,657
Net income	—	—	—	—	23,816	23,816
Balances, September 30, 2017	59,928	\$ 599	\$ 583,447	\$ (630)	\$ (72,391)	\$ 511,025

*See accompanying notes to consolidated financial statements.*



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

	For the nine months ended September 30,	
	2017	2016
Cash flows from operating activities	<i>(In Thousands)</i>	
Net income	\$ 23,816	\$ 4,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	(198)	758
Loss from change in fair value of warrant liability	679	187
Depreciation and amortization	4,871	4,300
Net amortization of premium on investment securities	1,200	954
Amortization of debt discount and debt issuance costs	1,112	1,416
Share-based compensation expense	6,933	4,987
Deferred income taxes	11,340	—
Changes in operating assets and liabilities:		
Premiums receivable	(7,328)	(6,235)
Accrued investment income	(1,177)	(742)
Prepaid expenses	(660)	(885)
Deferred policy acquisition costs, net	(5,992)	(11,381)
Other assets	(1,150)	(2)
Unearned premiums	8,439	54,628
Reserve for insurance claims and claims expenses	3,122	1,454
Reinsurance balances, net	618	(431)
Accounts payable and accrued expenses	(3,847)	(1,075)
Net cash provided by operating activities	41,778	52,212
Cash flows from investing activities		
Purchase of short-term investments	(111,551)	(147,639)
Purchase of fixed-maturity investments, available-for-sale	(166,640)	(103,418)
Proceeds from maturity of short-term investments	142,722	93,916
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	75,785	101,874
Additions to software and equipment	(6,869)	(8,449)
Net cash used in investing activities	(66,553)	(63,714)
Cash flows from financing activities		
Proceeds from issuance of common stock related to employee equity plans	3,105	526
Taxes paid related to net share settlement of equity awards	(3,883)	(694)
Repayments of term loan	(1,125)	(1,125)
Payments of debt modification costs	(370)	—
Net cash used in financing activities	(2,273)	(1,293)
Net decrease in cash and cash equivalents	(27,048)	(12,795)
Cash and cash equivalents, beginning of period	47,746	57,317
Cash and cash equivalents, end of period	\$ 20,698	\$ 44,522
Supplemental disclosures of cash flow information		
Interest paid	\$ 10,350	\$ 9,669
Income taxes paid	802	—

*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). In April 2012, we completed a private placement of our securities, through which we offered and sold an aggregate of 55,000,000 of our Class A common stock resulting in net proceeds of approximately \$510 million (the Private Placement), and we completed the acquisition of our insurance subsidiaries for \$8.5 million in cash, common stock and warrants, plus the assumption of \$1.3 million in liabilities. In November 2013, we completed an initial public offering of 2.4 million shares of our common stock, and our common stock began trading on the NASDAQ exchange on November 8, 2013, under the symbol "NMIH."

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

### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements, which include the results of NMIH and its wholly owned subsidiaries, have been prepared in accordance with the instructions to Form 10-Q as prescribed by the SEC for interim reporting and include other information and disclosures required by accounting principles generally accepted in the U.S. (GAAP). Our accounts are maintained in U.S. dollars. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2016, included in our 2016 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2017.

### *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 deferred policy acquisition costs (DAC). DAC is reviewed periodically to determine that it does not exceed recoverable amounts and is adjusted as appropriate for policy cancellations to be consistent with our revenue recognition policy. We estimate the rate of amortization to reflect actual experience and any changes to persistency or loss development. For each book year of business, these costs are amortized to expense in proportion to estimated gross profits over the estimated life of the policies. Total amortization of DAC, net of a portion of ceding commission related to the 2016 QSR Transaction (see Note 5, "Reinsurance"), was \$1.7 million and \$1.2 million for the three months ended September 30, 2017 and 2016, respectively, and \$4.0 million and \$3.4 million for the nine months ended September 30, 2017 and 2016, respectively.

### *Premium Deficiency Reserves*

We consider whether a premium deficiency exists 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 related unearned premiums and anticipated investment income. We have determined that no premium deficiency reserves were necessary for the three and nine months ended September 30, 2017 or 2016.

### *Reinsurance*

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

We earn profit and ceding commissions in connection with our 2016 QSR Transaction (see Note 5, "Reinsurance"). Profit commissions represent a percentage of the profits recognized by reinsurers that are returned to us, based on the level of losses we cede. We recognize any profit commissions we earn as increases to premium revenue. Ceding commissions are calculated as a percentage of ceded written premiums, which are intended to cover our costs to acquire and service the direct policies. We earn the

ceding commissions in a manner consistent with our recognition of earnings on the underlying insurance policies, over the terms of the policies reinsured. We account for ceding commissions as reductions to underwriting and operating expenses.

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

#### *Variable interest entity*

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re Ltd. (Oaktown Re), a Bermuda-domiciled special purpose reinsurer. At inception of the reinsurance agreement, we determined that Oaktown Re was a variable interest entity (VIE), as defined under GAAP (ASC 810), because it did not have sufficient equity at risk to finance its activities. We evaluated the VIE to determine whether NMIC was its primary beneficiary and, if so, whether we were required to consolidate the assets and liabilities of the 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 Oaktown Re and that consolidation is not required, as we do not have significant economic exposure in the entity.

See Note 5, "*Reinsurance*" for further discussion of the reinsurance arrangement.

#### *Premiums Receivable*

Premiums receivable consist of premiums due on our mortgage insurance policies. If a mortgage insurance premium is unpaid for more than 120 days, the receivable is written off against earned premium and the related insurance policy is canceled. We have determined that the receivable write-off was immaterial as of September 30, 2017.

#### *Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, ASU 2015-14 deferred the provisions of ASU 2014-09 to be effective for interim and annual periods beginning after December 15, 2017. In addition, this guidance amends the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer (ASU 2017-05). In September 2017, ASU 2017-13, added guidance from an SEC Staff Announcement, "Transition Related to Accounting Standards Updates No. 2014-09." The adoption of this update for our loan review services revenue, effective January 1, 2018, will have an immaterial impact on our consolidated financial statements and will not affect the Company's reporting of insurance premiums and investment income. We are still in the process of evaluating the adoption method and the impact on presentation and disclosure.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This update requires that businesses recognize rights and obligations associated with certain leases as assets and liabilities on the balance sheet. The standard also requires additional disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. For public business entities, this update is effective for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted in any period. We expect to adopt this guidance on January 1, 2019. In September 2017, ASU 2017-13, added guidance from an SEC Staff Announcement, "Transition Related to Accounting Standards Update No. 2016-02." We anticipate this standard will have an impact on our financial position, primarily due to our office space operating lease, as we will be required to recognize lease assets and lease liabilities on our consolidated balance sheet. We will continue to assess the potential impacts of this standard, including the impact the adoption of this guidance will have on our results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326). This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration also is amended in the standard. The standard

will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230). This update is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this update, effective January 1, 2018, is not expected to have any impact on our statement of cash flows.

In August 2016, the FASB issued ASU 2016-16, *Income Taxes- Intra-Entity Transfers of Assets Other Than Inventory* (Topic 740). This update is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this update, effective January 1, 2018, is not expected to have any impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350). This update is intended to simplify the test for goodwill impairment. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have determined that the adoption of this ASU will have no impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs* (Subtopic 310-20). This update shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The standard will take effect for public business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted, and if an entity early adopts the guidance in an interim period, any adjustments are reflected as of the beginning of the fiscal year that includes that interim period. The adoption of this update, effective January 1, 2018, is not expected to have any impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share* (Topic 260), *Distinguishing Liabilities from Equity* (Topic 480), and *Derivatives and Hedging* (Topic 815). This update is intended to simplify the accounting for certain financial instruments with down round features. This standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

#### *Immaterial Correction of Prior Period Amounts*

During the first quarter of 2017, after filing the 2016 10-K, including the audited financial statements included therein, we discovered that \$1.8 million of deferred taxes on vested options associated with employees terminated in previous years had not been reversed. Because our deferred tax asset (DTA) was subject to a valuation allowance prior to December 31, 2016, no expense would have been recognized in periods prior to December 31, 2016. However, at December 31, 2016, when we released the valuation allowance against the DTA, the DTA was overstated by \$1.8 million and resulted in a \$1.8 million overstatement of our 2016 income tax benefit and net income.

In order to provide consistency in the consolidated statements and as permitted by Staff Accounting Bulletin (SAB) 108, revisions for these immaterial amounts to previously reported annual amounts are reflected in the Consolidated Balance Sheet financial information herein and will be reflected in the Consolidated Statement of Operations in future filings containing such financial information as permitted by SAB 108. A comparison of the affected amounts as previously reported and as adjusted are presented below.

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of and for the full year ended December 31, 2016	As previously reported		As adjusted
	(In thousands)		
<b>Income Statement</b>			
Net income	\$	65,841	\$ 64,001
Income tax (benefit)		(54,389)	(52,550)
Basic EPS		1.11	1.08
Diluted EPS		1.08	1.05
<b>Balance Sheet</b>			
Deferred tax asset, net	\$	53,274	\$ 51,434
Total assets		841,737	839,897
Accumulated deficit		(94,882)	(96,722)
Total shareholders' equity		477,349	475,509

*Change in Accounting Principle*

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (Topic 718), which intends to simplify various aspects of the accounting for and reporting of share-based payments. The new accounting is required to be adopted using a modified retrospective approach, with a cumulative-effect adjustment to opening retained earnings for any outstanding liability awards that qualify for equity classification under the new guidance.

As the guidance is effective for annual and interim reporting periods beginning after December 15, 2016, we adopted the new guidance in the first quarter of 2017. This required us to reflect any adjustments as of January 1, 2017, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes in the consolidated statements of operations. Additionally, our consolidated statements of cash flows now present excess tax benefits as an operating activity on a prospective basis. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$0.5 million reduction to the accumulated deficit as of January 1, 2017.

**2. Investments**

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

*Fair Values and Gross Unrealized Gains and Losses on Investments*

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
(In Thousands)				
<b>As of September 30, 2017</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 65,669	\$ 21	\$ (636)	\$ 65,054
Municipal debt securities	90,155	929	(348)	90,736
Corporate debt securities	404,467	5,619	(1,246)	408,840
Asset-backed securities	96,279	1,142	(101)	97,320
Total bonds	656,570	7,711	(2,331)	661,950
Short-term investments	30,714	65	—	30,779
Total investments	\$ 687,284	\$ 7,776	\$ (2,331)	\$ 692,729

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(In Thousands)</i>				
<b>As of December 31, 2016</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 64,135	\$ 6	\$ (962)	\$ 63,179
Municipal debt securities	40,801	131	(663)	40,269
Corporate debt securities	349,712	1,722	(2,356)	349,078
Asset-backed securities	114,456	765	(560)	114,661
<b>Total bonds</b>	<b>569,104</b>	<b>2,624</b>	<b>(4,541)</b>	<b>567,187</b>
Short-term investments	61,584	198	—	61,782
<b>Total investments</b>	<b>\$ 630,688</b>	<b>\$ 2,822</b>	<b>\$ (4,541)</b>	<b>\$ 628,969</b>

As of September 30, 2017 and December 31, 2016, approximately \$7.0 million of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

*Scheduled Maturities*

The amortized cost and fair values of available-for-sale securities as of September 30, 2017 and December 31, 2016, 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.

	Amortized Cost		Fair Value	
	<i>(In Thousands)</i>			
<b>As of September 30, 2017</b>				
Due in one year or less	\$ 108,020	\$ 108,048		
Due after one through five years	158,353	159,502		
Due after five through ten years	309,708	312,697		
Due after ten years	14,924	15,162		
Asset-backed securities	96,279	97,320		
<b>Total investments</b>	<b>\$ 687,284</b>	<b>\$ 692,729</b>		
<b>As of December 31, 2016</b>				
Due in one year or less	\$ 94,382	\$ 94,584		
Due after one through five years	173,296	173,251		
Due after five through ten years	242,005	240,060		
Due after ten years	6,549	6,413		
Asset-backed securities	114,456	114,661		
<b>Total investments</b>	<b>\$ 630,688</b>	<b>\$ 628,969</b>		

*Aging of Unrealized Losses*

As of September 30, 2017, the investment portfolio had gross unrealized losses of \$2.3 million, \$1.5 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of September 30, 2017. We based our conclusion that these investments were not other-than-temporarily impaired as of September 30, 2017 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
<b>As of September 30, 2017</b>									
<i>(Dollars in Thousands)</i>									
U.S. Treasury securities and obligations of U.S. government agencies	22	\$ 38,425	\$ (263)	15	\$ 19,621	\$ (373)	37	\$ 58,046	\$ (636)
Municipal debt securities	9	21,567	(212)	8	10,319	(136)	17	31,886	(348)
Corporate debt securities	44	69,602	(317)	14	34,031	(929)	58	103,633	(1,246)
Asset-backed securities	15	21,173	(89)	2	4,988	(12)	17	26,161	(101)
<b>Total</b>	<b>90</b>	<b>\$ 150,767</b>	<b>\$ (881)</b>	<b>39</b>	<b>\$ 68,959</b>	<b>\$ (1,450)</b>	<b>129</b>	<b>\$ 219,726</b>	<b>\$ (2,331)</b>

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
<b>As of December 31, 2016</b>									
<i>(Dollars in Thousands)</i>									
U.S. Treasury securities and obligations of U.S. government agencies	33	\$ 51,093	\$ (962)	—	\$ —	\$ —	33	\$ 51,093	\$ (962)
Municipal debt securities	14	28,659	(617)	1	1,704	(46)	15	30,363	(663)
Corporate debt securities	77	135,115	(1,955)	8	13,873	(401)	85	148,988	(2,356)
Asset-backed securities	30	38,702	(510)	6	2,472	(50)	36	41,174	(560)
<b>Total</b>	<b>154</b>	<b>\$ 253,569</b>	<b>\$ (4,044)</b>	<b>15</b>	<b>\$ 18,049</b>	<b>\$ (497)</b>	<b>169</b>	<b>\$ 271,618</b>	<b>\$ (4,541)</b>

The following table presents the components of net investment income:

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<i>(In Thousands)</i>				
Investment income	\$ 4,363	\$ 3,727	\$ 12,455	\$ 10,672
Investment expenses	(193)	(183)	(570)	(555)
<b>Net investment income</b>	<b>\$ 4,170</b>	<b>\$ 3,544</b>	<b>\$ 11,885</b>	<b>\$ 10,117</b>

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<i>(In Thousands)</i>				
Gross realized investment gains	\$ 69	\$ 66	\$ 536	\$ 683
Gross realized investment losses	—	—	(338)	(1,441)
<b>Net realized investment gains (losses)</b>	<b>\$ 69</b>	<b>\$ 66</b>	<b>\$ 198</b>	<b>\$ (758)</b>

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

For the quarter ended September 30, 2017, we held no other-than-temporarily impaired securities. There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss).

### 3. Fair Value of Financial Instruments

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

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

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

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

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

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

#### *Assets classified as Level 1 and Level 2*

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter ended September 30, 2017.

#### *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 the Company's 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>					
<b>As of September 30, 2017</b>					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 60,214	\$ 4,840	\$ —	\$ —	\$ 65,054
Municipal debt securities	—	90,736	—	—	90,736
Corporate debt securities	—	408,840	—	—	408,840
Asset-backed securities	—	97,320	—	—	97,320
Cash, cash equivalents and short-term investments	51,477	—	—	—	51,477
<b>Total assets</b>	<b>\$ 111,691</b>	<b>\$ 601,736</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 713,427</b>
Warrant liability	—	—	4,046	—	4,046
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,046</b>	<b>\$ —</b>	<b>\$ 4,046</b>

	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>					
<b>As of December 31, 2016</b>					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 50,719	\$ 12,460	\$ —	\$ —	\$ 63,179
Municipal debt securities	—	40,269	—	—	40,269
Corporate debt securities	—	349,078	—	—	349,078
Asset-backed securities	—	114,661	—	—	114,661
Cash, cash equivalents and short-term investments	109,528	—	—	—	109,528
<b>Total assets</b>	<b>\$ 160,247</b>	<b>\$ 516,468</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 676,715</b>
Warrant liability	—	—	3,367	—	3,367
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,367</b>	<b>\$ —</b>	<b>\$ 3,367</b>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2017 and the year-end December 31, 2016.

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

Warrant Liability	For the nine months ended September 30,	
	2017	2016
<i>(In Thousands)</i>		
Balance, January 1	\$ 3,367	\$ 1,467
Change in fair value of warrant liability included in earnings	679	187
<b>Balance, September 30</b>	<b>\$ 4,046</b>	<b>\$ 1,654</b>

We revalue the warrant liability quarterly using 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. As of September 30, 2017, the assumptions used in the option-pricing model were as follows: a common stock price as of September 30, 2017 of

\$12.40, risk free interest rate of 1.66%, expected life of 3.25 years, expected volatility of 30.6% and a dividend yield of 0%. The change in fair value is primarily attributable to an increase in the price of our common stock from December 31, 2016 to September 30, 2017.

#### 4. Term Loan

On November 10, 2015, we entered into a credit agreement (the Credit Agreement) to obtain a three-year senior secured term loan (the Term Loan) for \$150 million. On February 10, 2017, we entered into an amendment to the Credit Agreement, to extend the maturity date of the Term Loan by one year and reduce the interest rate. Based on our analysis, we concluded the amendment to the Credit Agreement should be treated as a modification. As of September 30, 2017, the Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 6.75% (an all-in rate of 7.99% as of September 30, 2017), payable monthly or quarterly based on our interest rate election. Quarterly principal payments of \$375 thousand are also required. The outstanding balance of the Term Loan as of September 30, 2017 was \$147 million.

Debt issuance costs totaling \$4.8 million, including \$370 thousand related to the modification and a 1% original issue discount, are being amortized to interest expense, using the effective interest method, over the contractual life of the Term Loan. Effective interest rate for the Term Loan includes interest, amortization of issuance cost and the discount. For the nine months ended September 30, 2017, we recorded \$10.1 million of interest expense, including amortization of the issuance and modification costs and original issue discount.

We are subject to certain quarterly covenants under the Credit Agreement. These covenants include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined therein) of 35%, maximum risk-to-capital (RTC) ratio of 22.0:1.0, minimum liquidity (as defined therein), compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and minimum shareholders' equity requirements. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the Credit Agreement, including its covenants and events of default. We were in compliance with all covenants as of September 30, 2017.

Future principal payments due under the Term Loan as of September 30, 2017 are as follows:

As of September 30, 2017	Principal (In thousands)
2017	\$ 375
2018	1,500
2019	145,125
Total	\$ 147,000

## 5. Reinsurance

We have entered into two third-party reinsurance transactions to actively manage our risk, ensure PMIERS compliance and support the growth of our business. The GSEs and the Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) approved both transactions (subject to certain conditions and their periodic review of the transactions, including levels of approved capital credit).

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

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	<i>(In Thousands)</i>			
Net premiums written				
Direct	\$ 56,217	\$ 46,535	\$ 142,134	\$ 133,526
Ceded <sup>(1)</sup>	(8,501)	(37,336)	(20,029)	(37,336)
Net premiums written	<u>\$ 47,716</u>	<u>\$ 9,199</u>	<u>\$ 122,105</u>	<u>\$ 96,190</u>
Net premiums earned				
Direct	\$ 52,024	\$ 33,052	\$ 133,696	\$ 78,900
Ceded <sup>(1)</sup>	(7,505)	(1,244)	(18,035)	(1,244)
Net premiums earned	<u>\$ 44,519</u>	<u>\$ 31,808</u>	<u>\$ 115,661</u>	<u>\$ 77,656</u>

(1) Net of profit commission

### *Excess-of-loss reinsurance*

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re that provides for up to \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and was \$185 million as of September 30, 2017. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

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

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

At the time the 2017 ILN Transaction was entered into with Oaktown Re, we evaluated the applicability of the accounting guidance that addresses VIEs. As a result of the evaluation of the 2017 ILN Transaction, we concluded that Oaktown Re is a VIE. However, given that NMIC does not have significant economic exposure in Oaktown Re, we do not consolidate Oaktown Re in our consolidated financial statements.

*Quota share reinsurance*

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

Under the 2016 QSR Transaction, effective September 1, 2016, NMIC ceded premiums related to:

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

The following table shows the amounts related to the 2016 QSR Transaction:

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	<i>(In Thousands)</i>			
Ceded risk-in-force	\$ 2,682,982	\$ 1,778,235	\$ 2,682,982	\$ 1,778,235
Ceded premiums written	(14,389)	(38,977)	(36,715)	(38,977)
Ceded premiums earned	(13,393)	(2,885)	(34,721)	(2,885)
Ceded claims and claims expenses	277	90	887	90
Ceding commission written	2,878	7,795	7,343	7,795
Ceding commission earned	2,581	551	6,921	551
Profit commission	7,758	1,641	19,945	1,641

Ceded premiums written are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of income on direct premiums. NMIC receives a 20% ceding commission for premiums ceded pursuant to this transaction. NMIC also receives a profit commission, provided that the loss ratio on the loans covered under the agreement generally remains below 60%, as measured annually. Ceded claims and claims expenses reduce NMIC's profit commission on a dollar-for-dollar basis.

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was \$1.2 million as of September 30, 2017.

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

## 6. Reserves for Insurance Claims and Claims Expenses

We establish reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Our method, consistent with industry practice, is to establish reserves only for loans that have been reported to us as having been in default for at least 60 days. Our reserves also include amounts for estimated claims incurred on loans that have been in default for at least 60 days that have not yet been reported to us by the servicers, often referred to as IBNR. As of September 30, 2017, we had reserves for insurance claims and claims expenses of \$6.1 million for 350 primary loans in default. During the first nine months of 2017, we paid 16 claims totaling \$731 thousand, including two claims totaling \$11 thousand covered under the 2016 QSR Transaction.

In 2013, we entered into a pool insurance transaction with Fannie Mae. We only establish reserves for pool risk if we expect claims to exceed the deductible under the pool agreement, which represents the amount of claims absorbed by Fannie Mae before we are obligated to pay any claims. At September 30, 2017, 46 loans in the pool were past due by 60 days or more. These 46 loans

represent approximately \$3.0 million of risk-in-force (RIF). Due to the size of the remaining deductible of \$10.0 million, the low level of notices of default (NODs) reported on loans in the pool through September 30, 2017 and the expected severity (all loans in the pool have loan-to-value ratios (LTVs) under 80%), we have not established any pool reserves for claims or IBNR for the three and nine months ended September 30, 2017 and 2016. In connection with the settlement of pool claims, we applied \$368 thousand to the pool deductible through September 30, 2017. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

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

	For the nine months ended September 30,	
	2017	2016
	<i>(In Thousands)</i>	
Beginning balance	\$ 3,001	\$ 679
Less reinsurance recoverables <sup>(1)</sup>	(297)	—
Beginning balance, net of reinsurance recoverables	2,704	679
Add claims incurred:		
Claims and claim expenses incurred:		
Current year <sup>(2)</sup>	3,546	1,803
Prior years <sup>(3)</sup>	(581)	(214)
Total claims and claims expenses incurred	2,965	1,589
Less claims paid:		
Claims and claim expenses paid:		
Current year <sup>(2)</sup>	—	—
Prior years <sup>(3)</sup>	720	225
Total claims and claim expenses paid	720	225
Reserve at end of period, net of reinsurance recoverables	4,949	2,043
Add reinsurance recoverables <sup>(1)</sup>	1,174	90
Ending balance	\$ 6,123	\$ 2,133

<sup>(1)</sup> Related to ceded losses recoverable on the 2016 QSR Transaction, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, "Reinsurance" for additional information.

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

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

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred relating to current year NODs represents the estimated amount to be ultimately paid on such loans in default. We recognized \$581 thousand and \$214 thousand of favorable prior year development during the nine months ended September 30, 2017 and 2016, respectively, due to NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Reserves of \$1.7 million related to prior year defaults remained as of September 30, 2017.

## 7. Earnings per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding, while diluted earnings per share is based on the weighted average number of shares of common stock outstanding and common stock equivalents that would be issuable upon the exercise of stock options, other share-based compensation arrangements, and the dilutive effect of

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outstanding warrants. The following table reconciles the net income and the weighted average shares of common stock outstanding used in the computations of basic and diluted earnings per share of common stock:

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	<i>(In Thousands, except for per share data)</i>			
Net income	\$ 12,312	\$ 6,175	\$ 23,816	\$ 4,279
Basic earnings per share	<u>\$ 0.21</u>	<u>\$ 0.10</u>	<u>\$ 0.40</u>	<u>\$ 0.07</u>
Basic weighted average shares outstanding	59,883,629	59,130,401	59,680,166	59,047,758
Dilutive effect of non-vested shares and warrants	3,205,329	1,154,345	3,093,167	814,158
Dilutive weighted average shares outstanding	63,088,958	60,284,746	62,773,333	59,861,916
Diluted earnings per share	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.38</u>	<u>\$ 0.07</u>

For the three and nine months ended September 30, 2017, 830,043 and 832,460, respectively, and for the three and nine months ended September 30, 2016, 4,012,046 and 4,326,168, respectively, of our common stock equivalents issued under share-based compensation arrangements were not included in the calculation of diluted earnings per share because they were anti-dilutive. The warrants were not dilutive in 2016.

#### 8. Warrants

We issued 992,000 warrants in connection with our Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to \$10.00. The warrants were issued with an aggregate fair value of \$5.1 million. Upon exercise of these warrants, the amounts will be treated as additional paid-in capital. No warrants were exercised during the nine months ended September 30, 2017 and 2016. We account for these warrants to purchase our common shares in accordance with ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-40, *Derivatives and Hedging - Contracts in Entity's Own Equity*.

#### 9. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 35%. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for the interim reporting periods are based on an estimated annual effective tax rate for the year ending December 31, 2017. Our effective tax rate on our pre-tax income was 36.9% and 33.3% for the three and nine months ended September 30, 2017, respectively, compared to 1.8% and 2.6% for the comparable 2016 periods. The increase in the effective tax expense for the three and nine months ended September 30, 2017, against the comparable 2016 periods is attributable to the elimination of tax benefits during the comparable 2016 periods due to the recognition of a full valuation allowance which had been recorded to reflect the amount of the deferred taxes that may not be realized. We currently pay no regular federal income tax due to the forecasted utilization of federal net operating loss carryforwards, which were \$122.9 million as of December 31, 2016. The interim provision for income taxes include current year alternative minimum tax and changes to deferred tax assets. See Note 1, "Organization and Basis of Presentation - Immaterial Correction of Prior Period Amounts" for further details.

**10. Statutory Information**

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

NMIC and Re One's combined statutory net loss, statutory surplus, contingency reserve and RTC ratios were as follows:

As of and for the nine months and year ended	September 30, 2017	December 31, 2016
	<i>(In Thousands)</i>	
Statutory net loss	\$ (29,394)	\$ (26,653)
Statutory surplus	379,160	413,809
Contingency reserve	157,326	90,479
Risk-to-Capital	11.5:1	11.6:1

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware, such as NMIH. Delaware corporation law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations). NMIC and Re One are subject to restrictions on their ability to pay dividends without prior approval of the Wisconsin OCI. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends. Since inception, NMIC has not paid any dividends to NMIH.

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

*The following analysis should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2016 10-K, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Cautionary Note Regarding Forward-Looking Statements" above and the "Risk Factors" detailed in Part I, Item 1A of our 2016 10-K, as subsequently updated in reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.*

### Overview

We provide MI through our insurance subsidiaries. Our primary insurance subsidiary, NMIC, is approved as an MI provider by the GSEs and is licensed to write MI coverage in all 50 states and D.C. Both of our insurance subsidiaries, NMIC and Re One, are domiciled in Wisconsin and directly regulated by our primary regulator, the Wisconsin OCI. Re One solely provides statutorily required reinsurance to NMIC on insured loans with coverage levels in excess of 25%. Our subsidiary, NMIS, provides outsourced loan review services on a limited basis to mortgage loan originators. Our stock trades on the NASDAQ under the symbol "NMIH."

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 residential loans to the GSEs, who are otherwise restricted by their charters from purchasing or guaranteeing low down payment 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 prospective, primarily first-time, homeowners.

We were formed in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of September 30, 2017, we had master policy relationships with 1,240 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders and internet-sourced lenders. As of September 30, 2017, we had \$46.6 billion of total insurance-in-force (IIF), including primary IIF of \$43.3 billion, and \$10.7 billion of gross RIF, including primary RIF of \$10.6 billion.

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, fair and transparent claims payment practices, responsive customer service, financial strength and profitability.

We discuss below our results of operations for the periods presented and the conditions and trends that have impacted or are expected to impact our business. Our headquarters are located in Emeryville, California and our website is [www.nationalmi.com](http://www.nationalmi.com). Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

### ***New Insurance Written, Insurance In Force and Risk In Force***

New insurance written (NIW) is the aggregate unpaid principal balance of mortgages underpinning new policies written during a given period. NIW is affected by the overall size of the mortgage origination market, the volume of low down payment mortgage originations, the percentage of such low down payment originations covered by private versus public MI or other alternative credit enhancement structures, and our share of the private MI market. NIW, together with persistency, drives our IIF. IIF is the aggregate unpaid principal balance of the mortgages we insure, as reported to us by servicers at a given date, and represents the sum total of NIW from all prior periods less principal payments on insured mortgages and policy cancellations (including for prepayment, nonpayment of premiums and claims payment). 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 without any consideration of the impact of reinsurance. Net RIF represents RIF net of ceded risk and is therefore affected by our reinsurance agreements.



### ***Net Premiums Written and Net Premiums Earned***

Our objective is to achieve a mid-teens return on PMIERS required assets and 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. See " - *GSE Oversight*," below for a discussion of the PMIERS financial requirements.

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

- NIW;
- premium rates and 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 mortgage interest rates), levels of claims payments and home prices;
- cession of premiums under reinsurance arrangements.

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium). Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is initially recorded as unearned premium and earned over the estimated life of the policy. A majority of our single premium policies in force as of September 30, 2017 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 the coverage is effective. Annual premiums are earned on a straight-line basis over the year of coverage. Substantially all of our policies provide for either single or monthly premiums.

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

#### *Effect of reinsurance on our results*

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

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

In May 2017, NMIC secured \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by

Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and was \$185 million as of September 30, 2017. For the coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide a second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

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

### Portfolio Data

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

Primary and pool IIF and NIW	As of and for the three months ended				For the nine months ended	
	September 30, 2017		September 30, 2016		September 30, 2017	September 30, 2016
	IIF	NIW	IIF	NIW	NIW	
	<i>(In Millions)</i>					
Monthly	\$ 28,707	\$ 4,833	\$ 16,038	\$ 4,162	\$ 11,824	\$ 10,354
Single	14,552	1,282	12,190	1,695	2,887	5,595
Primary	43,259	6,115	28,228	5,857	14,711	15,949
Pool	3,330	—	3,826	\$ —	—	—
Total	\$ 46,589	\$ 6,115	\$ 32,054	\$ 5,857	\$ 14,711	\$ 15,949

For the three months ended September 30, 2017, primary NIW increased 4%, compared to the same period in 2016, primarily because of the growth within and an expansion of our customer base. Primary NIW decreased 8% for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, due to a reduction in our single policy production, driven primarily by actions we initiated to reduce the concentration of single policies in our product mix, partially offset by growth in our monthly policy volume. For the three and nine months ended September 30, 2017, monthly premium NIW increased 16% and 14%, respectively, compared to the same periods a year ago, driven primarily by the growth of our customer base.

For the nine months ended September 30, 2017, 80% of our NIW related to monthly premium policies. As of September 30, 2017, monthly premium policies accounted for 66% of our primary IIF, as compared to 60% at December 31, 2016 and 57% at September 30, 2016. We expect the break-down of monthly premium policies and single premium policies (which we refer to as "mix") in our primary IIF to continue to trend toward our current NIW mix over time. Our total IIF increased 45% as of September 30, 2017 compared to September 30, 2016, primarily because of our NIW generated between such measurement dates and higher persistency of our policies in force.

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

Primary and pool premiums written and earned	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	<i>(In Thousands)</i>			
Net premiums written <sup>(1)</sup>	\$ 47,716	\$ 9,199	\$ 122,105	\$ 96,190
Net premiums earned <sup>(1)</sup>	44,519	31,808	115,661	77,656

<sup>(1)</sup> Net premiums written and earned are reported net of reinsurance.

For the three and nine months ended September 30, 2017, net premiums written increased 419% and 27%, respectively, and net premiums earned increased 40% and 49%, respectively, compared to the same periods in 2016. The increases in net premiums written are due to growth of our monthly policy production and IIF and the initial cession of premiums written on IIF at the inception of the 2016 QSR Transaction, partially offset by the decrease in single premium NIW. The increases in net premiums earned are primarily due to growth in our monthly policy production and IIF, partially offset by cessions under the 2016 QSR Transaction and 2017 ILN Transaction and, compared to the same periods in 2016, reductions in our single premium policy production and earnings

from cancellations. Pool premiums written and earned for the three and nine months ended September 30, 2017 were \$0.9 million and \$2.9 million, respectively, before the effects of the 2016 QSR Transaction.

### Portfolio Statistics

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

Primary portfolio trends	As of and for the three months ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	(\$ Values In Millions)				
New insurance written	\$ 6,115	\$ 5,037	\$ 3,559	\$ 5,240	\$ 5,857
New risk written	1,496	1,242	868	1,244	1,415
Insurance in force <sup>(1)</sup>	43,259	38,629	34,779	32,168	28,228
Risk in force <sup>(1)</sup>	10,572	9,417	8,444	7,790	6,847
Policies in force (count) <sup>(1)</sup>	180,089	161,195	145,632	134,662	119,002
Average loan size <sup>(1)</sup>	\$ 0.240	\$ 0.240	\$ 0.239	\$ 0.239	\$ 0.237
Weighted-average coverage <sup>(2)</sup>	24.4%	24.4%	24.3%	24.2%	24.3%
Loans in default (count)	350	249	207	179	115
Percentage of loans in default	0.2%	0.2%	0.1%	0.1%	0.1%
Risk in force on defaulted loans	\$ 19	\$ 14	\$ 12	\$ 10	\$ 6
Average premium yield <sup>(3)</sup>	0.43%	0.41%	0.40%	0.44%	0.48%
Earnings from cancellations	\$ 4.3	\$ 3.8	\$ 2.5	\$ 5.1	\$ 5.8
Annual persistency	85.1%	83.1%	81.3%	80.7%	81.8%
Quarterly run-off <sup>(4)</sup>	3.8%	3.4%	2.9%	4.6%	5.3%

<sup>(1)</sup> Reported as of the end of the period.

<sup>(2)</sup> Calculated as end of period RIF divided by IIF.

<sup>(3)</sup> Calculated as net primary and pool premiums earned, net of reinsurance, divided by average gross primary IIF for the period, annualized.

<sup>(4)</sup> Defined as the percentage of IIF that is no longer on our books after any three-month period.

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

Primary IIF	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(In Millions)			
IIF, beginning of period	\$ 38,629	\$ 23,624	\$ 32,168	\$ 14,824
NIW	6,115	5,857	14,711	15,949
Cancellations and other reductions	(1,485)	(1,253)	(3,620)	(2,545)
IIF, end of period	\$ 43,259	\$ 28,228	\$ 43,259	\$ 28,228

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

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

Primary IIF and RIF	As of September 30, 2017		As of September 30, 2016	
	IIF	RIF	IIF	RIF
	<i>(In Millions)</i>			
September 30, 2017	\$ 14,315	\$ 3,508	\$ —	\$ —
2016	18,684	4,520	15,433	3,719
2015	8,742	2,167	10,679	2,610
2014	1,479	368	2,062	505
2013	39	9	54	13
Total	\$ 43,259	\$ 10,572	\$ 28,228	\$ 6,847

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

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

Primary NIW by FICO	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	<i>(\$ In Millions)</i>			
>= 760	\$ 2,806	\$ 2,975	\$ 6,865	\$ 8,418
740-759	934	934	2,277	2,606
720-739	807	725	1,889	1,870
700-719	697	588	1,662	1,540
680-699	456	387	1,088	940
<=679	415	248	930	575
Total	\$ 6,115	\$ 5,857	\$ 14,711	\$ 15,949
Weighted average FICO	747	753	748	754

Primary NIW by LTV	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ In Millions)			
95.01% and above	\$ 722	\$ 347	\$ 1,470	\$ 918
90.01% to 95.00%	2,714	2,557	6,623	7,005
85.01% to 90.00%	1,765	1,844	4,372	4,996
85.00% and below	914	1,109	2,246	3,030
<b>Total</b>	<b>\$ 6,115</b>	<b>\$ 5,857</b>	<b>\$ 14,711</b>	<b>\$ 15,949</b>
Weighted average LTV	92.3%	91.7%	92.2%	91.6%

Primary NIW by purchase/refinance mix	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ In Millions)			
Purchase	\$ 5,387	\$ 4,400	\$ 12,889	\$ 11,518
Refinance	728	1,457	1,822	4,431
<b>Total</b>	<b>\$ 6,115</b>	<b>\$ 5,857</b>	<b>\$ 14,711</b>	<b>\$ 15,949</b>

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

Primary IIF by FICO	As of			
	September 30, 2017		September 30, 2016	
	(\$ Values In Millions)			
>= 760	\$ 21,329	49%	\$ 14,258	50%
740-759	6,983	16	4,612	16
720-739	5,547	13	3,648	13
700-719	4,505	10	2,813	10
680-699	2,942	7	1,863	7
<=679	1,953	5	1,034	4
<b>Total</b>	<b>\$ 43,259</b>	<b>100%</b>	<b>\$ 28,228</b>	<b>100%</b>

Primary RIF by FICO	As of			
	September 30, 2017		September 30, 2016	
	(\$ Values In Millions)			
>= 760	\$ 5,251	50%	\$ 3,470	51%
740-759	1,713	16	1,130	17
720-739	1,349	13	887	13
700-719	1,092	10	680	10
680-699	707	7	443	6
<=679	460	4	237	3
<b>Total</b>	<b>\$ 10,572</b>	<b>100%</b>	<b>\$ 6,847</b>	<b>100%</b>

Primary IIF by LTV	As of				
	September 30, 2017		September 30, 2016		
	(\$ Values In Millions)				
95.01% and above	\$ 3,038	7%	\$ 1,363	5%	
90.01% to 95.00%	19,562	45	12,644	45	
85.01% to 90.00%	13,437	31	9,157	32	
85.00% and below	7,222	17	5,064	18	
<b>Total</b>	<b>\$ 43,259</b>	<b>100%</b>	<b>\$ 28,228</b>	<b>100%</b>	

Primary RIF by LTV	As of				
	September 30, 2017		September 30, 2016		
	(\$ Values In Millions)				
95.01% and above	\$ 822	8%	\$ 380	6%	
90.01% to 95.00%	5,722	54	3,725	54	
85.01% to 90.00%	3,205	30	2,174	32	
85.00% and below	823	8	568	8	
<b>Total</b>	<b>\$ 10,572</b>	<b>100%</b>	<b>\$ 6,847</b>	<b>100%</b>	

Primary RIF by Loan Type	As of	
	September 30, 2017	September 30, 2016
	Fixed	98%
Adjustable rate mortgages:		
Less than five years	—	—
Five years and longer	2	2
<b>Total</b>	<b>100%</b>	<b>100%</b>

The table below shows selected primary portfolio statistics, by book year, as of September 30, 2017.

Book year	As of September 30, 2017									
	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) <sup>(1)</sup>	Cumulative default rate <sup>(2)</sup>	
	(\$ Values in Millions)									
2013	\$ 162	\$ 39	24%	655	201	—	1	0.2%	0.2%	
2014	3,451	1,479	43%	14,786	7,451	54	9	3.8%	0.4%	
2015	12,422	8,742	70%	52,548	39,727	164	14	2.9%	0.3%	
2016	21,187	18,684	88%	83,626	76,095	119	3	1.6%	0.1%	
2017	14,711	14,315	97%	57,800	56,615	13	—	0.5%	—	
<b>Total</b>	<b>\$ 51,933</b>	<b>\$ 43,259</b>		<b>209,415</b>	<b>180,089</b>	<b>350</b>	<b>27</b>			

<sup>(1)</sup> The ratio of total claims incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.

<sup>(2)</sup> The sum of the number of claims paid ever to date and number of loans in default as of the end of the period divided by policies ever in force.

### Geographic Dispersion

The following table shows the distribution by state of our primary RIF as of the periods indicated. As of September 30, 2017, our RIF continues to be relatively more concentrated in California, primarily as a result of the location and timing of the acquisition of new customers. The distribution of risk as of September 30, 2017 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state

	As of	
	September 30, 2017	September 30, 2016
California	13.6%	13.2%
Texas	7.6	6.8
Virginia	5.6	6.6
Arizona	4.4	3.8
Florida	4.3	4.7
Colorado	3.8	4.0
Michigan	3.7	3.9
Pennsylvania	3.6	3.6
Utah	3.6	3.6
Maryland	3.6	3.6
Total	53.8%	53.8%

**Insurance Claims and Claims Expenses**

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

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

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property valuation. Reserves are released the month in which a loan in default is brought current by the borrower, which is referred to as a cure. Adjustments to reserve estimates are reflected in the period in which the adjustment is made. Reserves are also ceded to reinsurers under our 2016 QSR Transaction. We will not cede reserves to the reinsurer under the 2017 ILN Transaction unless losses exceed our retained coverage layer. Reserves are not established for future claims on insured loans which are not currently in default.

We expect our insurance claims and claims expenses to be relatively low in the near-term. Based on our experience and industry data, we believe that claims incidence for mortgage insurance is generally highest in the third through sixth years after loan origination. As of September 30, 2017, over 95% of our primary IIF was related to business written since January 1, 2015. Additionally, our pool insurance agreement with Fannie Mae contains a claim deductible through which Fannie Mae absorbs specified losses before we are obligated to pay any claims. We have not established any pool reserves for claims or IBNR to date. Although the claims experience on new primary insurance written by us to date has been favorable, we expect incurred claims to increase as a greater amount of our existing insured portfolio reaches its anticipated period of highest claim frequency. We estimate that the loss ratio over the life of our existing insured portfolio will be between 20% and 25% of earned premiums, and we price to that expectation.

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 of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the profile of new business we write in the future. In addition, claims experience will be affected by future macroeconomic factors such as housing prices, interest rates and employment. To date, our claims experience is developing at a slower pace than historical trends indicate, as a result of high quality underwriting, a strong macroeconomic environment and a favorable housing market. For additional discussion of our reserves, see, Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 6, Reserves for Insurance Claims and Claims Expenses.*"

We insure mortgages for homes in areas that have been impacted by recent natural disasters, including hurricanes Harvey and Irma and the fires in Northern California. We do not provide coverage for property or casualty claims related to physical damage of a home underpinning an insured mortgage. We anticipate that we will experience an increase in NODs on insured loans in the

impacted areas. Our ultimate claims exposure will depend on the number of NODs received, proximate cause of each default and cure rate of the NOD population. In the event of natural disasters, cure rates are influenced by the adequacy of homeowners and flood insurance carried on a related property, and a borrower's access to aid from government entities and private organizations, in addition to other factors which generally impact cure rates in unaffected areas.

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

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	<i>(In Thousands)</i>			
Beginning balance	\$ 5,048	\$ 1,475	\$ 3,001	\$ 679
Less reinsurance recoverables <sup>(1)</sup>	(899)	—	(297)	—
Beginning balance, net of reinsurance recoverables	4,149	1,475	2,704	679
Add claims incurred:				
Claims and claim expenses incurred:				
Current year <sup>(2)</sup>	1,215	690	3,546	1,803
Prior years <sup>(3)</sup>	(258)	(29)	(581)	(214)
Total claims and claims expenses incurred	957	661	2,965	1,589
Less claims paid:				
Claims and claim expenses paid:				
Current year <sup>(2)</sup>	—	—	—	—
Prior years <sup>(3)</sup>	157	93	720	225
Total claims and claim expenses paid	157	93	720	225
Reserve at end of period, net of reinsurance recoverables	4,949	2,043	4,949	2,043
Add reinsurance recoverables <sup>(1)</sup>	1,174	90	1,174	90
Ending balance	\$ 6,123	\$ 2,133	\$ 6,123	\$ 2,133

<sup>(1)</sup> Related to ceded losses recoverable on the 2016 QSR Transaction, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Item 1, "Financial Statements - Notes to Consolidated Financial Statements - Note 5, Reinsurance" for additional information.

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

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

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



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

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Beginning default inventory	249	79	179	36
Plus: new defaults	208	69	479	158
Less: cures	(103)	(30)	(292)	(73)
Less: claims paid	(4)	(3)	(16)	(6)
Ending default inventory	350	115	350	115

The increase in the ending default inventory at September 30, 2017 compared to September 30, 2016 was primarily due to an increase in the number of policies in force and expected loss development of our portfolio.

The following table provides details of our claims paid, before giving effect to claims paid under the 2016 QSR Transaction, for the three and nine months ended September 30, 2017 and September 30, 2016.

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ Values In Thousands)			
Number of claims paid	4	3	16	6
Total amount paid for claims	\$ 160	\$ 93	\$ 731	\$ 225
Average amount paid per claim	\$ 40	\$ 31	\$ 46	\$ 32
Severity <sup>(1)</sup>	73%	53%	83%	62%

<sup>(1)</sup> Severity represents the total amount of claims paid divided by the related RIF on the loan at the time the claim is perfected.

The increase in the number of claims paid for the three and nine months ended September 30, 2017 compared to the same periods ended September 30, 2016 is due to an increase in our default inventory. We expect the severity of claims we receive to be between 85% and 95% of the coverage amount. We believe our severity is below long-term expectations due to home price appreciation in recent periods.

Average reserve per default:	As of September 30, 2017		As of September 30, 2016	
	(In Thousands)			
Case <sup>(1)</sup>	\$	16	\$	17
IBNR		1		1
Total	\$	17	\$	18

<sup>(1)</sup> Defined as the gross reserve per insured loan in default.

### GSE Oversight

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

Under the PMIERS financial requirements, *Approved Insurers* must maintain *available assets* that equal or exceed *minimum required assets*, which is an amount equal to the greater of (i) \$400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *Approved Insurers* net RIF, calculated by applying on a loan-

by-loan basis certain risk-based factors derived from tables set out in the PMIERS to the net RIF, and other transactional adjustments approved by the GSEs, such as with respect to our 2017 ILN Transaction and 2016 QSR Transaction. The *risk-based required asset amount* for primary insurance is subject to a floor of 5.6% of total, performing, primary RIF, and the *risk-based required asset amount* for pool insurance considers both the factors in the tables and the *net remaining stop loss* for each pool insurance policy. The PMIERS financial requirements also increase the amount of *available assets* that must be held by an *Approved Insurer* for LPMI policies originated on or after January 1, 2016.

By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2017 that NMIC fully complied with the PMIERS as of December 31, 2016. 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. We continuously monitor our compliance with the PMIERS.

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

	As of	
	September 30, 2017	September 30, 2016
	<i>(In Thousands)</i>	
Available assets	\$ 495,182	\$ 488,635
Risk-based required assets	356,207	320,609

The increase in *available assets* as of September 30, 2017 compared to September 30, 2016 is driven by the positive cash flow from operations and amortization of unearned premium reserves. The increase in the *risk-based required asset amount* is due to the growth of our RIF, offset by the cession of risk relating to our third-party reinsurance agreements.

### **Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings**

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

As of September 30, 2017, NMIC's primary RIF, net of reinsurance, was approximately \$6.2 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory surplus of \$502.6 million (including contingency reserves) as of September 30, 2017, NMIC's RTC ratio was 12.3:1. Re One had total statutory capital of \$33.9 million as of September 30, 2017, with a RTC ratio of 0.7:1. We continuously monitor our compliance with state capital requirements.

In August 2017, Moody's Investors Service (Moody's) re-affirmed its "Ba1" financial strength rating for NMIC and its B2 rating of NMIH's \$150 million Term Loan. Moody's outlook for both ratings changed from "stable" to "positive." In July 2017, S&P re-affirmed its "BBB-" financial strength and long-term counter-party credit ratings on NMIC and its "BB-" long-term counter-party credit rating on NMIH. S&P's outlook for both companies is "positive."

### **Competition**

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

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

## Consolidated Results of Operations

Consolidated statements of operations	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenues	<i>(In Thousands)</i>			
Net premiums earned	\$ 44,519	\$ 31,808	\$ 115,661	\$ 77,656
Net investment income	4,170	3,544	11,885	10,117
Net realized investment gains (losses)	69	66	198	(758)
Other revenues	195	102	461	172
<b>Total revenues</b>	<b>48,953</b>	<b>35,520</b>	<b>128,205</b>	<b>87,187</b>
Expenses				
Insurance claims and claims expenses	957	664	2,965	1,592
Underwriting and operating expenses	24,645	24,037	78,682	69,943
<b>Total expenses</b>	<b>25,602</b>	<b>24,701</b>	<b>81,647</b>	<b>71,535</b>
Other expense				
Loss from change in fair value of warrant liability	(502)	(797)	(679)	(187)
Interest expense	(3,352)	(3,733)	(10,146)	(11,072)
Income before income taxes	19,497	6,289	35,733	4,393
Income tax expense	7,185	114	11,917	114
<b>Net income</b>	<b>\$ 12,312</b>	<b>\$ 6,175</b>	<b>\$ 23,816</b>	<b>\$ 4,279</b>
Loss ratio <sup>(1)</sup>	2.1%	2.1%	2.6%	2.1%
Expense ratio <sup>(2)</sup>	55.4%	75.6%	68.0%	90.1%
Combined ratio	57.5%	77.7%	70.6%	92.2%

<sup>(1)</sup> Loss ratio is calculated by dividing the provision for insurance claims and claims expenses by net premiums earned.

<sup>(2)</sup> Expense ratio is calculated by dividing other underwriting and operating expenses by net premiums earned.

### Revenues

For the three and nine months ended September 30, 2017, net premiums earned increased \$12.7 million or 40% and \$38.0 million or 49%, respectively, compared to the corresponding three and nine months ended September 30, 2016. The increase in both periods is primarily due to the continued growth in our monthly policy production and IIF, partially offset by the effects of the 2016 QSR Transaction and 2017 ILN Transaction and reductions in our single policy production and earnings from early policy cancellations.

For the three and nine months ended September 30, 2017, net investment income increased \$0.6 million and \$1.8 million, respectively, compared to the three and nine months ended September 30, 2016, due to an increase in the size of and improved yields on our total investment portfolio.

### Expenses

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

Insurance claims and claims expenses increased \$0.3 million and \$1.4 million for the three and nine months ended September 30, 2017, respectively, compared to the three and nine months ended September 30, 2016, as a result of an increase in our NODs, primarily due to an increase in the number of policies in force year-over-year and expected loss development of our portfolio. The increase in claims and claims expenses for the three and nine months ended September 30, 2017 was offset by the partial release of reserves related to prior year defaults.

Underwriting and operating expenses increased \$0.6 million or 3%, and \$8.7 million or 12% for the three and nine months ended September 30, 2017, respectively, compared to the three and nine months ended September 30, 2016. Employee compensation accounts for the majority of our operating expenses. We increased the size of our workforce from 273 employees as of September 30, 2016 to 298 employees as of September 30, 2017 to support the growth of our business, particularly our sales and operating functions. Underwriting and operating expenses for the nine months ended September 30, 2017 also reflect \$4.8 million of operating expenses related to the 2017 ILN Transaction and amendment of the Credit Agreement.

We incurred interest expense related to the Term Loan of \$3.4 million and \$10.1 million for the three and nine months ended September 30, 2017, respectively, compared to interest expense of \$3.7 million and \$11.1 million for the three and nine months ended September 30, 2016, respectively. Interest expense declined in connection with the amendment of our Credit Agreement which we completed in February 2017, which among other items, reduced the interest rate payable on the Term Loan. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Term Loan.*"

#### *Income Tax*

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 35%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries.

Our provision for income taxes for the interim reporting periods are based on an estimated annual effective tax rate for the year ending December 31, 2017. We currently pay no regular federal income tax due to the forecasted utilization of federal net operating loss carryforwards, which were \$122.9 million as of December 31, 2016. The interim provision for income taxes include current year alternative minimum tax and changes to deferred tax assets. Our effective tax rate on our pre-tax income was 36.9% for the three months ended September 30, 2017, compared to 1.8% for the comparable 2016 period. Our effective tax rate on our pre-tax income was 33.3% for the nine months ended September 30, 2017, compared to our effective tax rate on our pre-tax income of 2.6% for the comparable 2016 period. The difference between our statutory tax rate and our effective tax rates for the three and nine months ended September 30, 2017 is due to a discrete tax benefit associated with excess tax benefits for restricted stock units that were recognized during the periods as a result of the adoption of ASU 2016-09 in the prior quarter. See Item 1, "*Financial Statements - Notes to Consolidated Financial Statements - Note 1, Organization and Basis of Presentation - Change in Accounting Principle.*" We expect our effective tax rate to return to approximately the statutory tax rate for the year ending December 31, 2017. From inception through September 30, 2016, we had evaluated the realizability of our net deferred tax assets on a quarterly basis and concluded that it was more-likely-than-not that our net deferred tax assets may not be realized and recognized a full valuation allowance against net deferred tax assets.

## Consolidated balance sheets

	September 30, 2017	December 31, 2016 <sup>(1)</sup>
	(In Thousands)	
Total investment portfolio	\$ 692,729	\$ 628,969
Cash and cash equivalents	20,698	47,746
Premiums receivable	21,056	13,728
Deferred policy acquisition costs, net	36,101	30,109
Software and equipment, net	21,767	20,402
Prepaid reinsurance premiums	39,915	37,921
Deferred tax asset, net	38,490	51,434
Other assets	15,856	9,588
<b>Total assets</b>	<b>\$ 886,612</b>	<b>\$ 839,897</b>
Term loan	\$ 143,969	\$ 144,353
Unearned premiums	161,345	152,906
Accounts payable and accrued expenses	22,028	25,297
Reserve for insurance claims and claims expenses	6,123	3,001
Reinsurance funds withheld	33,105	30,633
Deferred ceding commission	4,971	4,831
Warrant liability	4,046	3,367
<b>Total liabilities</b>	<b>375,587</b>	<b>364,388</b>
Total shareholders' equity	511,025	475,509
<b>Total liabilities and shareholders' equity</b>	<b>\$ 886,612</b>	<b>\$ 839,897</b>

<sup>(1)</sup>The 2016 prior period balance sheet has been revised. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 1, Organization and Basis of Presentation. Immaterial Correction of Prior Period Amounts" for further details.

As of September 30, 2017, we had approximately \$713.4 million in cash and investments, including \$61.7 million held at NMIH. The increase in cash and investments from year-end 2016 primarily relates to cash generated from operations.

Net deferred policy acquisition costs were \$36.1 million as of September 30, 2017, compared to \$30.1 million at December 31, 2016. The increase was driven by the deferment of certain costs associated with policies written during the nine months ended September 30, 2017, partially offset by the amortization of previously deferred acquisition costs and the capitalization of ceding commissions associated with the 2016 QSR Transaction during the period.

Unearned premiums increased \$8.4 million to \$161.3 million as of September 30, 2017, primarily due to single premium policy origination during the period, offset by the amortization through earnings of existing unearned premiums in accordance with the expiration of risk on the related policies and the cancellation of other single premium policies.

Other assets balance increased \$6.3 million to \$15.9 million as of September 30, 2017, primarily due to \$3.3 million of pending proceeds from the sale of short-term investments in September and a \$1.2 million increase in accrued investment income as a result of an increase in the size of our investment portfolio.

Accounts payable and accrued expenses decreased to \$22.0 million as of September 30, 2017, from \$25.3 million at December 31, 2016. The balance consists of expenses to be paid within the next 12 months and decreased as a result of lower operating accruals and lower accrued interest due to a lower interest rate on the Term Loan.

Reinsurance funds withheld was \$33.1 million as of September 30, 2017, representing the net of our ceded reinsurance premiums written, less our profit and ceding commission receivables related to the 2016 QSR Transaction. The increase in reinsurance funds withheld of \$2.5 million from December 31, 2016, was a result of increased ceded premiums written. See, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance."

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

Consolidated cash flows	For the nine months ended September 30,	
	2017	2016
Net cash (used in) provided by:	(In Thousands)	
Operating activities	\$ 41,778	\$ 52,212
Investing activities	(66,553)	(63,714)
Financing activities	(2,273)	(1,293)
Net decrease in cash and cash equivalents	\$ (27,048)	\$ (12,795)

Net cash provided by operating activities was \$41.8 million for the nine months ended September 30, 2017, compared to \$52.2 million in the same period in 2016. The decrease in cash generated from operating activities was primarily caused by increased operating expenses in connection with employee compensation and benefits costs and higher claims paid due to an increase in our default inventory offset by growth in net premiums written.

Cash used in investing activities for the periods presented was driven by the purchase of fixed and short-term maturities during those periods.

The \$1 million increase in cash used in financing activities for the nine months ended September 30, 2017 compared to the same period ended September 30, 2016, was primarily due to an increase in taxes paid related to the net share settlement of employee equity awards.

### Holding Company Liquidity and Capital Resources

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

As of September 30, 2017, NMIH had \$61.7 million of cash and investments. NMIH's principal source of operating cash is investment income and in the future could include dividends from NMIC, if available and permitted under law and by the GSEs.

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

NMIC's ability to pay dividends to NMIH is subject to insurance department notice or approval. Under Wisconsin law, NMIC may pay dividends up to specified levels (i.e., "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts, or "extraordinary" dividends, are subject to the Wisconsin OCI's prior approval. Under Wisconsin insurance laws, an extraordinary dividend is defined as any payment or distribution that together with other dividends and distributions made within the preceding 12 months exceeds the lesser of (i) 10% of the insurer's statutory policyholders' surplus as of the preceding December 31 or (ii) adjusted statutory net income for the 12-month period ending the preceding December 31. NMIC has never paid any dividends to NMIH. NMIC reported a statutory net loss for the twelve months ended December 31, 2016 and currently cannot pay any dividends to NMIH without the prior approval of the Wisconsin OCI. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends.

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

In November 2015, NMIH entered into the Credit Agreement for the Term Loan. On February 10, 2017, NMIH amended the Credit Agreement, (Amendment No. 1) to reduce the interest rate and extend the maturity date of the Term Loan from November 10, 2018 to November 10, 2019. The amended Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 6.75%, payable monthly or quarterly based on our interest rate election. The Credit Agreement contains various restrictive covenants and required financial ratios and tests (which were not modified by Amendment No. 1) that we are required to meet or maintain. These covenants include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined therein) of 35%, maximum RTC ratio of 22.0:1.0, minimum liquidity (as defined therein) of \$27.4 million as of September 30, 2017, compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and minimum shareholders' equity requirements. In October 2017, NMIH further amended the Credit Agreement to remove a covenant that required NMIH to maintain liquidity (as defined therein) in an aggregate amount no less than all remaining interest payments due under the Term Loan, while retaining the requirement to maintain minimum liquidity (as defined therein) in an amount no less than all remaining principle amortization payments due under the Term Loan, estimated to be \$3 million as of the date of this report (not including the amount due at the maturity date).

### Consolidated Investment Portfolio

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

Substantially all of our investment portfolio is held in fixed maturity instruments. As of September 30, 2017, the fair value of our investment portfolio was \$692.7 million. We also had an additional \$20.7 million of cash and equivalents as of September 30, 2017. Pre-tax book yield on the portfolio for the nine months ended September 30, 2017 was 2.3%. The book yield is calculated as period-to-date net investment income divided by average amortized cost of the investment portfolio. Yield on the investment portfolio is likely to change over time based on movements in interest rates, the duration or mix of our investment portfolio and other factors.

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

Percentage of portfolio's fair value	September 30, 2017	December 31, 2016
1. Corporate debt securities	57%	52%
2. U.S. treasury securities and obligations of U.S. government agencies	9	9
3. Asset-backed securities	14	17
4. Cash, cash equivalents, and short-term investments	7	16
5. Municipal debt securities	13	6
Total	100%	100%

The ratings of our investment portfolio were:

Investment portfolio ratings at fair value	September 30, 2017	December 31, 2016
AAA	19%	24%
AA <sup>(1)</sup>	21	19
A <sup>(1)</sup>	45	44
BBB <sup>(1)</sup>	15	13
Total	100%	100%

<sup>(1)</sup> Include +/- ratings.

The ratings above are provided by one or more of: Moody's, S&P and Fitch Ratings. If three ratings are available, we assign the middle rating for classification purposes, otherwise we assign the lowest rating.

## Other Items

### *Off-Balance Sheet Arrangements and Contractual Obligations*

We had no material off-balance sheet arrangements as of September 30, 2017. In connection with the 2017 ILN Transaction, we have certain future contractual commitments to Oaktown Re, a special purpose VIE that is not consolidated in our financial results. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 1, Organization and Basis of Presentation - Variable interest entity*" and "*Note 5, Reinsurance.*"

There are no material changes outside the ordinary course of business in the contractual obligations specified in our 2016 10-K.

### *Critical Accounting Estimates*

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

We believe that the assumptions and estimates associated with revenue recognition, fair value measurements, our investment portfolio, deferred policy acquisition costs, premium deficiency reserves, income taxes, reserves for insurance claims and claims expenses, warrants and share-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting estimates. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2016 10-K.



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

The carrying value of our investment portfolio as of September 30, 2017 and December 31, 2016 was \$693 million and \$629 million, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of September 30, 2017, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.95 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.95% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 4.13 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 4.13% in fair value of our fixed income portfolio.

We are also subject to market risk related to our Term Loan and 2017 ILN Transaction. As discussed in Item 1, "*Financial Statements - Notes to Consolidated Financial Statements - Note 4, Term Loan,*" the Term Loan bears interest at a variable rate and, as a result, increases in market interest rates would generally result in increased interest expense on our outstanding principal.

The risk premium amounts under the 2017 ILN Transaction are calculated by multiplying the outstanding reinsurance coverage amount at the beginning of any payment period by a coupon rate, which is the sum of 1-month LIBOR and a risk margin, and then subtracting actual investment income earned on the trust balance during that payment period. An increase in 1-month LIBOR rates would generally increase the risk premium payments, while an increase to money market rates, which directly affect investment income earned on the trust balance, would generally decrease them. Although we expect the two rates to move in tandem, to the extent they do not, it could increase or decrease the risk premium payments that otherwise would be due.

## **Item 4. Controls and Procedures**

### **Disclosure Controls and Procedures**

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

Our management, including our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 30, 2017, pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of September 30, 2017, our disclosure controls and procedures were not effective, due to the existence of a material weakness in the design and operating effectiveness of an internal control related to reconciliation support used to validate our deferred tax inventory. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected in a timely basis. As described in Item 1, "*Financial Statements - Notes to Consolidated Financial Statements - Note 1, Organization and Basis of Presentation - Immaterial Correction of Prior Period Amounts*," above, we detected a \$1.8 million error in the deferred tax balance that was immaterial to the 2016 financial statements. Notwithstanding the material weakness identified, our management has concluded that the consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows at and for the periods presented. In addition, there were no material errors in our financial results or balances identified as a result of this control deficiency, and accordingly, amendment of our 2016 Form 10-K is not required.

We enhanced existing controls and designed and implemented new controls applicable to our deferred tax accounting, including those related to stock compensation, to ensure that our DTA is accurately calculated and appropriately reflected in our financial statements and reports we file with the SEC. We believe these actions are sufficient to remediate the identified material weakness and strengthen our internal control over financial reporting; however, there can be no guarantee that such remediation will be sufficient. We will continue to monitor the effectiveness of our controls and will make any further changes management determines appropriate.

### **Internal Control Over Financial Reporting**

Other than noted above, there were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

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

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

### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our 2016 10-K. As of the date of this report, we are not aware of any material changes in our risk factors from the risk factors disclosed in our 2016 10-K. You should carefully consider the risks and uncertainties described herein and in our 2016 10-K, which have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. The risks described herein and in our 2016 10-K are not the only risks we face, as there are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial which may in the future adversely affect our business, financial condition and/or operating results.

### Item 6. Exhibits

An index to exhibits has been filed as part of this report and is incorporated herein 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.**

November 1, 2017

By: /s/ Adam Pollitzer

Name: Adam Pollitzer

Title: Chief Financial Officer and Duly Authorized Signatory

**EXHIBIT INDEX**

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

- 10.11 ~ [Offer Letter by and between NMI Holdings, Inc. and Glenn Farrell, effective December 4, 2014](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 9, 2014)
- 10.12 ~ [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)
- 10.13 ~ [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)
- 10.14 ~ [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)
- 10.15 + [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)
- 10.16 [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)
- 10.17 [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)
- 10.18 [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)
- 10.19 ~ [NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan](#) (incorporated herein by reference to Appendix A to our 2017 Annual Proxy Statement, filed on March 30, 2017)
- 10.20 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer](#) (incorporated herein by reference to Exhibit 10.19 to our Form 10-Q filed on August 1, 2017)
- 10.21 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Executive Officers](#) (incorporated herein by reference to Exhibit 10.20 to our Form 10-Q filed on August 1, 2017)
- 10.22 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees](#) (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q filed on August 1, 2017)
- 10.23 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors](#) (incorporated herein by reference to Exhibit 10.22 to our Form 10-Q filed on August 1, 2017)
- 10.24 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer](#) (incorporated herein by reference to Exhibit 10.23 to our Form 10-Q filed on August 1, 2017)
- 10.25 ~ [Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Executive Officers and Employees](#) (incorporated herein by reference to Exhibit 10.24 to our Form 10-Q filed on August 1, 2017)
- 10.26 ~ [Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Phantom Unit Award Agreement for Independent Directors](#) (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q, filed on August 5, 2015)
- 10.27 ~ [Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award Agreement for Chief Executive Officer](#) (incorporated herein by reference to Exhibit 10.26 to our Form 10-K, filed on February 17, 2017)
- 10.28 ~ [NMI Holdings, Inc. Severance Benefit Plan](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016)
- 10.29 ~ [NMI Holdings, Inc. Change in Control Severance Benefit Plan](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 23, 2017)
- 10.30 ~ [NMI Holdings, Inc. Clawback Policy](#) (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
- 10.31 ~ [Separation Agreement between NMI Holdings, Inc. and Glenn Farrell effective July 31, 2017](#) (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on August 1, 2017)
- 21.1 [Subsidiaries of NMI Holdings, Inc.](#) (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q, filed on October 30, 2015)
- 31.1 [Principal Executive Officer's Certification](#) Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 [Principal Financial Officer's Certification](#) Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- 32.1 # [Certifications of CEO and CFO](#) Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 \* The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL (eXtensible Business Reporting Language):
- (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016
  - (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2017 and 2016
  - (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2017 and the year ended December 31, 2016
  - (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and
  - (v) Notes to Condensed Consolidated Financial Statements.

~ Indicates a management contract or compensatory plan or contract.

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

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

\* In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act except to the extent that the registrant specifically incorporates it by reference.

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

I, Bradley M. Shuster, certify that:

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



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

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

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

November 1, 2017

By: /s/ Bradley M. Shuster

Name: Bradley M. Shuster

Title: Chairman and Chief Executive Officer

(Principal Executive Officer)

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

I, Adam S. Pollitzer, certify that:

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

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

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

Date: November 1, 2017

By: /s/ Adam Pollitzer

Name: Adam S. Pollitzer

Title: Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF CEO AND CFO PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of NMI Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2017

By: /s/ Bradley M. Shuster  
Name: Bradley M. Shuster  
Title: Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: November 1, 2017

By: /s/ Adam S. Pollitzer  
Name: Adam S. Pollitzer  
Title: Chief Financial Officer  
(Principal Financial Officer)

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