NMI Holdings, Inc.
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-36174
NMI Holdings, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company x			

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

The number of shares of common stock, $0.01 par value per share, of the registrant outstanding on July 30, 2018 was 65,755,084 shares.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

potential adverse impacts arising from recent natural disasters, including, with respect to the affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;

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

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

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

Assets	June 30, 2018	December 31, 2017
	(In Thousands, except for share data)	
Fixed maturities, available-for-sale, at fair value (amortized cost of $852,029 and $713,859 as of June 30, 2018 and December 31, 2017, respectively)	$838,265	$715,875
Cash and cash equivalents	16,454	19,196
Premiums receivable	31,252	25,179
Accrued investment income	4,789	4,212
Prepaid expenses	2,907	2,151
Deferred policy acquisition costs, net	42,363	37,925
Software and equipment, net	22,803	22,802
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	35,798	40,250
Deferred tax asset, net	12,378	19,929
Other assets	5,836	3,695
Total assets	$1,016,479	$894,848
Liabilities		
Term loan	$147,262	$143,882
Unearned premiums	165,658	163,166
Accounts payable and accrued expenses	21,407	23,364
Reserve for insurance claims and claim expenses	10,601	8,761
Reinsurance funds withheld	31,011	34,102
Deferred ceding commission	4,507	5,024
Warrant liability, at fair value	6,391	7,472
Total liabilities	386,837	385,771
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, $0.01 par value;		
65,753,784 and 60,517,512 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively (250,000,000 shares authorized)	658	605
Additional paid-in capital	670,870	585,488
Accumulated other comprehensive loss, net of tax	(15,043)	(2,859)
Accumulated deficit	(26,843)	(74,157)
Total shareholders' equity	629,642	509,077
Total liabilities and shareholders' equity	$1,016,479	$894,848

See accompanying notes to consolidated financial statements.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues	(In Thousands, except for per share data)			
Net premiums earned	$61,615	$37,917	$116,529	$71,142
Net investment income	5,735	3,908	10,309	7,715
Net realized investment gains	59	188	59	130
Other revenues	44	185	108	265
Total revenues	67,453	42,198	127,005	79,252
Expenses				
Insurance claims and claim expenses	643	1,373	2,212	2,008
Underwriting and operating expenses	29,020	28,048	57,473	54,037
Total expenses	29,663	29,421	59,685	56,045
Other expense				
Gain (Loss) from change in fair value of warrant liability	109	19	529	(177)
Interest expense	(5,560)	(3,300)	(8,979)	(6,794)
Total other expense	(5,451)	(3,281)	(8,450)	(6,971)
Income before income taxes	32,339	9,496	58,870	16,236
Income tax expense	7,098	3,484	11,274	4,732
Net income	$25,241	$6,012	$47,596	$11,504
Earnings per share				
Basic	$0.38	$0.10	$0.74	$0.19
Diluted	$0.37	$0.10	$0.70	$0.18
Weighted average common shares outstanding				
Basic	65,664	59,823	63,891	59,577
Diluted	68,616	63,010	67,171	62,689
Net income	$25,241	$6,012	$47,596	$11,504
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) in accumulated other comprehensive income, net of tax expense (benefit) of ($2,879) and $1,388 for the three months ended June 30, 2018 and 2017, respectively, and ($3,304) and $2,073 for the six months ended June 30, 2018 and 2017	(1,464)	2,822	(12,429)	4,017
Reclassification adjustment for realized (gains) included in net income, net of tax expenses of $12 and $66 for the three months ended June 30, 2018 and 2017, respectively, and $10 and $45 for the six months ended June 30, 2018 and 2017	(46)	(122)	(37)	(84)
Other comprehensive income (loss), net of tax	(1,510)	2,700	(12,466)	3,933
Comprehensive income	$23,731	$8,712	$35,130	$15,437

See accompanying notes to consolidated financial statements.

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

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
	(In Thousands)					
Balances, January 1, 2017	59,145	$ 591	$576,927	$ (5,287)	$ (96,722)	$475,509
Cumulative effect of change in accounting principle	—	—	388	—	515	903
Common stock: class A shares issued related to warrants	32	*	183	—	—	183
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,341	14	(1,494)	—	—	(1,480)
Share-based compensation expense	—	—	9,484	—	—	9,484
Change in unrealized investment gains/losses, net of tax expense of $1,307	—	—	—	2,428	—	2,428
Net income	—	—	—	—	22,050	22,050
Balances, December 31, 2017	60,518	$ 605	$585,488	$ (2,859)	$ (74,157)	$509,077
Cumulative effect of change in accounting principle	—	—	—	282	(282)	—
Common stock: class A shares issued related to public offering	4,255	43	79,122	—	—	79,165
Common stock: class A shares issued related to warrants	29	*	552	—	—	552
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	952	10	(114)	—	—	(104)
Share-based compensation expense	—	—	5,822	—	—	5,822
Change in unrealized investment gains/losses, net of tax benefit of $3,314	—	—	—	(12,466)	—	(12,466)
Net income	—	—	—	—	47,596	47,596
Balances, June 30, 2018	65,754	$ 658	$670,870	$ (15,043)	$ (26,843)	$629,642

* During the year ended December 31, 2017 and the six months ended June 30, 2018, we issued 32,368 and 29,437 common shares, respectively, with a par value of $0.01 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

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

	For the six months ended June 30,	
	2018	2017
Cash flows from operating activities	(In Thousands)	
Net income	$47,596	$11,504
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment gains	(59)	(130)
(Gain) Loss from change in fair value of warrant liability	(529)	177
Depreciation and amortization	3,810	3,119
Net amortization of premium on investment securities	810	772
Amortization of debt discount and debt issuance costs	2,851	757
Share-based compensation expense	5,822	4,219
Deferred income taxes	10,864	4,449
Changes in operating assets and liabilities:		
Premiums receivable	(6,073)	(4,067)
Accrued investment income	(577)	(445)
Prepaid expenses	(756)	(81)
Deferred policy acquisition costs, net	(4,438)	(4,097)
Other assets [1]	68	(328)
Unearned premiums	2,492	4,246
Reserve for insurance claims and claim expenses	1,840	2,047
Reinsurance balances, net [1]	365	(192)
Accounts payable and accrued expenses	(2,733)	(7,358)
Net cash provided by operating activities	61,353	14,592
Cash flows from investing activities		
Purchase of short-term investments	(83,874)	(78,564)
Purchase of fixed-maturity investments, available-for-sale	(219,093)	(116,991)
Proceeds from maturity of short-term investments	52,562	94,677
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	111,485	65,587
Additions to software and equipment	(3,273)	(4,863)
Net cash used in investing activities	(142,193)	(40,154)
Cash flows from financing activities		
Proceeds from issuance of common stock related to public offering	79,165	—
Proceeds from issuance of common stock related to employee equity plans	6,173	2,614
Taxes paid related to net share settlement of equity awards	(6,480)	(3,643)
Proceeds from senior note, net	149,250	—
Repayments of term loan	(146,625)	(750)
Payments of debt modification costs	(3,385)	(370)
Net cash provided by (used in) financing activities	78,098	(2,149)
Net decrease in cash and cash equivalents	(2,742)	(27,711)
Cash and cash equivalents, beginning of period	19,196	47,746
Cash and cash equivalents, end of period	$16,454	$20,035
Supplemental disclosures of cash flow information		
Interest paid	$6,425	$7,292
Income tax paid	447	585

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

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.
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).

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

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

Basis of Presentation

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

Significant Accounting Principles

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

Reinsurance

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

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

operating expenses.

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

Recent Accounting Pronouncements - Adopted

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

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

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

Recent Accounting Pronouncements - Not Yet Adopted

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326). This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The standard also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815). This update is intended to simplify the accounting for certain equity-linked financial instruments. This standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance must be applied using a full or modified retrospective approach. We are currently evaluating the impact the adoption of this ASU will have, if any, on our consolidated financial statements.

2. Investments

We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized through comprehensive income

and loss, and on an accumulated basis in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold.

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

Fair Values and Gross Unrealized Gains and Losses on Investments

As of June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$48,288	$10	$(2,060)	$46,238
Municipal debt securities	93,607	226	(1,482)	92,351
Corporate debt securities	508,217	509	(10,700)	498,026
Asset-backed securities	148,103	345	(664)	147,784
Total bonds	798,215	1,090	(14,906)	784,399
Short-term investments	53,814	52	—	53,866
Total investments	$852,029	$1,142	$(14,906)	$838,265

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

As of June 30, 2018 and December 31, 2017, approximately $5.2 million and $7.0 million, respectively, of our cash and investments were held in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

Scheduled Maturities

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

As of June 30, 2018	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$72,205	$72,166
Due after one through five years	313,545	309,079
Due after five through ten years	314,376	305,507
Due after ten years	3,800	3,729
Asset-backed securities	148,103	147,784
Total investments	$852,029	$838,265

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

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

Aging of Unrealized Losses

As of June 30, 2018, the investment portfolio had gross unrealized losses of $14.9 million, $4.7 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of June 30, 2018. We based our conclusion that these investments were not other-than-temporarily impaired as of June 30, 2018 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
As of June 30, 2018	(Dollars in Thousands)								
U.S. Treasury securities and obligations of U.S. government agencies	14	$29,453	$(1,187)	8	$14,657	$(873)	22	$44,110	$(2,060)
Municipal debt securities	27	52,276	(811)	10	17,670	(671)	37	69,946	(1,482)
Corporate debt securities	209	363,399	(7,575)	19	45,034	(3,125)	228	408,433	(10,700)
Asset-backed securities	42	79,609	(626)	4	6,236	(38)	46	85,845	(664)
Short-term investments	—	—	—	—	—	—	—	—	—
Total	292	$524,737	$(10,199)	41	$83,597	$(4,707)	333	$608,334	$(14,906)

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

The following table presents the components of net investment income:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(In Thousands)			
Investment income	$5,937	$4,099	$10,719	$8,092

Investment expenses	(202)	(191)	(410)	(377)
Net investment income	$5,735	$3,908	$10,309	$7,715

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(In Thousands)			
Gross realized investment gains	$59	$188	$59	$467
Gross realized investment losses	—	—	—	(337)
Net realized investment gains (losses)	$59	$188	$59	$130

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

At June 30, 2018, we held no other-than-temporarily impaired securities and during the three and six months ended June 30, 2018, there were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income. During the three months ended June 30, 2017, there were no OTTI losses. During the six months ended June 30, 2017, there were OTTI losses of $144 thousand recognized in earnings.

3. Fair Value of Financial Instruments

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

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

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

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

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

Assets classified as Level 1 and Level 2

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security

evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources.

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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, 2018	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$46,238	$—	$ —	$46,238
Municipal debt securities	—	92,351	—	92,351
Corporate debt securities	—	498,026	—	498,026
Asset-backed securities	—	147,784	—	147,784
Long-term investment – other	—	—		—
Cash, cash equivalents and short-term investments	70,320			70,320
Total assets	$116,558	$738,161	$ —	$854,719
Warrant liability	—	—	6,391	6,391
Total liabilities	$—	$—	$ 6,391	$6,391

	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, 2017	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$59,844	$4,844	$ —	$64,688
Municipal debt securities	—	89,848	—	89,848
Corporate debt securities	—	437,835	—	437,835
Asset-backed securities	—	100,944	—	100,944
Long-term investment - other	353	—	—	353
Cash, cash equivalents and short-term investments	41,403	—	—	41,403
Total assets	$101,600	$633,471	$ —	$735,071
Warrant liability	—	—	7,472	7,472
Total liabilities	$—	$—	$ 7,472	$7,472

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

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

Warrant Liability	For the six months ended June 30, 2018	2017
	(In Thousands)	
Balance, January 1	$7,472	$3,367
Change in fair value of warrant liability included in earnings	(529)	177
Issuance of common stock on warrant exercise	(552)	—
Balance, June 30	$6,391	$3,544

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, 2018	2017
Common Stock Price	$16.30	$11.45
Risk free interest rate	2.60%	1.68 %
Expected life	2.49 years	3.75 years
Expected volatility	32.7 %	30.6 %
Dividend yield	0%	0%

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

4. Debt Obligations

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

2018 Term Loan

The 2018 Term Loan bears interest at the Eurodollar Rate, as defined in the 2018 Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 4.75%, representing an all-in rate of 6.84% as of June 30, 2018, payable monthly based on our current interest period election. Quarterly principal payments of $375 thousand are also required starting on September 30, 2018. The 2018 Term Loan has a prepayment premium of 1% for any refinancing prepayments made on or prior to the date that is six months after the date of the 2018 Credit Agreement, after which there is no prepayment penalty.

Interest expense for the quarter ending June 30, 2018 includes amounts related to our interest payment, one-time financing costs and the amortization of issuance costs and original issue discounts. For the six months ended June 30, 2018, we recorded $9.0 million of interest expense, including $2.2 million of costs related to the extinguishment of the 2015 Term Loan and issuance of the 2018 Term Loan. Capitalized debt issuance costs totaling $1.8 million and original issue discounts totaling $986 thousand are being amortized to interest expense using the effective interest method over the contractual life of the 2018 Term Loan. As of June 30, 2018, the remaining unamortized issuance cost and original issue discounts totaled $2.7 million, and the outstanding balance of the Term Loan was $150 million.

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

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

As of June 30, 2018	Principal
	(In thousands)
2018	$ 750
2019	1,500
2020	1,500
2021	1,500
2022	1,500
2023	143,250
Total	$ 150,000

2018 Revolving Credit Facility

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

We are required to pay a quarterly commitment fee on the average daily undrawn amount of the 2018 Revolving Credit Facility, which ranges from 0.30% to 0.60%, based on the applicable corporate credit rating at the time. As of June 30, 2018, the applicable commitment fee was 0.50%. We recorded $46 thousand of commitment fees in interest expense for the period from May 24, 2018 through June 30, 2018.

We incurred issuance costs of $1.5 million in connection with the establishment of the 2018 Revolving Credit Facility, which were deferred and recorded within Other Assets. These costs will be amortized through interest expense over the three-year life of the 2018 Revolving Credit Facility on a straight line basis. As of June 30, 2018, the remaining issuance cost was $1.5 million, net of $42 thousand of accumulated amortization.

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

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5. Reinsurance

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

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

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Thousands)			
Net premiums written				
Direct	$70,677	$46,672	$136,704	$85,916
Ceded [(1)]	(6,234)	(6,886)	(13,231)	(11,527)
Net premiums written	$64,443	$39,786	$123,473	$74,389
Net premiums earned				
Direct	$70,609	$44,233	$134,212	$81,671
Ceded [(1)]	(8,994)	(6,316)	(17,683)	(10,529)
Net premiums earned	$61,615	$37,917	$116,529	$71,142

[(1)] Net of profit commission

Excess-of-loss reinsurance

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re Ltd. (Oaktown Re) that provides for up to $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the reinsurance coverage period, NMIC will retain the first layer of $126.8 million of aggregate losses and Oaktown Re will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid and was $156.1 million as of June 30, 2018. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $211.3 million to unaffiliated investors (the 2017 Notes). The 2017 Notes mature on April 26, 2027. All of the proceeds paid to Oaktown Re from the sale of the 2017 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re and the issuance of the 2017 Notes by Oaktown Re as the 2017 ILN Transaction. Under the terms of the 2017 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re for anticipated operating expenses (capped at $300 thousand per year). For the three and six months ended June 30, 2018, NMIC ceded risk premiums of $1.6 million and $3.3 million, respectively. For the three and six months ended June 30, 2017, NMIC ceded risk premiums of $1.4 million. NMIC did not cede any losses to Oaktown Re.

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

noteholders, among others.

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

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Quota share reinsurance

2016 QSR Transaction

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

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

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

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

2018 QSR Transaction

Effective January 1, 2018, NMIC entered into the 2018 QSR Transaction with a panel of third-party reinsurers. Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written in 2018 and 20% to 30% (such amount to be determined by NMIC at its sole election by December 1, 2018) in 2019.

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

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

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Thousands)			
Ceded risk-in-force	3,606,928	2,403,027	3,606,928	2,403,027
Ceded premiums written	(15,318)	(12,034)	(29,843)	(22,326)
Ceded premiums earned	(18,077)	(11,463)	(34,295)	(21,328)
Ceded claims and claims expenses	173	342	716	610
Ceding commission written	3,064	2,407	5,969	4,465
Ceding commission earned	3,536	2,275	6,687	4,340
Profit commission	10,707	6,536	19,908	12,187

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

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was $2.4 million as of June 30, 2018.

In accordance with the terms of the 2018 QSR Transaction, cash payments for ceded premiums earned are settled on a quarterly basis, offset by amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC are also settled quarterly. NMIC's reinsurance recoverable balance is supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERs funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2018 QSR Transaction was $8 thousand as of June 30, 2018.

6. Reserves for Insurance Claims and Claim Expenses

We establish reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Consistent with industry practice, we establish reserves for loans that have been reported to us by servicers as having been in default for at least 60 days, referred to as case reserves, and additional loans that we estimate (based on actuarial review) have been in default for at least 60 days that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish claims expense reserves, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claims settlement process. As of June 30, 2018, we had reserves for insurance claims and claims expenses of $10.6 million for 768 primary loans in default. During the first six months of 2018, we paid 35 claims totaling $1.1 million, including 26 claims covered under the QSR Transactions representing $237 thousand of ceded claims and claims expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At June 30, 2018, 54 loans in the pool were past due by 60 days or more. These 54 loans represent approximately $3.2 million of risk-in-force (RIF). Due to the size of the remaining deductible, the low level of notices of default (NODs) reported on loans in the pool through June 30, 2018 and the expected severity (all loans in the pool have loan-to-value ratios (LTV) ratios under 80%), we did not have any case or IBNR reserves for pool risks at June 30, 2018. In connection with the settlement of pool claims, we applied $574 thousand to the pool deductible through June 30, 2018. At June 30, 2018, the remaining pool deductible was $9.8 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

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

	For the six months ended June 30,	
	2018	2017
	(In Thousands)	
Beginning balance	$8,761	$3,001
Less reinsurance recoverables [1]	(1,902)	(297)
Beginning balance, net of reinsurance recoverables	6,859	2,704
Add claims incurred:		
Claims and claim expenses incurred:		
Current year [2]	3,152	2,331
Prior years [3]	(940)	(323)
Total claims and claims expenses incurred	2,212	2,008
Less claims paid:		
Claims and claim expenses paid:		
Current year [2]	—	—
Prior years [3]	852	563
Total claims and claim expenses paid	852	563
Reserve at end of period, net of reinsurance recoverables	8,219	4,149
Add reinsurance recoverables [1]	2,382	899
Ending balance	$10,601	$5,048

[1] Related to ceded losses recoverable on the QSR Transactions, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, "Reinsurance" for additional information.
[2] Related to insured loans with their most recent defaults occurring in the current year. For example, if a loan had defaulted in a prior year and subsequently cured and later re-defaulted in the current year, that default would be included in the current year.
[3] Related to insured loans with defaults occurring in prior years, which have been continuously in default since that time.

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred relating to current year NODs represents the estimated amount of claims and claims expenses to be ultimately paid on such loans in default. We recognized $940 thousand and $323 thousand of favorable prior year development during the six months ended June 30, 2018 and 2017, respectively, due to NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Gross reserves of $5.9 million related to prior year defaults remained as of June 30, 2018.

7. Earnings per Share (EPS)

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

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	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(In Thousands, except for per share data)			
Basic net income	$25,241	$6,012	$47,596	$11,504
Basic weighted average shares outstanding	65,664	59,823	63,891	59,577
Basic earnings per share	$0.38	$0.10	$0.74	$0.19
Basic net income	$25,241	$6,012	$47,596	$11,504
Warrant gain, net of tax	(86)	(12)	(418)	—
Diluted net income	$25,155	$6,000	$47,178	$11,504
Basic weighted average shares outstanding	65,664	59,823	63,891	59,577
Dilutive effect of issuable shares	2,952	3,187	3,280	3,112
Diluted weighted average shares outstanding	68,616	63,010	67,171	62,689
Diluted earnings per share	$0.37	$0.10	$0.70	$0.18
Anti-dilutive shares	308	835	231	834

8. Warrants
We issued 992 thousand warrants in connection with the Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to $10.00. The warrants were issued with an aggregate fair value of $5.1 million.
During the six months ended June 30, 2018, 63 thousand warrants were exercised resulting in 29 thousand common shares issued. No warrants were exercised during the six months ended June 30, 2017. Upon exercise, we reclassified the fair value of the warrants from warrant liability to additional paid-in capital and recognized a loss of approximately $42 thousand.
We account for these warrants to purchase our common shares in accordance with ASC 470-20, Debt with Conversion and Other Options and ASC 815-40, Derivatives and Hedging - Contracts in Entity's Own Equity.
9. Income Taxes
We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21% for the current and all future years following the enactment of the TCJA on December 22, 2017. We were subject to a statutory U.S. federal corporate income tax rate of 35% for all prior years through December 31, 2017. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rates for a given year. Our effective tax rate on our pre-tax income was 21.9% and 19.2% for the three and six months ended June 30, 2018, respectively, compared to 36.7% and 29.1% for the three and six months ended June 30, 2017, respectively. The decrease in the effective tax rates for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 is attributable to the decrease in the statutory U.S. federal corporate income tax rate. We currently pay no federal income tax primarily due to the forecasted utilization of our federal net operating loss carryforwards, which were $93.3 million as of December 31, 2017. As a result, the interim provision for income taxes represents changes to deferred tax assets.
Provisional amounts
The TCJA reduced the statutory U.S. federal corporate income tax rate from 35% to 21% and changed the tax deductibility of certain expenses for tax years beginning after December 31, 2017. We have not completed our full

assessment of the tax effects of the enactment of the TCJA on our deferred tax balances as of June 30, 2018 and December 31, 2017; however, in certain cases, as described below, we have made reasonable estimates of the effects on our deferred tax balances. We recognized a $13.6 million income tax expense in the year ended December 31, 2017 for the items we could reasonably estimate. We are still analyzing the TCJA and refining our calculations, which could impact the measurement of our existing deferred tax assets including those related

to share-based compensation. For tax years beginning after December 31, 2017, the TCJA expanded the number of individuals whose compensation is subject to a $1 million cap on tax deductibility and includes performance-based compensation in the calculation. As a result, we recorded a provisional amount to reduce the future tax benefit related to share-based compensation. We will continue to make and refine our calculations as additional analysis is completed. In addition, our estimates may also be affected as we incorporate additional guidance that may be issued by the U.S. Treasury Department, the IRS, or other standard-setting bodies.

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

10. Common Stock Offerings

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

11. Regulatory Information

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(In Thousands)			
Statutory net income (loss)	$2,066	$(11,616)	$(4,748)	$(21,706)

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

	June 30, 2018	December 31, 2017
	(Dollars In Thousands)	
Statutory surplus	$439,754	$ 371,084
Contingency reserve	253,817	186,641
RTC Ratio	13.7:1	13.2:1

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

NMI HOLDINGS, INC.
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12. Subsequent Event

On July 25, 2018, NMIC entered into a reinsurance agreement with Oaktown Re II Ltd. (Oaktown Re II), a Bermuda domiciled special purpose reinsurer, that provides for up to $264.5 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written between January 1, 2017 and May 31, 2018. For the reinsurance coverage period, NMIC will retain the first layer of $125.3 million of aggregate losses and Oaktown Re II will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. Oaktown Re II financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $264.5 million to unaffiliated investors (the 2018 Notes). The 2018 Notes mature on July 25, 2028. All of the proceeds paid to Oaktown Re II from the sale of the 2018 Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re II to NMIC under the reinsurance agreement. Funds in the reinsurance trust account are required to be invested in high credit quality money market funds at all times. We refer collectively to NMIC's reinsurance agreement with Oaktown Re II and the issuance of the 2018 Notes by Oaktown Re II as the 2018 ILN Transaction. Under the terms of the 2018 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re II for anticipated operating expenses (capped at $250,000 per year).

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

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

Overview

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

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

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of June 30, 2018, we had master policy relationships with 1,313 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders and other non bank lenders. As of June 30, 2018, we had $61.2 billion of total insurance-in-force (IIF), including primary IIF of $58.1 billion, and $14.4 billion of gross RIF, including primary RIF of $14.3 billion.

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

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

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

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

New Insurance Written, Insurance In Force and Risk In Force

New insurance written (NIW) is the aggregate unpaid principal balance of mortgages underpinning new policies written during a given period. Our NIW is affected by the overall size of the mortgage origination market and the

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

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

Net Premiums Written and Net Premiums Earned

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

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

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

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

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

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure PMIERs compliance and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERs asset positions. Under a quota share reinsurance agreement, the reinsurer receives a

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

Quota share reinsurance

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

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

Excess-of-loss reinsurance

In May 2017, NMIC secured $211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from $211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid, and was $156.1 million as of June 30, 2018. For the reinsurance coverage period, NMIC will retain the first layer of $126.8 million of aggregate losses and Oaktown Re will then provide a second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

In July 2018, NMIC secured $264.5 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from January 1, 2017 through May 31, 2018, through a mortgage insurance-linked notes offering by Oaktown Re II. The reinsurance coverage amount under the terms of the 2018 ILN Transaction decreases from $264.5 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid. For the reinsurance coverage period, NMIC will retain the first layer of $125.3 million of aggregate losses and Oaktown Re II will then provide a second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

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

Portfolio Data

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

Primary and pool IIF and NIW	As of and for the three months ended				For the six months ended	
	June 30, 2018		June 30, 2017		June 30, 2018	June 30, 2017
	IIF	NIW	IIF	NIW	NIW	
		(In Millions)				
Monthly	$41,843	$5,711	$24,865	$4,099	$11,152	$6,991
Single	16,246	802	13,764	938	1,821	1,605
Primary	58,089	6,513	38,629	5,037	12,973	8,596
Pool	3,064	—	3,447	$—	—	—
Total	$61,153	$6,513	$42,076	$5,037	$12,973	$8,596

For the three months ended June 30, 2018, NIW increased 29%, compared to the three months ended June 30, 2017, primarily because of the growth in our monthly policy volume tied to increased penetration of existing customer accounts and new customer account activations, partially offset by a reduction in our single policy production. NIW increased 51% for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the growth within and expansion of our customer base . For the three and six months ended June 30, 2018, monthly premium NIW increased 39% and 60%, respectively, compared to the same periods a year ago.

For the six months ended June 30, 2018, 86% of our NIW related to monthly premium policies. As of June 30, 2018, monthly premium policies accounted for 72% of our primary IIF, as compared to 64% at June 30, 2017. We expect the break-down of monthly premium policies and single premium policies (which we refer to as "mix") in our primary IIF to continue to trend toward our current NIW mix over time. Our total IIF increased 45% as of June 30, 2018 compared to June 30, 2017, primarily because of the NIW we generated between such measurement dates and the high persistency of our policies in force.

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

Primary and pool premiums written and earned	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Thousands)			
Net premiums written [1]	$64,443	$39,786	$123,473	$74,389
Net premiums earned [1]	61,615	37,917	116,529	71,142

[1] Net premiums written and earned are reported net of reinsurance and premium refunds.

For the three and six months ended June 30, 2018, net premiums written increased 62% and 66%, respectively, and net premiums earned increased 62% and 64%, respectively, compared to the same periods in 2017. The increases in net premiums written and earned are due to the growth of our IIF and increased monthly policy production, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and inception of the 2017 ILN Transaction in May 2017. Pool premiums written and earned for the three and six months ended June 30, 2018, were $0.8 million and $1.7 million, respectively, before the effects of the 2016 QSR Transaction, under which all of our written and earned pool premiums have been ceded.

Portfolio Statistics

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

Primary portfolio trends	As of and for the three months ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	($ Values In Millions)				
New insurance written	$6,513	$6,460	$ 6,876	$ 6,115	$5,037
Percentage of monthly premium	88 %	84 %	83 %	79 %	81 %
Percentage of single premium	12 %	16 %	17 %	21 %	19 %
New risk written	$1,647	$1,580	$ 1,665	$ 1,496	$1,242
Insurance in force (IIF) [(1)]	58,089	53,434	48,465	43,259	38,629
Percentage of monthly premium	72 %	70 %	69 %	66 %	64 %
Percentage of single premium	28 %	30 %	31 %	34 %	36 %
Risk in force [(1)]	$14,308	$13,085	$ 11,843	$ 10,572	$9,417
Policies in force (count) [(1)]	241,993	223,263	202,351	180,089	161,195
Average loan size [(1)]	$0.240	$0.239	$ 0.240	$ 0.240	$0.240
Average coverage [(2)]	24.6 %	24.5 %	24.4 %	24.4 %	24.4 %
Loans in default (count)	768	1,000	928	350	249
Percentage of loans in default	0.3 %	0.5 %	0.5 %	0.2 %	0.2 %
Risk in force on defaulted loans	$43	$57	$ 53	$ 19	$14
Average premium yield [(3)]	0.44 %	0.43 %	0.44 %	0.43 %	0.41 %
Earnings from cancellations	$3.1	$2.8	$ 4.2	$ 4.3	$3.8
Annual persistency [(4)]	85.5 %	85.7 %	86.1 %	85.1 %	83.1 %
Quarterly run-off [(5)]	3.5 %	3.1 %	3.9 %	3.8 %	3.4 %

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

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

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

(4) Defined as the percentage of IIF that remains on our books after any 12-month period.

(5) Defined as the percentage of IIF that is no longer on our books after any 3-month period.

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

Primary IIF	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Millions)			
IIF, beginning of period	$53,434	$34,779	$48,465	$32,168
NIW	6,513	5,037	12,973	8,596
Cancellations and other reductions	(1,858)	(1,187)	(3,349)	(2,135)
IIF, end of period	$58,089	$38,629	$58,089	$38,629

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, 2018		As of June 30, 2017	
	IIF	RIF	IIF	RIF
	(In Millions)			
June 30, 2018	$12,758	$3,174	$—	$—
2017	19,784	4,837	8,460	2,078
2016	16,800	4,109	19,288	4,650
2015	7,505	1,877	9,243	2,284
2014	1,210	303	1,596	395
2013	32	8	42	10
Total	$58,089	$14,308	$38,629	$9,417

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

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

Primary NIW by FICO	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	($ In Millions)			
>= 760	$2,807	$2,376	$5,425	$4,059
740-759	1,129	793	2,203	1,343
720-739	964	626	1,878	1,082
700-719	747	568	1,558	965
680-699	469	368	1,036	632
<=679	397	306	873	515
Total	$6,513	$5,037	$12,973	$8,596
Weighted average FICO	747	749	745	749

Primary NIW by LTV	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	($ In Millions)			
95.01% and above	$971	$474	$1,968	$748
90.01% to 95.00%	2,932	2,297	5,696	3,909
85.01% to 90.00%	1,888	1,506	3,644	2,607
85.00% and below	722	760	1,665	1,332
Total	$6,513	$5,037	$12,973	$8,596
Weighted average LTV	92.7 %	92.2 %	92.6 %	92.1 %

Primary NIW by purchase/refinance mix	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Millions)			
Purchase	$6,137	$4,518	$11,562	$7,502
Refinance	376	519	1,411	1,094
Total	$6,513	$5,037	$12,973	$8,596

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, 2018		June 30, 2017	
	($ In Millions)			
>= 760	$27,311	47 %	$19,224	50 %
740-759	9,460	16	6,269	16
720-739	7,722	14	4,927	13
700-719	6,355	11	3,973	10
680-699	4,174	7	2,615	7
<=679	3,067	5	1,621	4
Total	$58,089	100%	$38,629	100%

Primary RIF by FICO	As of			
	June 30, 2018		June 30, 2017	
	($ In Millions)			
>= 760	$6,758	47 %	$4,720	50 %
740-759	2,344	16	1,535	16
720-739	1,905	14	1,198	13
700-719	1,558	11	960	10
680-699	1,016	7	627	7
<=679	727	5	377	4
Total	$14,308	100%	$9,417	100%

Primary IIF by LTV	As of			
	June 30, 2018		June 30, 2017	
	($ In Millions)			
95.01% and above	$5,747	10 %	$2,367	6 %
90.01% to 95.00%	26,119	45	17,441	46
85.01% to 90.00%	17,319	30	12,157	31
85.00% and below	8,904	15	6,664	17
Total	$58,089	100%	$38,629	100%

Primary RIF by LTV	As of			
	June 30, 2018		June 30, 2017	
	($ In Millions)			
95.01% and above	$1,522	11 %	$648	7 %
90.01% to 95.00%	7,610	53	5,120	54
85.01% to 90.00%	4,154	29	2,893	31
85.00% and below	1,022	7	756	8
Total	$14,308	100%	$9,417	100%

Primary RIF by Loan Type	As of	
	June 30, 2018	June 30, 2017
Fixed	98 %	98 %
Adjustable rate mortgages:		
Less than five years	—	—
Five years and longer	2	2
Total	100%	100%

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

	As of June 30, 2018								
Book year	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) [1]	Cumulative default rate [2]
	($ Values in Millions)								
2013	$162	$ 32	20 %	655	171	1	1	0.3 %	0.3 %
2014	3,451	1,210	35 %	14,786	6,245	54	21	3.6 %	0.5 %
2015	12,422	7,505	60 %	52,548	34,641	235	33	2.9 %	0.5 %
2016	21,187	16,800	79 %	83,626	69,454	283	18	2.2 %	0.4 %
2017	21,582	19,784	92 %	85,897	80,646	188	1	2.0 %	0.2 %
2018	12,973	12,758	98 %	51,457	50,836	7	—	0.5 %	— %
Total	$71,777	$ 58,089		288,969	241,993	768	74		

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

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

Geographic Dispersion

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

Top 10 primary RIF by state	As of	
	June 30, 2018	June 30, 2017
California	13.4%	13.8%
Texas	8.0	7.5
Arizona	5.0	4.2
Virginia	5.0	6.0
Florida	4.7	4.4
Michigan	3.7	3.6
Pennsylvania	3.6	3.6
Colorado	3.5	3.9
Utah	3.3	3.7
Illinois	3.3	3.3
Total	53.5%	54.0%

Insurance Claims and Claim Expenses

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

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

Reserves are established by estimating the number of loans in default that will result in a claim payment, which is referred to as claim frequency, and the amount of the claim payment expected to be paid on each such loan in default, which is referred to as claim severity. Claim frequency and severity estimates are established based on historical observed experience regarding certain loan factors, such as age of the default, cure rates, size of the loan and estimated change in property valuation. Reserves are released the month in which a loan in default is brought current by the borrower, which is referred to as a cure. Adjustments to reserve estimates are reflected in the period in which the adjustment is made. Reserves are also ceded to reinsurers under the QSR Transactions. We will not cede reserves to the reinsurer under the 2017 ILN and 2018 ILN Transactions unless losses exceed the respective retained coverage layers. Reserves are not established for future claims on insured loans which are not currently in default.

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

established any pool reserves for claims or IBNR to date.

The actual claims we incur as our portfolio matures are difficult to predict and depend on the specific characteristics of our current in-force book (including the credit score and DTI of the borrower, the LTV ratio of the mortgage and geographic concentrations, among others), as well as the profile of new business we write in the future. In addition, claims experience will be affected by future macroeconomic factors such as housing prices, interest rates and employment and other events, such as natural disasters. To date, our claims experience is developing at a slower pace than historical trends indicate, as a result of high quality underwriting, a strong

macroeconomic environment and a favorable housing market. For additional discussion of our reserves, see, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 6, Reserves for Insurance Claims and Claims Expenses."

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

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

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In Thousands)			
Beginning balance	$10,391	$3,761	$8,761	$3,001
Less reinsurance recoverables [1]	(2,334)	(564)	(1,902)	(297)
Beginning balance, net of reinsurance recoverables	8,057	3,197	6,859	2,704
Add claims incurred:				
Claims and claim expenses incurred:				
Current year [2]	1,212	1,376	3,152	2,331
Prior years [3]	(569)	(3)	(940)	(323)
Total claims and claims expenses incurred	643	1,373	2,212	2,008
Less claims paid:				
Claims and claim expenses paid:				
Current year [2]	—	—	—	—
Prior years [3]	481	421	852	563
Total claims and claim expenses paid	481	421	852	563
Reserve at end of period, net of reinsurance recoverables	8,219	4,149	8,219	4,149
Add reinsurance recoverables [1]	2,382	899	2,382	899
Ending balance	$10,601	$5,048	$10,601	$5,048

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

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

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

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

and analyze loss development trends in our portfolio. Gross reserves of $5.9 million related to prior year defaults remained as of June 30, 2018.
The following table provides a reconciliation of the beginning and ending count of loans in default for the periods indicated.

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Beginning default inventory	1,000	207	928	179
Plus: new defaults	287	147	700	271
Less: cures	(501)	(97)	(825)	(189)
Less: claims paid	(18)	(8)	(35)	(12)
Ending default inventory	768	249	768	249

The increase in the ending default inventory at June 30, 2018 compared to June 30, 2017 was primarily due to new defaults on insured loans in areas impacted by hurricanes Harvey and Irma and the California wildfires, as well as the aging of earlier book years and an increase in the overall number of policies in our portfolio which, historically drives a general increase in defaults.
The following table provides details of our claims paid, before giving effect to claims ceded under the 2016 QSR Transaction, for the periods indicated. No claims paid were ceded under the 2018 QSR Transaction during the periods indicated.

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	($ In Thousands)			
Number of claims paid [1]	18	8	35	12
Total amount paid for claims	$607	$429	$1,089	$571
Average amount paid per claim [2]	$36	$54	$35	$48
Severity[3]	78 %	86 %	76 %	87 %

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

The increase in the number of claims paid for the three and six months ended June 30, 2018, compared to the same periods ended June 30, 2017 is due to an increase in our default inventory. Claims settled without payment are included in claim counts, but excluded from averages. Over time, we expect the severity of claims paid to be between 85% and 95% of the coverage amount. We believe our severity for the period ended June 30, 2018 is below long-term expectations due to home price appreciation in recent periods.
The following table shows our average reserve per default, before giving effect to reserves ceded under the QSR Transactions, as of the periods indicated.

Average reserve per default:	As of June 30, 2018	As of June 30, 2017

	(In Thousands)	
Case [1]	$ 13	$ 19
IBNR	1	1
Total	$ 14	$ 20

[1] Defined as the gross reserve per insured loan in default.

The average reserve per default at June 30, 2018 decreased from June 30, 2017, primarily due to defaults on insured loans in areas impacted by hurricanes Harvey and Irma and the California wildfires. As of June 30, 2018, 215 of the 768 loans in default relate to homes in areas declared by FEMA to be disaster zones following the aforementioned natural disasters. We anticipate that this population of loans in default will cure at a higher rate than the estimated rate we apply to non-disaster related loans in default,

due to our Master Policy coverage terms, historical industry experience, and current economic indicators and relief programs. As such, we have established lower reserves for these NODs than we otherwise do for similarly situated NODs in non-disaster zones. Over time, we anticipate that our average reserve per default will revert to our historical averages as the NODs in these zones cure.

GSE Oversight

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

Under the PMIERs financial requirements, Approved Insurers must maintain available assets that equal or exceed minimum required assets, which is an amount equal to the greater of (i) $400 million or (ii) a total risk-based required asset amount. The risk-based required asset amount is a function of the risk profile of an Approved Insurer's net RIF, calculated by applying on a loan-by-loan basis certain risk-based factors derived from tables set out in the PMIERs to the net RIF, and other transactional adjustments approved by the GSEs, such as with respect to our 2017 ILN Transaction and QSR Transactions. The risk-based required asset amount for primary insurance is subject to a floor of 5.6% of total, performing, primary RIF, and the risk-based required asset amount for pool insurance considers both the factors in the tables and the net remaining stop loss for each pool insurance policy. The PMIERs financial requirements also increase the amount of available assets that must be held by an Approved Insurer for LPMI policies originated on or after January 1, 2016.

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

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

	As of	
	June 30, 2018	June 30, 2017
	(In Thousands)	
Available assets	$653,080	$485,019
Risk-based required assets	587,235	298,091

The increase in available assets of $168 million as of June 30, 2018 compared to June 30, 2017 is driven by our positive cash flow from operations and a $70 million capital contribution from NMIH to NMIC during the second quarter of 2018, partially offset by an increase in our unearned premium reserve. The increase in the risk-based required asset amount is due to the growth of our gross RIF and, to a lesser extent, an increase in our NOD population, which has a higher risk-based required asset amount charge, partially offset by the cession of risk relating to our third-party reinsurance agreements.

On December 18, 2017, the GSEs provided us with a confidential summary of the proposed changes to the PMIERs financial, business and other requirements that they are developing with the FHFA. On June 27, 2018, we received a revised draft of the proposed changes to the PMIERs. All of the information and discussions regarding the revised PMIERs are subject to non-disclosure agreements. We currently expect the GSEs to issue final revised PMIERs in the third quarter of 2018, and that any changes therein will become effective on March 31, 2019.

Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings

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

As of June 30, 2018, NMIC's primary RIF, net of reinsurance, was approximately $9.5 billion. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory surplus of $659.2 million (including contingency reserves) as of June 30, 2018, NMIC's RTC ratio was 14.4:1. Re One had total statutory capital of $34.4 million as of June 30, 2018,

with a RTC ratio of 0.9:1. We continuously monitor our compliance with state capital requirements.
In May 2018, Moody's Investors Service (Moody's) upgraded its financial strength rating from "Ba1" to "Baa3" for NMIC and issued a "Ba3" rating for NMIH's $150 million senior secured 2018 Term Loan, compared to its previous "B1" rating on the 2015 Term Loan. The outlook for both ratings is stable. In July 2018, S&P affirmed its "BBB-" financial strength and long-term counter-party credit ratings on NMIC and its "BB-" long-term counter-party credit rating on NMIH. The outlook on both ratings is positive.

Competition

The MI industry is highly competitive and currently consists of six private mortgage insurers, including NMIC, as well as public MIs like the FHA and the VA. Private MI companies compete based on service, customer relationships, underwriting and other factors, including price. We expect the MI market to remain competitive, with pressure for industry participants to grow or maintain their market share.
The private MI industry overall competes more broadly with public MIs who significantly increased their presence in the MI market following the financial crisis. Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, it remains difficult to predict whether the combined market share of public MIs will recede to historical levels. A range of factors influence a lender's decision to choose private over public MI, including among others, premium rates and other charges, loan eligibility requirements, cancelability, loan size limits and the relative ease of use of private MI products compared to public MI alternatives.

Consolidated Results of Operations

Consolidated statements of operations	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues	(In Thousands)			
Net premiums earned	$61,615	$37,917	$116,529	$71,142
Net investment income	5,735	3,908	10,309	7,715
Net realized investment gains	59	188	59	130
Other revenues	44	185	108	265
Total revenues	67,453	42,198	127,005	79,252
Expenses				
Insurance claims and claim expenses	643	1,373	2,212	2,008
Underwriting and operating expenses	29,020	28,048	57,473	54,037
Total expenses	29,663	29,421	59,685	56,045
Other expense				
Gain (Loss) from change in fair value of warrant liability	109	19	529	(177)
Interest expense	(5,560)	(3,300)	(8,979)	(6,794)
Income before income taxes	32,339	9,496	58,870	16,236
Income tax expense	7,098	3,484	11,274	4,732
Net income	$25,241	$6,012	$47,596	$11,504
Loss ratio[1]	1.0 %	3.6 %	1.9 %	2.8 %
Expense ratio[2]	47.1 %	74.0 %	49.3 %	76.0 %
Combined ratio	48.1 %	77.6 %	51.2 %	78.8 %

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

Revenues

For the three and six months ended June 30, 2018, net premiums earned increased $23.7 million or 62% and $45.4 million or 64%, respectively, compared to the three and six months ended June 30, 2017. The increase in both periods is primarily due to the growth of our IIF and increased monthly policy production, partially offset by cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2017 ILN Transaction in May 2017.

For the three and six months ended June 30, 2018, net investment income increased $1.8 million and $2.6 million, compared to the three and six months ended June 30, 2017, due to an increase in the size of and improved yields on our total investment portfolio.

Expenses

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

Insurance claims and claim expenses decreased $0.7 million or 53% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The decrease was primarily driven by the cure activity and decline in the number of NODs on insured loans impacted by Hurricanes Harvey and Irma and the California wildfires, and the release of previously established reserves on such loans. Insurance claims and claim expenses increased $0.2 million, or 10% for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, as a result of an increase in NODs, driven by new defaults on insured loans, and an increase in the overall number of policies in our portfolio and aging of earlier book years, offset by the partial release of reserves related to prior year defaults.

Underwriting and operating expenses increased $1.0 million or 3% and $3.4 million or 6%, for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017. Employee compensation accounts for the majority of our operating expenses. We increased the size of our workforce from 297 employees as of June 30, 2017 to 301 employees as of June 30, 2018 to support the growth of our business, particularly in our operating functions. We incurred $0.7 million of underwriting and operating expenses in the second quarter of 2018 in connection with the 2018 ILN Transaction. Underwriting and operating expenses for the six months ended June 30, 2017 included $4.8 million related to the 2017 ILN Transaction and an amendment of the 2015 Credit Agreement.

Interest expense was $5.6 million $9.0 million for three and six months ended June 30, 2018, respectively, compared to $3.3 million and $6.8 million, respectively, for the three and six months ended June 30, 2017. Interest expense in the second quarter of 2018 included $2.2 million of costs related to the extinguishment of the 2015 Term Loan and issuance of the 2018 Term Loan. We expect interest costs to decline in the future in connection with the reduction in the interest spread payable on our borrowings under the 2018 Term Loan as compared to the 2015 Term Loan. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt Obligations."

Income tax expense increased to $11.3 million for the six months ended June 30, 2018 from $4.7 million for the six months ended June 30, 2017 because of the growth in our pre-tax income, partially offset by a decrease in our effective tax rate. Our effective tax rate on our pre-tax income decreased to 19.2% for the six months ended June 30, 2018 from 29.1% for the six months ended June 30, 2017, primarily because the TCJA reduced the statutory U.S. federal corporate income tax rate to 21% for the current and all future years from 35% for all prior years through December 31, 2017. Our provision for income taxes for interim periods is established based on our estimated annual effective tax rate for a given year. We expect our annual effective tax rate for the year ending December 31, 2018 will approximate the current 21% statutory U.S. federal corporate income tax rate. See Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes."

Consolidated balance sheets	June 30, 2018	December 31, 2017
	(In Thousands)	
Total investment portfolio	$838,265	$715,875
Cash and cash equivalents	16,454	19,196
Premiums receivable	31,252	25,179
Deferred policy acquisition costs, net	42,363	37,925
Software and equipment, net	22,803	22,802
Prepaid reinsurance premiums	35,798	40,250
Deferred tax asset, net	12,378	19,929
Other assets	17,166	13,692
Total assets	$1,016,479	$894,848
Term loan	$147,262	$143,882
Unearned premiums	165,658	163,166
Accounts payable and accrued expenses	21,407	23,364
Reserve for insurance claims and claims expenses	10,601	8,761
Reinsurance funds withheld	31,011	34,102
Deferred ceding commission	4,507	5,024
Warrant liability	6,391	7,472
Total liabilities	386,837	385,771
Total shareholders' equity	629,642	509,077
Total liabilities and shareholders' equity	$1,016,479	$894,848

As of June 30, 2018, we had approximately $854.7 million in cash and investments, including $57.8 million held at NMIH. The increase in cash and cash equivalents and investments from December 31, 2017 primarily relates to net proceeds of approximately $79.2 million from the common stock offering completed in March 2018 and cash generated from operations.

Premiums receivable was $31.3 million as of June 30, 2018, compared to $25.2 million as of December 31, 2017. The increase was primarily driven by the increase in our monthly premium policies in force, where premiums are generally paid one month in arrears.

Net deferred policy acquisition costs were $42.4 million as of June 30, 2018, compared to $37.9 million at December 31, 2017. The increase was driven by growth in the number of policies written during the period ended June 30, 2018 and the deferral of certain costs associated with the origination of those policies, partially offset by the amortization of previously deferred acquisition costs and the capitalization of ceding commissions associated with the 2016 QSR Transaction during the period.

Prepaid reinsurance premiums were $35.8 million as of June 30, 2018, compared to $40.3 million as of December 31, 2017. The prepaid reinsurance premiums balance represents the ceded unearned premiums reserve on the single premium policies under the 2016 QSR Transaction. The reinsurance coverage period of the 2016 QSR Transaction ended for new premiums written after December 31, 2017, and under our 2018 QSR Transaction we cede premiums on an earned basis. Consequently, we did not cede any unearned premium reserves on single premium policies with coverage effective dates on or after January 1, 2018. The decrease in prepaid reinsurance premiums reflects the amortization of the unearned premium balance on single premium policies ceded under the 2016 QSR Transaction.

Net deferred tax assets decreased to $12.4 million as of June 30, 2018, from $19.9 million at December 31, 2017, primarily due to the utilization of net operating loss carryforwards during the period. For further information regarding income taxes and their impact on our results of operations and financial position, see Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 9, Income Taxes."

Other assets increased to $17.1 million as of June 30, 2018 from $13.7 million as of December 31, 2017, driven by an increase in accrued investment income and prepaid expense for advance payments on rent and insurance costs, as well as the capitalization of $1.5 million deferred debt issuance costs in connection with the establishment of the 2018 Revolving Credit Facility.

Unearned premiums increased $2.5 million to $165.7 million as of June 30, 2018, primarily due to single premium policy origination during the period, partially offset by the amortization through earnings of existing unearned premiums in accordance with the expiration of risk on the related policies and the cancellation of other single premium policies.

Accounts payable and accrued expense decreased to $21.4 million as of June 30, 2018, from $23.4 million at December 31, 2017. The decrease was driven by the payment, during the first quarter of 2018, of bonuses accrued at year end.

Reserve for insurance claims and claim expenses increased $1.8 million to $10.6 million at June 30, 2018, primarily due to an increase in the number of new defaults and the aging of existing defaults in our general loan population, offset by the release of reserves on cured defaults on insured loans impacted by natural disasters in 2017. See "- Insurance Claims and Claims Expenses," above for further details.

Reinsurance funds withheld was $31.0 million as of June 30, 2018, representing ceded premiums written, less our profit and ceding commission receivables under the 2016 QSR Transaction. The decrease in reinsurance funds withheld of $3.1 million from December 31, 2017, was a result of a decline in ceded premiums written on single premium policies, due to the end of the effective reinsurance coverage period of the 2016 QSR Transaction at December 31, 2017. See, Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 5, Reinsurance."

Warrant liability decreased to $6.4 million at June 30, 2018, compared to $7.5 million at December 31, 2017, primarily due to the decrease in our common stock price during the period, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants. For further information regarding valuation of our warrant liability and their impact on our results of operations and financial position, see Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 3, Fair Value of Financial Instruments."

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

Consolidated cash flows	For the six months ended June 30,	
	2018	2017
Net cash provided by (used in) :	(In Thousands)	
Operating activities	$61,353	$14,592
Investing activities	(142,193)	(40,154)

Financing activities	78,098	(2,149)
Net decrease in cash and cash equivalents	$(2,742)	$(27,711)

Net cash provided by operating activities was $61.4 million for the six months ended June 30, 2018, compared to $14.6 million for the six months ended June 30, 2017. The increase in cash generated from operating activities was primarily driven by

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growth in premiums written and investment income, and a reduction in interest payments, partially offset by higher claims paid due to an increase in our default inventory.

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

Cash provided by financing activities was $78.1 million for the six months ended June 30, 2018, compared to cash used in financing activities of $2.1 million for the six months ended June 30, 2017. The increase was driven by the $79.2 million net cash proceeds of the common stock offering we completed in March 2018, partially offset by the net cash paid in connection with the extinguishment of the 2015 Term Loan, and establishment of the 2018 Term Loan and 2018 Revolving Credit Facility, as well as an increase in taxes paid on the net share settlement of equity awards.

Holding Company Liquidity and Capital Resources

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

As of June 30, 2018, NMIH had $57.8 million of cash and investments. NMIH's principal source of net operating cash is investment income. NMIH also has access to the $85 million 2018 Revolving Credit Facility and in the future could benefit from dividends from NMIC and Re One, if available and permitted under law and by the GSEs.

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

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

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

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

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

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

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

Consolidated Investment Portfolio

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

Substantially all of our investment portfolio is held in fixed maturity instruments. As of June 30, 2018, the fair value of our investment portfolio was $838.3 million. We also had an additional $16.5 million of cash and equivalents as of June 30, 2018. Pre-tax book yield on the portfolio for the six months ended June 30, 2018 was 2.6%. The book yield is calculated as period-to-date net investment income divided by the average amortized cost of the investment portfolio. Yield on the investment portfolio is likely to change over time based on movements in interest rates, the duration or mix of our investment portfolio and other factors.

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

Percentage of portfolio's fair value	June 30, 2018		December 31, 2017	
Corporate debt securities	58	%	59	%
Asset-backed securities	17		14	
Cash, cash equivalents, and short-term investments	8		6	
Municipal debt securities	11		12	
U.S. treasury securities and obligations of U.S. government agencies	6		9	
Total	100	%	100	%

Investment portfolio ratings at fair value [1]	June 30, 2018		December 31, 2017	
AAA	20	%	21	%
AA[2]	21		19	
A[2]	43		46	
BBB[2]	16		14	
Total	100	%	100	%

[1] Excluded certain operating cash accounts.

[2] Includes +/– ratings.

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

Other Items

Off-Balance Sheet Arrangements and Contractual Obligations

We had no material off-balance sheet arrangements as of June 30, 2018. In connection with the 2017 ILN Transaction, we have certain future contractual commitments to Oaktown Re, a special purpose VIE that is not consolidated in our financial results. See "Financial Statements - Notes to Condensed Consolidated Financial Statements - "Note 5, Reinsurance."

Critical Accounting Estimates

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

- Changes to the level of interest rates. Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates of our insurance portfolio, and as a result we may determine that our investment portfolio needs to be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse. Additionally, the changes in Eurodollar based interest rates affect the interest expense related to 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, 2018 and December 31, 2017 was $838 million and $716 million, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of June 30, 2018, the duration of our fixed income portfolio, including cash and cash equivalents, was 3.63 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.63% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.88 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.88% in fair value of our fixed income portfolio.

We are also subject to market risk related to our 2018 Term Loan and 2017 ILN Transaction. As discussed in Item 1, "Financial Statements - Notes to Condensed Consolidated Financial Statements - Note 4, Debt Obligations," the 2018 Term Loan bears interest at a variable rate and, as a result, increases in market interest rates would generally result in increased interest expense on our outstanding principal.

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our 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, 2018 pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

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

Internal Control Over Financial Reporting

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

PART II

Item 1. Legal Proceedings

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

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

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

Item 1A. Risk Factors

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

Item 6. Exhibits

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

SIGNATURES

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

	NMI HOLDINGS, INC.
Date: August 1, 2018	
	By: /s/ Adam S. Pollitzer
	Name: Adam S. Pollitzer
	Title: Chief Financial Officer and Duly Authorized Signatory

EXHIBIT INDEX

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

10.7 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.8 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017)
10.9 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017)
10.10 ~	Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015)

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

10.29 ~	NMI Holdings, Inc. Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 23, 2017)
10.30 ~	NMI Holdings, Inc. Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
21.1	Subsidiaries of NMI Holdings, Inc. (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q, filed on October 30, 2015)
31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 #	Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 *	The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017 (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2018 and 2017 (iii) Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2018 and the year ended December 31, 2017 (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (v) Notes to Condensed Consolidated Financial Statements.

~ Indicates a management contract or compensatory plan or contract.

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

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

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