

NMI Holdings, Inc.  
Form 10-Q  
October 30, 2015

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

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

DELAWARE  
(State or other jurisdiction of incorporation or  
organization)

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

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

94608  
(Zip Code)

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically 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  NO

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

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

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

YES  NO

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The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on October 28, 2015 was 58,743,867 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:

- our limited operating history;
- our future profitability, liquidity and capital resources;
- developments in the world's financial and capital markets and our access to such markets;
- 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.;
- changes in the business practices of Fannie Mae and Freddie Mac (collectively, the GSEs), including implementation of the new Private Mortgage Insurer Eligibility Requirements (PMIERs) or decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement;
- our ability to remain a qualified mortgage insurer under the PMIERs and other requirements imposed by the GSEs, which they may change at any time;
- 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;
- adoption of new or changes to existing laws and regulations 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 inquiries, including a June 2015 letter from the Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) requesting that each mortgage insurance company, including National Mortgage Insurance Corporation, respond to a number of inquiries related to whether the company has offered customized terms or rates;
- 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 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;
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failure to maintain, improve and continue to develop necessary information technology systems or the failure of technology providers to perform; and

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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" detailed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 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 "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 and Supplementary Data

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

|   | September 30,<br>2015                 | December 31,<br>2014 |
|---|---------------------------------------|----------------------|
| Assets  | (In Thousands, except for share data) |                      |
| Fixed maturities, available-for-sale, at fair value (amortized cost of \$316,639 and \$337,718 as of September 30, 2015 and December 31, 2014, respectively)  | \$314,455                             | \$336,501            |
| Cash and cash equivalents   | 132,791                               | 103,021              |
| Premiums receivable   | 3,986                                 | 1,048                |
| Accrued investment income   | 1,679                                 | 1,707                |
| Prepaid expenses  | 1,783                                 | 2,054                |
| Deferred policy acquisition costs, net  | 12,181                                | 2,985                |
| Software and equipment, net   | 13,902                                | 11,806               |
| Intangible assets and goodwill  | 3,634                                 | 3,634                |
| Other assets  | 2,486                                 | 509                  |
| Total assets  | \$486,897                             | \$463,265            |
| Liabilities   |                                       |                      |
| Unearned premiums   | \$62,072                              | \$22,069             |
| Reserve for insurance claims and claim expenses   | 358                                   | 83                   |
| Accounts payable and accrued expenses   | 14,230                                | 10,646               |
| Warrant liability, at fair value  | 1,899                                 | 3,372                |
| Deferred tax liability  | 137                                   | 137                  |
| Total liabilities   | 78,696                                | 36,307               |
| Commitments and contingencies   |                                       |                      |
| Shareholders' equity  |                                       |                      |
| Common stock - class A shares, \$0.01 par value;<br>58,743,867 and 58,428,548 shares issued and outstanding as of September 30,<br>2015 and December 31, 2014, respectively (250,000,000 shares authorized) | 587                                   | 584                  |
| Additional paid-in capital  | 568,090                               | 562,911              |
| Accumulated other comprehensive loss, net of tax  | (4,574                                | ) (3,607             |
| Accumulated deficit   | (155,902                              | ) (132,930           |
| Total shareholders' equity  | 408,201                               | 426,958              |
| Total liabilities and shareholders' equity  | \$486,897                             | \$463,265            |
| See accompanying notes to consolidated financial statements.  |                                       |                      |



## NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)

|   | For the three months ended<br>September 30, |             | For the nine months ended<br>September 30, |             |
|---|---|-------------|--|-------------|
|   | 2015  | 2014        | 2015                                       | 2014        |
| Revenues  | (In Thousands, except for share data)       |             |  |             |
| Net premiums written  | \$35,360                                    | \$9,661     | \$68,629                                   | \$19,890    |
| Increase in unearned premiums   | (22,526                                     | ) (5,761    | ) (40,003                                  | ) (11,993   |
| Net premiums earned   | 12,834                                      | 3,900       | 28,626                                     | 7,897       |
| Net investment income   | 1,884                                       | 1,342       | 5,168                                      | 4,299       |
| Net realized investment (losses) gains  | (15   | ) 134       | 952  | 134         |
| Total revenues  | 14,703                                      | 5,376       | 34,746                                     | 12,330      |
| Expenses  |   |             |  |             |
| Insurance claims and claims expenses  | 181   | (26         | ) 279                                      | 2           |
| Underwriting and operating expenses   | 19,653                                      | 17,895      | 58,912                                     | 55,833      |
| Total expenses  | 19,834                                      | 17,869      | 59,191                                     | 55,835      |
| Other income  |   |             |  |             |
| Gain from change in fair value of warrant liability   | 332   | 1,240       | 1,473                                      | 3,009       |
| Gain from settlement of warrants  | —   | —           | —  | 37          |
| Loss before income taxes  | (4,799                                      | ) (11,253   | ) (22,972                                  | ) (40,459   |
| Income tax benefit  | —   | (277        | ) —  | (1,574      |
| Net loss  | \$(4,799                                    | ) \$(10,976 | ) \$(22,972                                | ) \$(38,885 |
| Net loss per share  |   |             |  |             |
| Basic and diluted loss per share  | \$(0.08                                     | ) \$(0.19   | ) \$(0.39                                  | ) \$(0.67   |
| Weighted average common shares outstanding  | 58,741,328                                  | 58,363,334  | 58,650,043                                 | 58,239,251  |
| Net loss  | \$(4,799                                    | ) \$(10,976 | ) \$(22,972                                | ) \$(38,885 |
| Other comprehensive (loss) income, net of tax:  |   |             |  |             |
| Net unrealized (losses) gains in accumulated other comprehensive loss, net of tax (benefit) expense of \$0 and (\$488) for the three months ended September 30, 2015 and 2014, (483   |   | ) (709      | ) (15                                      | ) 3,165     |
| respectively, and \$0 and \$2,176 for the nine months ended September 30, 2015 and 2014, respectively   |   |             |  |             |
| Reclassification adjustment for losses (gains) included in net loss, net of tax expense of \$0, and \$0 for the three months ended September 30, 2015 and 2014, respectively, and \$0 and \$0 for the nine months ended September 30, 2015 and 2014, respectively | 15  | —           | (952                                       | ) —         |
| Other comprehensive (loss) income, net of tax   | (468  | ) (709      | ) (967                                     | ) 3,165     |

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Comprehensive loss                                  \$(5,267        ) \$(11,685        ) \$(23,939        ) \$(35,720        )  
See accompanying notes to consolidated financial statements.

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## NMI HOLDINGS, INC.

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

|  | Common Stock - Class A |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total      |
|--|------------------------|--------|----------------------------------|---|------------------------|------------|
|  | Shares                 | Amount |                                  |   |                        |            |
|  | (In Thousands)         |        |                                  |   |                        |            |
| Balances, January 1, 2014  | 58,052,480             | \$581  | \$553,707                        | \$ (7,047                                     | ) \$(84,024            | )\$463,217 |
| Common stock: class A shares issued under related to warrants                                    | 1,115                  | *      | 13                               | —   | —                      | 13         |
| Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 374,953                | 3      | 11                               | —   | —                      | 14         |
| Share-based compensation expense   | —                      | —      | 9,180                            | —   | —                      | 9,180      |
| Change in unrealized investment gains/losses, net of tax of \$2,390                              | —                      | —      | —                                | 3,440   | —                      | 3,440      |
| Net loss   | —                      | —      | —                                | —   | (48,906                | )(48,906 ) |
| Balances, December 31, 2014  | 58,428,548             | 584    | 562,911                          | (3,607  | ) (132,930             | )426,958   |
| Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes | 315,319                | 3      | (682                             | )—  | —                      | (679 )     |
| Share-based compensation expense   | —                      | —      | 5,861                            | —   | —                      | 5,861      |
| Change in unrealized investment gains/losses, net of tax of \$0                                  | —                      | —      | —                                | (967  | ) —                    | (967 )     |
| Net loss   | —                      | —      | —                                | —   | (22,972                | )(22,972 ) |
| Balances, September 30, 2015   | 58,743,867             | \$587  | \$568,090                        | \$ (4,574                                     | ) \$(155,902           | )\$408,201 |

\* During 2014, we issued 1,115 common shares with a par value of \$0.01 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

## NMI HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|  | For the nine months ended<br>September 30, |             |
|--|--|-------------|
|  | 2015                                       | 2014        |
| Cash flows from operating activities   | (In Thousands)                             |             |
| Net loss   | \$(22,972                                  | ) \$(38,885 |
| Adjustments to reconcile net loss to net cash used in operating activities:                      |  |             |
| Net realized investment gains  | (952                                       | ) (134      |
| Gain from change in fair value of warrant liability  | (1,473                                     | ) (3,009    |
| Depreciation and other amortization  | 3,646                                      | 6,603       |
| Share-based compensation expense   | 5,895                                      | 6,874       |
| Noncash intraperiod tax allocation   | —  | (1,574      |
| Changes in operating assets and liabilities:   |  |             |
| Accrued investment income  | 28   | 708         |
| Premiums receivable  | (2,938                                     | ) (383      |
| Prepaid expenses   | 271  | 422         |
| Deferred policy acquisition costs, net   | (9,196                                     | ) (1,561    |
| Other assets   | 453  | (612        |
| Unearned premiums  | 40,003                                     | 11,993      |
| Reserve for insurance claims and claims expenses   | 275  | 2           |
| Accounts payable and accrued expenses  | 3,131                                      | 3           |
| Net cash provided by (used in) operating activities  | 16,171                                     | (19,553     |
| Cash flows from investing activities   |  |             |
| Purchase of fixed-maturity investments, available-for-sale                                       | (111,215                                   | ) (4,359    |
| Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale | 129,666                                    | 112,132     |
| Purchase of software and equipment   | (4,173                                     | ) (6,641    |
| Net cash provided by investing activities  | 14,278                                     | 101,132     |
| Cash flows from financing activities   |  |             |
| Issuance of common stock   | 415  | 1,086       |
| Taxes paid related to net share settlement of equity awards                                      | (1,094                                     | ) (1,072    |
| Gain from settlement of warrants   | —  | (37         |
| Net cash used in financing activities  | (679                                       | ) (23       |
| Net increase in cash and cash equivalents  | 29,770                                     | 81,556      |
| Cash and cash equivalents, beginning of period   | 103,021                                    | 55,929      |
| Cash and cash equivalents, end of period   | \$132,791                                  | \$137,485   |
| See accompanying notes to consolidated financial statements.                                     |  |             |

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. Organization and Basis of Presentation

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011, to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One). Freddie Mac and Fannie Mae each approved NMIC as an eligible mortgage insurer, on January 15, 2013 and January 16, 2013, respectively, which approvals are conditioned upon NMIC maintaining certain conditions, generally through the end of 2015 (GSE Approval). In April 2013, NMIC, our primary insurance subsidiary, wrote our first mortgage insurance policy. NMIC is fully licensed to write mortgage insurance in all 50 states and D.C. In August 2015, NMIH capitalized with \$0.5 million a wholly owned subsidiary, NMI Services, Inc., through which we expect to offer outsourced loan review services to mortgage loan originators starting in the fourth quarter of 2015.

As of September 30, 2015, we had \$10.6 billion of primary insurance in force (IIF) and \$4.3 billion of pool IIF, with \$2.6 billion of primary risk-in-force (RIF) and \$93.1 million of pool RIF.

#### 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, 2014 included in our Annual Report on Form 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2015.

#### Earnings per Share

Basic net loss per share is based on the weighted-average number of common shares outstanding, while diluted net loss per share is based on the weighted-average number of common shares outstanding and common stock equivalents that would be issuable upon the exercise of stock options, other share-based compensation arrangements, and the dilutive effect of outstanding warrants. As a result of our net losses for the nine months ended September 30, 2015 and 2014, 6,311,956 and 5,854,306, respectively, of our common stock equivalents we issued under share-based compensation arrangements and warrants were not included in the calculation of diluted net loss per share as of such dates because they were anti-dilutive.

#### Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of certain selling expenses and other policy issuance and underwriting expenses, are initially deferred and reported as deferred policy acquisition costs (DAC). For each book year of business, these costs are amortized to expense in proportion to estimated gross profits over the estimated life of the policies. Total amortization of DAC for the nine months ended September 30, 2015 and 2014 were \$1.8 million and \$108 thousand, respectively.

#### Premium Deficiency Reserves

We consider whether a premium deficiency exists at each fiscal quarter using best estimate assumptions as of the testing date. Per Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 944, a premium deficiency reserve shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. We have determined that no premium deficiency reserves were necessary for the nine months ended September 30, 2015 or 2014.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, ASU 2015-14 deferred the provisions of ASU 2014-09 to be effective for interim and annual periods

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this ASU will have on the consolidated financial statements.

## Reclassifications

Certain items in the financial statements as of September 30, 2015 and for the periods ended September 30, 2014 have been reclassified to conform to the current period's presentation. There was no effect on net income or shareholders' equity previously reported.

## 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 as a component of accumulated other comprehensive loss in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold.

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

|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses    | Fair<br>Value |
|---|-------------------|---------------------------|-----------|---------------|
| As of September 30, 2015  | (In Thousands)    |                           |           |               |
| U.S. Treasury securities and obligations of<br>U.S. government agencies | \$68,243          | \$86                      | \$(106)   | ) \$68,223    |
| Municipal debt securities   | 11,001            | 7                         | (24)      | ) 10,984      |
| Corporate debt securities   | 179,650           | 486                       | (2,793)   | ) 177,343     |
| Asset-backed securities   | 57,745            | 288                       | (128)     | ) 57,905      |
| Total investments   | \$316,639         | \$867                     | \$(3,051) | ) \$314,455   |
|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses    | Fair<br>Value |
| As of December 31, 2014   | (In Thousands)    |                           |           |               |
| U.S. Treasury securities and obligations of<br>U.S. government agencies | \$68,911          | \$7                       | \$(573)   | ) \$68,345    |
| Municipal debt securities   | 12,009            | 27                        | (73)      | ) 11,963      |
| Corporate debt securities   | 200,358           | 883                       | (1,456)   | ) 199,785     |
| Asset-backed securities   | 56,440            | 222                       | (254)     | ) 56,408      |
| Total investments   | \$337,718         | \$1,139                   | \$(2,356) | ) \$336,501   |

## Scheduled Maturities

The amortized cost and fair values of available for sale securities at September 30, 2015 and December 31, 2014, 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 separate categories.

| As of September 30, 2015         | Amortized<br>Cost | Fair<br>Value |
|----------------------------------|-------------------|---------------|
|                                  | (In Thousands)    |               |
| Due in one year or less          | \$17,951          | \$17,971      |
| Due after one through five years | 149,970           | 150,086       |
| Due after five through ten years | 72,232            | 70,149        |
| Due after ten years              | 18,741            | 18,344        |
| Asset-backed securities          | 57,745            | 57,905        |
| Total investments                | \$316,639         | \$314,455     |

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

|                                  |                                     |               |
|----------------------------------|-------------------------------------|---------------|
| As of December 31, 2014          | Amortized<br>Cost<br>(In Thousands) | Fair<br>Value |
| Due in one year or less          | \$6,110                             | \$6,125       |
| Due after one through five years | 195,492                             | 194,472       |
| Due after five through ten years | 54,360                              | 53,891        |
| Due after ten years              | 25,316                              | 25,605        |
| Asset-backed securities          | 56,440                              | 56,408        |
| Total investments                | \$337,718                           | \$336,501     |

## Aging of Unrealized Losses

At September 30, 2015, the investment portfolio had gross unrealized losses of \$3.1 million, \$0.5 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of September 30, 2015. We based our conclusion that these investments were not other-than-temporarily impaired at September 30, 2015 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

|  | Less Than 12 Months    |            |                   | 12 Months or Greater |            |                   | Total           |            |                   |
|--|------------------------|------------|-------------------|----------------------|------------|-------------------|-----------------|------------|-------------------|
|  | # of Securities        | Fair Value | Unrealized Losses | # of Securities      | Fair Value | Unrealized Losses | # of Securities | Fair Value | Unrealized Losses |
| As of September 30, 2015   | (Dollars in Thousands) |            |                   |                      |            |                   |                 |            |                   |
| U.S. Treasury securities and obligations of U.S. government agencies | 2                      | \$12,740   | \$(57)            | 4                    | \$19,990   | \$(49)            | 6               | \$32,730   | \$(106)           |
| Municipal debt securities  | —                      | —          | —                 | 2                    | 4,976      | (24)              | 2               | 4,976      | (24)              |
| Corporate debt securities  | 34                     | 96,420     | (2,473)           | 5                    | 13,589     | (320)             | 39              | 110,009    | (2,793)           |
| Assets-backed securities   | 5                      | 8,773      | (71)              | 3                    | 9,273      | (57)              | 8               | 18,046     | (128)             |
| Total investments  | 41                     | \$117,933  | \$(2,601)         | 14                   | \$47,828   | \$(450)           | 55              | \$165,761  | \$(3,051)         |
| As of December 31, 2014  | (Dollars in Thousands) |            |                   |                      |            |                   |                 |            |                   |
| U.S. Treasury securities and obligations of U.S. government agencies | 4                      | \$7,228    | \$(33)            | 10                   | \$49,884   | \$(540)           | 14              | \$57,112   | \$(573)           |
| Municipal debt securities  | 1                      | 3,232      | (18)              | 1                    | 1,695      | (55)              | 2               | 4,927      | (73)              |
| Corporate debt securities  | 26                     | 60,334     | (559)             | 22                   | 65,806     | (897)             | 48              | 126,140    | (1,456)           |
|  | 3                      | 10,614     | (57)              | 4                    | 20,047     | (197)             | 7               | 30,661     | (254)             |



Assets-backed  
securities

|                   |    |          |          |    |           |            |    |           |            |
|-------------------|----|----------|----------|----|-----------|------------|----|-----------|------------|
| Total investments | 34 | \$81,408 | \$(667 ) | 37 | \$137,432 | \$(1,689 ) | 71 | \$218,840 | \$(2,356 ) |
|-------------------|----|----------|----------|----|-----------|------------|----|-----------|------------|

Net Investment Income

For the three and nine months ended September 30, 2015, net investment income was comprised of \$2.0 million and \$5.5 million of investment income from fixed maturities and \$0.1 million and \$0.3 million of investment expenses, respectively, compared to \$1.5 million and \$4.7 million of investment income from fixed maturities and \$0.1 million and \$0.4 million of investment expenses for the three and nine months ended September 30, 2014, respectively.

As of September 30, 2015 and December 31, 2014, there were approximately \$7.0 million of cash and investments in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Net Realized Investment Gains (Losses)

|  | For the three months ended |       | For the nine months ended |       |
|--|----------------------------|-------|---------------------------|-------|
|  | September 30,<br>2015      | 2014  | September 30,<br>2015     | 2014  |
|  | (In Thousands)             |       |                           |       |
| Gross realized investment gains        | \$266                      | \$566 | \$1,526                   | \$566 |
| Gross realized investment losses       | (281)                      | (432) | (574)                     | (432) |
| Net realized investment (losses) gains | \$(15)                     | \$134 | \$952                     | \$134 |

## 3. Fair Value of Financial Instruments

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level:

|   | Fair Value Measurements Using  |  |  | Fair Value |
|---|--|--|--|------------|
|   | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |
| As of September 30, 2015  | (In Thousands)   |  |  |            |
| U.S. Treasury securities and obligations of<br>U.S. government agencies | \$41,404   | \$26,819   | \$—  | \$68,223   |
| Municipal debt securities   | —  | 10,984   | —  | 10,984     |
| Corporate debt securities   | —  | 177,343  | —  | 177,343    |
| Asset-backed securities   | —  | 57,905   | —  | 57,905     |
| Cash and cash equivalents   | 132,791  | —  | —  | 132,791    |
| Total assets  | \$174,195  | \$273,051  | \$—  | \$447,246  |
| Warrant liability   | \$—  | \$—  | \$1,899  | \$1,899    |
| Total liabilities   | \$—  | \$—  | \$1,899  | \$1,899    |

|   | Fair Value Measurements Using  |  |  | Fair Value |
|---|--|--|--|------------|
|   | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |
| As of December 31, 2014   | (In Thousands)   |  |  |            |
| U.S. Treasury securities and obligations of<br>U.S. government agencies | \$39,176   | \$29,169   | \$—  | \$68,345   |
| Municipal debt securities   | —  | 11,963   | —  | 11,963     |
| Corporate debt securities   | —  | 199,785  | —  | 199,785    |
| Asset-backed securities   | —  | 56,408   | —  | 56,408     |
| Cash and cash equivalents   | 103,021  | —  | —  | 103,021    |
| Total assets  | \$142,197  | \$297,325  | \$—  | \$439,522  |
| Warrant liability   | \$—  | \$—  | \$3,372  | \$3,372    |
| Total liabilities   | \$—  | \$—  | \$3,372  | \$3,372    |

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| Warrant Liability  | For the nine months ended<br>September 30, |          |
|--|--|----------|
|  | 2015                                       | 2014     |
|  | (In Thousands)                             |          |
| Balance, January 1   | \$3,372                                    | \$6,371  |
| Change in fair value of warrant liability included in earnings | (1,473                                     | ) (3,009 |
| Issuance of common stock on warrant exercise                   | —  | (13      |
| Gain on settlement of warrants                                 | —  | (37      |
| Balance, September 30  | \$1,899                                    | \$3,312  |

We revalue the warrant liability quarterly using a Black-Scholes option-pricing model, in combination with a binomial model, and we value the pricing protection features within the warrants using a Monte-Carlo simulation model. As of September 30, 2015, the assumptions used in the option-pricing model were as follows: a common stock price as of September 30, 2015 of \$7.60, risk free interest rate of 1.56%, expected life of 6.00 years, expected volatility of 32.7% and a dividend yield of 0%. The change in fair value is primarily attributable to a decline in the price of our common stock from December 31, 2014 to September 30, 2015.

#### 4. Reserves for Insurance Claims and Claims Expenses

We establish claim reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Our method, consistent with industry practice, is to establish claim reserves only for loans in default. Our claim reserves also include amounts for estimated claims incurred on loans that have been in default for at least 60 days that have not yet been reported to us by the servicers, often referred to as IBNR. As of September 30, 2015, we have established reserves for insurance claims of \$358 thousand for twenty primary loans in default. We settled our first primary claim in July 2015 for \$4 thousand.

In 2013, we entered into a pool insurance agreement with Fannie Mae. We only establish claim or IBNR reserves for pool risk if we expect claims to exceed the deductible under the pool agreement, which represents the amount of claims absorbed by Fannie Mae before we are obligated to pay any claims. At September 30, 2015, thirty-six loans in the pool were past due by sixty days or more. These thirty-six loans represent approximately \$2.4 million in RIF. Due to the remaining deductible of \$10.3 million, the level of notices of default (NODs) reported through September 30, 2015 and the expected severity (all loans in the pool have loan-to-value ratios (LTVs) under 80%), we have not established any pool reserves for claims or IBNR for the three and nine months ended September 30, 2015 and 2014. In connection with settlement of pool claims, we applied \$18 thousand to the pool deductible through September 30, 2015. We have not paid any pool claims to date.

## NMI HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

|                                     | For the nine months ended<br>September 30, |      |
|-------------------------------------|--|------|
|                                     | 2015                                       | 2014 |
|                                     | (In Thousands)                             |      |
| Balance, January 1                  | \$83                                       | \$—  |
| Claims incurred:                    |  |      |
| Claims and claim expenses incurred: |  |      |
| Current year                        | 358  | 2    |
| Prior years                         | (79  | ) —  |
| Total claims incurred               | 279  | 2    |
| Claims paid:                        |  |      |
| Claims and claim expenses paid:     |  |      |
| Current year                        | —  | —    |
| Prior years                         | 4  | —    |
| Total claims paid                   | 4  | —    |
| Balance, September 30               | \$358                                      | \$2  |

There was a \$79 thousand favorable prior year development during the nine months ended September 30, 2015. There were no reserves remaining for defaults occurring in prior years as of September 30, 2015 as a result of NOD cures and claim payments. The decrease in the period is generally the result of ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims.

#### 5. Warrants

In April 2012, we issued 992,000 warrants with an aggregate fair value of \$5.1 million upon the completion of a private placement of our securities and in conjunction with the acquisition of our insurance subsidiaries. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to \$10.00.

Upon exercise of these warrants, the amounts are reclassified from warrant liability to additional paid-in capital. During the first quarter of 2014, 7,790 warrants were exercised and we issued 1,115 Class A common shares via a cashless exercise. Upon exercise we recognized a gain of approximately \$37 thousand. No warrants have been exercised for the nine months ended September 30, 2015.

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.

#### 6. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 35%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our effective income tax rate on our pre-tax loss was 0.0% for the three months ended September 30, 2015, compared to 2.5% for the comparable 2014 period. Our effective income tax rate on our pre-tax loss was 0.0% for the nine months ended September 30, 2015, compared to 3.9% for the comparable 2014 period. During those periods, the benefits from income taxes were eliminated or reduced by the recognition of a full valuation allowance which was recorded to reflect the amount of the deferred taxes that may not be realized.

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. Statutory Information

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

| As of and for the nine months and year ended September 30, 2015 and December 31, 2014, respectively | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
|   | (In Thousands)     |                   |
| Statutory net loss  | \$(38,591          | ) \$(47,961       |
| Statutory surplus   | 201,140            | 236,738           |
| Contingency reserve   | 23,714             | 9,401             |
| Risk-to-Capital   | 11.8:1             | 3.6:1             |

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware, such as NMIH. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or recent net profits (subject to certain limitations). Since inception, NMIC has not paid any dividends to NMIH. As NMIC had a statutory net loss for the year ended December 31, 2014, NMIC cannot pay any dividends to NMIH through December 31, 2015, without the prior approval of the Wisconsin OCI. Additionally, NMIC will not be permitted to pay dividends to NMIH until after December 31, 2015 as a condition of GSE Approval or until January 2016 under agreements with various state insurance regulators.

## 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 Annual Report on Form 10-K for the year ended December 31, 2014, 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 Annual Report on Form 10-K for the year ended December 31, 2014, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and as subsequently updated in reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.

### Overview

We provide MI through our insurance subsidiaries. Our primary insurance subsidiary, NMIC, is a qualified MI provider on loans purchased by the GSEs and is licensed in all 50 states and D.C. to issue mortgage insurance. Our reinsurance subsidiary, Re One, solely provides reinsurance to NMIC on certain loans insured by NMIC to meet state statutory coverage limits. Our stock trades on the NASDAQ under the symbol "NMIH."

MI protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make down payments of less than 20% of the home's purchase price. By protecting lenders and investors from credit losses, we help facilitate the availability of mortgages to prospective, primarily first-time, U.S. home buyers, thus promoting homeownership while protecting lenders and investors against potential losses related to a borrower's default. MI also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to the GSEs. We are one of seven companies in the U.S. who offer MI. Our business strategy is to become a leading national MI company with our principal focus on writing insurance on high quality, low down payment residential mortgages in the U.S.

We had \$10.6 billion of primary IIF and \$4.3 billion of pool IIF as of September 30, 2015, compared to \$3.4 billion of primary IIF and \$4.7 billion of pool IIF as of December 31, 2014. As of September 30, 2015, our primary RIF was \$2.6 billion compared to primary RIF of \$801.6 million as of December 31, 2014. Pool RIF was \$93.1 million as of September 30, 2015 and December 31, 2014.

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](http://www.nationalmi.com). Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

### Conditions and Trends Impacting Our Business

#### Customer Development

Our sales and marketing strategy is focused on increasing market share from existing customers and attracting new mortgage originator customers in the U.S. Since we started MI operations in April 2013, we have significantly increased our customer base and market share, and we expect to continue to acquire new customers and increase our market share with existing customers. We had 906 master policy holders as of September 30, 2015, compared to 664 as of September 30, 2014. Of those master policy holders, 391 or 43% were generating new insurance written (NIW) in the third quarter of 2015, compared to 180 or 27%, generating NIW in the third quarter of 2014.

#### New Insurance Written, Insurance in Force and Premiums

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on an aggregated basis, in which each loan in a portfolio of loans is individually insured in a single transaction. MI may also be written in a pool policy, where a group of loans (or pool) are insured under a single contract. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible. In our industry, a "book" is a group of loans that an MI company insures in a particular period, normally a calendar year.



The table below shows primary and pool IIF, NIW and premiums written and earned. Single NIW and IIF includes policies written on an aggregated and flow basis.

| Primary and pool IIF and NIW                 | As of and for the quarter ended |             |               |                       | For the nine months ended |     |
|--|---------------------------------|-------------|---------------|-----------------------|---------------------------|-----|
|  | September 30, 2015              |             | June 30, 2015 |                       | September 30, 2015        |     |
|  | IIF                             | NIW         | IIF           | NIW                   | IIF                       | NIW |
|  | (In Thousands)                  |             |               |                       |                           |     |
| Monthly                                      | \$5,087,431                     | \$1,581,617 | \$3,616,951   | \$1,460,166           | \$3,960,480               |     |
| Single                                       | 5,514,061                       | 2,051,123   | 3,573,463     | 1,088,349             | 3,916,917                 |     |
| Primary                                      | 10,601,492                      | 3,632,740   | 7,190,414     | 2,548,515             | 7,877,397                 |     |
| Pool   | 4,339,508                       | —           | 4,475,653     | —                     | —                         |     |
| Total  | \$14,941,000                    | \$3,632,740 | \$11,666,067  | \$2,548,515           | \$7,877,397               |     |
| Primary and pool premiums written and earned |                                 |             |               | For the quarter ended |                           |     |
|  |                                 |             |               | September 30, 2015    | June 30, 2015             |     |
|  |                                 |             |               | (In Thousands)        |                           |     |
| Net premiums written                         |                                 |             |               | \$35,360              | \$20,347                  |     |
| Net premiums earned                          |                                 |             |               | 12,834                | 8,856                     |     |

Primary NIW increased 43% from the second quarter as a result of an increase in our primary flow business for the quarter ended September 30, 2015. Single NIW increased 88% over the second quarter of 2015 due to greater lender demand for our single premium mortgage insurance products. Single premiums written on an aggregated basis were 19% of total NIW in the third quarter, down from 24% in the prior quarter.

We set premiums at the time a policy is issued based on our expectations regarding likely performance over the term of coverage. Premium rates are impacted by the risk characteristics of each insured loan and by capital required to support particular products. Capital charges for lender-paid policies will increase in 2016 pursuant to recently issued GSE capital requirements. See "Conditions and Trends Impacting our Business - GSE Oversight - GSE PMIERS", below. We expect our product mix and the average premium rate we charge on our monthly primary flow MI policies to be comparable with the industry in general. Premiums written and earned in a year are generally influenced by NIW, pricing and persistency. Additionally, premiums earned are influenced by the amortization of earnings over the policy life in accordance with the expiration of risk for policies covering more than one year.

In general, the majority of any underwriting profit (i.e., the earned premium revenue minus claims and expenses, excluding investment income) that a book generates occurs in the early years of the book, with the largest portion of the underwriting profit for that book realized in the first year. This pattern generally occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years of the book, 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 earnings we record and the cash flow we receive vary based on the type of MI product and premium plan our customers select. We offer monthly, annual and single premium payment plans. The level of competition within the private MI industry has been intense and is not expected to diminish. Lenders are requesting discounts from mortgage insurers with greater frequency, particularly with respect to lender paid mortgage insurance single premium policies. If the percentage of our new business represented by single premium policies continues to remain at elevated levels or if we reduce prices in response to future price competition, our premium yields could decrease.



## Portfolio Statistics

The table below shows primary NIW, IIF, RIF, policies in force, the weighted average coverage and loans in default, by quarter, for the last five quarters.

Primary portfolio trends As of and for the quarter ended

|  | September 30,<br>2015  | June 30, 2015 | March 31, 2015 | December 31,<br>2014 | September 30,<br>2014 |   |
|--|------------------------|---------------|----------------|----------------------|-----------------------|---|
|  | (Dollars in Thousands) |               |                |                      |                       |   |
| New insurance written                    | \$3,632,740            | \$2,548,515   | \$1,696,142    | \$1,692,187          | \$974,910             |   |
| Insurance in force <sup>(1)</sup>        | \$10,601,492           | \$7,190,414   | \$4,835,248    | \$3,369,664          | \$1,812,956           |   |
| Risk in force <sup>(1)</sup>             | \$2,553,347            | \$1,715,442   | \$1,145,602    | \$801,561            | \$435,722             |   |
| Policies in force <sup>(1)</sup>         | 46,175                 | 31,682        | 21,225         | 14,603               | 7,628                 |   |
| Weighted average coverage <sup>(2)</sup> | 24.1                   | % 23.9        | % 23.7         | % 23.8               | % 24.0                | % |
| Loans in default (count)                 | 20                     | 9             | 6              | 4                    | —                     |   |
| Risk in force on defaulted loans         | \$962                  | \$528         | \$350          | \$208                | \$—                   |   |

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

<sup>(2)</sup> End of period RIF divided by IIF.

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 loan size, property type 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 riskier property types, such as investor properties, compared to owner-occupied properties.

We monitor the concentrations of various risk attributes in our insurance portfolio. Generally, insuring loans made to borrowers with higher credit scores tends to result in a lower frequency of claims than with loans made to borrowers with lower credit scores. As of September 30, 2015, our primary IIF and RIF were made up of approximately 63% and 62%, respectively, of loans to borrowers who had credit scores at or above 740. Our primary weighted average FICO for NIW in the quarter ended September 30, 2015 was 751. Additionally, as of September 30, 2015, all loans in our insurance portfolio were full documentation loans, and approximately 3% of our RIF was on loans above 95% LTV. Our primary weighted average LTV for NIW in the quarter ended September 30, 2015 was 91%.

The table below reflects a summary of the change in total primary IIF for the three and nine months ended September 30, 2015 and 2014.

| Primary IIF                        | For the three months ended |             | For the nine months ended |             |
|------------------------------------|----------------------------|-------------|---------------------------|-------------|
|                                    | September 30,<br>2015      | 2014        | September 30,<br>2015     | 2014        |
|                                    | (In Thousands)             |             |                           |             |
| IIF, beginning of period           | \$7,190,414                | \$939,753   | \$3,369,664               | \$161,731   |
| NIW                                | 3,632,740                  | 974,910     | 7,877,397                 | 1,759,167   |
| Cancellations and other reductions | (221,662)                  | (101,707)   | (645,569)                 | (107,942)   |
| IIF, end of period                 | \$10,601,492               | \$1,812,956 | \$10,601,492              | \$1,812,956 |

Our persistency rate is the percentage of IIF that remains on our books after any twelve-month period. Because our insurance premiums are earned over the life of a policy, changes in persistency rates can have a significant impact on our earnings. The persistency rate on our portfolio was 77.3% at September 30, 2015. In recent quarters, we have experienced high volumes of single premium policy cancellations driven by refinance activity, which has contributed to lower persistency than generally expected. We believe single premium policy cancellations will decrease as interest

rates rise.

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The table below reflects a summary of our primary IIF and RIF by book year.

| Primary IIF and RIF              | As of September 30, 2015 |             |
|----------------------------------|--------------------------|-------------|
|                                  | IIF<br>(In Thousands)    | RIF         |
| 2015, through September 30, 2015 | \$7,725,632              | \$1,862,737 |
| 2014                             | 2,800,015                | 672,745     |
| 2013                             | 75,845                   | 17,865      |
| Total                            | \$10,601,492             | \$2,553,347 |

The table below reflects our total primary IIF, RIF and average loan size, by FICO.

| Primary   | As of September 30, 2015 |         |             |         |                           |  |
|-----------|--------------------------|---------|-------------|---------|---------------------------|--|
|           | IIF                      |         | RIF         |         | Average primary loan size |  |
|           | (Dollars in Thousands)   |         |             |         |                           |  |
| >= 740    | \$6,673,029              | 63.0 %  | \$1,587,567 | 62.2 %  | \$237                     |  |
| 680 - 739 | 3,492,541                | 32.9    | 859,823     | 33.7    | 221                       |  |
| 620 - 679 | 435,922                  | 4.1     | 105,957     | 4.1     | 205                       |  |
| <= 619    | —                        | —       | —           | —       | —                         |  |
| Total     | \$10,601,492             | 100.0 % | \$2,553,347 | 100.0 % |                           |  |

The table below reflects the percentage of our primary RIF by loan type.

| Percentage of Primary RIF by loan type | As of September 30, 2015 |   |
|--|--------------------------|---|
| Fixed                                  | 97.5                     | % |
| Adjustable rate mortgages:             |                          |   |
| Less than five years                   | —                        |   |
| Five years and longer                  | 2.5                      |   |
| Total                                  | 100.0                    | % |

As of September 30, 2015, 100% of our pool RIF was comprised of insurance on fixed rate mortgages.

The following table reflects the percentage and policy count of our RIF by LTV. We calculate the LTV of a loan as a percentage of the original loan amount to the original value of the property securing the loan. In general, the lower the LTV the lower the likelihood of a default, and for loans that default, a lower LTV generally results in lower severity for a resulting claim, as the borrower has more equity in the property.

| Total RIF by LTV | As of September 30, 2015 |              |
|------------------|--------------------------|--------------|
|                  | % of Total RIF           | Policy Count |
| <b>Primary</b>   |                          |              |
| 95.01% and above | 3.1                      | % 1,520      |
| 90.01% to 95.00% | 54.5                     | 21,808       |
| 85.01% to 90.00% | 34.0                     | 14,803       |
| 80.01% to 85.00% | 8.4                      | 8,043        |
| 80.00% and below | —                        | 1            |
| Total primary    | 100.0                    | % 46,175     |
| <b>Pool</b>      |                          |              |
| 80.00% and below | 100.0                    | % 19,296     |
| Total pool       | 100.0                    | % 19,296     |

#### Geographic Dispersion

The following tables show the distribution by state of our IIF and RIF, for both primary and pool insurance. As of September 30, 2015, our IIF and RIF continues to be relatively more concentrated in California, primarily as a result of the location and timing of the acquisition of new customers. With the broadening of our customer base, the concentration of primary IIF and RIF in California has declined from over 16% for both as of the end of 2014, to 14.0% and 13.2%, respectively, as of September 30, 2015. The distribution of risk across the states as of September 30, 2015 is not necessarily representative of the geographic distribution we expect in the future. As we add new customers and receive greater allocations of business from our existing customers, we expect we will have increased flexibility to manage our state concentration levels.

| Top 10 primary IIF and RIF by state | IIF  | RIF    |   |
|-------------------------------------|------|--------|---|
| As of September 30, 2015            |      |        |   |
| 1. California                       | 14.0 | % 13.2 | % |
| 2. Texas                            | 6.9  | 7.1    |   |
| 3. Florida                          | 5.2  | 5.4    |   |
| 4. Michigan                         | 4.5  | 4.6    |   |
| 5. Colorado                         | 4.3  | 4.3    |   |
| 6. Virginia                         | 4.0  | 3.9    |   |
| 7. Pennsylvania                     | 3.8  | 3.9    |   |
| 8. New Jersey                       | 3.7  | 3.4    |   |
| 9. Ohio                             | 3.6  | 3.8    |   |
| 10. Arizona                         | 3.5  | 3.6    |   |
| Total                               | 53.5 | % 53.2 | % |

| Top 10 pool IIF and RIF by state<br>As of September 30, 2015 | IIF  | RIF    |   |
|--|------|--------|---|
| 1. California  | 28.4 | % 27.8 | % |
| 2. Texas   | 5.3  | 5.4    |   |
| 3. Washington  | 3.8  | 3.8    |   |
| 4. Colorado  | 3.8  | 3.8    |   |
| 5. Massachusetts   | 3.7  | 3.6    |   |
| 6. Illinois  | 3.7  | 3.7    |   |
| 7. Virginia  | 3.6  | 3.6    |   |
| 8. New York  | 2.9  | 2.9    |   |
| 9. New Jersey  | 2.8  | 2.8    |   |
| 10. Florida  | 2.8  | 2.8    |   |
| Total  | 60.8 | % 60.2 | % |

#### Reserve for Insurance Claims

Claims incurred is the current expense that is booked within a particular period to reflect actual and estimated claim payments that we believe will ultimately be made as a result of insured loans that are in default. We do not recognize an estimate of claim expense for loans that are not in default. As of September 30, 2015, we have established reserves for insurance claims of \$358 thousand for our twenty primary loans in default compared to a reserve of \$2 thousand for primary loans in default as of September 30, 2014. We have not established any reserves for pool claims or IBNR to date. For additional discussion of our reserves, see, Item 1, "Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 4. Reserves for Insurance Claims and Claims Expenses."

Claims incurred is generally affected by a variety of factors, including: the state of the economy, declines in housing values, and the size of loans insured and the percentage of coverage on insured loans, with higher average loan amounts and percentages of insurance coverage tending to result in higher incurred claim amounts.

We expect that claims incurred for the early years of our operations will be relatively low for the following reasons: the typical distribution of claims over the life of a book results in fewer defaults during the first two years after loans are originated, usually peaking in years three through six and declining thereafter;

we expect that the frequency of claims on our initial primary books of business should be between 2% and 3% of mortgages insured over the life of the book. For claims that we may receive, we expect the severity of the claim to be between 85% and 95% of the coverage amount. Based on these expectations, we estimate that the loss ratio over the life of each book will be between 20% and 25% of earned premiums. Until our portfolio matures, we expect our reported loss ratio will be less than 10%, due to loss development being generally insignificant in the early years of a loan cycle combined with strong growth in earned premiums on a year-over-year basis;

under the pool insurance agreement between NMIC and Fannie Mae, NMIC is responsible for claims only to the extent they exceed a deductible; and

low NIW in our early years of operations.

We developed our estimates of the expected frequency and severity of claims based on statutory filings by many of our competitors, which contain historical book year performance, as well as an industry dataset which consists of nearly 150 million mortgages and 80 data fields per mortgage, gathered over the past 17 years. As state-regulated entities, mortgage insurers are required to file actuarial justifications for premium rate changes in many states, many of which are publicly available and include historical information on claim frequency and severity. Historical performance data from similar underwriting, house price, and interest rate periods were compared to today to determine a range of expected performance.

## GSE Oversight

### GSE Approval Conditions

The GSEs are the principal purchasers of mortgages insured by MI companies. In January 2013, the GSEs approved NMIC as a qualified mortgage insurer, and in their approvals imposed certain capitalization, operational and reporting conditions on NMIC (collectively, the GSE Approval), most of which remain in effect until they are superseded on December 31, 2015 by the final PMIERS (discussed below). Until the new PMIERS are effective, NMIC is subject to ongoing compliance with the conditions in the GSE Approval as well as the GSEs' existing respective eligibility requirements.

### GSE PMIERS

On April 17, 2015, the Federal Housing Finance Agency published final updated PMIERS that will be effective on December 31, 2015 (Effective Date) for existing, GSE-approved private mortgage insurers, i.e., Approved Insurers. (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. Under the PMIER 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 certain risk-based factors derived from tables set out in the PMIERS to the net RIF. 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.

By March 1, 2016, each Approved Insurer must certify to the GSEs that it fully complies with the PMIERS as of the Effective Date. If an Approved Insurer meets all of the PMIERS except the financial requirements, by March 31, 2016, that Approved Insurer must submit a transition plan to each GSE detailing how it will comply with the financial requirements not later than June 30, 2017 (Compliance Date). We expect that prior to the Effective Date, NMIC will have undertaken measures to fully comply with the PMIERS financial requirements as of the Effective Date or, by March 31, 2016, NMIC will submit a transition plan to the GSEs detailing how NMIC will fully comply with the PMIERS on the Compliance Date. NMIC's compliance with the PMIERS financial requirements by the Effective Date or by the Compliance Date under a transition plan will likely include raising additional capital, which is consistent with the Company's previous disclosures regarding the need for future capital raises to fund growth in its business. Capital may be in the form of debt, equity, or a combination of both. Any such future capital raise would be conducted by means of a separate prospectus or other appropriate offering document and not by means of this report.

### Capital Position of Our Insurance Subsidiaries

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

As of September 30, 2015, NMIC's primary RIF was approximately \$2.6 billion, representing insurance on a total of 46,175 policies in force, and pool RIF was approximately \$93.1 million, representing insurance on a total of 19,296 loans. Based on NMIC's total statutory surplus of \$206 million at September 30, 2015, NMIC's RTC ratio was 11.5:1, significantly below the GSE and state regulatory maximum RTC thresholds. Similarly, Re One had total statutory capital of \$18 million at September 30, 2015, with a RTC ratio of 14.2:1. Under the final PMIERS financial requirements, as discussed previously in "GSE Oversight," NMIC will be held to a maximum risk-to-available assets ratio starting on the Effective Date. As of September 30, 2015, NMIC's risk-to-available assets ratio under the final PMIERS was 11.6:1. If the PMIERS were effective as of September 30, 2015, the risk-based required asset amount would be approximately \$164 million for our primary IIF and \$31 million for our pool IIF.

As a condition of GSE Approval, we were required to obtain a financial strength rating for NMIC. In July 2015, Standard & Poor's (S&P) Ratings Services assigned its "BBB-" financial strength and long-term counter-party credit ratings to NMIC. At the same time, S&P assigned its "BB-" long-term counter-party credit rating to NMIH. S&P's outlook for both companies is "stable."

### Competition

The MI industry is highly competitive and currently consists of seven private mortgage insurers, including NMIC, as well as governmental agencies like the FHA and the VA.

Private MI

In recent years, the MI industry has been in a state of transition. There are now seven MI companies serving the mortgage market. Given this dynamic, we expect that the pressure for industry participants to grow or maintain their market share will continue

in the coming years. Our competitors' respective share of the private MI market at June 30, 2015 ranged from single percentage points penetration to a high of approximately 26%.

#### Competition with FHA

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, recent action by the current administration has made it difficult to predict whether the market share of governmental agencies such as the FHA and VA will recede to historical levels. On January 26, 2015, the FHA reduced some of its single-family annual mortgage insurance premiums. To date, we have not experienced any significant impact from this premium reduction on our business. It is difficult to predict what, if any, material impact this premium reduction will have in the future as there are factors beyond premium rate that influence a lender's decision to choose private MI over FHA insurance, including among others, the FHA's loan eligibility requirements and loan size limits and the relative ease of use of private MI products compared to FHA products. However, we believe our pricing continues to be more attractive than the FHA's pricing for a substantial majority of borrowers with credit and loan characteristics similar to those whose loans we insure.

#### Consolidated Results of Operations

| Consolidated statements of operations               | For the three months ended |             | For the nine months ended |             |
|---|----------------------------|-------------|---------------------------|-------------|
|   | September 30,              |             | September 30,             |             |
|   | 2015                       | 2014        | 2015                      | 2014        |
| Revenues  | (In Thousands)             |             |                           |             |
| Net premiums written                                | \$35,360                   | \$9,661     | \$68,629                  | \$19,890    |
| Increase in unearned premiums                       | (22,526                    | ) (5,761    | ) (40,003                 | ) (11,993   |
| Net premiums earned                                 | 12,834                     | 3,900       | 28,626                    | 7,897       |
| Net investment income                               | 1,884                      | 1,342       | 5,168                     | 4,299       |
| Net realized investment (losses) gains              | (15                        | ) 134       | 952                       | 134         |
| Total revenues                                      | 14,703                     | 5,376       | 34,746                    | 12,330      |
| Expenses  |                            |             |                           |             |
| Insurance claims and claims expenses                | 181                        | (26         | ) 279                     | 2           |
| Underwriting and operating expenses                 | 19,653                     | 17,895      | 58,912                    | 55,833      |
| Total expenses                                      | 19,834                     | 17,869      | 59,191                    | 55,835      |
| Other income  |                            |             |                           |             |
| Gain from change in fair value of warrant liability | 332                        | 1,240       | 1,473                     | 3,009       |
| Gain from settlement of warrants                    | —                          | —           | —                         | 37          |
| Loss before income taxes                            | (4,799                     | ) (11,253   | ) (22,972                 | ) (40,459   |
| Income tax benefit                                  | —                          | (277        | ) —                       | (1,574      |
| Net loss  | \$(4,799                   | ) \$(10,976 | ) \$(22,972               | ) \$(38,885 |

#### Revenues

For the three months ended September 30, 2015, we had net premiums written of \$35.4 million and premiums earned of \$12.8 million, compared to net premiums written of \$9.7 million and premiums earned of \$3.9 million for the three months ended September 30, 2014. For the nine months ended September 30, 2015, we had net premiums written of \$68.6 million and premiums earned of \$28.6 million, compared to net premiums written of \$19.9 million and premiums earned of \$7.9 million for the nine months ended September 30, 2014. The principal drivers of the increases in premiums written and earned for the periods presented were the continued growth of our NIW and IIF and the significant development of our customer base, including higher allocations of business to us from existing customers. Additionally, we had \$860 thousand of earned premiums in the three months ended September 30, 2015 and \$3.1 million for the nine months ended September 30, 2015 related to cancellations on single premium policies, compared to \$785 thousand for the three months ended September 30, 2014 and \$807 thousand for the nine months ended September 30, 2014. We believe single premium policy cancellations will decrease as interest rates rise as discussed previously in "Conditions and Trends Impacting our Business - New Insurance Written, Insurance in Force and



Premiums."

We have incurred significant net operating losses since our inception, however we have seen our 2015 quarterly net losses decreasing steadily as our business has grown. Our net losses were \$4.8 million and \$11.0 million for the three months ended

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September 30, 2015 and 2014, respectively, and \$23.0 million and \$38.9 million for the nine months ended September 30, 2015 and 2014, respectively. The primary driver of the decreases in net losses for the periods ended September 30, 2015, compared to the periods ended September 30, 2014 was the significant increase in premiums earned related to the addition of new customers and to higher allocations of business to us from existing customers.

#### Expenses

Our expenses have historically been related to business development activities. Although we expect our year-over-year expenses to increase as we grow our business, we ultimately expect that the majority of our operating expenses will be relatively fixed in the long term. As our business matures we are targeting our expense ratio (expenses to premiums written) to fall into a range of 20% to 25%. Until our business matures, our expense ratio is expected to be significantly higher than this range given the low levels of premium written compared to our "fixed" costs customary to operating a mortgage insurance company.

Employee compensation represents the majority of our operating expense. Payroll and related expense increased year-over-year primarily as a result of the addition of new employees and other compensation related expenses, including benefits, bonuses and accrued severance. Our headcount grew from 186 at September 30, 2014 to 225 at September 30, 2015. Underwriting and operating expenses also include costs related to policy acquisition, technology, professional services and facilities.

| Consolidated balance sheets                      | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
|  | (In Thousands)        |                      |
| Total investment portfolio                       | \$314,455             | \$336,501            |
| Cash and cash equivalents                        | 132,791               | 103,021              |
| Deferred policy acquisition costs, net           | 12,181                | 2,985                |
| Software and equipment, net                      | 13,902                | 11,806               |
| Other assets                                     | 13,568                | 8,952                |
| Total assets                                     | \$486,897             | \$463,265            |
| Unearned premiums                                | \$62,072              | \$22,069             |
| Reserve for insurance claims and claims expenses | 358                   | 83                   |
| Accounts payable and accrued expenses            | 14,230                | 10,646               |
| Warrant liability                                | 1,899                 | 3,372                |
| Deferred tax liability                           | 137                   | 137                  |
| Total liabilities                                | 78,696                | 36,307               |
| Total shareholders' equity                       | 408,201               | 426,958              |
| Total liabilities and shareholders' equity       | \$486,897             | \$463,265            |

As of September 30, 2015, we had approximately \$447 million in cash and investments, of which \$161 million was held at NMIH. We ultimately plan to contribute a substantial portion of the \$161 million to our insurance subsidiaries to support growth in RIF. As of September 30, 2015, the amount of restricted net assets held by our consolidated insurance subsidiaries totaled approximately \$239 million of our consolidated net assets of approximately \$408 million. The increase in cash from year-end 2014 is the result of sales of securities to re-balance our investment portfolio in the second half of 2015.

Our deferred policy acquisition costs asset was \$12.2 million as of September 30, 2015, compared to \$3.0 million at December 31, 2014. The increase was driven by the increase in deferrable costs associated with our increase in premiums written year-over-year to \$68.6 million for the nine months ended September 30, 2015, from \$19.9 million for the nine months ended September 30, 2014.

Our unearned premiums balance increased to \$62.1 million as of September 30, 2015, from \$22.1 million as of December 31, 2014 due to single premiums written in the first nine months of 2015, offset by cancellations of lender paid single premium policies previously discussed and earnings of existing unearned premiums in accordance with the expiration of risk in the related policies.



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

| Consolidated cash flows                   | For the nine months ended |             |
|---|---------------------------|-------------|
|   | September 30,<br>2015     | 2014        |
| Net cash provided by (used in):           | (In Thousands)            |             |
| Operating activities                      | \$16,171                  | \$(19,553 ) |
| Investing activities                      | 14,278                    | 101,132     |
| Financing activities                      | (679 )                    | (23 )       |
| Net increase in cash and cash equivalents | \$29,770                  | \$81,556    |

Net cash provided by operating activities increased for the nine months ended September 30, 2015, compared to the same period in 2014, primarily due to the increase in premiums written year-over-year, offset by increased personnel costs.

Cash provided by investing activities for the nine months ended September 30, 2015 was lower compared to the same period in 2014, as a result primarily of the extent of portfolio re-balancing in the third quarter of 2015 compared to the same period in 2014.

Cash from financing activities for the nine months ended September 30, 2015 and September 30, 2014 consisted primarily of taxes paid related to the net share settlement of equity awards offset by the proceeds from the issuance of common stock.

#### Holding Company Liquidity and Capital Resources

NMIH serves as the holding company for our 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 and reimbursable expenses of its insurance subsidiaries; (ii) capital support for its insurance subsidiaries; (iii) potential payments to the Internal Revenue Service; and (iv) the 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 capital surplus or (subject to certain limitations) recent net profits. As of September 30, 2015, NMIH's shareholders' equity was approximately \$408 million.

As of September 30, 2015, NMIH had \$161 million of cash and investments. NMIH's principal source of operating cash is investment income, and could include future dividends from NMIC, if available and permitted under law or our agreements with the GSEs and state regulators.

NMIH's future capital requirements depend on many factors, including NMIC's ability to successfully write new business, establish premium rates at levels sufficient to cover claims and operating costs and meet minimum required asset thresholds under the PMIERS. See "- GSE Oversight," above. We expect NMIH may make additional capital contributions to its insurance subsidiaries to support their applicable capital adequacy requirements from time-to-time. To the extent that the funds generated by our ongoing operations and capitalization are insufficient to fund future operating requirements, we may need to raise additional funds through financing activities or curtail our growth and reduce our expenses. We may choose to generate additional liquidity through the issuance of debt, equity, or a combination of both. Any such future capital raise would be conducted by means of a separate prospectus or other appropriate offering document and not by means of this report.

NMIH has entered into expense-sharing agreements with its insurance subsidiaries which have been approved by the Wisconsin OCI, but such approval may be changed or revoked at any time. NMIC's ability to pay dividends to NMIH is subject to various conditions imposed by the GSEs and by insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require insurance regulatory approval. Since inception, NMIC has not paid any dividends to NMIH. As NMIC had a statutory net loss for the year ended December 31, 2014, NMIC cannot pay any dividends to NMIH through December 31, 2015 without the prior approval of the Wisconsin OCI. Additionally, under agreements with the GSEs, NMIC is not permitted to pay shareholder dividends until December 31, 2015 and, under agreements with various state insurance regulators, is not permitted to pay shareholder dividends until January 2016. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends.

Our MI companies' principal operating sources of liquidity are premiums that we receive from policies and income generated by our investment portfolio. Our MI companies' primary liquidity needs include the payment of claims on our MI policies, operating expenses, investment expenses and other costs of our business. We anticipate that as our IIF grows, the premium revenue we receive will increase. We expect to manage our fixed operating expenses so that they grow at a much slower rate than revenues over the coming years. As we anticipate an increase in our volume of MI business, we expect to see our underwriting and sales costs increase; however, we expect to be able to manage our "back-office" corporate related costs (i.e., management, finance, legal, risk and

information technology) as these areas of our business are already substantially developed to support our revenue generating operations.

#### Consolidated Investment Portfolio

Our net investment income for the nine months ended September 30, 2015 was \$5.2 million, compared to \$4.3 million for the nine months ended September 30, 2014. As of September 30, 2015, our portfolio conforms with our investment guidelines. The principal factors affecting our investment income include the size and credit rating of our portfolio and its net yield. As measured by amortized cost (which excludes changes in fair market value, such as those resulting from changes in interest rates), the size of our investment portfolio is mainly a function of capital raised, cash generated from (or used in) operations, such as net premiums received, and investment earnings.

The pre-tax book yield on our portfolio at September 30, 2015 was 1.9%, excluding unrealized gains and losses. The book yield is calculated on our year-to-date net investment income over our average portfolio book value at September 30, 2015. We believe that the yield on our investment portfolio likely will change over time based on potential changes to the interest rate environment, the duration or mix of our investment portfolio or other factors.

The sectors of our investment portfolio, including cash and cash equivalents appear in the table below:

| Percentage of portfolio's fair value                                    | September 30,<br>2015 |   | December 31,<br>2014 |   |
|---|-----------------------|---|----------------------|---|
| 1. Corporate debt securities  | 40                    | % | 45                   | % |
| 2. U.S. treasury securities and obligations of U.S. government agencies | 15                    |   | 16                   |   |
| 3. Asset-backed securities  | 13                    |   | 13                   |   |
| 4. Cash and cash equivalents  | 30                    |   | 24                   |   |
| 5. Municipal debt securities  | 2                     |   | 2                    |   |
| Total   | 100                   | % | 100                  | % |

The ratings of our investment portfolio were:

| Investment portfolio ratings | September 30,<br>2015 |   | December 31,<br>2014 |   |
|------------------------------|-----------------------|---|----------------------|---|
| AAA                          | 43                    | % | 39                   | % |
| AA                           | 10                    |   | 8                    |   |
| A                            | 36                    |   | 44                   |   |
| BBB                          | 11                    |   | 9                    |   |
| Total                        | 100                   | % | 100                  | % |

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

#### Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of approximately 35%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our effective income tax rate on our pre-tax loss was 0.0% for the three months ended September 30, 2015 and 2.5% for the three months ended September 30, 2014. Our effective income tax rate on our pre-tax loss was 0.0% for the nine months ended September 30, 2015 and 3.9% for the nine months ended September 30, 2014. For further information regarding income taxes and their impact on our results of operations and financial position, see, Item 1, "Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 6. Income Taxes."

Our financial statements reflect a valuation allowance with respect to our net deferred tax assets. As the Company has limited history, management is unable to provide a basis to conclude that it is more-likely-than-not that the results of future operations will generate sufficient taxable income. If the valuation allowance is reduced in the future, we would recognize an income tax benefit associated primarily with the carry forward of federal net operating losses and future share-based compensation tax deductions.

#### Other Items

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

We had no off-balance sheet arrangements at September 30, 2015. There are no material changes outside the ordinary course of business in the contractual obligations specified in our 2014 Form 10-K.

##### Critical Accounting Estimates

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

We believe that the assumptions and estimates associated with revenue recognition, fair value measurements, our investment portfolio, deferred policy acquisition costs, 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 Annual Report on Form 10-K for the year ended December 31, 2014.

### 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.

Changes to the term structure of interest rates. Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.

Market volatility/changes in the real or perceived credit quality of investments. Deterioration in the quality of investments, identified through changes to our own or third party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.

Concentration Risk. If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.

Prepayment Risk. Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

The carrying value of our investment portfolio as of September 30, 2015 and December 31, 2014 was \$314 million and \$337 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.

At September 30, 2015, the duration of our fixed income portfolio, including cash and cash equivalents, was 2.22 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 2.22% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 3.42 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 3.42% in fair value of our fixed income portfolio.



#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

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

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 30, 2015, pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, 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

We currently are not a party to any pending legal proceedings. We may in the future become subject to lawsuits and claims arising in the ordinary course of business.

### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015. You should carefully consider the risks and uncertainties described herein and in the above referenced filings, 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 the above referenced filings 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. As of the date of this report, we are not aware of any material changes in the risk factors set forth in the above referenced filings.

### 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.

October 30, 2015

By: /s/ Glenn M. Farrell

Name: Glenn M. Farrell

Title: Chief Financial Officer and Duly Authorized Signatory

EXHIBIT INDEX

| Exhibit<br>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)  |

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- 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 ~ Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated March 6, 2012 (incorporated herein by reference to Exhibit 10.8 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
- 10.9 ~ Amendment to Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated April 24, 2012 (incorporated herein by reference to Exhibit 10.9 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)

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| Exhibit Number | Description   |
|----------------|---|
| 10.10 ~        | Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated March 6, 2012 (incorporated herein by reference to Exhibit 10.10 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)  |
| 10.11 ~        | Amendment to Employment Agreement by and between NMI Holdings, Inc. and Jay M. Sherwood, dated April 24, 2012 (incorporated herein by reference to Exhibit 10.11 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)  |
| 10.12 ~        | Second Amendment to Employment Agreement by and between NMI Holdings, Inc. and John M. Sherwood, dated October 1, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on October 1, 2015)   |
| 10.13 ~        | Offer Letter by and between NMI Holdings, Inc. and Glenn Farrell, effective December 4, 2014 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 9, 2014)  |
| 10.14 ~        | Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014)  |
| 10.15 +        | Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately \$5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013) |
| 10.16 ~        | NMI Holdings, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Appendix A to our 2014 Annual Proxy Statement, filed on March 26, 2014)   |
| 10.17 ~        | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and President (incorporated herein by reference to Exhibit 10.18 to our Form 10-K, filed on February 20, 2015)   |
| 10.18 ~        | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.19 to our Form 10-K, filed on February 20, 2015)   |
| 10.19 ~        | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.20 to our Form 10-K, filed on February 20, 2015)   |
| 10.20 ~        | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and President (incorporated herein by reference to Exhibit 10.21 to our Form 10-K, filed on February 20, 2015)   |
| 10.21 ~        | Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.22 to our Form 10-K, filed on February 20, 2015)   |
| 10.22 ~        | 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)   |
| 21.1           | Subsidiaries of NMI Holdings, Inc.  |
| 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 #           | 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  |
| 99.1           | Conditional Approval Letter, dated January 15, 2013, from Freddie Mac to National Mortgage Insurance Corporation (incorporated herein by reference to Exhibit 99.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)  |
| 99.2           |   |

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Conditional Approval Agreement, dated January 16, 2013, by and among Federal National Mortgage Association, NMI Holdings, Inc. and National Mortgage Insurance Corporation (incorporated herein by reference to Exhibit 99.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)

The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language):

(i) Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014

(ii) Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2015 and 2014

(iii) Consolidated Statements of Changes in Shareholders' Equity for the six months ended September 30, 2015

and the year ended December 31, 2014

(iv) Consolidated Statements of Cash Flows for the nine months ended June 30, 2015 and 2014, and

(v) Notes to Consolidated Financial Statements

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~ Indicates a management contract or compensatory plan or contract.

+ Confidential treatment granted as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.

# 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.

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