# 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 **June 30, 2021**

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

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Class A Common Stock, par value $0.01 | NMIH | NASDAQ |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | 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** ☐ **No** ☒

The number of shares of common stock, $0.01 par value per share, of the registrant outstanding on July 30, 2021 was 85,708,239 shares.

**TABLE OF CONTENTS**

**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

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

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

- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;
- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
- potential adverse impacts arising from natural disasters, including, with respect to affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;
- the inability of our counter-parties, including third party reinsurers, to meet their obligations to us;
- failure to maintain, improve and continue to develop necessary information technology (IT) systems or the failure of technology providers to perform; and
- ability to recruit, train and retain key personnel.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to 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 II, Item 1A of this Report and in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2020 (2020 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 the "Company" in this document refer to NMI Holdings, Inc., a Delaware corporation, and its wholly-owned subsidiaries on a consolidated basis.

**PART I**

**Item 1. Financial Statements**

## INDEX TO FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(In Thousands, except for share data)* | |
| Assets | | |
| Fixed maturities, available-for-sale, at fair value (amortized cost of $1,954,187 and $1,730,835 as of June 30, 2021 and December 31, 2020, respectively) | $ 1,994,280 | $ 1,804,286 |
| Cash and cash equivalents (including restricted cash of $4,159 and $5,555 as of June 30, 2021 and December 31, 2020, respectively) | 68,080 | 126,937 |
| Premiums receivable | 55,939 | 49,779 |
| Accrued investment income | 11,148 | 9,862 |
| Prepaid expenses | 4,095 | 3,292 |
| Deferred policy acquisition costs, net | 62,137 | 62,225 |
| Software and equipment, net | 31,443 | 29,665 |
| Intangible assets and goodwill | 3,634 | 3,634 |
| Prepaid reinsurance premiums | 3,831 | 6,190 |
| Reinsurance recoverable | 19,726 | 17,608 |
| Other assets | 51,565 | 53,188 |
| Total assets | $ 2,305,878 | $ 2,166,666 |
| | | |
| Liabilities | | |
| Debt | $ 393,949 | $ 393,301 |
| Unearned premiums | 142,148 | 118,817 |
| Accounts payable and accrued expenses | 56,803 | 61,716 |
| Reserve for insurance claims and claim expenses | 101,235 | 90,567 |
| Reinsurance funds withheld | 6,904 | 8,653 |
| Warrant liability, at fair value | 3,385 | 4,409 |
| Deferred tax liability, net | 136,273 | 112,586 |
| Other liabilities | 5,276 | 7,026 |
| Total liabilities | 845,973 | 797,075 |
| Commitments and contingencies | | |
| | | |
| Shareholders' equity | | |
| Common stock - class A shares, $0.01 par value; 85,703,487 and 85,163,039 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively (250,000,000 shares authorized) | 857 | 852 |
| Additional paid-in capital | 944,121 | 937,872 |
| Accumulated other comprehensive income, net of tax | 27,503 | 53,856 |
| Retained earnings | 487,424 | 377,011 |
| Total shareholders' equity | 1,459,905 | 1,369,591 |
| Total liabilities and shareholders' equity | $ 2,305,878 | $ 2,166,666 |

*See accompanying notes to condensed consolidated financial statements (unaudited).*

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (In Thousands, except for per share data) | | | |
| Revenues | | | | |
| Net premiums earned | $ 110,888 | $ 98,944 | $ 216,767 | $ 197,661 |
| Net investment income | 9,382 | 7,070 | 18,196 | 15,174 |
| Net realized investment gains | 12 | 711 | 12 | 639 |
| Other revenues | 483 | 1,223 | 984 | 2,123 |
| Total revenues | 120,765 | 107,948 | 235,959 | 215,597 |
| Expenses | | | | |
| Insurance claims and claim expenses | 4,640 | 34,334 | 9,602 | 40,031 |
| Underwriting and operating expenses | 34,725 | 30,370 | 68,790 | 62,647 |
| Service expenses | 481 | 1,090 | 1,072 | 1,824 |
| Interest expense | 7,922 | 5,941 | 15,837 | 8,685 |
| (Gain) loss from change in fair value of warrant liability | (658) | 1,236 | (453) | (4,723) |
| Total expenses | 47,110 | 72,971 | 94,848 | 108,464 |
| Income before income taxes | 73,655 | 34,977 | 141,111 | 107,133 |
| Income tax expense | 16,133 | 8,129 | 30,697 | 22,014 |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| Earnings per share | | | | |
| Basic | $ 0.67 | $ 0.36 | $ 1.29 | $ 1.20 |
| Diluted | $ 0.65 | $ 0.36 | $ 1.27 | $ 1.11 |
| Weighted average common shares outstanding | | | | |
| Basic | 85,647 | 73,617 | 85,483 | 71,090 |
| Diluted | 86,819 | 74,174 | 86,729 | 72,407 |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) in accumulated other comprehensive gain (loss), net of tax expense (benefit) of $4,995 and $8,978 for the three months ended June 30, 2021 and 2020, and $(7,003) and $5,162 for the six months ended June 30, 2021 and 2020, respectively | 18,790 | 33,773 | (26,343) | 19,418 |
| Reclassification adjustment for realized (gains) losses included in net income, net of tax expense (benefit) of $3 and $149 for the three months ended June 30, 2021 and 2020, and $3 and ($258) for the six months ended June 30, 2021 and 2020, respectively | (10) | (562) | (10) | 969 |
| Other comprehensive income (loss), net of tax | 18,780 | 33,211 | (26,353) | 20,387 |
| Comprehensive income | $ 76,302 | $ 60,059 | $ 84,061 | $ 105,506 |

*See accompanying notes to condensed consolidated financial statements (unaudited).*

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

| | Common Stock - Class A | | Additional | Accumulated Other | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Comprehensive Income | Retained Earnings | Total |
| | | | *(In Thousands)* | | | |
| Balances, December 31, 2020 | 85,163 | $ 852 | $ 937,872 | $ 53,856 | $ 377,011 | $ 1,369,591 |
| Common stock: class A shares issued related to warrant exercises | 24 | * | 557 | — | — | 557 |
| Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 413 | 4 | (624) | — | — | (620) |
| Share-based compensation expense | — | — | 3,022 | — | — | 3,022 |
| Change in unrealized investment gains/losses, net of tax benefit of $11,997 | — | — | — | (45,133) | — | (45,133) |
| Net income | — | — | — | — | 52,891 | 52,891 |
| Balances, March 31, 2021 | 85,600 | $ 856 | $ 940,827 | $ 8,723 | $ 429,902 | $ 1,380,308 |
| Common stock: class A shares issued related to warrants | 8 | * | 197 | — | — | 197 |
| Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 95 | 1 | (286) | — | — | (285) |
| Share-based compensation expense | — | — | 3,383 | — | — | 3,383 |
| Change in unrealized investment gains/losses, net of tax expense of $4,992 | — | — | — | 18,780 | — | 18,780 |
| Net income | — | — | — | — | 57,522 | 57,522 |
| Balances, June 30, 2021 | 85,703 | $ 857 | $ 944,121 | $ 27,503 | $ 487,424 | $ 1,459,905 |

* During the three months ended March 31, 2021, we issued 23,750 common shares with a par value of $0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding. During the three months ended June 30, 2021, we issued 8,096 common shares with a par value of $0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding.

| | Common Stock - Class A | | Additional | Accumulated Other | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Comprehensive Income | Retained Earnings | Total |
| | | | *(In Thousands)* | | | |
| lances, December 31, 2019 | 68,358 | 684 | 707,003 | 17,288 | 205,445 | 930,420 |
| mmon stock: class A shares issued related to warrant exercises | 6 | * | 221 | — | — | 221 |
| mmon stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 510 | 5 | (3,755) | — | — | (3,750) |
| are-based compensation expense | — | — | 2,552 | — | — | 2,552 |
| ange in unrealized investment gains/losses, net of tax benefit of $3,409 | — | — | — | (12,824) | — | (12,824) |
| t income | — | — | — | — | 58,271 | 58,271 |
| lances, March 31, 2020 | 68,874 | 689 | 706,021 | 4,464 | 263,716 | 974,890 |
| mmon stock: class A shares issued related to warrants | 15,870 | 159 | 219,528 | — | — | 219,687 |
| mmon stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 61 | * | (321) | — | — | (321) |
| are-based compensation expense | — | — | 2,722 | — | — | 2,722 |
| ange in unrealized investment gains/losses, net of tax expense of $8,829 | — | — | — | 33,211 | — | 33,211 |
| t income | — | — | — | — | 26,848 | 26,848 |
| lances, June 30, 2020 | 84,805 | 848 | 927,950 | 37,675 | 290,564 | 1,257,037 |

* During the three months ended March 31, 2020, we issued 6,474 common shares with a par value of $0.01 in connection with the exercise of warrants, which is not identifiable in this schedule due to rounding. During three months ended June 30, 2020, we issued 61,226 common shares, with a par value of $0.01 in connection with shares issued under stock plan, which is not identifiable in this schedule due to rounding.

*See accompanying notes to condensed consolidated financial statements (unaudited).*

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | For the six months ended June 30, | |
|---|---|---|
| | 2021 | 2020 |
| | (In Thousands) | |
| Cash flows from operating activities | | |
| Net income | $ 110,414 | $ 85,119 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized investment gains | (12) | (639) |
| Gain (loss) from change in fair value of warrant liability | (453) | (4,723) |
| Depreciation and amortization | 5,344 | 4,914 |
| Net amortization of premium on investment securities | 3,289 | 629 |
| Amortization of debt discount and debt issuance costs | 893 | 3,267 |
| Deferred income taxes | 30,692 | 22,006 |
| Share-based compensation expense | 6,405 | 5,274 |
| Changes in operating assets and liabilities: | | |
| Premiums receivable | (6,160) | (323) |
| Accrued investment income | (1,286) | (1,078) |
| Prepaid expenses | (803) | 96 |
| Deferred policy acquisition costs, net | 88 | (3,647) |
| Other assets | 230 | (328) |
| Unearned premiums | 23,331 | (21,406) |
| Reserve for insurance claims and claim expenses | 10,668 | 46,151 |
| Reinsurance recoverable | (2,118) | (9,368) |
| Reinsurance balances, net | 9 | 2,658 |
| Accounts payable and accrued expenses | 2,013 | (1,247) |
| Net cash provided by operating activities | 182,544 | 127,355 |
| Cash flows from investing activities | | |
| Purchase of short-term investments | (8,991) | (41,872) |
| Purchase of fixed-maturity investments, available-for-sale | (286,635) | (451,462) |
| Proceeds from maturity of short-term investments | — | 85,689 |
| Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale | 60,997 | 297,977 |
| Software and equipment | (6,050) | (4,638) |
| Net cash (used in) investing activities | (240,679) | (114,306) |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock related to public offering, net of issuance costs | — | 220,284 |
| Proceeds from issuance of common stock related to employee equity plans | 4,043 | 3,391 |
| Proceeds from issuance of common stock related to warrants | 183 | — |
| Taxes paid related to net share settlement of equity awards | (4,948) | (7,462) |
| Proceeds from senior secured notes | — | 400,000 |
| Repayments of term loan | — | (147,750) |
| Payments of debt issuance/modification costs | — | (7,151) |
| Net cash (used in) provided by financing activities | (722) | 461,312 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (58,857) | 474,361 |
| Cash, cash equivalents and restricted cash, beginning of period | 126,937 | 41,089 |
| Cash, cash equivalents and restricted cash, end of period | $ 68,080 | $ 515,450 |
| Supplemental disclosures of cash flow information | | |
| Interest paid | $ 14,750 | $ 4,286 |
| Income taxes refunded | $ 457 | $ 76 |

*See accompanying notes to condensed consolidated financial statements (unaudited).*

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

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

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

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements, which include the results of NMIH and its wholly-owned subsidiaries, have been prepared in accordance with the instructions to Form 10-Q as prescribed by the SEC for interim reporting and include other information and disclosures required by accounting principles generally accepted in the U.S. (GAAP). Our accounts are maintained in U.S. dollars. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2020, included in our 2020 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. Certain reclassifications to previously reported financial information have been made to conform to current period presentation. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2021.

***COVID-19 Developments***

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

The global dislocation caused by COVID-19 was unprecedented. In response to the COVID-19 outbreak and uncertainty that it introduced, we activated our disaster continuity program to ensure our employees were safe and able to manage our business without interruption. We pursued a broad series of capital and reinsurance transactions to bolster our balance sheet and expand our ability to serve our customers and their borrowers, and we updated our underwriting guidelines and policy pricing in consideration of the increased level of macroeconomic volatility.

While there is increased optimism that the acute economic impact of COVID-19 has begun to recede, the pandemic continues to affect communities across the U.S. and poses significant risk globally. The path and pace of global economic recovery will depend, in large part, on the course of the virus (including the newly emergent Delta variant), which itself remains unknown and subject to risk. Given this uncertainty, we are not able to fully assess or estimate the ultimate impact COVID-19 will have on the mortgage insurance market, our business performance or our financial position including our new business production, default and claims experience, and investment portfolio results at this time.

***Significant Accounting Principles***

There have been no changes to our significant accounting principles as described in Item 8, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 2 - Summary of Accounting Principles*" of our 2020 10-K, except as noted in "*Variable Interest Entities*" and "*Recent Accounting Pronouncements - Adopted*" below.

*Variable Interest Entities*

NMIC is a party to reinsurance agreements with Oaktown Re Ltd., Oaktown Re II Ltd., Oaktown Re III Ltd., Oaktown Re IV Ltd. Oaktown Re V Ltd., and Oaktown Re VI Ltd. (special purpose reinsurance entities collectively referred to as the Oaktown Re Vehicles) effective May 2, 2017, July 25, 2018, July 30, 2019, July 30, 2020, October 29, 2020 and April 27, 2021, respectively. At inception of the respective reinsurance agreements, we determined that each of the Oaktown Re Vehicles were variable interest entities (VIEs), as defined under GAAP Accounting Standards Codification (ASC) 810, because they did not have sufficient equity at risk to finance their respective activities. We evaluated the VIEs at inception to determine whether NMIC was the primary beneficiary under each reinsurance transaction and, if so, whether we were required to consolidate the assets and liabilities of each VIE. The primary beneficiary of a VIE is an enterprise that (1) has the power to direct the activities of the VIE, which most significantly impact its economic performance and (2) has significant economic exposure to the VIE, *i.e.*, the obligation to absorb losses or receive benefits that could potentially be significant. The determination of whether an entity is the primary beneficiary of a VIE is complex and requires management judgment regarding determinative factors, including the expected results of the VIE and how those results are absorbed by beneficial interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIE. We concluded that we are not the primary beneficiary of each VIE and, as such, we do not consolidate them in our consolidated financial statements.

*Recent Accounting Pronouncements - Adopted*

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

*Recent Accounting Pronouncements - Not Yet Adopted*

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts (Topic 944)*. The update provides guidance to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The FASB subsequently issued ASU 2019-09 in November 2019 and ASU 2020-11 in November 2020, which amended the effective date for this standard and provided transition relief to facilitate early application for long duration contracts. These standards will now take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. We are currently evaluating the impact the adoption of these ASUs will have, if any, on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848). The update provides optional guidance to ease the potential burden in accounting for reference rate reform on financial reporting. Reference rate reform refers to the global transition away from referencing the London Interbank Offered Rate (LIBOR) in financial contracts, which is expected to be discontinued beginning in 2021 through 2023. The ASU includes optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. This standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2022 as reference rate reform activities occur. The adoption of, and future elections under, this ASU are not expected to have a material impact on our consolidated financial statements as the ASU will ease, if warranted, the requirements for accounting for the future effects of the rate reform. We continue to monitor the impact the discontinuance of LIBOR or another reference rate will have on our contracts and other transactions.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options* (Subtopic 470-20) *and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40*). This update simplifies the accounting for convertible instruments and contracts on an entity's own equity, including warrants, eliminating certain triggers for derivative accounting. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. We have evaluated the impact the adoption of this ASU and we do not expect it to have a material impact on our consolidated financial statements, including our warrant liability.

**2. Investments**

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

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

| As of June 30, 2021 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| U.S. Treasury securities and obligations of U.S. government agencies | $ 29,427 | $ 1,533 | $ — | $ 30,960 |
| Municipal debt securities | 506,433 | 9,610 | (1,600) | 514,443 |
| Corporate debt securities | 1,295,461 | 36,011 | (7,315) | 1,324,157 |
| Asset-backed securities | 113,506 | 1,906 | (52) | 115,360 |
| Total bonds | 1,944,827 | 49,060 | (8,967) | 1,984,920 |
| Short-term investments | 9,360 | 1 | (1) | 9,360 |
| Total investments | $ 1,954,187 | $ 49,061 | $ (8,968) | $ 1,994,280 |

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

We did not own any mortgage-backed securities in our asset-backed securities portfolio at June 30, 2021 or December 31, 2020.

The following table presents a breakdown of the fair value of our corporate debt securities by issuer industry group as of June 30, 2021 and December 31, 2020:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Financial | 38 % | 37 % |
| Consumer | 22 | 23 |
| Communications | 12 | 10 |
| Utilities | 10 | 11 |
| Technology | 10 | 10 |
| Industrial | 8 | 9 |
| Total | 100 % | 100 % |

As of June 30, 2021 and December 31, 2020, approximately $5.6 million and $5.7 million, respectively, of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

*Scheduled Maturities*

The amortized cost and fair value of available-for-sale securities as of June 30, 2021 and December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed securities provide for periodic payments throughout their lives, they are listed below in a separate category.

| **As of June 30, 2021** | **Amortized Cost** | **Fair Value** |
|---|---|---|
| | *(In Thousands)* | |
| Due in one year or less | $ 71,762 | $ 72,265 |
| Due after one through five years | 581,153 | 605,423 |
| Due after five through ten years | 1,127,385 | 1,140,283 |
| Due after ten years | 60,381 | 60,949 |
| Asset-backed securities | 113,506 | 115,360 |
| Total investments | $ 1,954,187 | $ 1,994,280 |

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

*Aging of Unrealized Losses*

As of June 30, 2021, the investment portfolio had gross unrealized losses of $9.0 million, none of which had been in an unrealized loss position for a period of twelve months or longer. As of December 31, 2020, the investment portfolio had gross unrealized losses of $512 thousand, of which $8 thousand had been in an unrealized loss position for a period of twelve months or longer. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

| | **Less Than 12 Months** | | | **12 Months or Greater** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **# of Securities** | **Fair Value** | **Unrealized Losses** | **# of Securities** | **Fair Value** | **Unrealized Losses** | **# of Securities** | **Fair Value** | **Unrealized Losses** |
| **As of June 30, 2021** | | | | | *(Dollars in Thousands)* | | | | |
| Municipal debt securities | 99 | $ 169,463 | $ (1,600) | — | $ — | | 99 | $ 169,463 | $ (1,600) |
| Corporate debt securities | 70 | 464,406 | (7,315) | — | — | | 70 | 464,406 | (7,315) |
| Asset-backed securities | 2 | 5,136 | (52) | — | — | | 2 | 5,136 | (52) |
| Short-term investments | 2 | 5,994 | (1) | — | — | — | 2 | 5,994 | (1) |
| Total | 173 | $ 644,999 | $ (8,968) | — | $ — | $ — | 173 | $ 644,999 | $ (8,968) |

| | **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** |
| **of December 31, 2020** | | | | | *(Dollars in Thousands)* | | | | |
| unicipal debt securities | 4 | 3,548 | (2) | — | — | — | 4 | 3,548 | (2) |
| rporate debt securities | 9 | 40,081 | (483) | 1 | 33 | — | 10 | 40,114 | (483) |
| set-backed securities | 2 | 5,191 | (19) | 1 | 2,495 | (8) | 3 | 7,686 | (27) |
| tal | $ 15 | $ 48,820 | (504) | $ 2 | $ 2,528 | (8) | $ 17 | $ 51,348 | (512) |

*Allowance for credit losses*

As of June 30, 2021 and December 31, 2020, we did not recognize an allowance for credit loss for any security in the investment portfolio and we did not record any provision for credit loss for investment securities during the three or six month periods ended June 30, 2021 or June 30, 2020.

The increase in the number of securities in and the aggregate size of the unrealized loss position as of June 30, 2021, was primarily driven by interest rate movements following the purchase date of certain securities. Based on current facts and circumstances, we believe the unrealized losses as of June 30, 2021 are not indicative of the ultimate collectability of the current amortized cost of the securities.

*Net Investment Income*

The following table presents the components of net investment income:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(In Thousands)* | | | |
| Investment income | $ 9,608 | $ 7,320 | $ 18,833 | $ 15,669 |
| Investment expenses | (226) | (250) | (637) | (495) |
| Net investment income | $ 9,382 | $ 7,070 | $ 18,196 | $ 15,174 |

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(In Thousands)* | | | |
| Gross realized investment gains | $ 12 | $ 4,586 | $ 12 | $ 5,126 |
| Gross realized investment losses | — | (3,875) | — | (4,487) |
| Net realized investment gains | $ 12 | $ 711 | $ 12 | $ 639 |

**3. Fair Value of Financial Instruments**

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

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

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

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

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

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

*Assets classified as Level 1 and Level 2*

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

*Liabilities classified as Level 3*

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

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

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value |
| **As of June 30, 2021** | *(In Thousands)* | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | $ 30,960 | $ — | $ — | $ 30,960 |
| Municipal debt securities | — | 514,443 | — | 514,443 |
| Corporate debt securities | — | 1,324,157 | — | 1,324,157 |
| Asset-backed securities | — | 115,360 | — | 115,360 |
| Cash, cash equivalents and short-term investments | 77,440 | — | — | 77,440 |
| Total assets | $ 108,400 | $ 1,953,960 | $ — | $ 2,062,360 |
| Warrant liability | — | — | 3,385 | 3,385 |
| Total liabilities | $ — | $ — | $ 3,385 | $ 3,385 |

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

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the six months ended June 30, 2021, or the year ended December 31, 2020.

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

| Warrant Liability | For the six months ended June 30, 2021 | 2020 |
|---|---|---|
| | (In Thousands) | |
| Balance, January 1 | $ 4,409 | $ 7,641 |
| Change in fair value of warrant liability included in earnings | (453) | (4,723) |
| Issuance of common stock on warrant exercise | (571) | (220) |
| Balance, June 30 | $ 3,385 | $ 2,698 |

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

| | As of June 30, 2021 | 2020 |
|---|---|---|
| Common stock price | $ 22.48 | $ 16.08 |
| Risk free interest rate | 0.06 % | 0.16 % |
| Expected life | 0.81 years | 1.81 years |
| Expected volatility | 39.0 % | 71.6 % |
| Dividend yield | 0 % | 0 % |

The changes in fair value of the warrant liability for the six months ended June 30, 2021 and 2020 were driven by the exercise of outstanding warrants, as well as changes in the price of our common stock and other Black-Scholes model inputs during the respective periods.

*Financial Instruments not Measured at Fair Value*

On June 19, 2020, we issued $400.0 million aggregate principal amount of senior secured notes that mature on June 1, 2025 (the Notes) and used a portion of the proceeds from the Notes offering to repay the outstanding amount due under our $150 million term loan (2018 Term Loan). At June 30, 2021, the Notes were carried at a cost of $393.9 million, net of unamortized debt issuance costs of $6.1 million, and had a fair value of $459.3 million as assessed under our Level 2 hierarchy. At December 31, 2020, the Notes were carried at a cost of $393.3 million, net of unamortized debt issuance costs of $6.7 million, and had a fair value of $447.1 million.

**4. Debt**

*Senior Secured Notes*

At June 30, 2021, we had $400.0 million aggregate principal amount of senior secured notes outstanding. The Notes were issued pursuant to an indenture dated June 19, 2020 (the Indenture) and bear interest at a rate of 7.375%, payable semi-annually on June 1 and December 1. $244.4 million of proceeds from the Notes offering were contributed to our lead operating subsidiary, NMIC and remaining proceeds were used to repay the outstanding amount due under the 2018 Term Loan due on May 24, 2023 and to pay underwriting fees incurred connection with the offering.

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

Interest expense for the Notes includes interest and the amortization of capitalized debt issuance costs. In connection with the Notes offering, we recorded capitalized debt issuance costs of $7.4 million. Such amounts will be amortized over the contractual life of the Notes using the effective interest method. At June 30, 2021 and December 31, 2020, approximately $6.1 million and $6.7 million, respectively, of unamortized debt issuance costs remained.

Interest expense for the three and six months ended June 30, 2020 includes $2.6 million of costs related to the extinguishment of the 2018 Term Loan and the issuance of the Notes.

At June 30, 2021 and December 31, 2020, $2.5 million of accrued and unpaid interest on the Notes was included in "Accounts Payable and Accrued Expenses" on our condensed consolidated balance sheet.

*2020 Revolving Credit Facility*

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

On October 30, 2020, we entered into a Joinder Agreement to the Credit Agreement, increasing the aggregate principal amount of commitments under the 2020 Revolving Credit Facility from $100 million to $110 million. All other terms remained unchanged. As of June 30, 2021, no amounts were drawn under the 2020 Revolving Credit Facility.

Under the 2020 Revolving Credit Facility, we are required to pay a quarterly commitment fee on the average daily undrawn amount of 0.175% to 0.525%, based on the applicable corporate credit rating at the time. As of June 30, 2021, the applicable commitment fee was 0.35%. For the three and six months ended June 30, 2021, we recorded $0.1 million and $0.2 million of commitment fees in interest expense, respectively.

We incurred debt issuance costs of $0.8 million in connection with the 2020 Revolving Credit Facility and had $0.6 million of unamortized debt issuance costs associated with the 2018 Revolving Credit Facility remaining at the time of its amendment and replacement. Combined unamortized debt issuance will be amortized through interest expense on a straight-line basis over the contractual life of the 2020 Revolving Credit Facility. At June 30, 2021, remaining unamortized deferred debt issuance costs were $0.8 million.

We are subject to certain covenants under the 2020 Revolving Credit Facility, including, but not limited to, the following: a maximum debt-to-total capitalization ratio of 35%, a minimum liquidity requirement, compliance with the PMIERs' financial requirements (subject to any GSE approved waivers), and minimum consolidated net worth and statutory capital requirements (respectively, as defined therein). We were in compliance with all covenants at June 30, 2021.

**5. Reinsurance**

We enter into third-party reinsurance transactions to actively manage our risk, ensure compliance with PMIERs, state regulatory and other applicable capital requirements, (respectively, as defined therein), and support the growth of our business. The Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) has approved and the GSEs have indicated their non-objection to all such transactions (subject to certain conditions and ongoing review, including levels of approved capital credit).

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | *(In Thousands)* | | | |
| Net premiums written | | | | |
| Direct | $ 148,944 | $ 108,478 | $ 285,176 | $ 211,931 |
| Ceded [1] | (22,302) | (18,369) | (42,719) | (30,451) |
| Net premiums written | $ 126,642 | $ 90,109 | $ 242,457 | $ 181,480 |
| | | | | |
| Net premiums earned | | | | |
| Direct | $ 134,203 | $ 120,150 | $ 261,846 | $ 233,337 |
| Ceded [1] | (23,315) | (21,206) | (45,079) | (35,676) |
| Net premiums earned | $ 110,888 | $ 98,944 | $ 216,767 | $ 197,661 |

[1] Net of profit commission.

*Excess-of-loss reinsurance*

NMIC is party to reinsurance agreements with the Oaktown Re Vehicles that provide it with aggregate excess-of-loss reinsurance coverage on defined portfolios of mortgage insurance policies. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

NMIC makes risk premium payments to the Oaktown Re Vehicles for the applicable outstanding reinsurance coverage amount and pays an additional amount for anticipated operating expenses (capped at $250 thousand per year, except with respect to Oaktown Re Ltd., for which the cap is $300 thousand per year). NMIC ceded aggregate premiums to the Oaktown Re Vehicles of $10.2 million and $19.6 million during the three and six months ended June 30, 2021, respectively, and $3.3 million and $7.1 million during the three and six months ended June 30, 2020, respectively. The increase in premiums ceded during the respective periods year-on-year is due to the inception of the excess-of-loss reinsurance agreements that NMIC entered in with Oaktown Re IV Ltd., Oaktown Re V Ltd. and Oaktown Re VI Ltd.

NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure under each excess-of-loss agreement. NMIC did not cede any incurred losses on covered policies to the Oaktown Re Vehicles during the three and six months ended June 30, 2021 and 2020, as the aggregate first layer risk retention for each applicable agreement was not exhausted during such periods.

Under the terms of each excess-of-loss reinsurance agreement, the Oaktown Re Vehicles are required to fully collateralize their outstanding reinsurance coverage amount to NMIC with funds deposited into segregated reinsurance trusts. Such trust funds are required to be invested in short-term U.S. Treasury money market funds at all times. Each Oaktown Re Vehicle financed its respective collateral requirement through the issuance of mortgage insurance-linked notes to unaffiliated investors. Such insurance-linked notes mature ten years from the inception date of each reinsurance agreement (except the notes issued by Oaktown Re VI Ltd. which have a 12.5 year maturity). We refer to NMIC's reinsurance agreements with and the insurance-linked note issuances by the Oaktown Re Vehicles individually as the 2017 ILN Transaction, 2018 ILN Transaction, 2019 ILN Transaction, 2020-1 ILN Transaction, 2020-2 ILN Transaction and 2021-1 ILN Transaction, and collectively as the ILN Transactions.

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled (except the coverage provided by Oaktown Re VI Ltd., which decreases over a 12.5 year period). As the reinsurance coverage decreases, a prescribed amount of collateral held in trust by the Oaktown Re Vehicles is distributed to ILN Transaction noteholders as amortization of the outstanding insurance-linked note principal balances. The outstanding reinsurance coverage amounts stop amortizing, and the collateral distribution to ILN Transaction noteholders and amortization of insurance-linked note principal is suspended if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered (each, a Lock-Out Event). A Lock-Out Event was deemed to have occurred, effective June 25, 2020 for each of the 2017, 2018 and 2019 ILN Transactions (related to the default experience of the underlying reference pools for each respective transaction) and at inception of the 2021-1 ILN Transaction (related to the initial build of its target credit enhancement), and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period assets will be preserved in the applicable reinsurance trust account to collateralize the excess-of-loss reinsurance coverage provided to NMIC.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions. Current amounts are presented as of June 30, 2021.

| *($ values in thousands)* | Inception Date | Covered Production | Initial Reinsurance Coverage | Current Reinsurance Coverage | Initial First Layer Retained Loss | Current First Layer Retained Loss [1] |
|---|---|---|---|---|---|---|
| 2017 ILN Transaction | May 2, 2017 | 1/1/2013 - 12/31/2016 | $ 211,320 | $ 40,226 | $ 126,793 | $ 121,234 |
| 2018 ILN Transaction | July 25, 2018 | 1/1/2017 - 5/31/2018 | 264,545 | 158,489 | 125,312 | 122,937 |
| 2019 ILN Transaction | July 30, 2019 | 6/1/2018 - 6/30/2019 | 326,905 | 231,877 | 123,424 | 122,757 |
| 2020-1 ILN Transaction | July 30, 2020 | 7/1/2019 - 3/31/2020 | 322,076 | 128,750 | 169,514 | 169,488 |
| 2020-2 ILN Transaction | October 29, 2020 | 4/1/2020 - 9/30/2020 [2] | 242,351 | 205,846 | 121,777 | 121,177 |
| 2021-1 ILN Transaction [4] | April 27, 2021 | 10/1/2020 - 3/31/2021[3] | 367,238 | 367,238 | 163,708 | 163,708 |

(1) NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure and cedes reserves for incurred claims and claims expenses to each applicable ILN Transaction and recognizes a reinsurance recoverable if such incurred claims and claims expenses exceed its current first layer retained loss.
(2) Approximately 1% of the production covered by the 2020-2 ILN Transaction has coverage reporting dates between July 1, 2019 and March 31, 2020.
(3) Approximately 1% of the production covered by the 2021-1 ILN Transaction has coverage reporting dates between July 1, 2019 and September 30, 2020.
(4) As of June 30, 2021, the current reinsurance coverage amount on the 2021-1 ILN transaction is equal to the initial reinsurance coverage, as the reinsurance coverage provided by Oaktown Re will not decrease until its target credit enhancement is met.

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

Under the terms of the 2018, 2019 and 2020-1 ILN Transactions, we are required to maintain a certain level of restricted funds in premium deposit accounts with Bank of New York Mellon until the respective notes have been redeemed in full. "Cash and cash equivalents" on our condensed consolidated balance sheet includes restricted amounts of $4.2 million and $5.6 million as of June 30, 2021 and December 31, 2020, respectively. We are not required to deposit additional funds into the premium deposit accounts in the future and the restricted balances required under these transactions will decline over time as the outstanding principal balance of the respective insurance-linked notes are amortized.

*Quota share reinsurance*

NMIC is party to four outstanding quota share reinsurance treaties - the 2016 QSR Transaction, effective September 1, 2016, the 2018 QSR Transaction, effective January 1, 2018, the 2020 QSR Transaction, effective April 1, 2020, and the 2021 QSR Transaction, effective January 1, 2021 - which we refer to collectively as the QSR Transactions. Under each of the QSR Transactions, NMIC cedes a proportional share of its risk on eligible policies written during a discrete period to panels of third-party reinsurance providers. Each of the third-party reinsurance providers has an insurer financial strength rating of A- or better by Standard & Poor's Rating Service (S&P), A.M. Best Company, Inc. (A.M. Best) or both.

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

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

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

Under the terms of the 2021 QSR Transaction, NMIC cedes premiums earned related to 22.5% of the risk on eligible policies written in 2021 (subject to an aggregate risk written limit). The 2021 QSR Transaction is scheduled to terminate on December 31, 2031. NMIC has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of December 31, 2024, or at the end of any calendar quarter thereafter, which would result in NMIC recapturing the related risk.

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

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

The following table shows amounts related to the QSR Transactions:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | (In Thousands) | | | |
| Ceded risk-in-force | $ 7,113,707 | $ 4,563,676 | $ 7,113,707 | $ 4,563,676 |
| Ceded premiums earned | (27,537) | (23,210) | (53,284) | (46,221) |
| Ceded claims and claim expenses | 1,194 | 8,669 | 2,374 | 10,201 |
| Ceding commission earned | 5,961 | 4,428 | 11,123 | 8,941 |
| Profit commission | 14,391 | 5,271 | 27,771 | 17,684 |

Ceded premiums written under the 2016 QSR Transaction are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of revenue on direct premiums. Under the 2018, 2020 and 2021 QSR Transactions, premiums are ceded on an earned basis as defined in the agreement. NMIC receives a 20% ceding commission for premiums ceded under the QSR Transactions. NMIC also receives a profit commission under each of the QSR Transactions, provided that the loss ratios on loans covered under the 2016 QSR Transaction, 2018 QSR Transaction, 2020 QSR Transaction and 2021 QSR Transaction, generally remain below 60%, 61%, 50% and 57.5%, respectively, as measured annually. Ceded claims and claim expenses under each of the QSR Transactions reduce the respective profit commission received by NMIC on a dollar-for-dollar basis.

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to the 2016 QSR Transaction was $4.7 million as of June 30, 2021.

In accordance with the terms of the 2018, 2020 and 2021 QSR Transactions, cash payments for ceded premiums earned are settled on a quarterly basis, offset by amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC are also recognized quarterly. NMIC's reinsurance recoverable balance is supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The aggregate reinsurance recoverable on loss reserves related to the 2018, 2020 and 2021 QSR Transactions was $15.0 million as of June 30, 2021.

We remain directly liable for all claim payments if we are unable to collect reinsurance recoverable due from our reinsurers and, as such, we actively monitor and manage our counterparty credit exposure to our reinsurance providers. We establish an allowance for expected credit loss against our reinsurance recoverable if we do not expect to recover amounts due from one or more of our reinsurance counterparties, and report our reinsurance recoverable net of such allowance, if any. We actively monitor the counterparty credit profiles of our reinsurers and each is required to partially collateralize its obligations under the terms of our QSR Transactions. As of June 30, 2021, we did not recognize any allowance for credit loss with respect to our reinsurance recoverable.

**6. Reserves for Insurance Claims and Claim Expenses**

We hold gross reserves in an amount equal to the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. A loan is considered to be in "default" as of the payment date at which a borrower has missed the preceding two or more consecutive monthly payments. We establish reserves for loans that have been reported to us in default by servicers, referred to as case reserves, and additional loans that we estimate (based on actuarial review and other factors) to be in default that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish reserves for claim expenses, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claim settlement process. As of June 30, 2021, we had 8,764 primary loans in default and held gross reserves for insurance claims and claim expenses of $101.2 million. During the six months ended June 30, 2021, we paid 35 claims totaling $1.3 million, including 34 claims covered under the QSR Transactions representing $0.3 million of ceded claims and claim expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At June 30, 2021, 156 loans in the pool were in default. These

156 loans represented approximately $13.4 million of RIF. Due to the size of the remaining deductible, our expectation that a limited number of loans in default will progress to a claim and the expected severity on such claim submissions (all loans in the pool had loan-to-value (LTV) ratios under 80% at origination), we did not establish any case or IBNR reserves for pool risk at June 30, 2021. In connection with the settlement of pool claims, we applied $1.0 million to the pool deductible through June 30, 2021. At June 30, 2021, the remaining pool deductible was $9.4 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

We had 8,764 loans in default in our primary insured portfolio as of June 30, 2021, which represented a 1.86% default rate against 471,794 total policies in-force. We had 10,816 loans in default in our primary insured portfolio as of June 30, 2020, which represented a 2.90% default rate against 372,934 total policies in-force. Although our default count declined from June 30, 2020 to June 30, 2021, the population remains elevated compared to our historical experience due to the continued challenges certain borrowers are facing related to the COVID-19 outbreak and their decision to access the forbearance program for federally backed loans codified under the Coronavirus Aid, Relief and Economic Security (CARES) Act or similar programs made available by private lenders.

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

Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. At June 30, 2020 and 2021, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs.

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

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balance | $ 90,567 | $ 23,752 |
| Less reinsurance recoverables [(1)] | (17,608) | (4,939) |
| Beginning balance, net of reinsurance recoverables | 72,959 | 18,813 |
| Add claims incurred: | | |
| Claims and claim expenses incurred: | | |
| Current year [(2)] | 15,626 | 42,516 |
| Prior years [(3)] | (6,024) | (2,485) |
| Total claims and claim expenses incurred | 9,602 | 40,031 |
| Less claims paid: | | |
| Claims and claim expenses paid: | | |
| Current year [(2)] | 12 | 39 |
| Prior years [(3)] | 1,040 | 3,209 |
| Total claims and claim expenses paid | 1,052 | 3,248 |
| Reserve at end of period, net of reinsurance recoverables | 81,509 | 55,596 |
| Add reinsurance recoverables [(1)] | 19,726 | 14,307 |
| Ending balance | $ 101,235 | $ 69,903 |

(1) Related to ceded losses recoverable under the QSR Transactions. See Note 5, "*Reinsurance*" for additional information.
(2) Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan defaulted in a prior year and subsequently cured and later re-defaulted in the current year, the default would be included in the current year. Amounts are presented net of reinsurance and included $9.8 million attributed to net case reserves and $5.6 million attributed to net IBNR reserves for the six months ended June 30, 2021 and $34.7 million attributed to net case reserves and $7.1 million attributed to net IBNR reserves for the six months ended June 30, 2020.
(3) Related to insured loans with defaults occurring in prior years, which have been continuously in default before the start of the current year. Amounts are presented net of reinsurance and included $1.1 million attributed to net case reserves and $5.0 million attributed to net IBNR reserves for the six months ended June 30, 2021 and $1.1 million attributed to net case reserves and $1.3 million attributed to net IBNR reserves for the six months ended June 30, 2020.

The "claims incurred" section of the table above shows claims and claim expenses incurred on defaults occurring in current and prior years, including IBNR reserves and is presented net of reinsurance. We may increase or decrease our claim estimates and reserves as we learn additional information about individual defaulted loans, and continue to observe and analyze loss development trends in our portfolio. Gross reserves of $81.8 million related to prior year defaults remained as of June 30, 2021.

**7. Earnings per Share (EPS)**

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

| | For the three months ended June 30 | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(In Thousands, except for per share data)* | | | |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| Basic weighted average shares outstanding | 85,647 | 73,617 | 85,483 | 71,090 |
| Basic earnings per share | $ 0.67 | $ 0.36 | $ 1.29 | $ 1.20 |
| | | | | |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| Gain from change in fair value of warrant liability | (658) | — | (453) | (4,723) |
| Diluted net income | $ 56,864 | $ 26,848 | $ 109,961 | $ 80,396 |
| | | | | |
| Basic weighted average shares outstanding | 85,647 | 73,617 | 85,483 | 71,090 |
| Dilutive effect of issuable shares | 1,172 | 557 | 1,246 | 1,317 |
| Diluted weighted average shares outstanding | 86,819 | 74,174 | 86,729 | 72,407 |
| | | | | |
| Diluted earnings per share | $ 0.65 | $ 0.36 | $ 1.27 | $ 1.11 |
| | | | | |
| Anti-dilutive shares | 2 | 609 | 1 | 78 |

**8. Warrants**

We issued 992 thousand warrants in connection with a private placement of our common stock in April 2012, of which 271 thousand remained outstanding available for exercise at June 30, 2021. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to $10.00. The warrants were issued with an aggregate fair value of $5.1 million.

During the three months ended June 30, 2021, 14 thousand warrants were exercised resulting in the issuance of eight thousand shares of common stock. Upon exercise, we reclassified approximately $0.2 million of warrant fair value from warrant liability to additional paid-in capital. During the six months ended June 30, 2021, 41 thousand warrants were exercised resulting in the issuance of 32 thousand shares of common stock. Upon exercise, we reclassified approximately $0.6 million of warrant fair value from warrant liability to additional paid-in capital.

During the three months ended June 30, 2020, no warrants were exercised. During the six months ended June 30, 2020, nine thousand warrants were exercised resulting in the issuance of six thousand shares of common stock. Upon exercise, we reclassified approximately $0.2 million of warrant fair value from warrant liability to additional paid-in capital.

**9. Income Taxes**

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21%. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our effective tax rate on our pre-tax income was 21.9% and 21.8% for the three and six months ended June 30, 2021, respectively, compared to 23.2% and 20.5% for the three and six months ended June 30, 2020, respectively. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rate for a given year. Our effective tax rate may fluctuate between interim periods due to the impact of discrete items not included in our estimated annual effective tax rate, including the tax effects associated with the vesting of RSUs and exercise of options, and the change in fair value of our warrant liability. Such items are treated on a discrete basis in the reporting period in which they occur.

As a mortgage guaranty insurance company, we are eligible to claim a tax deduction for our statutory contingency reserve balance, subject to certain limitations outlined under IRC Section 832(e), and only to the extent we acquire tax and loss bonds in an amount equal to the tax benefit derived from the claimed deduction, which is our intent. As a result, our interim provision for income taxes for the three and six months ended June 30, 2021 represents a change in our net deferred tax liability. As of June 30, 2021 and December 31, 2020, we held $46.4 million of tax and loss bonds in "Other assets" on our condensed consolidated balance sheet.

**10. Premium Receivable**

Premiums receivable consists of premiums due on our mortgage insurance policies. If a mortgage insurance premium is unpaid for more than 120 days, all associated receivables are written off against earned premium and the related insurance policy is canceled. We recognize an allowance for credit losses for premiums receivable based on credit losses expected to arise over the life of the receivable. Due to the nature of our insurance policies (a necessary precondition for access to mortgage credit for covered borrowers) and the short duration of the related receivables, we do not typically experience credit losses against our premium receivables and did not establish an allowance for credit loss at June 30, 2021 and December 31, 2020.

Premiums receivable may be written off prior to 120 days in the ordinary course of business for non-credit events including, but not limited to, the modification or refinancing of an underlying insured loan.

We establish a reserve for the write-off of premiums receivable based on historical experience. Our premium write-off reserve was not material at June 30, 2021 or December 31, 2020.

**11. Regulatory Information**

*Statutory Requirements*

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

NMIC and Re One generated combined statutory net income of $8.8 million and $15.1 million for the three and six months ended June 30, 2021, respectively, and combined statutory net loss of $24.7 million and $17.0 million for the three and six months ended June 30, 2020, respectively.

The Wisconsin OCI has imposed a prescribed accounting practice for the treatment of statutory contingency reserves that differs from the treatment promulgated by the NAIC. Under Wisconsin OCI's prescribed practice mortgage guaranty insurers are required to reflect changes in their contingency reserves through statutory income. Such approach contrasts with the NAIC's treatment, which records changes to contingency reserves directly to unassigned funds. As a Wisconsin-domiciled insurer, NMIC's statutory net income reflects an expense associated with the change in its contingency reserve. While such treatment impacts NMIC's statutory net income, it does not have an effect on NMIC's statutory capital position.

The following table presents NMIC and Re One's combined statutory surplus, contingency reserve, statutory capital and risk-to-capital (RTC) ratio:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(In Thousands)* | |
| Statutory surplus | $ 906,430 | $ 894,331 |
| Contingency reserve | 899,246 | 768,324 |
| Statutory capital [(1)] | $ 1,805,676 | $ 1,662,655 |
| | | |
| Risk-to-capital | 11.8:1 | 11.7:1 |

(1) Represents the total of the statutory surplus and contingency reserve.

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in the State of Delaware. Delaware law provides that dividends are only payable out of a corporation's capital surplus or, subject to certain limitations, recent net profits.

NMIC and Re One are subject to certain rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs that may restrict their ability to pay dividends to NMIH. Re One has the capacity to pay $1.6 million of aggregate ordinary dividends to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI. Neither Re One nor NMIC have ever paid dividends to NMIH.

As an *approved insurer* under PMIERs, NMIC would generally be subject to prior GSE approval of its ability to pay dividends to NMIH if it failed to meet the financial requirements prescribed by PMIERs. In response to the COVID-19 pandemic, the GSEs issued temporary PMIERs guidance, effective for the period from June 30, 2020 to June 30, 2021, that requires *approved insurers* to secure approval from the GSEs prior to paying any dividends, even if the *approved insurer* otherwise satisfies the financial requirements prescribed by PMIERs. On June 30, 2021, the GSEs updated the temporary PMIERs guidance to permit *approved insurers* to pay dividends without securing prior approval if certain prescribed financial requirements are met during the period from July 1, 2021 to December 31, 2021.

## 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 condensed 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 2020 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 II, Item 1A of this report and in Part I, Item 1A of our 2020 10-K, as subsequently updated in other reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.*

### Overview

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

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

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of June 30, 2021, we had master policies with 1,656 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders, internet-sourced lenders and other non-bank lenders. As of June 30, 2021, we had $138.1 billion of total insurance-in-force (IIF), including primary IIF of $136.6 billion, and $34.5 billion of gross RIF, including primary RIF of $34.4 billion.

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

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

Our common stock trades on the NASDAQ under the symbol "NMIH." Our headquarters is located in Emeryville, California. As of June 30, 2021, we had 251 employees. Our corporate website is located at *www.nationalmi.com*. Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

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

**COVID-19 Developments**

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

The global dislocation caused by COVID-19 was unprecedented. In response to the COVID-19 outbreak and uncertainty that it introduced, we activated our disaster continuity program to ensure our employees were safe and able to manage our business without interruption. We pursued a broad series of capital and reinsurance transactions to bolster our balance sheet and expand our ability to serve our customers and their borrowers, and we updated our underwriting guidelines and policy pricing in consideration of the increased level of macroeconomic volatility.

The U.S. housing market demonstrated notable resiliency in the face of COVID stress, with significant purchase demand, record levels of mortgage origination activity and nationwide house price appreciation emerging shortly after the onset of the pandemic. More recently, the broad resumption of personal and business activity nationwide has prompted a sharp economic rebound and provided hope for a sustainable economic recovery.

While there is increased optimism that the acute economic impact of COVID-19 has begun to recede, the pandemic continues to affect communities across the U.S. and poses significant risk globally. The path and pace of global economic recovery will depend, in large part, on the course of the virus (including the newly emergent Delta variant), which itself remains unknown and subject to risk. Given this uncertainty, we are not able to fully assess or estimate the ultimate impact COVID-19 will have on the mortgage insurance market, our business performance or our financial position including our new business production, default and claims experience, and investment portfolio results at this time.

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

The U.S. housing market demonstrated significant resiliency amidst the broader economic dislocation caused by the outbreak of COVID-19. Low interest rates helped to support housing affordability, medical concerns and lifestyle preferences drove people to move from densely populated urban areas to suburban communities where social distancing was more easily achieved, and shelter-in-place directives reinforced the value of homeownership – all of which contributed to an influx of new home buyers, record levels of purchase demand, and nationwide house price appreciation.

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

(i) the generally higher quality borrower base (as measured by weighted average FICO scores and LTV ratios) and tighter underwriting standards (with, among other items, full-documentation required to verify borrower income and asset positions) that prevail in the current market;

(ii) the lower concentration of higher risk loan structures, such as negative amortizing, interest-only or short-termed option adjustable-rate mortgages being originated and outstanding in the current market;

(iii) the meaningfully higher proportion of loans used for lower risk purposes, such as the purchase of a primary residence or rate-term refinancing in the current market, as opposed to cash-out refinancings, investment properties or second home purchases, which prevailed to a far greater degree in the lead up to the 2008 Financial Crisis;

(iv) the availability and immediate application by the government, regulators, lenders, loan servicers and others of a broad toolkit of resources designed to aid distressed borrowers, including forbearance, foreclosure moratoriums and other assistance programs codified under the CARES Act enacted on March 27, 2020; and

(v) the broader and equally immediate application of significant fiscal and monetary stimulus by the federal government under the CARES Act, and subsequently under the Consolidated Appropriations Act enacted on December 27, 2020 (the CAA) and the American Rescue Plan Act enacted on March 11, 2021 (the American Rescue Plan), as well as across a range of other programs designed to assist unemployed individuals and distressed businesses, and support the smooth functioning of various capital and risk markets.

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

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

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

While we currently observe broad resiliency in the housing and high-LTV mortgage markets and, for the reasons discussed above, expect this trend to continue in the near term, the ultimate impact of COVID-19 remains highly uncertain. See Item 1A of our 2020 10K, *"Risk Factors - The COVID-19 outbreak may continue to materially adversely affect our business, results of operations and financial condition*."

*Potential Impact on NMI's Business Performance and Financial Position*

*Operations*

We had 251 employees at June 30, 2021, including 86 who typically work at our corporate headquarters in Emeryville, CA and 165 who typically work from home in locations across the country. In response to the COVID-19 outbreak, we activated our business continuity program and instituted additional work-from-home practices for our Emeryville-based staff. We transitioned our operations seamlessly and have continued to positively engage with customers on a remote basis. Our IT environment, underwriting capabilities, policy servicing platform and risk architecture have continued without interruption, and our internal control environment is unchanged. We achieved this transition without incurring additional capital expenditures or operating expenses and we believe our current operating platform can continue to support our newly distributed needs for an extended period without further investment beyond that planned in the ordinary course.

While the broad COVID vaccination effort and relaxation of local restrictions on indoor business operation may allow for a general resumption of in-office activity for our headquarters-based employees, the success of our remote work experience through the pandemic has caused us to offer increased flexibility for employees who prefer a full-time or part-time distributed engagement. If we continue to offer such flexibility and a large enough number of employees elect such an approach, our office and real estate needs could evolve.

*New Business Production*

Our NIW volume increased significantly following the onset of the COVID-19 pandemic driven by the broad resiliency of the housing market, growth in total mortgage origination volume and increasing size of the U.S. mortgage insurance market, as well as the continued expansion of our customer franchise. We wrote $22.8 billion of NIW during the three months ended June 30, 2021, up 73% compared to the three months ended June 30, 2020.

While we currently expect our new business production will remain elevated, the emergence of the Delta variant and potential onset of a new viral wave could prompt a reintroduction of broad-based shelter in place directives, increased unemployment or other potentially negative economic and societal outcomes that could cause a moderation or decline in our volume going forward.

We have broadly defined underwriting standards and loan-level eligibility criteria that are designed to limit our exposure to higher risk loans, and have used Rate GPS to actively shape the mix of our new business production and insured portfolio by, among other risk factors, borrower FICO score, debt-to-income (DTI) ratio and LTV ratio. In the weeks following the outbreak of COVID-19, we adopted changes to our underwriting guidelines, including changes to our loan documentation requirements, asset reserve requirements, employment verification process and income continuance determinations, that further strengthened the credit risk profile of our NIW volume and IIF. At June 30, 2021, the weighted average FICO score of our RIF was 754 and we had a 3% mix of below 680 FICO score risk. Similarly, at June 30, 2021, the weighted average LTV ratio (at origination) of our insured portfolio was 92.4% and we had a 10% mix of 97% LTV risk.

*Delinquency Trends and Claims Expense*

At June 30, 2021 we had 8,764 defaulted loans in our primary insured portfolio, which represented a 1.86% default rate against our 471,794 total policies in-force, and identified 11,889 loans that were enrolled in a forbearance program, including 7,822 of those in default status.

Our default population increased significantly following the outbreak of the pandemic as borrowers faced increased challenges related to COVID-19 and chose to access the forbearance program for federally backed loans codified under the CARES Act or other similar assistance programs made available by private lenders. After this significant initial spike our default experience has steadily improved as an increasing number of impacted borrowers have cured their delinquencies, and fewer new defaults have emerged.

Our total population of defaulted loans peaked in August 2020 and has declined every month since with consistency. As of July 31, 2021, our default population was 8,277, representing a 1.73% default rate.

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

| | Default and Forbearance Activity as of | | | | |
|---|---|---|---|---|---|
| | 6/30/2020 | 9/30/2020 | 12/31/2020 | 3/31/21 | 6/30/21 |
| Number of loans in default | 10,816 | 13,765 | 12,209 | 11,090 | 8,764 |
| Default rate [(1)] | 2.90% | 3.60% | 3.06% | 2.54% | 1.86% |
| | | | | | |
| Number of loans in forbearance | 28,555 | 24,809 | 19,464 | 14,805 | 11,889 |
| Forbearance rate [(2)] | 7.66% | 6.50% | 4.87% | 3.39% | 2.52% |

(1) Default rate is calculated as the number of loans in default divided by total polices in force
(2) Forbearance rate is calculated as the number of loans in forbearance divided by total polices in force.

While we are encouraged by the decline in our forbearance and default populations and optimistic that we will see continued improvement as the economic stress of the COVID crisis recedes, the emergence of the Delta variant or future viral waves could cause further social and economic dislocation and contribute to an increase in our forbearance and default counts in future periods.

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

We generally observe that forbearance programs are an effective tool to bridge dislocated borrowers from a time of acute stress to a future date when they can resume timely payment of their mortgage obligations. The effectiveness of forbearance programs is enhanced by the availability of various repayment and loan modification options, which allow borrowers to amortize, or in certain instances fully defer the payments otherwise due during the forbearance period, over an extended length of time. In response to the onset of the COVID-19 outbreak, the GSEs have introduced new repayment and loan modification options to further assist borrowers with their transition out of forbearance and back into performing status. Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. At June 30, 2021, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs.

Our Master Policies require insureds to file a claim no later than 60-days after completion of a foreclosure, and in connection with the claim, the insured is generally entitled to include in the claim amount (i) up to three years of missed interest payments and (ii) certain advances, each as incurred through the date the claim is filed. Under our Master Policies, a national foreclosure moratorium of the type currently required will not limit the amount of accrued interest (subject to the three-year limit) or advances that may be included in the claim amount. In June, the GSEs extended their moratorium on the foreclosure of enterprise-backed single-family residential mortgages through September 30, 2021. If the duration of the current foreclosure moratorium mandated by the GSEs is further extended, loans in our default inventory, including those with defaults unrelated to the COVID-19 crisis that had not yet gone through foreclosure, may remain in a pre-foreclosure default status for a prolonged period of time, which would delay our receipt of certain claims for loans that do not cure and could increase the severity of claims we may ultimately be required to pay after the moratorium is lifted.

*Regulatory Capital Position*

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

The financial requirements stipulated by the GSEs are outlined in the PMIERs. Under the PMIERs, we must maintain available assets that are equal to or exceed a minimum risk-based required asset amount, subject to a minimum floor of $400 million. At June 30, 2021, we reported $1,887 million available assets against $1,171 million risk-based required assets. Our “excess” funding position was $716 million.

The risk-based required asset amount under PMIERs is determined at an individual policy-level based on the risk characteristics of each insured loan. Loans with higher risk factors, such as higher LTVs or lower borrower FICO scores, are assessed a higher charge. Non-performing loans that have missed two or more payments are generally assessed a significantly higher charge than performing loans, regardless of the underlying borrower or loan risk profile; however, special consideration is given under PMIERs to loans that are delinquent on homes located in an area declared by the Federal Emergency Management Agency (FEMA) to be a Major Disaster zone eligible for Individual Assistance. In June 2020, the GSEs issued guidance (subsequently amended and restated in each of September 2020, December 2020 and June 2021) on the risk-based treatment of loans affected by the COVID-19 crisis and the reporting of non-performing loans by aging category. Under the guidance, non-performing loans that are subject to a forbearance program granted in response to a financial hardship related to COVID-19 will benefit from a permanent 70% risk-based required asset haircut for the duration of the forbearance period and subsequent repayment plan or trial modification period.

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

A Lock-Out Event was deemed to have occurred, effective June 25, 2020 for each of the 2017, 2018 and 2019 ILN Transactions (related to the default experience of the underlying reference pools for each respective transaction) and at inception of the 2021-1 ILN Transaction (related to the initial build of its target credit enhancement), and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each such ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each such ILN Transaction, and during such period the overcollateralization within and potential PMIERs capacity provided by each such ILN Transaction will grow as assets are preserved in the applicable reinsurance trust account.

The following table provides detail on the level of overcollateralization of each of our ILN Transactions at June 30, 2021:

| *($ values in thousands)* | 2017 ILN Transaction | 2018 ILN Transaction | 2019 ILN Transaction | 2020-1 ILN Transaction | 2020-2 ILN Transaction | 2021-1 ILN Transaction |
|---|---|---|---|---|---|---|
| Ceded RIF | $ 1,409,721 | $ 1,572,828 | $ 1,848,885 | $ 3,673,953 | $ 5,133,512 | $ 8,612,343 |
| First Layer Retained Loss | 121,234 | 122,937 | 122,757 | 169,488 | 121,177 | 163,708 |
| Reinsurance Coverage | 40,226 | 158,489 | 231,877 | 128,750 | 205,846 | 367,238 |
| Eligible Coverage | $ 161,460 | $ 281,426 | $ 354,634 | $ 298,238 | $ 327,023 | $ 530,946 |
| Subordinated Coverage [1] | 11.45% | 17.89% | 19.18% | 8.00% | 6.25% | 6.16% |
| PMIERs Charge on Ceded RIF | 6.64% | 8.67% | 8.35% | 6.60% | 5.54% | 5.94% |
| Overcollateralization [2] [4] | $ 40,226 | $ 145,009 | $ 200,310 | $ 55,877 | $ 42,415 | $ 19,796 |
| Delinquency Trigger [3] | 4.0% | 4.0% | 4.0% | 6.0% | 4.7% | 4.6% |

(1) Absent a delinquency trigger, the subordinated coverage is capped at 8.00%, 6.25% and 6.75% for the 2020-1, 2020-2 and 2021-1 ILN Transactions, respectively.
(2) Overcollateralization of the 2017 ILN Transaction is equal to its current reinsurance coverage as the PMIERs required asset amount on RIF ceded under the transaction is currently below the remaining first layer retained loss.
(3) Delinquency triggers for 2017, 2018, and 2019 ILN Transactions are set at a fixed 4.0% and assessed on a discrete monthly basis; delinquency triggers for the 2020-1, 2020-2 and 2021-1 ILN Transactions are equal to seventy-five percent of the subordinated coverage level and assessed on the basis of a three-month rolling average.
(4) May not be replicated based on the rounded figures presented in the table.

At June 30, 2021, we had an aggregate $504 million of overcollateralization available across our ILN Transactions to absorb an increase in the PMIERs risk-based required asset amount on ceded RIF. Assuming the Lock-Out Events remain in effect for each of the 2017, 2018 and 2019 ILN Transactions and our underlying RIF continues to run-off at the same rate as it did during the three months ended June 30, 2021, we estimate that our total overcollateralization would increase by up to approximately $29 million per quarter.

Our PMIERs funding requirement will go up in future periods based on the volume and risk profile of our new business production, and performance of our in-force insurance portfolio. We estimate, however, that we will remain in compliance with our PMIERs asset requirements even if the forbearance-driven default rate on our in-force portfolio materially exceeds its current level, given our $716 million excess available asset position at June 30, 2021, the nationwide applicability of the 70% haircut on delinquent policies subject to a forbearance program accessed in response to a financial hardship related to the COVID-19 crisis, and the increasing PMIERs relief automatically provided under each of our quota share treaties and ILN Transactions.

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

*Liquidity*

We evaluate our liquidity position at both a holding company (NMIH) and primary operating subsidiary (NMIC) level. As of June 30, 2021, we had $2.1 billion of consolidated cash and investments, including $81 million of cash and investments at NMIH.

On June 8, 2020, NMIH completed the sale of 15.9 million shares of common stock, including the exercise of a 15% overallotment option, and raised proceeds of approximately $220 million, net of underwriting discounts, commissions and other direct offering expenses. On June 19, 2020, NMIH also completed the sale of its $400 million aggregate principal amount of senior secured notes, raising net proceeds of $244 million after giving effect to offering expenses and the repayment of the $150 million principal amount outstanding under our 2018 Term Loan. NMIH contributed approximately $445 million of capital to NMIC following completion of its respective Notes and common stock offerings.

NMIH also has access to $110 million of undrawn revolving credit capacity (through the 2020 Revolving Credit Facility) and $1.6 million of ordinary course dividend capacity available from Re One without the prior approval of the Wisconsin OCI. Amounts drawn under the 2020 Revolving Credit Facility are available as directed for NMIH needs or may be down-streamed to support the requirements of our operating subsidiaries if we so decide. Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt.*

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

NMIC's principal sources of liquidity include (i) premium receipts on its insured portfolio and new business production, (ii) interest income on its investment portfolio and principal repayments on maturities therein, and (iii) existing cash and cash equivalent holdings. At June 30, 2021, NMIC had $1.9 billion of cash and investments, including $48 million of cash and equivalents. NMIC's principal liquidity demands include funds for the payment of (i) reimbursable holding company expenses, (ii) premiums ceded under our reinsurance transactions (iii) claims payments, and (iv) taxes as due or otherwise deferred through the purchase of tax and loss bonds. NMIC's cash inflow is generally significantly in excess of its cash outflow in any given period. During the twelve-month period ended June 30, 2021, NMIC generated $300 million of cash flow from operations and received an additional $150 million of cash flow on the maturity, sale and redemption of securities held in its investment portfolio. NMIC is not a party to any contracts (derivative or otherwise) that require it to post an increasing amount of collateral to any counterparty and NMIC's principal liquidity demands (other than claims payments) generally develop along a scheduled path (*i.e.*, are of a contractually predetermined amount and due at a contractually predetermined date). NMIC's only use of cash that develops along an unscheduled path is claims payments. Given the breadth and duration of forbearance programs available to borrowers, separate foreclosure moratoriums that have been enacted at a local, state and federal level, and the general duration of the default to foreclosure to claim cycle, we do not expect NMIC to use a meaningful amount of cash to settle claims in the near-term.

Premiums paid to NMIC on monthly policies are generally collected and remitted by loan servicers. There was broad discussion at the onset of the COVID pandemic and concerns about potential liquidity challenges that servicers might face in the event of widespread borrower utilization of forbearance programs. These concerns have not materialized thus far and we do not believe that loan servicer liquidity constraints, should they arise in the future, would have a material impact on NMIC's premium receipts or liquidity profile. Loan servicers are contractually obligated to advance mortgage insurance premiums in a timely manner, even if the underlying borrowers fail to remit their monthly mortgage payments. In June 2020, the GSEs issued guidance to the PMIERs (subsequently amended and restated in each of September 2020, December 2020 and June 2021) that, among other items, requires us to notify them of our intent to cancel coverage on policies for which servicers have failed to make timely premium payments so that the GSEs can pay the premiums directly to us and preserve the mortgage insurance coverage. Through June 30, 2021, we did not see any notable changes in servicer payment practices, with servicers generally continuing to remit monthly premium payments as scheduled, including those for policies covering loans that are in a forbearance program.

*Investment portfolio*

At June 30, 2021, we had $2.1 billion of cash and invested assets. Our investment strategy equally prioritizes capital preservation alongside income generation, and we have a long-established investment policy that sets conservative limits for asset types, industry sectors, single issuers and instrument credit ratings. At June 30, 2021, our investment portfolio was comprised of 100% fixed income assets with 100% of our holdings rated investment grade and our portfolio having an average rating of "A+." At June 30, 2021, our portfolio was in a $40 million aggregate unrealized gain position; it was highly liquid and highly diversified with no Level 3 asset positions and no single issuer concentration greater than 1.4%. We did not record any allowance for credit losses in the portfolio during the three months ended June 30, 2021, as we expect to recover the amortized cost basis of all securities held.

The pre-tax book yield on our investment portfolio was 2.0% for the three months ended June 30, 2021. At the onset of the COVID-19 crisis, we decided to prioritize liquidity and increased our cash and equivalent holdings as a percentage of our total portfolio. We believe such action was prudent in light of the heightened market volatility and general uncertainty developing in the early stages of the COVID-19 pandemic. We have since redeployed much of our excess liquidity position.

*Taxes*

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

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

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

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

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

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

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

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium). Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is earned over the estimated life of the policy. Substantially all of our single premium policies in force as of June 30, 2021 were non-refundable under most cancellation scenarios. If non-refundable single premium policies are canceled, we immediately recognize the remaining unearned premium balances as earned premium revenue. Monthly premiums are recognized in the month billed and when the coverage is effective. Annual premiums are earned on a straight-line basis over the year of coverage. Substantially all of our policies provide for either single or monthly premiums.

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

*Effect of reinsurance on our results*

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

*Quota share reinsurance*

NMIC is a party to four outstanding quota share reinsurance treaties – the 2016 QSR Transaction, effective September 1, 2016, the 2018 QSR Transaction, effective January 1, 2018, the 2020 QSR Transaction, effective April 1, 2020 and the 2021 QSR Transaction, effective January 1, 2021. Under each of the QSR Transactions, NMIC cedes a proportional share of its risk on eligible policies written during a discrete period to panels of third-party reinsurance providers. Each of the third-party reinsurance providers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both.

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

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

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

Under the terms of the 2021 QSR Transaction, NMIC cedes premiums earned related to 22.5% of the risk on eligible policies written in 2021 (subject to an aggregate risk written limit), in exchange for reimbursement of ceded claims and claim expenses on covered policies, a 20% ceding commission, and a profit commission of up to 57.5% that varies directly and inversely with ceded claims.

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

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

*Excess-of-loss reinsurance*

NMIC is party to reinsurance agreements with the Oaktown Re Vehicles that provide it with aggregate excess-of-loss reinsurance coverage on defined portfolios of mortgage insurance policies. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides second layer loss protection up to a defined reinsurance coverage amount. NMIC then retains losses in excess of the respective reinsurance coverage amounts.

The respective reinsurance coverage amounts provided by the Oaktown Re Vehicles decrease from the inception of each agreement over a ten-year period as the underlying insured mortgages are amortized or repaid, and/or the mortgage insurance coverage is canceled. As the reinsurance coverage decreases, a prescribed amount of collateral held in trust by the Oaktown Re Vehicles is distributed to ILN Transaction note-holders as amortization of the outstanding insurance-linked note principal balances occurs. The outstanding reinsurance coverage amounts stop amortizing, and the collateral distribution to ILN Transaction note-holders and amortization of insurance-linked note principal is suspended if certain credit enhancement or delinquency thresholds, as defined in each agreement, are triggered (each, a Lock-Out Event). A Lock-Out Event was deemed to have occurred, effective June 25, 2020 for each of the 2017, 2018 and 2019 ILN Transactions (related to the default experience of the underlying reference pools for each respective transaction) and at inception of the 2021-1 ILN Transaction (related to the initial build of its target credit enhancement), and the amortization of reinsurance coverage, and distribution of collateral assets and amortization of insurance-linked notes was suspended for each ILN Transaction. The amortization of reinsurance coverage, distribution of collateral assets and amortization of insurance-linked notes will remain suspended for the duration of the Lock-Out Event for each ILN Transaction, and during such period assets will be preserved in the applicable reinsurance trust account to collateralize the excess-of-loss reinsurance coverage provided to NMIC.

The following table presents the inception date, covered production period, initial and current reinsurance coverage amount, and initial and current first layer retained aggregate loss under each of the ILN Transactions. Current amounts are presented as of June 30, 2021.

| *($ values in thousands)* | Inception Date | Covered Production | Initial Reinsurance Coverage | Current Reinsurance Coverage | Initial First Layer Retained Loss | Current First Layer Retained Loss [1] |
|---|---|---|---|---|---|---|
| 2017 ILN Transaction | May 2, 2017 | 1/1/2013 - 12/31/2016 | $ 211,320 | $ 40,226 | $ 126,793 | $ 121,234 |
| 2018 ILN Transaction | July 25, 2018 | 1/1/2017 - 5/31/2018 | 264,545 | 158,489 | 125,312 | 122,937 |
| 2019 ILN Transaction | July 30, 2019 | 6/1/2018 - 6/30/2019 | 326,905 | 231,877 | 123,424 | 122,757 |
| 2020-1 ILN Transaction | July 30, 2020 | 7/1/2019 - 3/31/2020 | 322,076 | 128,750 | 169,514 | 169,488 |
| 2020-2 ILN Transaction | October 29, 2020 | 4/1/2020 - 9/30/2020 [2] | 242,351 | 205,846 | 121,777 | 121,177 |
| 2021-1 ILN Transaction [4] | April 27, 2021 | 10/1/2020 - 3/31/2021[3] | 367,238 | 367,238 | 163,708 | 163,708 |

[1] NMIC applies claims paid on covered policies against its first layer aggregate retained loss exposure, and cedes reserves for incurred claims and claims expenses to each applicable ILN Transaction and recognizes a reinsurance recoverable if such incurred claims and claims expenses exceed its current first layer retained loss.
[2] Approximately 1% of the production covered by the 2020-2 ILN Transaction has coverage reporting dates between July 1, 2019 and March 31, 2020.
[3] Approximately 1% of the production covered by the 2021-1 ILN Transaction has coverage reporting dates between July 1, 2019 and September 30, 2020.
[4] As of June 30, 2021, the current reinsurance coverage amount on the 2021-1 ILN transaction is equal to the initial reinsurance coverage, as the reinsurance coverage provided by Oaktown Re will not decrease until its target credit enhancement is met.

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 six months ended** | |
|---|---|---|---|---|---|---|
| | **June 30, 2021** | | **June 30, 2020** | | **June 30, 2021** | **June 30, 2020** |
| | **IIF** | **NIW** | **IIF** | **NIW** | **NIW** | |
| | *(In Millions)* | | | | | |
| Monthly | $ 117,629 | $ 19,422 | $ 82,848 | $ 11,885 | $ 43,186 | $ 22,346 |
| Single | 18,969 | 3,329 | 16,057 | 1,239 | 5,962 | 2,075 |
| Primary | 136,598 | 22,751 | 98,905 | 13,124 | 49,148 | 24,421 |
| Pool | 1,460 | — | 2,340 | — | — | — |
| Total | $ 138,058 | $ 22,751 | $ 101,245 | $ 13,124 | $ 49,148 | $ 24,421 |

For the three and six months ended June 30, 2021, NIW increased 73% and 101%, respectively, compared to the three and six months ended June 30, 2020, driven by growth in our monthly and single premium policy production tied to the increased penetration of existing customer accounts and new customer account activations, as well as growth in the size of the total mortgage insurance market.

For the three months ended June 30, 2021, monthly premium polices accounted for 85% of our NIW, compared to 91% for the three months ended June 30, 2020. As of June 30, 2021, monthly premium policies accounted for 86% of our primary IIF, compared to 84% at June 30, 2020.

Total IIF increased 36% at June 30, 2021 compared to June 30, 2020, primarily due to the NIW generated between such measurement dates, partially offset by the run-off of in-force policies. Our persistency rate decreased to 54% at June 30, 2021 from 64% at June 30, 2020, reflecting the impact of increased refinancing activity during the intervening twelve-month period.

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 six months ended** | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| | *(In Thousands)* | | | |
| Net premiums written | $ 126,642 | $ 90,109 | $ 242,457 | $ 181,480 |
| Net premiums earned | 110,888 | 98,944 | 216,767 | 197,661 |

For the three and six months ended June 30, 2021, net premiums written increased 41% and 34%, respectively, and net premiums earned increased 12% and 10%, respectively, compared to the three and six months ended June 30, 2020. The growth in net premiums written and earned were primarily due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR and ILN Transactions. Net premiums written grew at an accelerated rate compared to net premiums earned due to an increase in the volume and mix of our single premium policy production and decline in the contribution of single premium policy cancellations during the three and six months ended June 30, 2021.

Pool premiums written and earned for the three and six months ended June 30, 2021 and 2020, were $0.4 million and $0.9 million, and $0.7 million and $1.4 million, respectively, before giving effect to the 2016 QSR Transaction, under which all of our written and earned pool premiums are ceded. A portion of our ceded pool premiums written and earned are recouped through profit commission.

***Portfolio Statistics***

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

| **Primary portfolio trends** | **As of and for the three months ended** | | | | |
|---|---|---|---|---|---|
| | **June 30, 2021** | **March 31, 2021** | **December 31, 2020** | **September 30, 2020** | **June 30, 2020** |
| | *($ Values In Millions, except as noted below)* | | | | |
| New insurance written | $ 22,751 | $ 26,397 | $ 19,782 | $ 18,499 | $ 13,124 |
| Percentage of monthly premium | 85 % | 90 % | 90 % | 89 % | 91 % |
| Percentage of single premium | 15 % | 10 % | 10 % | 11 % | 9 % |
| New risk written | $ 5,650 | $ 6,531 | $ 4,868 | $ 4,577 | $ 3,260 |
| Insurance-in-force [(1)] | 136,598 | 123,777 | 111,252 | 104,494 | 98,905 |
| Percentage of monthly premium | 86 % | 86 % | 86 % | 85 % | 84 % |
| Percentage of single premium | 14 % | 14 % | 14 % | 15 % | 16 % |
| Risk-in-force [(1)] | $ 34,366 | $ 31,206 | $ 28,164 | $ 26,568 | $ 25,238 |
| Policies in force (count) [(1)] | 471,794 | 436,652 | 399,429 | 381,899 | 372,934 |
| Average loan size *($ value in thousands)* [(1)] | $ 290 | $ 283 | $ 279 | $ 274 | $ 265 |
| Coverage percentage [(2)] | 25.2 % | 25.2 % | 25.3 % | 25.4 % | 25.5 % |
| Loans in default (count) [(1)] | 8,764 | 11,090 | 12,209 | 13,765 | 10,816 |
| Default rate [(1)] | 1.86 % | 2.54 % | 3.06 % | 3.60 % | 2.90 % |
| Risk-in-force on defaulted loans [(1)] | $ 625 | $ 785 | $ 874 | $ 1,008 | $ 799 |
| Net premium yield [(3)] | 0.34 % | 0.36 % | 0.37 % | 0.39 % | 0.40 % |
| Earnings from cancellations | $ 7.0 | $ 9.9 | $ 11.7 | $ 12.6 | $ 15.5 |
| Annual persistency [(4)] | 53.9 % | 51.9 % | 55.9 % | 60.0 % | 64.1 % |
| Quarterly run-off [(5)] | 8.0 % | 12.5 % | 12.5 % | 13.1 % | 12.9 % |

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

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

| **Primary IIF** | **For the three months ended** | | **For the six months ended** | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| | *(In Millions)* | | | |
| IIF, beginning of period | $ 123,777 | $ 98,494 | $ 111,252 | $ 94,754 |
| NIW | 22,751 | 13,124 | 49,148 | 24,421 |
| Cancellations, principal repayments and other reductions | (9,930) | (12,713) | (23,802) | (20,270) |
| IIF, end of period | $ 136,598 | $ 98,905 | $ 136,598 | $ 98,905 |

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 June 30, 2021** | | **As of June 30, 2020** | |
|---|---|---|---|---|
| | **IIF** | **RIF** | **IIF** | **RIF** |
| | *(In Millions)* | | | |
| June 30, 2021 | $ 48,314 | $ 11,986 | $ — | $ — |
| 2020 | 51,100 | 12,792 | 23,949 | 6,039 |
| 2019 | 17,279 | 4,527 | 34,658 | 9,017 |
| 2018 | 6,745 | 1,719 | 14,322 | 3,643 |
| 2017 | 5,687 | 1,424 | 11,548 | 2,877 |
| 2016 and before | 7,473 | 1,918 | 14,428 | 3,662 |
| Total | $ 136,598 | $ 34,366 | $ 98,905 | $ 25,238 |

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

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

| **Primary NIW by FICO** | **For the three months ended** | | **For the six months ended** | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| | | *(In Millions)* | | |
| >= 760 | $ 11,390 | $ 8,052 | $ 24,304 | $ 14,342 |
| 740-759 | 4,246 | 1,866 | 9,558 | 3,481 |
| 720-739 | 3,152 | 1,607 | 7,115 | 3,186 |
| 700-719 | 1,798 | 959 | 4,156 | 1,997 |
| 680-699 | 1,292 | 514 | 2,652 | 1,079 |
| <=679 | 873 | 126 | 1,363 | 336 |
| Total | $ 22,751 | $ 13,124 | $ 49,148 | $ 24,421 |
| Weighted average FICO | 754 | 762 | 755 | 760 |

| **Primary NIW by LTV** | **For the three months ended** | | **For the six months ended** | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| | | *(In Millions)* | | |
| 95.01% and above | $ 2,177 | $ 547 | $ 4,628 | $ 1,268 |
| 90.01% to 95.00% | 9,941 | 5,385 | 20,992 | 10,394 |
| 85.01% to 90.00% | 6,262 | 5,067 | 14,110 | 9,149 |
| 85.00% and below | 4,371 | 2,125 | 9,418 | 3,610 |
| Total | $ 22,751 | $ 13,124 | $ 49,148 | $ 24,421 |
| Weighted average LTV | 91.3 % | 90.7 % | 91.1 % | 91.0 % |

| **Primary NIW by purchase/refinance mix** | **For the three months ended** | | **For the six months ended** | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| | | *(In Millions)* | | |
| Purchase | $ 18,911 | $ 7,776 | $ 36,820 | $ 15,767 |
| Refinance | 3,840 | 5,348 | 12,328 | 8,654 |
| Total | $ 22,751 | $ 13,124 | $ 49,148 | $ 24,421 |

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 | | | |
|---|---|---|---|---|
| | June 30, 2021 | | June 30, 2020 | |
| | ($ Values In Millions) | | | |
| >= 760 | $ 70,583 | 51 % | $ 48,898 | 49 % |
| 740-759 | 23,175 | 17 | 15,764 | 16 |
| 720-739 | 18,857 | 14 | 13,882 | 14 |
| 700-719 | 12,230 | 9 | 10,228 | 10 |
| 680-699 | 7,927 | 6 | 6,657 | 7 |
| <=679 | 3,826 | 3 | 3,476 | 4 |
| Total | $ 136,598 | 100 % | $ 98,905 | 100 % |

| Primary RIF by FICO | As of | | | |
|---|---|---|---|---|
| | June 30, 2021 | | June 30, 2020 | |
| | ($ Values In Millions) | | | |
| >= 760 | $ 17,531 | 51 % | $ 12,433 | 49 % |
| 740-759 | 5,873 | 17 | 4,031 | 16 |
| 720-739 | 4,798 | 14 | 3,585 | 14 |
| 700-719 | 3,161 | 9 | 2,625 | 10 |
| 680-699 | 2,047 | 6 | 1,706 | 7 |
| <=679 | 956 | 3 | 858 | 4 |
| Total | $ 34,366 | 100 % | $ 25,238 | 100 % |

| Primary IIF by LTV | As of | | | |
|---|---|---|---|---|
| | June 30, 2021 | | June 30, 2020 | |
| | ($ Values In Millions) | | | |
| 95.01% and above | $ 12,026 | 9 % | $ 8,453 | 9 % |
| 90.01% to 95.00% | 60,358 | 44 | 45,862 | 46 |
| 85.01% to 90.00% | 43,064 | 32 | 32,603 | 33 |
| 85.00% and below | 21,150 | 15 | 11,987 | 12 |
| Total | $ 136,598 | 100 % | $ 98,905 | 100 % |

| Primary RIF by LTV | As of | | | |
|---|---|---|---|---|
| | June 30, 2021 | | June 30, 2020 | |
| | ($ Values In Millions) | | | |
| 95.01% and above | $ 3,552 | 10 % | $ 2,387 | 9 % |
| 90.01% to 95.00% | 17,774 | 52 | 13,463 | 53 |
| 85.01% to 90.00% | 10,555 | 31 | 7,985 | 32 |
| 85.00% and below | 2,485 | 7 | 1,403 | 6 |
| Total | $ 34,366 | 100 % | $ 25,238 | 100 % |

| Primary RIF by Loan Type | As of | |
|---|---|---|
| | June 30, 2021 | June 30, 2020 |
| Fixed | 99 % | 98 % |
| Adjustable rate mortgages | | |
| Less than five years | — | — |
| Five years and longer | 1 | 2 |
| Total | 100 % | 100 % |

The table below presents selected primary portfolio statistics, by book year, as of June 30, 2021.

| | As of June 30, 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Book Year | Original Insurance Written | Remaining Insurance in Force | % Remaining of Original Insurance | Policies Ever in Force | Number of Policies in Force | Number of Loans in Default | # of Claims Paid | Incurred Loss Ratio (Inception to Date) [1] | Cumulative Default Rate [2] | Curr Rate ( |
| | ($ Values in Millions) | | | | | | | | | |
| 2013 | $ 162 | $ 8 | 5 % | 655 | 56 | 2 | 1 | 0.3 % | 0.5 % | 3.6 |
| 2014 | 3,451 | 357 | 10 % | 14,786 | 2,159 | 77 | 48 | 4.2 % | 0.8 % | 3.6 |
| 2015 | 12,422 | 2,186 | 18 % | 52,548 | 11,723 | 419 | 114 | 3.2 % | 1.0 % | 3.6 |
| 2016 | 21,187 | 4,922 | 23 % | 83,626 | 23,999 | 965 | 126 | 2.9 % | 1.3 % | 4.0 |
| 2017 | 21,582 | 5,687 | 26 % | 85,897 | 28,150 | 1,539 | 88 | 4.5 % | 1.9 % | 5.5 |
| 2018 | 27,295 | 6,745 | 25 % | 104,043 | 32,452 | 2,039 | 69 | 8.5 % | 2.0 % | 6.3 |
| 2019 | 45,141 | 17,279 | 38 % | 148,423 | 67,015 | 2,505 | 13 | 13.5 % | 1.7 % | 3.7 |
| 2020 | 62,702 | 51,100 | 81 % | 186,174 | 157,288 | 1,171 | 1 | 7.5 % | 0.6 % | 0.7 |
| 2021 | 49,148 | 48,314 | 98 % | 150,923 | 148,952 | 47 | — | 0.5 % | — % | — |
| Total | $ 243,090 | $ 136,598 | | 827,075 | 471,794 | 8,764 | 460 | | | |

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

*Geographic Dispersion*

The following table shows the distribution by state of our primary RIF as of the periods indicated. The distribution of our primary RIF as of June 30, 2021 is not necessarily representative of the geographic distribution we expect in the future.

| Top 10 primary RIF by state | As of | |
|---|---|---|
| | June 30, 2021 | June 30, 2020 |
| California | 10.3 % | 11.3 % |
| Texas | 9.8 | 8.1 |
| Florida | 8.3 | 6.2 |
| Virginia | 5.0 | 5.4 |
| Colorado | 4.1 | 3.8 |
| Maryland | 3.9 | 3.5 |
| Illinois | 3.8 | 4.0 |
| Washington | 3.6 | 3.4 |
| Georgia | 3.5 | 2.8 |
| Pennsylvania | 3.2 | 3.6 |
| Total | 55.5 % | 52.1 % |

***Insurance Claims and Claim Expenses***

Insurance claims and claim expenses incurred represent estimated future payments on newly defaulted insured loans and any change in our claim estimates for previously existing defaults. Claims incurred are generally affected by a variety of factors, including the macroeconomic environment, national and regional unemployment trends, changes in housing values, borrower risk characteristics, LTV ratios and other loan level risk attributes, the size and type of loans insured, the percentage of coverage on insured loans, and the level of reinsurance coverage maintained against insured exposures.

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

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

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

Our reserve setting process considers the beneficial impact of forbearance, foreclosure moratorium and other assistance programs available to defaulted borrowers. We generally observe that forbearance programs are an effective tool to bridge dislocated borrowers from a time of acute stress to a future date when they can resume timely payment of their mortgage obligations. The effectiveness of forbearance programs is enhanced by the availability of various repayment and loan modification options which allow borrowers to amortize or, in certain instances, outright defer payments otherwise due during the forbearance period over an extended length of time.

In response to the COVID-19 outbreak, politicians, regulators, lenders, loan servicers and others have offered extraordinary assistance to dislocated borrowers through, among other programs, the forbearance, foreclosure moratorium and other assistance programs codified under the CARES Act. The FHFA and GSEs have offered further assistance by introducing new repayment and loan modification options to assist borrowers with their transition out of forbearance programs and default status. At June 30, 2020 and 2021, we established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak, given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs.

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | | (In Thousands) | | |
| Beginning balance | $ 96,103 | $ 29,479 | $ 90,567 | $ 23,752 |
| Less reinsurance recoverables [1] | (18,686) | (6,193) | (17,608) | (4,939) |
| Beginning balance, net of reinsurance recoverables | 77,417 | 23,286 | 72,959 | 18,813 |
| | | | | |
| Add claims incurred: | | | | |
| Claims and claim expenses incurred: | | | | |
| Current year [2] | 5,069 | 34,958 | 15,626 | 42,516 |
| Prior years [3] | (429) | (624) | (6,024) | (2,485) |
| Total claims and claim expenses incurred | 4,640 | 34,334 | 9,602 | 40,031 |
| | | | | |
| Less claims paid: | | | | |
| Claims and claim expenses paid: | | | | |
| Current year [2] | — | 39 | 12 | 39 |
| Prior years [3] | 548 | 1,985 | 1,040 | 3,209 |
| Total claims and claim expenses paid | 548 | 2,024 | 1,052 | 3,248 |
| | | | | |
| Reserve at end of period, net of reinsurance recoverables | 81,509 | 55,596 | 81,509 | 55,596 |
| Add reinsurance recoverables [1] | 19,726 | 14,307 | 19,726 | 14,307 |
| Ending balance | $ 101,235 | $ 69,903 | $ 101,235 | $ 69,903 |

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

(2) Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year. Amounts are presented net of reinsurance and included $9.8 million attributed to net case reserves and $5.6 million attributed to net IBNR reserves for the six months ended June 30, 2021 and $34.7 million attributed to net case reserves and $7.1 million attributed to net IBNR reserves for the six months ended June 30, 2020.

(3) Related to insured loans with defaults occurring in prior years, which have been continuously in default before the start of the current year. Amounts are presented net of reinsurance and included $1.1 million attributed to net case reserves and $5.0 million attributed to net IBNR reserves for the six months ended June 30, 2021 and $1.1 million attributed to net case reserves and $1.3 million attributed to net IBNR reserves for the six months ended June 30, 2020.

The "claims incurred" section of the table above shows claims and claim expenses incurred on defaults occurring in current and prior years, including IBNR reserves and is presented net of reinsurance. We may increase or decrease our claim estimates and reserves as we learn additional information about individual defaulted loans, and continue to observe and analyze loss development trends in our portfolio. Gross reserves of $81.8 million related to prior year defaults remained as of June 30, 2021.

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Beginning default inventory | 11,090 | 1,449 | 12,209 | 1,448 |
| Plus: new defaults | 1,095 | 9,770 | 2,862 | 10,282 |
| Less: cures | (3,402) | (353) | (6,270) | (828) |
| Less: claims paid | (19) | (49) | (35) | (83) |
| Less: claims denied | — | (1) | (2) | (3) |
| Ending default inventory | 8,764 | 10,816 | 8,764 | 10,816 |

Ending default inventory declined from June 30, 2020 to June 30, 2021 as an increased number of borrowers impacted by the COVID-19 pandemic cured their delinquencies, and fewer new defaults emerged as the acute economic stress of the pandemic crisis began to recede. While our default population declined from June 30, 2020 to June 30, 2021, our default inventory remains elevated compared to historical experience due to the continued challenges certain borrowers are facing related to the COVID-19 outbreak and their decision to access the forbearance program for federally backed loans codified under the Coronavirus Aid, Relief and Economic Security (CARES) Act or similar programs made available by private lenders. As of June 30, 2021, 7,822 of our 8,764 defaulted loans were in a COVID-19 related forbearance program.

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | | *($ In Thousands)* | | |
| Number of claims paid [(1)] | 19 | 49 | 35 | 83 |
| Total amount paid for claims | $ 702 | $ 2,578 | $ 1,308 | $ 4,081 |
| Average amount paid per claim | $ 37 | $ 53 | $ 37 | $ 49 |
| Severity [(2)] | 66 % | 89 % | 64 % | 87 % |

(1) Count includes three and four claims settled without payment during the three and six months ended June 30, 2021, respectively, and one and two claims settled without payment during the three and six months ended 2020, respectively.

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

The number of claims paid during the three and six months ended June 30, 2021 decreased compared to the three and six months ended June 30, 2020, despite the growth and seasoning of our insured portfolio, and elevated level of defaults (compared to pre-COVID historical experience), primarily as a result of the forbearance program and foreclosure moratorium implemented by the GSEs in response to the COVID outbreak and codified under the CARES Act. Such forbearance and foreclosure programs have extended, and may ultimately interrupt, the timeline over which loans would otherwise progress through the default cycle to a paid claim.

Our claims severity for the three and six months ended June 30, 2021 was 66% and 64%, respectively, compared to 89% and 87% for the three and six months ended June 30, 2020, respectively. Claims severity for the three and six months ended June 30, 2021 benefited from the resiliency of the housing market and broad national house price appreciation. An increase in the value of the homes collateralizing the mortgages we insure provides additional equity support to our risk exposure and raises the prospect of a third-party sale of a foreclosed property, which can mitigate the severity of our settled claims.

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

| **Average reserve per default:** | **As of June 30, 2021** | **As of June 30, 2020** |
|---|---|---|
| | *(In Thousands)* | |
| Case [(1)] | $ 10.6 | $ 5.6 |
| IBNR [(1)(2)] | 1.0 | 0.9 |
| Total | $ 11.6 | $ 6.5 |

(1) Defined as the gross reserve per insured loan in default.
(2) Amount includes claims adjustment expenses.

Average reserve per default increased from June 30, 2020 to June 30, 2021, primarily due to the "aging" of early COVID-related defaults. While we have established lower reserves for defaults that we consider to be connected to the COVID-19 outbreak given our expectation that forbearance, repayment and modification, and other assistance programs will aid affected borrowers and drive higher cure rates on such defaults than we would otherwise expect to experience on similarly situated loans that did not benefit from broad-based assistance programs, we have generally increased such reserves over time as individual defaults remain outstanding or "age." The growth in our average reserve per default from June 30, 2020 to June 30, 2021 far exceeded the growth in our aggregate gross reserve position in the intervening period as the impact of the increase in our average reserve per default was largely offset by the decline in our total default inventory.

***GSE Oversight***

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

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

By April 15th of each year, NMIC must certify it met all PMIERs requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2021 that NMIC was in full compliance with the PMIERs as of December 31, 2020. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of a failure to meet one or more of the PMIERs requirements. We continuously monitor NMIC's compliance with the PMIERs.

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

| | **As of** | |
|---|---|---|
| | **June 30, 2021** | **June 30, 2020** |
| | *(In Thousands)* | |
| Available assets | $ 1,886,993 | $ 1,656,426 |
| Risk-based required assets | 1,170,854 | 1,047,619 |

*Available assets* were $1.9 billion at June 30, 2021, compared to $1.7 billion at June 30, 2020. The $231 million increase in *available assets* between the dates presented was primarily driven by NMIC's positive cash flow from operations during the intervening period.

The increase in the *risk-based required asset amount* between the dates presented was primarily due to the growth of our gross RIF, partially offset by an increase in the risk ceded under our third-party reinsurance agreements.

***Competition***

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

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

***LIBOR Transition***

On March 5, 2021, ICE Benchmark Administration Limited (“IBA”), the administrator for LIBOR, confirmed it would permanently cease the publication of overnight, one-month, three-month, six-month and twelve-month USD LIBOR settings in their current form after June 30, 2023. The U.K. Financial Conduct Authority ("FCA"), the regulator of IBA, announced on the same day that it intends to stop requiring panel banks to continue to submit to LIBOR and all USD LIBOR settings in their current form will either cease to be provided by any administrator or no longer be representative after June 30, 2023. We have exposure to USD LIBOR-based financial instruments, such as LIBOR-based securities held in our investment portfolio, and our 2020 Revolving Credit Facility and certain ILN Transactions that require LIBOR-based payments. We are in the process of reviewing our LIBOR-based contracts and transitioning, as necessary and applicable, to a set of alternative reference rates. We will continue to monitor, assess and plan for the phase out of LIBOR; however, we cannot currently estimate the impact such transition will have on our operations or financial results.

**Consolidated Results of Operations**

| Consolidated statements of operations | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| | ($ in thousands, except for per share data) | | | |
| Revenues | | | | |
| Net premiums earned | $ 110,888 | $ 98,944 | $ 216,767 | $ 197,661 |
| Net investment income | 9,382 | 7,070 | 18,196 | 15,174 |
| Net realized investment gains | 12 | 711 | 12 | 639 |
| Other revenues | 483 | 1,223 | 984 | 2,123 |
| Total revenues | 120,765 | 107,948 | 235,959 | 215,597 |
| Expenses | | | | |
| Insurance claims and claim expenses | 4,640 | 34,334 | 9,602 | 40,031 |
| Underwriting and operating expenses | 34,725 | 30,370 | 68,790 | 62,647 |
| Service expenses | 481 | 1,090 | 1,072 | 1,824 |
| Interest expense | 7,922 | 5,941 | 15,837 | 8,685 |
| (Gain) loss from change in fair value of warrant liability | (658) | 1,236 | (453) | (4,723) |
| Total expenses | 47,110 | 72,971 | 94,848 | 108,464 |
| Income before income taxes | 73,655 | 34,977 | 141,111 | 107,133 |
| Income tax expense | 16,133 | 8,129 | 30,697 | 22,014 |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| Earnings per share - Basic | $ 0.67 | $ 0.36 | $ 1.29 | $ 1.20 |
| Earnings per share - Diluted | $ 0.65 | $ 0.36 [2] | $ 1.27 [2] | $ 1.11 |
| Loss ratio[1] | 4.2 % | 34.7 % | 4.4 % | 20.3 % |
| Expense ratio[2] | 31.3 % | 30.7 % | 31.7 % | 31.7 % |
| Combined ratio [3] | 35.5 % | 65.4 % | 36.2 % | 51.9 % |

| n-GAAP financial measures [4] | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| | ($ in thousands, except for per share data) | | | |
| ljusted income before tax | $ 74,600 | $ 38,292 | $ 142,639 | $ 105,035 |
| ljusted net income | 58,130 | 29,726 | 111,526 | 82,470 |
| ljusted diluted EPS | 0.67 | 0.40 | 1.29 | 1.14 |

(1) Loss ratio is calculated by dividing insurance claims and claim expenses by net premiums earned.
(2) Expense ratio is calculated by dividing underwriting and operating expenses by net premiums earned.
(3) Combined ratio may not foot due to rounding
(4) See "*Explanation and Reconciliation of Our Use of Non-GAAP Financial Measures*," below.

***Revenues***

Net premiums earned were $110.9 million and $216.8 million for the three and six months ended June 30, 2021, respectively, compared to $98.9 million and $197.7 million for the three and six months ended June 30, 2020, respectively. The year-on-year increase in net premiums earned in each respective period was primarily driven by the growth of our IIF, partially offset by an increase in cessions made under our QSR and ILN Transactions, and a decline in the contribution from single premium policy cancellations.

Net investment income was $9.4 million and $18.2 million for the three and six months ended June 30, 2021, respectively, compared to $7.1 million and $15.2 million for the three and six months ended June 30, 2020, respectively. The year-on-year increase in net investment income in each respective period was driven by growth in the size of our total investment portfolio, partially offset by a decline in book yield tied to the prevailing interest rate and credit spread environment.

Other revenues were $483 thousand and $1.0 million for the three and six months ended June 30, 2021, respectively, compared to $1.2 million and $2.1 million for the three and six months ended June 30, 2020, respectively. Other revenues represent underwriting fee revenue generated by our subsidiary, NMIS, which provides outsourced loan review services to mortgage loan originators. The year-on-year decline in other revenues in each respective period relates to a decrease in NMIS' outsourced loan review volume. Amounts recognized in other revenues generally correspond with amounts incurred as service expenses for outsourced loan review activities in the same periods.

***Expenses***

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

Insurance claims and claim expenses were $4.6 million and $9.6 million for the three and six months ended June 30, 2021, respectively, compared to $34.3 million and $40.0 million for the three and six months ended June 30, 2020, respectively. The year-on-year decline in insurance claims and claim expenses in each respective period primarily reflects a significant decrease in the number of new defaults emerging on loans impacted by the COVID-19 outbreak. Insurance claims and claim expenses during the three and six months ended June 30, 2021 also benefited from cure activity and a release of reserves previously held against certain loans that defaulted prior to the onset of the COVID pandemic.

Underwriting and operating expenses were $34.7 million and $68.8 million for the three and six months ended June 30, 2021, respectively, compared to $30.4 million and $62.6 million for the three and six months ended June 30, 2020. The year-on-year increase in underwriting and operating expenses in each respective period primarily relates to the recognition of previously deferred policy acquisition costs taken in connection with in-force portfolio run-off, partially offset by reductions in payroll, travel and entertainment, and office administrative expenses as a result of the COVID-19 outbreak. Underwriting and operating expenses included capital market reinsurance transaction costs of $1.6 million and $2.0 million, respectively, for the three months and six months ended June 30, 2021, and $2.8 million and $3.3 million, respectively, for the three and six months ended June 30, 2020.

Service expenses were $481 thousand and $1.1 million for the three and six months ended June 30, 2021, respectively, compared to $1.1 million and $1.8 million for the three and six months ended June 30, 2020, respectively. Service expenses represent third-party costs incurred by NMIS in connection with the services it provides. The year-on-year decline in service expenses in each respective period was driven by a decrease in NMIS' outsourced loan review volume. Amounts incurred as service expenses generally correspond with amounts recognized in other revenues in the same periods.

Interest expense was $7.9 million and $15.8 million for the three and six months ended June 30, 2021, respectively, compared to $5.9 million and $8.7 million for the three and six months ended June 30, 2020, respectively. The year-on-year increase in interest expense in each respective period is due to the increased amount and cost of our outstanding debt following the issuance of the $400 million Notes and retirement of the $150 million 2018 Term Loan in June 2020. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt.*"

Income tax expense was $16.1 million and $30.7 million for the three and six months ended June 30, 2021, respectively, compared to $8.1 million and $22.0 million for the three and six months ended June 30, 2020, respectively. The year-on-year increase in income tax expense in each respective period was primarily driven by growth in our pre-tax income. Our effective tax rate on pre-tax income was 21.9% and 21.8% for the three and six months ended June 30, 2021, respectively, compared to 23.2% and 20.5% for the three and six months ended June 30, 2020, respectively. As a U.S. taxpayer, we are subject to a U.S. federal corporate income tax rate of 21%. Our provision for income taxes for interim periods is established based on our estimated annual effective tax rate for a given year and reflects the impact of discrete tax effects in the period in which they occur. Our effective tax rates for the three and six months ended June 30, 2021 and 2020 reflect the discrete tax effects of the vesting of RSUs and exercise of options, and the change in fair value of our warrant liability in each period. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes."*

*Net Income*

Net income was $57.5 million and $110.4 million for the three and six months ended June 30, 2021, respectively, compared to $26.8 million and $85.1 million for the three and six months ended June 30, 2020, respectively. Adjusted net income was $58.1 million and $111.5 million for the three and six months ended June 30, 2021, respectively, compared to $29.7 million and $82.5 million for the three and six months ended June 30, 2020, respectively. The year-on-year increases in net income and adjusted net income in each respective period were primarily driven by growth in our total revenues and decrease in insurance claims and claim expenses, partially offset by an increase in our interest expense, underwriting and operating expenses and income tax expense.

Diluted EPS was $0.65 and $1.27 for the three and six months ended June 30, 2021, respectively, compared to $0.36 and $1.11 for the three and six months ended June 30, 2020, respectively. Adjusted diluted EPS was $0.67 and $1.29 for the three and six months ended June 30, 2021, respectively, compared to $0.40 and $1.14 for the three and six months ended June 30, 2020, respectively. Diluted and adjusted diluted EPS increased due to growth in net income and adjusted net income, respectively, partially offset by an increase in weighted average diluted shares outstanding in connection with the issuance of 15.9 million shares of common stock we completed in June 2020, and, to a lesser extent, stock awards made under our share-based compensation plans.

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

| **Non-GAAP Financial Measure Reconciliations** | **For the three months ended June 30,** | | **For the six months ended June 30,** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **As reported** | *($ in thousands, except for per share data)* | | | |
| Income before income taxes | $ 73,655 | $ 34,977 | $ 141,111 | $ 107,133 |
| Income tax expense | 16,133 | 8,129 | 30,697 | 22,014 |
| Net income | $ 57,522 | $ 26,848 | $ 110,414 | $ 85,119 |
| | | | | |
| **Adjustments** | | | | |
| Net realized investment gain | (12) | (711) | (12) | (639) |
| (Gain) loss from change in fair value warrant liability | (658) | 1,236 | (453) | (4,723) |
| Capital market transaction costs | 1,615 | 2,790 | 1,993 | 3,264 |
| **Adjusted income before tax** | 74,600 | 38,292 | 142,639 | 105,035 |
| | | | | |
| Income tax expense on adjustments | 337 | 437 | 416 | 551 |
| **Adjusted net income** | $ 58,130 | $ 29,726 | $ 111,526 | $ 82,470 |
| | | | | |
| Weighted average diluted shares outstanding | 86,819 | 74,174 | 86,729 | 72,407 |
| **Adjusted diluted EPS** | $ 0.67 | $ 0.40 | $ 1.29 | $ 1.14 |

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

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

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

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

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

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

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

| Consolidated balance sheets | June 30, 2021 | December 31, 2020 |
|---|---|---|
| | (In Thousands) | |
| Total investment portfolio | $ 1,994,280 | $ 1,804,286 |
| Cash and cash equivalents | 68,080 | 126,937 |
| Premiums receivable | 55,939 | 49,779 |
| Deferred policy acquisition costs, net | 62,137 | 62,225 |
| Software and equipment, net | 31,443 | 29,665 |
| Prepaid reinsurance premiums | 3,831 | 6,190 |
| Reinsurance recoverable | 19,726 | 17,608 |
| Other assets | 70,442 | 69,976 |
| Total assets | $ 2,305,878 | $ 2,166,666 |
| Debt | $ 393,949 | $ 393,301 |
| Unearned premiums | 142,148 | 118,817 |
| Accounts payable and accrued expenses | 56,803 | 61,716 |
| Reserve for insurance claims and claim expenses | 101,235 | 90,567 |
| Reinsurance funds withheld | 6,904 | 8,653 |
| Warrant liability | 3,385 | 4,409 |
| Deferred tax liability, net | 136,273 | 112,586 |
| Other liabilities | 5,276 | 7,026 |
| Total liabilities | 845,973 | 797,075 |
| Total shareholders' equity | 1,459,905 | 1,369,591 |
| Total liabilities and shareholders' equity | $ 2,305,878 | $ 2,166,666 |

Total cash and investments were $2.1 billion as of June 30, 2021, compared to $1.9 billion as of December 31, 2020. Cash and investments at June 30, 2021 included $80.5 million held by NMIH. The increase in total cash and investments between the respective measurement dates reflects cash generated from operations, partially offset by a decrease in the unrealized gain position of our fixed income portfolio tied to the prevailing interest rate and credit spread environment.

Premiums receivable was $55.9 million as of June 30, 2021, compared to $49.8 million as December 31, 2020. The increase was primarily driven by growth in our monthly premium policies in force, where premiums are generally paid one month in arrears.

Net deferred policy acquisition costs were $62.1 million as of June 30, 2021, compared to $62.2 million as of December 31, 2020. The decrease was primarily driven by the recognition of previously deferred policy acquisition costs taken in connection with in-force portfolio run-off, and was largely offset by the deferral of certain costs associated with the origination of new policies between the respective balance sheet dates.

Prepaid reinsurance premiums were $3.8 million as of June 30, 2021, compared to $6.2 million as of December 31, 2020. Prepaid reinsurance premiums, which represent the unearned premiums on single premium policies ceded under the 2016 QSR Transaction, decreased due to the continued amortization of previously ceded unearned premiums.

Reinsurance recoverable was $19.7 million as of June 30, 2021, compared to $17.6 million as of December 31, 2020. The increase was driven by an increase in ceded losses recoverable associated with our QSR Transactions.

Other assets increased to $70.4 million as of June 30, 2021, compared to $70.0 million as of December 31, 2020. Other assets included $46.4 million of tax and loss bonds held by the Company at both June 30, 2021 and December 31, 2020. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes.*"

Unearned premiums were $142.1 million as of June 30, 2021, compared to $118.8 million as of December 31, 2020. The increase was driven by single premium policy originations during the six months ended June 30, 2021, partially offset by the cancellation of other single premium policies and the amortization of existing unearned premiums through earnings in accordance with the expiration of risk on related single premium policies.

Accounts payable and accrued expenses were $56.8 million as of June 30, 2021, compared to $61.7 million as of December 31, 2020. The decrease was primarily driven by the payment of an unsettled trade payable related to the purchase of investment securities at year-end 2020 and the settlement of previously accrued compensation during the six months ended June 30, 2021, partially offset by an increase in reinsurance premiums payable.

Reserve for insurance claims and claim expenses was $101.2 million as of June 30, 2021, compared to $90.6 million as of December 31, 2020. Reserve for insurance claims and claim expenses increased at June 30, 2021, despite a decline in the total size of our default population because of an increase in the average case reserve held against previously defaulted loans and the establishment of initial reserves on newly defaulted loans during the period. While we have generally established lower reserves per default for loans that we consider to be impaired in connection with the COVID pandemic, we have increased the initial reserves held for such loans as they have aged in default status. The increase in the reserves for insurance claims and claim expenses at June 30, 2021 was partially offset by the release of prior year reserves tied to the curing of certain loans that had defaulted prior to the onset of the COVID pandemic. See "- *Insurance Claims and Claim Expenses*," above for further details.

Reinsurance funds withheld, which represents our ceded reinsurance premiums written, less our profit and ceding commission receivables related to the 2016 QSR Transaction was $6.9 million as of June 30, 2021, compared to $8.7 million as of December 31, 2020. The decrease relates to the continued decline in ceded premiums written on single premium policies, due to the end of the reinsurance coverage period for new business under the 2016 QSR Transaction at December 31, 2017. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance*."

Warrant liability was $3.4 million at June 30, 2021, compared to $4.4 million at December 31, 2020. The decrease was driven by the exercise of outstanding warrants, and changes in the price of our common stock and other Black-Scholes model inputs between the respective measurement dates. For further information regarding the valuation of our warrant liability and its impact on our results of operations and financial position, see Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 3, Fair Value of Financial Instruments.*"

Net deferred tax liability was $136.3 million at June 30, 2021 compared to $112.6 million at December 31, 2020. The increase was primarily due to an increase in the claimed deductibility of our statutory contingency reserve, partially offset by the change in unrealized gains recorded in other comprehensive income. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes.*"

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

| **Consolidated cash flows** | **For the six months ended June 30,** | |
|---|---|---|
| | **2021** | **2020** |
| | *(In Thousands)* | |
| Net cash provided by (used in): | | |
| Operating activities | $ 182,544 | $ 127,355 |
| Investing activities | (240,679) | (114,306) |
| Financing activities | (722) | 461,312 |
| Net (decrease) increase in cash and cash equivalents | $ (58,857) | $ 474,361 |

Net cash provided by operating activities was $182.5 million for the six months ended June 30, 2021, compared to $127.4 million for the six months ended June 30, 2020. The increase in cash generated from operating activities year-on-year was primarily driven by growth in premiums written, with further increase tied to a decline in claims paid from period-to-period.

Cash used in investing activities for the six months ended June 30, 2021 and 2020 reflects the purchase of fixed and short-term maturities with cash provided by operating and, as available, financing activities, and the reinvestment of coupon payments, maturities and sale proceeds within our investment portfolio. Cash used in investing activities for the six months ended June 30, 2020, further reflects the investment of net cash proceeds provided by financing activities.

Cash used in financing activities was $0.7 million for the six months ended June 30, 2021, compared to cash provided by financing activities of $461.3 million for the six months ended June 30, 2020. Cash used in financing activities during the six months ended June 30, 2021 primarily relates to taxes paid on the net share settlement of equity awards for certain employees. Cash provided by financing activities for the six months ended June 30, 2020 primarily reflects $220.3 million net cash proceeds raised in connection with our 2020 equity offering and $245.9 million net cash proceeds raised in connection with our 2020 Notes offering.

**Liquidity and Capital Resources**

NMIH serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. NMIH's principal liquidity demands include funds for (i) payment of certain corporate expenses; (ii) payment of certain reimbursable expenses of its insurance subsidiaries; (iii) payment of the interest related to the Notes and 2020 Revolving Credit Facility; (iv) tax payments to the Internal Revenue Service; (v) capital support for its subsidiaries; and (vi) payment of dividends, if any, on its common stock. NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware law provides that dividends are only payable out of a corporation's surplus or recent net profits (subject to certain limitations).

As of June 30, 2021, NMIH had $80.5 million of cash and investments. NMIH's principal source of net cash is investment income. NMIH also has access to $110 million of undrawn revolving credit capacity under the 2020 Revolving Credit Facility. See Item 1, "*Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt.* Re One also has the capacity, under Wisconsin law, to pay $1.6 million of aggregate ordinary dividends to NMIH during the twelve-month period ending December 31, 2021. In the future, NMIH may benefit from ordinary course dividend capacity available from NMIC as well.

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

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

Under the 2020 Revolving Credit Facility, NMIH is required to pay a quarterly commitment fee on the average daily undrawn amount of 0.175% to 0.525%, based on the applicable corporate credit rating at the time. As of June 30, 2021, the applicable commitment fee was 0.35%.

We are subject to certain covenants under the 2020 Revolving Credit Facility (as defined in the Credit Agreement), including a maximum debt-to-total capitalization ratio of 35%, a minimum liquidity requirement, a requirement to maintain compliance with the PMIERs financial requirements (subject to any GSE-approved waivers), and minimum consolidated net worth and statutory capital requirements (respectively, as defined therein). We were in compliance with all covenants as of June 30, 2021.

NMIC and Re One are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs. Under Wisconsin law, NMIC and Re One may pay dividends up to specified levels (*i.e.*, "ordinary" dividends) with 30 days' prior notice to the Wisconsin OCI. Dividends in larger amounts, or "extraordinary" dividends, are subject to the Wisconsin OCI's prior approval. Under Wisconsin insurance laws, an extraordinary dividend is defined as any payment or distribution that, together with other dividends and distributions made within the preceding twelve months, exceeds the lesser of (i) 10% of the insurer's statutory policyholders' surplus as of the preceding December 31 or (ii) adjusted statutory net income for the twelve-month period ending the preceding December 31. Re One has the capacity to pay $1.6 million of aggregate ordinary dividends to NMIH during the twelve-month period ending December 31, 2021. NMIC reported a statutory net loss for the year ended December 31, 2020 and does not have the capacity to pay dividends to NMIH during the twelve-month period ended December 31, 2021 without prior approval from the Wisconsin OCI. Since inception, neither NMIC nor Re One have paid any dividends to NMIH.

As an *approved insurer* under PMIERs, NMIC would generally be subject to prior GSE approval of its ability to pay dividends to NMIH if it failed to meet the financial requirements prescribed by PMIERs. In response to the COVID-19 pandemic, the GSEs issued temporary PMIERs guidance, effective for the period from June 30, 2020 to June 30, 2021, that requires *approved insurers* to secure approval from the GSEs, even if the *approved insurer* otherwise satisfies the financial requirements prescribed by PMIERs, prior to taking any of the following actions: (i) pay dividends, make payments of principal or increase payments of interest beyond those commitments made prior to the guidance effective date associated with surplus notes issued by the *approved insurer*, make any other payments, unless related to expenses incurred in the normal course of business or to commitments made prior to the guidance effective date, or pledge or transfer asset(s) to any affiliate or investor, or (ii) enter into any new arrangements or alter any existing arrangements under tax sharing and intercompany expense-sharing agreements other than renewals and extensions of agreements in effect prior to the guidance effective date. On June 30, 2021, the GSEs updated the temporary PMIERs guidance to permit *approved insurers* to pay dividends or undertake other actions described in (i) and (ii) above without securing prior approval if certain prescribed financial requirements are met during the period from July 1, 2021 to December 31, 2021.

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

As an approved mortgage insurer and Wisconsin-domiciled carrier, NMIC is required to satisfy financial and/or capitalization requirements stipulated by each of the GSEs and the Wisconsin OCI. The financial requirements stipulated by the GSEs are outlined in the PMIERs. Under the PMIERs, NMIC must maintain available assets that are equal to or exceed a minimum risk-based required asset amount, subject to a minimum floor of $400 million. At June 30, 2021, we reported $1,887 million available assets against $1,171 million risk-based required assets for a $716 million of "excess" funding position.

The risk-based required asset amount under PMIERs is determined at an individual policy-level based on the risk characteristics of each insured loan. Loans with higher risk factors, such as higher LTVs or lower borrower FICO scores, are assessed a higher charge. Non-performing loans that have missed two or more payments are generally assessed a significantly higher charge than performing loans, regardless of the underlying borrower or loan risk profile; however, special consideration is given under PMIERs to loans that are delinquent on homes located in an area declared by FEMA to be a Major Disaster zone eligible for Individual Assistance. In June 2020, the GSEs issued guidance (amended and restated in each of September 2020, December 2020 and June 2021) on the risk-based treatment of loans affected by the COVID-19 crisis. Under the guidance, non-performing loans that are subject to a forbearance program granted in response to a financial hardship related to COVID-19 will benefit from a permanent 70% risk-based required asset haircut for the duration of the forbearance period and subsequent repayment plan or trial modification period.

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

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

As of June 30, 2021, NMIC's performing primary RIF, net of reinsurance, was approximately $21.3 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory capital of $1.8 billion (including contingency reserves) as of June 30, 2021, NMIC's RTC ratio was 12:1 Re One had total statutory capital of $37.7 million as of June 30, 2021 and a RTC ratio of 1.9:1.

NMIC's principal sources of liquidity include (i) premium receipts on its insured portfolio and new business production, (ii) interest income on its investment portfolio and principal repayments on maturities therein, and (iii) existing cash and cash equivalent holdings. At June 30, 2021, NMIC had $1.9 billion of cash and investments, including $48 million of cash and equivalents. NMIC's principal liquidity demands include funds for the payment of (i) reimbursable holding company expenses, (ii) premiums ceded under our reinsurance transactions (iii) claims payments, and (iv) taxes as due or otherwise deferred through the purchase of tax and loss bonds. NMIC's cash inflow is generally significantly in excess of its cash outflow in any given period. During the twelve-month period ended June 30, 2021, NMIC generated $300 million of cash flow from operations and received an additional $150 million of cash flow on the maturity, sale and redemption of securities held in its investment portfolio. NMIC is not a party to any contracts (derivative or otherwise) that require it to post an increasing amount of collateral to any counterparty and NMIC's principal liquidity demands (other than claims payments) generally develop along a scheduled path (*i.e.*, are of a contractually predetermined amount and due at a contractually predetermined date). NMIC's only use of cash that develops along an unscheduled path is claims payments. Given the breadth and duration of forbearance programs available to borrowers, separate foreclosure moratoriums that have been enacted at a local, state and federal level, and the general duration of the default to foreclosure to claim cycle, we do not expect NMIC to use a meaningful amount of cash to settle claims in the near-term.

**Debt and Financial Strength Ratings**

NMIC's financial strength is rated "Baa2" by Moody's and "BBB" by S&P. In June 2020, Moody's affirmed its financial strength rating of NMIC and its "Ba2" rating of NMIH's 2020 Revolving Credit Facility, and assigned a "Ba2" rating to the Notes. Moody's ratings outlook is stable. In June 2020, S&P assigned a "BB" rating to NMIH's senior secured Notes. In April 2021, S&P upgraded its outlook from negative to positive for the financial strength rating of NMIC's and NMIH's long-term counter-party credit profile.

**Consolidated Investment Portfolio**

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

Our investment portfolio is comprised entirely of fixed maturity instruments. As of June 30, 2021, the fair value of our investment portfolio was $2.0 billion and we held an additional $68.1 million of cash and equivalents. Pre-tax book yield on the investment portfolio for the six months ended June 30, 2021 was 2.0%. Book yield is calculated as period-to-date net investment income divided by the average amortized cost of the investment portfolio. The yield on our investment portfolio is likely to change over time based on movements in interest rates, credit spreads, the duration or mix of our holdings and other factors.

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

| Percentage of portfolio's fair value | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Corporate debt securities | 64 % | 63 % |
| Municipal debt securities | 25 | 22 |
| Asset-backed securities | 5 | 7 |
| Cash, cash equivalents, and short-term investments | 4 | 6 |
| U.S. treasury securities and obligations of U.S. government agencies | 2 | 2 |
| Total | 100 % | 100 % |

| Investment portfolio ratings at fair value (1) | June 30, 2021 | December 31, 2020 |
|---|---|---|
| AAA | 10 % | 12 % |
| AA(2) | 29 | 27 |
| A(2) | 43 | 43 |
| BBB(2) | 18 | 18 |
| Total | 100 % | 100 % |

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

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

*Investment Securities - Allowance for credit losses*

We did not recognize an allowance for credit loss for any security in the investment portfolio as of June 30, 2021 or December 31, 2020, and we did not record any provision for credit loss for investment securities during the three or six month periods ended June 30, 2021 or June 30, 2020.

As of June 30, 2021, the investment portfolio had gross unrealized losses of $9.0 million, none of which had been in an unrealized loss position for a period of twelve months or longer. As of December 31, 2020, the investment portfolio had gross unrealized losses of $512 thousand, of which $8 thousand had been in an unrealized loss position for a period of twelve months or longer. The increase in the number of securities in and the aggregate size of the unrealized loss position as of June 30, 2021, was primarily driven by interest rate movements following the purchase date of certain securities. Based on current facts and circumstances, we believe the unrealized losses as of June 30, 2021 are not indicative of the ultimate collectability of the current amortized cost of the securities.

**Critical Accounting Estimates**

We use accounting principles and methods that conform to GAAP. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. 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, our investment portfolio, deferred policy acquisition costs, premium deficiency reserves, and reserves for insurance claims and claim expenses have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting estimates. There have not been any material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2020 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 June 30, 2021 and December 31, 2020 was $2.0 billion and $1.8 billion, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of June 30, 2021, the duration of our fixed income portfolio, including cash and cash equivalents, was 5.05 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 5.05% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 5.09 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 5.09% in fair value of our fixed income portfolio.

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

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

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

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

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of June 30, 2021 pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2021 our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

**Internal Control Over Financial Reporting**

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

## PART II

### Item 1. Legal Proceedings

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

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

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

### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our 2020 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 2020 10-K. You should carefully consider the risks and uncertainties described herein and in our 2020 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 2020 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**

| Exhibit Number | Description |
|---|---|
| 2.1 | Stock Purchase Agreement, dated November 30, 2011, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 2.2 | Amendment to Stock Purchase Agreement, dated April 6, 2012, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 3.1 | Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 3.2 | Third Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, filed on December 9, 2014) |
| 4.1 | Specimen Class A common stock certificate (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.2 | Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets & Co., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.3 | Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.4 | Registration Rights Agreement between FBR & Co., FBR Capital Markets LT, Inc., FBR Capital Markets & Co., FBR Capital Markets PT, Inc. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.5 | Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets & Co., dated June 13, 2013 (incorporated herein by reference to Exhibit 4.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.6 | Form of Warrant to Purchase Common Stock of NMI Holdings, Inc. issued to former stockholders of MAC Financial Ltd. (incorporated herein by reference to Exhibit 4.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 4.7 | Indenture, dated as of June 19, 2020, among NMI Holdings, Inc., NMI Services, Inc. as the Initial Guarantor, and the Bank of New York Mellon Trust Company, N.A. as Trustee and Notes Collateral Agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on June 19, 2020) |
| 10.1 ~ | NMI Holdings Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (registration No. 333-191635), filed on October 9, 2013) |
| 10.2 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.3 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.4 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.5 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.6 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017) |
| 10.7 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017) |
| 10.8 ~ | Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015) |
| 10.9 ~ | Offer Letter by and between NMI Holdings, Inc. and William Leatherberry, dated July 11, 2014 (incorporated herein by reference to Exhibit 10.10 to our Form 10-Q, filed on April 28, 2016) |

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|---|---|
| 10.10 ~ | Offer Letter by and between NMI Holdings, Inc. and Adam Pollitzer, dated February 1, 2017 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 3, 2017) |
| 10.11 ~ | Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014) |
| 10.12 + | Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately $5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.13 | Credit Agreement, dated November 10, 2015, between NMI Holdings, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on November 10, 2015) |
| 10.14 | Amendment No. 1, dated February 10, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 10, 2017) |
| 10.15 | Amendment No. 2, dated October 25, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on October 26, 2017) |
| 10.16 | Credit Agreement, dated May 24, 2018, between NMI Holdings, Inc., the lender party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on May 25, 2018) |
| 10.17 | Extension Amendment, dated as of March 20, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, the lender parties thereto and JPMorgan Chase Bank, N.A. as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed on March 20, 2020) |
| 10.18 | Joinder Agreement, dated as of March 20, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, JPMorgan Chase Bank, N.A. as administrative agent, and Citibank, N.A. (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on March 20, 2020) |
| 10.19 | Amendment No. 1, dated as of May 6, 2020, to the Company's Credit Agreement, dated as of May 24, 2018, by and among the Company, the lender parties thereto and JPMorgan Chase Bank, N.A. as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed on May 6, 2020) |
| 10.20 | Joinder Agreement, dated as of October 29, 2020, to the Company’s Credit Agreement, dated as of May 24, 2018, by and among the Company, JPMorgan Chase Bank, N.A. as administrative agent, and Citibank, N.A. |
| 10.21 ~ | NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan (incorporated herein by reference to Appendix A to our 2017 Annual Proxy Statement, filed on March 30, 2017) |
| 10.22 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.19 to our Form 10-Q filed on August 1, 2017) |
| 10.23 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.20 to our Form 10-Q filed on August 1, 2017) |
| 10.24 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q filed on August 1, 2017) |
| 10.25 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.22 to our Form 10-Q filed on August 1, 2017) |
| 10.26 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.23 to our Form 10-Q filed on August 1, 2017) |
| 10.27 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Executive Officers and Employees (incorporated herein by reference to Exhibit 10.24 to our Form 10-Q filed on August 1, 2017) |
| 10.28 ~ | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.26 to our Form 10-K, filed on February 17, 2017) |
| 10.29 ~ | NMI Holdings, Inc. Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016) |
| 10.30 ~ | NMI Holdings, Inc. Amended and Restated Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on October 30, 2018) |

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| 10.31 ~ | NMI Holdings, Inc. Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017) |
| 10.32 ~ | Employment Letter by and between NMI Holdings, Inc. and Bradley M. Shuster, effective as of January 1, 2019 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 28, 2018) |
| 10.33 ~ | Employment Letter by and between NMI Holdings, Inc. and Claudia J. Merkle, effective as of January 1, 2019 (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on December 28, 2018) |
| 10.34 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.30 to our Form 10-Q, filed on May 2, 2019) |
| 10.35 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.31 to our Form 10-Q, filed on May 2, 2019) |
| 10.36 ~ | Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Agreement for Employees (incorporated herein by reference to Exhibit 10.32 to our Form 10-Q, filed on May 2, 2019) |
| 10.37 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.33 to our Form 10-Q, filed on May 2, 2019) |
| 10.38 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.34 to our Form 10-Q, filed on May 2, 2019) |
| 10.39 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Nonqualified Stock Option Agreement for Employees (incorporated herein by reference to Exhibit 10.35 to our Form 10-Q, filed on May 2, 2019) |
| 10.40 ~ | Form of NMI Holdings, Inc. Amended and Restated 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement (Performance Based) (incorporated herein by reference to Exhibit 10.38 to our Form 10-Q, filed on May 7, 2020) |
| 21.1 | Subsidiaries of NMI Holdings, Inc. (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q, filed on October 30, 2015) |
| 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 June 30, 2021 formatted in XBRL (eXtensible Business Reporting Language): |
| | (i) Condensed Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020; |
| | (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months and six months ended June 30, 2021 and 2020; |
| | (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2021 and 2020; |
| | (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020; and |
| | (v) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. |

~ Indicates a management contract or compensatory plan or contract.

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

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

**SIGNATURES**

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

**NMI HOLDINGS, INC.**

Date: August 3, 2021

By: /s/ Adam S. Pollitzer
Name: Adam S. Pollitzer
Title: Chief Financial Officer and Duly Authorized Signatory

**Exhibit 10.20**

**JOINDER AGREEMENT**, dated as of October 29, 2020 (this "Agreement"), among NMI Holdings, INC., a Delaware corporation (the "Company"), NMI SERVICES, INC., a Delaware corporation, CITIBANK, N.A., as Lender ("Citi") and JPMORGAN CHASE BANK, N.A., as administrative agent (the "Agent"), to the Credit Agreement dated, as of May 24, 2018, among the Company, the several banks and other financial institutions or entities from time to time party to the Credit Agreement (the "Lenders"), and the Agent (as amended, modified and supplemented from time to time prior to the date hereof, the "Credit Agreement"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

WHEREAS, pursuant to Section 2.15 of the Credit Agreement, the Company is hereby requesting a $10,000,000 New Revolving Commitment (the "Joinder No. 2 New Revolving Commitment") having the same terms as the Revolving Commitments as in effect on the Joinder No. 2 Effective Date (as defined below);

WHEREAS, the Company has requested that Citi provide the Joinder No. 2 New Revolving Commitment on the Joinder No. 2 Effective Date and Citi has agreed to provide the Joinder No. 2 New Revolving Commitment on the Joinder No. 2 Effective Date;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. **Joinder No. 2 New Revolving Commitment**.

(a) Effective as of the Joinder No. 2 Effective Date, Citi shall have a Joinder No. 2 New Revolving Commitment in the amount of $10,000,000.

(b) The terms and conditions of the Joinder No. 2 New Revolving Commitment and the Revolving Loans made thereunder shall be identical to the terms and conditions of the Revolving Commitments and the Revolving Loans thereunder as in effect on the Joinder No. 2 Effective Date.

Section 2. **Representations and Warranties, No Default**. The Company hereby represents and warrants that as of the Joinder No. 2 Effective Date, each of the conditions set forth in the second proviso to Section 2.15(a) of the Credit Agreement (to the extent applicable to New Revolving Commitments incurred pursuant to Section 2.15(a) of the Credit Agreement) is satisfied.

Section 3. **Effectiveness**. Section 1 of this Agreement shall become effective on the date (such date, if any, the "Joinder No. 2 Effective Date") that the following conditions have been satisfied:

(i) Execution of Agreement. The Agent shall have received executed signature pages hereto from the Company, the Subsidiary Guarantor, Citi and the Agent;

(ii) Fees and Expenses. The Agent shall have received (i) payment of all expenses required to be paid or reimbursed in connection with the execution of this Agreement under Section 10.04 of the Credit Agreement for which invoices have been presented to Company within a reasonable period of time prior to the Joinder No. 2 Effective Date, in each case on or before the

Joinder No. 2 Effective Date and (ii) payment to the Agent of an upfront fee for the account of Citi in an amount equal to 0.12% of the Joinder No. 2 New Revolving Commitment;

(iii) Legal Opinions. The Agent shall have received a customary legal opinion of (x) Wachtell, Lipton, Rosen & Katz, as special New York counsel for the Obligors and (y) Potter Anderson & Corroon LLP, Delaware counsel for the Obligors, relating to this Agreement;

(iv) Officer's Certificate. The Agent shall have received a certificate of a Responsible Officer of the Company dated as of the Joinder No. 2 Effective Date certifying that the representations and warranties of the Company contained in Section 2 of this Agreement are true and correct; and

(v) Closing Certificates. The Agent shall have received a certificate of the Secretary or Assistant Secretary or similar officer of each Obligor dated as of the Joinder No. 2 Effective Date and certifying:

(1) that either (a) attached thereto is a true and complete copy of the certificate or articles of incorporation or other equivalent constituent and governing documents, including all amendments thereto, of such Obligor, certified as of a recent date by the Secretary of State (or other similar official or Governmental Authority) of the jurisdiction of its organization or by the Secretary or Assistant Secretary or similar officer of such Obligor or other person duly authorized by the constituent documents of such Obligor or (b) such certificate or articles of incorporation or other equivalent constituent and governing documents have not been amended since the Joinder No. 1 Effective Date,

(2) that attached thereto is a true and complete copy of a certificate as to the good standing of such Obligor as of a recent date from such Secretary of State (or other similar official or Governmental Authority),

(3) that either (a) attached thereto is a true and complete copy of the by-laws (or other equivalent constituent and governing documents) of such Obligor as in effect on the Joinder No. 2 Effective Date and at all times since the date of the resolutions described in the following subclause (4) or (b) such by-laws (or other equivalent constituent and governing documents) have not been amended since the Joinder No. 1 Effective Date,

(4) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors (or equivalent governing body) of such Obligor, authorizing the execution, delivery and performance by such Obligor of this Agreement and that such resolutions have not been modified, rescinded or amended and are in full force and effect on the Joinder No. 2 Effective Date, and

(5) as to the incumbency and specimen signature of each officer or authorized signatory executing this Agreement or any other Loan Document delivered in connection herewith on behalf of such Obligor.

Section 4. **Counterparts**. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or any other electronic transmission shall be effective as delivery of a manually executed counterpart hereof. The words “executed,” “signed,” “signature,” “delivery,” and words of like import in or relating to this Agreement or any document to be signed in connection with this Agreement and the transactions contemplated hereby shall be deemed to include Electronic Signatures, deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act. For purposes of this Section 4, “Electronic Signature” means an electronic symbol or process attached to a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record. The execution of this Agreement by the Company and its delivery thereof to the Agent shall constitute delivery to the Agent of the notice required by Section 2.15(a) of the Credit Agreement.

Section 5. **Governing Law; Jurisdiction; Consent to Service of Process; Waiver of Jury Trial**. The provisions set forth in Sections 10.15 and 10.16 of the Credit Agreement are hereby incorporated *mutatis mutandis* with all references to the “Agreement” therein being deemed references to this Agreement.

Section 6. **Headings**. The headings of this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7. **Effect of Agreement**. Except as expressly set forth herein, (i) this Agreement shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or the Agent, in each case under the Credit Agreement or any other Loan Document, and (ii) shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of either such agreement or any other Loan Document. This Agreement shall constitute a Loan Document for purposes of the Credit Agreement and from and after the Joinder No. 2 Effective Date, all references to the Credit Agreement in any Loan Document and all references in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, shall, unless expressly provided otherwise, refer to the Credit Agreement as supplemented hereby. Each Obligor hereby (i) acknowledges all of the terms and conditions of this Agreement and confirms that all of its obligations under the Loan Documents to which it is a party shall continue to apply to the Credit Agreement as supplemented hereby, (ii) in the case of the Subsidiary Guarantor, reaffirms, as of the date hereof, its guarantee of the Secured Obligations under the Guarantee and Security Agreement and (iii) reaffirms its prior grant of Liens on the Collateral (as defined in the Guarantee and Security Agreement) to secure the Secured Obligations pursuant to the Guarantee and Security Agreement, and confirms that all such Liens shall continue in full force in effect after giving effect to this Agreement to secure the Secured Obligations including the Obligations in respect of the Joinder No. 2 New Revolving Commitment. This Agreement shall not constitute a novation of the Credit Agreement or the other Loan Documents.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

NMI HOLDINGS, INC.,
as Company

By: /s/ Adam Pollitzer
Name: Adam Pollitzer
Title: Chief Financial Officer

NMI SERVICES, INC.,
as a Subsidiary Guarantor

By: /s/ Adam Pollitzer
Name: Adam Pollitzer
Title: Chief Financial Officer & Treasurer

JPMORGAN CHASE BANK, N.A.,
as Agent

By: /s/ Kristen M. Murphy
Name: Kristen M. Murphy
Title: Vice President

CITIBANK, N.A.,
as Lender

By: /s/ John Modin
Name: John Modin
Title: Vice President and Managing Director

**EXHIBIT 31.1**

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Claudia J. Merkle, 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.

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| August 3, 2021 | /s/ Claudia J. Merkle<br>Claudia J. Merkle<br>Chief Executive Officer<br>(Principal Executive Officer) |

**EXHIBIT 31.2**

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Adam S. Pollitzer, certify that:

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

August 3, 2021

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of NMI Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

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

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

August 3, 2021

/s/ Claudia J. Merkle
Claudia Merkle
Chief Executive Officer
(Principal Executive Officer)

August 3, 2021

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

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