

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

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 March 31, 2018

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

For the transition period from _____ to _____

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

DELAWARE 45-4914248
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2100 Powell Street, Emeryville, CA 94608
(Address of principal executive offices) (Zip Code)

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

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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

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

Emerging growth company

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

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

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on April 27, 2018 was 65,573,093 shares.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the Risk Factors in Part II, Item 1A of this report and in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 10-K), as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

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

PART I

Item 1. Financial Statements

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

	March 31, 2018	December 31, 2017
(In Thousands, except for share data)		
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$733,153 and \$713,859 as of March 31, 2018 and December 31, 2017, respectively)	\$723,790	\$715,875
Cash and cash equivalents	101,890	19,196
Premiums receivable	28,164	25,179
Accrued investment income	4,765	4,212
Prepaid expenses	3,602	2,151
Deferred policy acquisition costs, net	40,026	37,925
Software and equipment, net	22,857	22,802
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	38,557	40,250
Deferred tax asset, net	16,343	19,929
Other assets	3,963	3,695
Total assets	\$987,591	\$894,848
Liabilities		
Term loan	\$143,868	\$143,882
Unearned premiums	165,590	163,166
Accounts payable and accrued expenses	21,218	23,364
Reserve for insurance claims and claim expenses	10,391	8,761
Reinsurance funds withheld	33,179	34,102
Deferred ceding commission	4,838	5,024
Warrant liability, at fair value	6,563	7,472
Total liabilities	385,647	385,771
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, \$0.01 par value; 65,569,342 and 60,517,512 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively (250,000,000 shares authorized)	656	605
Additional paid-in capital	666,905	585,488
Accumulated other comprehensive loss, net of tax	(13,533)	(2,859)
Accumulated deficit	(52,084)	(74,157)
Total shareholders' equity	601,944	509,077
Total liabilities and shareholders' equity	\$987,591	\$894,848
See accompanying notes to consolidated financial statements.		

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

	For the three months ended March 31, 2018 2017 (In Thousands, except for per share data)	
Revenues		
Net premiums earned	\$54,914	\$33,225
Net investment income	4,574	3,807
Net realized investment losses	—	(58)
Other revenues	64	80
Total revenues	59,552	37,054
Expenses		
Insurance claims and claim expenses	1,569	635
Underwriting and operating expenses	28,453	25,989
Total expenses	30,022	26,624
Other expense		
Gain (Loss) from change in fair value of warrant liability	420	(196)
Interest expense	(3,419)	(3,494)
Total other expense	(2,999)	(3,690)
Income before income taxes	26,531	6,740
Income tax expense	4,176	1,248
Net income	\$22,355	\$5,492
Earnings per share		
Basic	\$0.36	\$0.09
Diluted	\$0.34	\$0.09
Weighted average common shares outstanding		
Basic	62,099	59,184
Diluted	65,697	62,339
Net income	\$22,355	\$5,492
Other comprehensive income (loss), net of tax:		
Net unrealized (losses) gains in accumulated other comprehensive income, net of tax benefit of \$423 and tax expense \$664 for the quarters ended March 31, 2018 and 2017, respectively	(10,956)	1,175
Reclassification adjustment for realized losses included in net income, net of tax expenses of \$0 for the quarters ended March 31, 2018 and 2017, respectively	—	58
Other comprehensive income (loss), net of tax	(10,956)	1,233
Comprehensive income	\$11,399	\$6,725

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.

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

	Common Stock - Class A Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	(In Thousands)					
Balances, January 1, 2017	59,145	\$ 591	\$ 576,927	\$ (5,287	) \$ (96,722	) \$ 475,509
Cumulative effect of change in accounting principle	—	—	388	—	515	903
Common stock: class A shares issued related to warrants	32	*	183	—	—	183
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	1,341	14	(1,494	)—	—	(1,480)
Share-based compensation expense	—	—	9,484	—	—	9,484
Change in unrealized investment gains/losses, net of tax expense of \$1,307	—	—	—	2,428	—	2,428
Net income	—	—	—	—	22,050	22,050
Balances, December 31, 2017	60,518	\$ 605	\$ 585,488	\$ (2,859	) \$ (74,157	) \$ 509,077
Cumulative effect of change in accounting principle	—	—	—	282	(282)—
Common stock: class A shares issued related to public offering	4,255	43	79,122	—	—	79,165
Common stock: class A shares issued related to warrants	26	*	489	—	—	489
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	770	8	(999	)—	—	(991)
Share-based compensation expense	—	—	2,805	—	—	2,805
Change in unrealized investment gains/losses, net of tax benefit of \$423	—	—	—	(10,956	)—	(10,956)
Net income	—	—	—	—	22,355	22,355
Balances, March 31, 2018	65,569	\$ 656	\$ 666,905	\$ (13,533	) \$ (52,084	) \$ 601,944

* During the year ended December 31, 2017 and the three months ended March 31, 2018, we issued 32,368 and 25,686 common shares, respectively, with a par value of \$0.01 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31,	
	2018	2017
	(In Thousands)	
Cash flows from operating activities		
Net income	\$22,355	\$5,492
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment losses	—	58
(Gain) Loss from change in fair value of warrant liability	(420)	) 196
Depreciation and amortization	1,858	1,502
Net amortization of premium on investment securities	439	357
Amortization of debt discount and debt issuance costs	361	403
Share-based compensation expense	2,805	1,911
Deferred income taxes	4,009	1,146
Changes in operating assets and liabilities:		
Premiums receivable	(2,985)	) (1,838)
Accrued investment income	(553)	) (479)
Prepaid expenses	(1,451)	) (944)
Deferred policy acquisition costs, net	(2,101)	) (2,056)
Other assets	(268)	) (192)
Unearned premiums	2,424	1,805
Reserve for insurance claims and claim expenses	1,630	760
Reinsurance balances, net	584	141
Accounts payable and accrued expenses	(7,556)	) (10,351)
Net cash provided by (used in) operating activities	21,131	(2,089)
Cash flows from investing activities		
Purchase of short-term investments	(16,858)	) (38,663)
Purchase of fixed-maturity investments, available-for-sale	(74,095)	) (60,212)
Proceeds from maturity of short-term investments	31,309	46,845
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	44,444	23,841
Additions to software and equipment	(1,370)	) (3,069)
Net cash used in investing activities	(16,570)	) (31,258)
Cash flows from financing activities		
Proceeds from issuance of common stock related to public offering	79,249	—
Proceeds from issuance of common stock related to employee equity plans	4,782	2,392
Taxes paid related to net share settlement of equity awards	(5,523)	) (3,503)
Repayments of term loan	(375)	) (375)
Payments of debt modification costs	—	) (370)
Net cash provided by (used in) financing activities	78,133	(1,856)
Net increase (decrease) in cash and cash equivalents	82,694	(35,203)
Cash and cash equivalents, beginning of period	19,196	47,746
Cash and cash equivalents, end of period	\$101,890	\$12,543
Supplemental disclosures of cash flow information		
Interest paid	\$3,072	\$3,314
Income taxes paid	—	170
See accompanying notes to consolidated financial statements.		

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011, to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One).

In April 2012, we completed a private placement of our securities, through which we offered and sold an aggregate of 55,000,000 of our Class A common stock resulting in net proceeds of approximately \$510 million (the Private Placement), and we completed the acquisition of our insurance subsidiaries for \$8.5 million in cash, common stock and warrants, plus the assumption of \$1.3 million in liabilities. In November 2013, we completed an initial public offering of 2.4 million shares of our common stock, and our common stock began trading on the NASDAQ exchange on November 8, 2013, under the symbol "NMIH." In March 2018, we completed the sale of an additional 4.3 million shares of common stock including a 15% option to purchase additional shares, which was exercised in full.

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

Basis of Presentation

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

Significant Accounting Principles

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

Reinsurance

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

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

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

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Recent Accounting Pronouncements - Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In December 2016, the FASB clarified that all contracts that are within the scope of Topic 944, Financial Services-Insurance, are excluded from the scope of ASU 2014-09. Accordingly, this update did not impact the recognition of revenue related to insurance premiums or investment income, which represent a majority of our total revenues. The update impacted our loan review services revenue, which is the only revenue stream in scope of the update. We adopted this update on January 1, 2018 using the modified-retrospective approach. For the period ended March 31, 2018, the impact was immaterial to our consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20). This update shortened the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The standard took effect for public business entities for fiscal years beginning after December 15, 2017. The adoption of this update had no impact on our consolidated financial statements.

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

Recent Accounting Pronouncements - Not Yet Adopted

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

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

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

2. Investments

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

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
As of March 31, 2018	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$57,018	\$—	\$(1,807)	\$55,211
Municipal debt securities	89,792	155	(1,259)	88,688
Corporate debt securities	453,262	806	(6,883)	447,185
Asset-backed securities	125,030	357	(736)	124,651
Total bonds	725,102	1,318	(10,685)	715,735
Long-term investments - other	353	—	—	353
Short-term investments	7,698	4	—	7,702
Total investments	\$733,153	\$1,322	\$(10,685)	\$723,790
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value
As of December 31, 2017	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$65,669	\$—	\$(981)	\$64,688
Municipal debt securities	89,973	534	(659)	89,848
Corporate debt securities	435,562	4,231	(1,958)	437,835
Asset-backed securities	100,153	916	(125)	100,944
Total bonds	691,357	5,681	(3,723)	693,315
Long-term investments - other	353	—	—	353
Short-term investments	22,149	58	—	22,207
Total investments	\$713,859	\$5,739	\$(3,723)	\$715,875

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

Scheduled Maturities

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

As of March 31, 2018	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$59,804	\$59,705
Due after one through five years	252,066	249,638
Due after five through ten years	287,110	280,837
Due after ten years	9,143	8,959
Asset-backed securities	125,030	124,651
Total investments	\$733,153	\$723,790

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Aging of Unrealized Losses

As of March 31, 2018, the investment portfolio had gross unrealized losses of \$10.7 million, \$3.5 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 March 31, 2018. We based our conclusion that these investments were not other-than-temporarily impaired as of March 31, 2018 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses
As of March 31, 2018	(Dollars in Thousands)					
U.S. Treasury securities and obligations of U.S. government agencies	12	\$26,792	\$ (994)	23	\$24,960	\$ (813)
Municipal debt securities	27	54,924	(691)	10	17,772	(568)
Corporate debt securities	180	302,287	(5,000)	18	42,745	(1,883)
Asset-backed securities	39	74,208	(497)	4	9,261	(239)
Short-term investments	1	995	—	—	—	—
Total	259	\$459,206	\$ (7,182)	55	\$94,738	\$ (3,503)
	Less Than 12 Months		12 Months or Greater		Total	
	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses	# of Fair Securities	Unrealized Losses
As of December 31, 2017	(Dollars in Thousands)					
U.S. Treasury securities and obligations of U.S. government agencies	16	\$29,806	\$ (394)	26	\$34,882	\$ (587)
Municipal debt securities	21	38,628	(264)	10	17,945	(395)
Corporate debt securities	94	128,313	(829)	23	48,978	(1,129)
Asset-backed securities	22	27,947	(63)	5	12,438	(62)
Total	153	\$224,694	\$ (1,550)	64	\$114,243	\$ (2,173)

The following table presents the components of net investment income:

	For the three months ended March 31,	
	2018	2017
	(In Thousands)	
Investment income	\$4,782	\$3,993

Investment expenses (208) (186)
Net investment income \$4,574 \$3,807

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NMI HOLDINGS, INC.

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

	For the three months ended March 31, 2018
	(In Thousands)
Gross realized investment gains	\$—\$ 279
Gross realized investment losses	— (337)
Net realized investment gains (losses)	\$—\$ (58)

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

For the quarter ended March 31, 2018, we held no other-than-temporarily impaired securities. There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income. For the quarter ended March 31, 2017, we recognized OTTI losses in earnings of \$144 thousand related to a single security with an unfavorable recovery forecast. The impaired security was liquidated in the second quarter of 2017.

3. Fair Value of Financial Instruments

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

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

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

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

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

Assets classified as Level 1 and Level 2

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided

markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources.

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Liabilities classified as Level 3

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

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

	Fair Value Measurements Using			
	Quoted			
	Prices in	Significant	Significant	Fair
	Active	Other	Unobservable	Value
	Markets	Observable	Inputs	
	for	Inputs	(Level 3)	
	Identical	(Level 2)		
	Assets			
	(Level 1)			
As of March 31, 2018	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$55,211	\$ —	\$ —	\$55,211
Municipal debt securities	—	88,688	—	88,688
Corporate debt securities	—	447,185	—	447,185
Asset-backed securities	—	124,651	—	124,651
Long-term investment – other	353	—	—	353
Cash, cash equivalents and short-term investments	109,592	—	—	109,592
Total assets	\$165,156	\$660,524	\$ —	\$825,680
Warrant liability	—	—	6,563	6,563
Total liabilities	\$—	\$—	\$6,563	\$6,563
	Fair Value Measurements Using			
	Quoted			
	Prices in	Significant	Significant	Fair
	Active	Other	Unobservable	Value
	Markets	Observable	Inputs	
	for	Inputs	(Level 3)	
	Identical	(Level 2)		
	Assets			
	(Level 1)			
As of December 31, 2017	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	\$59,844	\$4,844	\$ —	\$64,688
Municipal debt securities	—	89,848	—	89,848
Corporate debt securities	—	437,835	—	437,835
Asset-backed securities	—	100,944	—	100,944
Long-term investment - other	353	—	—	353
Cash, cash equivalents and short-term investments	41,403	—	—	41,403
Total assets	\$101,600	\$633,471	\$ —	\$735,071
Warrant liability	—	—	7,472	7,472
Total liabilities	\$—	\$—	\$7,472	\$7,472

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

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

Warrant Liability	For the three months ended March 31,	
	2018	2017
	(In Thousands)	
Balance, January 1	\$7,472	\$3,367
Change in fair value of warrant liability included in earnings	(420)	196
Issuance of common stock on warrant exercise	(489)	—
Balance, March 31	\$6,563	\$3,563

The following table outlines the key inputs and assumptions used in the Black-Scholes option-pricing model as of the dates indicated.

	As of March 31,	
	2018	2017
Common Stock Price	\$16.55	\$11.40
Risk free interest rate	2.37%	1.70%
Expected life	2.59 years	3.92 years
Expected volatility	30.1%	30.5%
Dividend yield	0%	0%

The changes in fair value of the warrant liability for the quarters ended March 31, 2018 and 2017 are primarily attributable to changes in the price of our common stock during the respective periods, with additional impact related to changes in the Black-Scholes model inputs and exercises of outstanding warrants.

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4. Term Loan

On November 10, 2015, we entered into a credit agreement (the Credit Agreement) to obtain a \$150 million three-year senior secured term loan (the Term Loan). On February 10, 2017, we amended the Credit Agreement (Amendment No. 1) to reduce the interest rate and extend the maturity date of the Term Loan from November 10, 2018 to November 10, 2019. On October 25, 2017, we further amended the Credit Agreement (Amendment No. 2) to remove a covenant that required NMIH to maintain liquidity (as defined therein) in an aggregate amount no less than all remaining interest payments due under the Term Loan. As modified by Amendment No. 2, the Credit Agreement retains a requirement that NMIH maintain liquidity in an aggregate amount no less than the sum of all remaining principal amortization payments due under the Term Loan, excluding principal scheduled to be paid on its maturity date. The amendments to the Credit Agreement have been treated as modifications.

As of March 31, 2018, the Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement and subject to a 1.00% floor, plus an annual margin rate of 6.75%, representing an all-in rate of 8.54%, payable monthly or quarterly based on our interest rate election. Quarterly principal payments of \$375 thousand are also required. The outstanding balance of the Term Loan as of March 31, 2018 was \$146.3 million.

Interest expense for the Term Loan includes interest and amortization of issuance costs, modification costs and the original issue discount. Original debt issuance costs totaling \$4.9 million, including \$445 thousand related to Amendment No.1 and Amendment No.2 modifications and a 1% original issue discount, are being amortized to interest expense, using the effective interest method, over the contractual life of the Term Loan. As of March 31, 2018, the remaining unamortized issuance costs, modification costs and original issue discount totaled \$2.4 million. For the three months ended March 31, 2018, we recorded \$3.4 million of interest expense.

We are subject to various covenants under the amended Credit Agreement, which include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined therein) of 35%, maximum risk-to-capital (RTC) ratio of 22.0:1.0, minimum liquidity (as defined therein) of \$2.3 million as of March 31, 2018, compliance with the PMIERs financial requirements (subject to any GSE-approved waivers), and minimum shareholders' equity requirements. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the amended Credit Agreement, including its covenants and events of default. We were in compliance with all covenants as of March 31, 2018.

Future principal payments for the Term Loan as of March 31, 2018 are as follows:

As of March 31, 2018	Principal (In thousands)
2018	1,125
2019	145,125
Total	\$ 146,250

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. Reinsurance

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

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

	For the three months ended March 31, March 31, 2018 2017 (In Thousands)	
Net premiums written		
Direct	\$66,027	\$39,245
Ceded ⁽¹⁾	(6,997)	(4,641)
Net premiums written	\$59,030	\$34,604

Net premiums earned

Direct	\$63,604	\$37,438
Ceded ⁽¹⁾	(8,690)	(4,213)
Net premiums earned	\$54,914	\$33,225

⁽¹⁾ Net of profit commission

Excess-of-loss reinsurance

In May 2017, NMIC entered into a reinsurance agreement with Oaktown Re Ltd. (Oaktown Re) that provides for up to \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for new delinquencies on an existing portfolio of mortgage insurance policies written from 2013 through December 31, 2016. For the reinsurance coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide second layer coverage up to the outstanding reinsurance coverage amount. NMIC will then retain losses in excess of the outstanding reinsurance coverage amount. The outstanding reinsurance coverage amount decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid and was \$166.6 million as of March 31, 2018. The outstanding reinsurance coverage amount will stop amortizing if certain credit enhancement or delinquency thresholds are triggered.

Oaktown Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of \$211.3 million to unaffiliated investors (the Notes). The Notes mature on April 26, 2027. All of the proceeds paid to Oaktown Re from the sale of the Notes were deposited into a reinsurance trust to collateralize and fund the obligations of Oaktown Re to NMIC under the reinsurance agreement. At all times, funds in the reinsurance trust account are required to be invested in high credit quality money market funds. We refer collectively to NMIC's reinsurance agreement with Oaktown Re and the issuance of the Notes by Oaktown Re as the 2017 ILN Transaction. Under the terms of the 2017 ILN Transaction, NMIC makes risk premium payments for the applicable outstanding reinsurance coverage amount and pays Oaktown Re for anticipated operating expenses (capped at \$300 thousand per year). For the three months ended March 31, 2018, NMIC paid risk premiums of \$1.6 million. NMIC did not cede any losses to Oaktown Re.

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

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

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Quota share reinsurance

2016 QSR Transaction

Effective September 1, 2016, NMIC entered into the 2016 QSR Transaction with a panel of third-party reinsurers.

Each of the third-party reinsurers has an insurer financial strength rating of A- or better by Standard and Poor's Rating Services (S&P), A.M. Best or both.

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

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

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

2018 QSR Transaction

Effective January 1, 2018, NMIC entered into the 2018 QSR Transaction with a panel of third-party reinsurers. Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P, A.M. Best or both. Under the 2018 QSR Transaction, NMIC cedes premiums earned related to 25% of risk on eligible policies written from January 1, 2018 through December 31, 2019.

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

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

	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Thousands)	
Ceded risk-in-force	\$3,304,335	\$2,167,745
Ceded premiums written ⁽¹⁾	(14,525)	(10,292)
Ceded premiums earned ⁽¹⁾	(16,218)	(9,865)
Ceded claims and claims expenses	543	268
Ceding commission written	2,905	2,058
Ceding commission earned	3,151	2,065
Profit commission	9,201	5,651

⁽¹⁾ The presentation of these line items was enhanced starting in the second quarter of 2017, to separately disclose "Profit commission." Prior to the second quarter of 2017, "Profit commission" was netted within both the "Ceded premium written" and "Ceded premium earned" lines.

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

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In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was \$2.3 million as of March 31, 2018.

In accordance with the terms of the 2018 QSR Transaction, cash payments for ceded premiums earned are settled on a quarterly basis, offset by amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will also settle quarterly. NMIC's reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements for risk ceded to non-affiliates. NMIC did not have any reinsurance recoverable on loss reserves related to our 2018 QSR Transaction as of March 31, 2018.

6. Reserves for Insurance Claims and Claim Expenses

We establish reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Consistent with industry practice, we establish reserves for loans that have been reported to us by servicers as having been in default for at least 60 days, referred to as case reserves, and additional loans that we estimate (based on actuarial review) have been in default for at least 60 days that have not yet been reported to us by servicers, referred to as incurred but not reported (IBNR) reserves. We also establish claims expense reserves, which represent the estimated cost of the claim administration process, including legal and other fees, as well as other general expenses of administering the claims settlement process. As of March 31, 2018, we had reserves for insurance claims and claims expenses of \$10.4 million for 1,000 primary loans in default. During the first three months of 2018, we paid 17 claims totaling \$482 thousand, including 14 claims covered under the QSR Transactions representing \$111 thousand of ceded claims and claims expenses.

In 2013, we entered into a pool insurance transaction with Fannie Mae. The pool transaction includes a deductible, which represents the amount of claims to be absorbed by Fannie Mae before we are obligated to pay any claims. We only establish reserves for pool risk if we expect claims to exceed this deductible. At March 31, 2018, 64 loans in the pool were past due by 60 days or more. These 64 loans represent approximately \$4.2 million of risk-in-force (RIF). Due to the size of the remaining deductible, the low level of notices of default (NODs) reported on loans in the pool through March 31, 2018 and the expected severity (all loans in the pool have loan-to-value ratios (LTV) ratios under 80%), we did not have any case or IBNR reserves for pool risks at March 31, 2018 or March 31, 2017. In connection with the settlement of pool claims, we applied \$492 thousand to the pool deductible through March 31, 2018. At March 31, 2018, the remaining pool deductible was \$9.9 million. We have not paid any pool claims to date. 100% of our pool RIF is reinsured under the 2016 QSR Transaction.

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

	For the three months ended March 31, 2018 2017 (In Thousands)	
Beginning balance	\$8,761	\$3,001
Less reinsurance recoverables ⁽¹⁾	(1,902)	(297)
Beginning balance, net of reinsurance recoverables	6,859	2,704
Add claims incurred:		
Claims and claim expenses incurred:		
Current year ⁽²⁾	1,940	955
Prior years ⁽³⁾	(371)	(320)
Total claims and claims expenses incurred	1,569	635
Less claims paid:		
Claims and claim expenses paid:		
Current year ⁽²⁾	—	—
Prior years ⁽³⁾	371	142
Total claims and claim expenses paid	371	142
Reserve at end of period, net of reinsurance recoverables	8,057	3,197
Add reinsurance recoverables ⁽¹⁾	2,334	564
Ending balance	\$10,391	\$3,761

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

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

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

The "claims incurred" section of the table above shows claims and claim expenses incurred on NODs for current and prior years, including IBNR reserves. The amount of claims incurred relating to current year NODs represents the estimated amount of claims and claims expenses to be ultimately paid on such loans in default. We recognized \$371 thousand and \$320 thousand of favorable prior year development during the three months ended March 31, 2018 and 2017, respectively, due to NOD cures and ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims and continue to observe and analyze loss development trends in our portfolio. Gross reserves of \$7.2 million related to prior year defaults remained as of March 31, 2018.

7. Earnings per Share (EPS)

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

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	For the three months ended March 31, 2018 2017 (In Thousands, except for per share data)	
Basic net income	\$22,355	\$5,492
Basic weighted average shares outstanding	62,099	59,184
Basic earnings per share	\$0.36	\$0.09
Basic net income	\$22,355	\$5,492
Warrant gain, net of tax	\$(332)	\$—
Diluted net income	\$22,023	\$5,492
Basic weighted average shares outstanding	62,099	59,184
Dilutive effect of issuable shares	3,598	3,155
Diluted weighted average shares outstanding	65,697	62,339
Diluted earnings per share	\$0.34	\$0.09
Anti-dilutive securities	169	1,211

8. Warrants

We issued 992 thousand warrants in connection with the Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to \$10.00. The warrants were issued with an aggregate fair value of \$5.1 million.

During the three months ended March 31, 2018, 54 thousand warrants were exercised resulting in 26 thousand common shares issued. No warrants were exercised during the three months ended March 31, 2017. Upon exercise, we reclassified the fair value of the warrants from warrant liability to additional paid-in capital and recognized a loss of approximately \$52 thousand.

We account for these warrants to purchase our common shares in accordance with ASC 470-20, Debt with Conversion and Other Options and ASC 815-40, Derivatives and Hedging - Contracts in Entity's Own Equity.

9. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 21% for the current and all future years following the enactment of the TCJA on December 22, 2017. We were subject to a statutory U.S. federal corporate income tax rate of 35% for all prior years through December 31, 2017. NMIH files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for interim reporting periods is established based on our estimated annual effective tax rates for a given year. Our effective tax rate on our pre-tax income was 15.7% for the three months ended March 31, 2018, compared to 18.5% for the three months ended March 31, 2017. The decrease in the effective tax rate for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 is attributable to the decrease in the statutory U.S. federal corporate income tax rate. We currently pay no federal income tax primarily due to the forecasted utilization of our federal net operating loss carryforwards, which were \$93.3 million as of December 31, 2017. As a result, the interim provision for income taxes represents changes to deferred tax assets.

Provisional amounts

The TCJA reduced the statutory U.S. federal corporate income tax rate from 35% to 21% and changed the tax deductibility of certain expenses for tax years beginning after December 31, 2017. We have not completed our full

assessment of the tax effects of the enactment of the TCJA on our deferred tax balances as of March 31, 2018 and December 31, 2017; however, in certain cases, as described below, we have made reasonable estimates of the effects on our deferred tax balances. We recognized a \$13.6 million income tax expense in the year ended December 31, 2017 for the items we could reasonably estimate. We are still analyzing the TCJA and refining our calculations, which could impact the measurement of our existing deferred tax assets including those related to share-based compensation. For tax years beginning after December 31, 2017, the TCJA expanded the number of individuals whose

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

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

10. Common Stock Offerings

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

11. Regulatory Information

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

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

For the three	
months ended	
March 31,	
2018	2017
(In Thousands)	

Statutory net loss	\$(6,814)	\$(10,090)
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NMIC and Re One's statutory surplus, contingency reserve and risk to capital (RTC) ratios were as follows:

March 31, December 31,	
2018	2017
(\$ In Thousands)	

Statutory surplus	\$368,202	\$371,084
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Contingency reserve	218,518	186,641
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Risk-to-Capital	14.4:1	13.2:1
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NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware corporate law provides that dividends are only payable out of a corporation's surplus or, subject to certain limitations, recent net profits. NMIC and Re One's ability to pay dividends to NMIH is subject to Wisconsin OCI notice or approval. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends. Since inception, NMIC and Re One have not paid any dividends to NMIH.

NMI HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. Subsequent Event

In April 2018, NMIH made a capital contribution of \$70 million to NMIC.

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

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

Overview

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

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

NMIH, a Delaware corporation, was incorporated in May 2011, and we began start-up operations in 2012 and wrote our first MI policy in 2013. Since formation, we have sought to establish customer relationships with a broad group of mortgage lenders and build a diversified, high-quality insured portfolio. As of March 31, 2018, we had master policy relationships with 1,291 customers, including national and regional mortgage banks, money center banks, credit unions, community banks, builder-owned mortgage lenders and other non bank lenders. As of March 31, 2018, we had \$56.6 billion of total insurance-in-force (IIF), including primary IIF of \$53.4 billion, and \$13.2 billion of gross RIF, including primary RIF of \$13.1 billion.

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

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

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

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

New Insurance Written, Insurance In Force and Risk In Force

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

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

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

Net Premiums Written and Net Premiums Earned

We set our premium rates on individual policies based on the risk characteristics of the underlying mortgage loans and borrowers, and in accordance with our filed rates and applicable rating rules.

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

NIW;

premium rates and the mix of premium payment type, which are either single, monthly or annual premiums, as described below;

cancellation rates of our insurance policies, which are impacted by payments or prepayments on mortgages, refinancings (which are affected by prevailing mortgage interest rates as compared to interest rates on loans underpinning our in force policies), levels of claims payments and home prices;

cession of premiums under third-party reinsurance arrangements.

Premiums are paid either by the borrower (BPMI) or the lender (LPMI) in a single payment at origination (single premium), on a monthly installment basis (monthly premium) or on an annual installment basis (annual premium).

Our net premiums written will differ from our net premiums earned due to policy payment type. For single premiums, we receive a single premium payment at origination, which is initially recorded as unearned premium and earned over the estimated life of the policy. A majority of our single premium policies in force as of December 31, 2017 were non-refundable under most cancellation scenarios. If non-refundable single premium policies are canceled, we immediately recognize the remaining unearned premium balances as earned premium revenue. Monthly premiums are recognized in the month billed and when the coverage is effective. Annual premiums are earned on a straight-line basis over the year of coverage. Substantially all of our policies provide for either single or monthly premiums.

The percentage of IIF that remains on our books after any 12-month period is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher persistency rates can have a significant impact on our net premiums earned and profitability. Generally, faster speeds of mortgage prepayment lead to lower persistency.

Prepayment speeds and the relative mix of business between single and monthly premium policies also impact our profitability. Our premium rates include certain assumptions regarding repayment or prepayment speeds of the mortgages underlying our policies. Because premiums are paid at origination on single premium policies and substantially all of our single premium policies are non-refundable on cancellation, assuming all other factors remain constant, if single premium loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than anticipated, we do not earn any more premium with respect to those loans and, unless we replace the repaid monthly premium loan with a new loan at the same or greater premium rate, our profitability is likely to decline.

Effect of reinsurance on our results

We utilize third-party reinsurance to actively manage our risk, ensure PMIERS compliance and support the growth of our business. We currently have both quota share and excess-of-loss reinsurance agreements in place, which impact our results of operations and regulatory capital and PMIERS asset positions. Under a quota share reinsurance agreement, the reinsurer receives a premium in exchange for covering an agreed-upon portion of incurred losses. Such a quota share arrangement reduces net premiums written and earned and also reduces net RIF, providing capital relief to the ceding insurance company and reducing incurred claims in accordance with the terms of the reinsurance agreement. In addition, reinsurers typically pay ceding commissions as part of quota share transactions, which offset the ceding company's acquisition and underwriting expenses. Certain quota share agreements include profit

commissions that are earned based on loss performance and serve to reduce ceded premiums. Under an excess-of-loss agreement, the ceding insurer is typically responsible for losses up to an agreed-upon threshold and the reinsurer then provides coverage in excess of such threshold up to a maximum agreed-upon limit. In general, there are no ceding commissions under excess-of-loss reinsurance agreements. We expect to continue to evaluate reinsurance opportunities in the normal course of business.

Quota share reinsurance

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

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

Excess-of-loss reinsurance

In May 2017, NMIC secured \$211.3 million of aggregate excess-of-loss reinsurance coverage at inception for an existing portfolio of MI policies written from 2013 through December 31, 2016, through a mortgage insurance-linked notes offering by Oaktown Re. The reinsurance coverage amount under the terms of the 2017 ILN Transaction decreases from \$211.3 million at inception over a ten-year period as the underlying covered mortgages amortize and/or are repaid, and was \$166.6 million as of March 31, 2018. For the reinsurance coverage period, NMIC will retain the first layer of \$126.8 million of aggregate losses and Oaktown Re will then provide a second layer of coverage up to the outstanding reinsurance coverage amount. NMIC retains losses in excess of the outstanding reinsurance coverage amount.

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

Portfolio Data

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

Primary and pool IIF and NIW	As of and for the three months ended			
	March 31, 2018		March 31, 2017	
	IIF	NIW	IIF	NIW
	(In Millions)			
Monthly	\$37,574	\$5,441	\$21,511	\$2,892
Single	15,860	1,019	13,268	667
Primary	53,434	6,460	34,779	3,559
Pool	3,153	—	3,545	\$—
Total	\$56,587	\$6,460	\$38,324	\$3,559

For the three months ended March 31, 2018, primary NIW increased 82%, compared to the three months ended March 31, 2017, primarily because of the growth in our monthly policy volume tied to increased penetration of existing customer accounts and new customer account activations, with additional benefit from growth in our single policy volume. For the three months ended March 31, 2018, monthly premium NIW increased 88% compared to the three months ended March 31, 2017.

For the three months ended March 31, 2018, 84% of our NIW related to monthly premium policies. As of March 31, 2018, monthly premium policies accounted for 70% of our primary IIF, as compared to 62% at March 31, 2017. We expect the break-down of monthly premium policies and single premium policies (which we refer to as "mix") in our primary IIF to continue to trend toward our current NIW mix over time. Our total IIF increased 48% as of March 31, 2018 compared to March 31, 2017, primarily because of the NIW we generated between such measurement dates and the high persistency of our policies in force.

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

Primary and pool premiums written and earned	For the three months ended	
	March 31, 2018	March 31, 2017
Net premiums written ⁽¹⁾	\$59,030	\$34,604
Net premiums earned ⁽¹⁾	54,914	33,225

⁽¹⁾ Net premiums written and earned are reported net of reinsurance and premium refunds.

For the three months ended March 31, 2018, net premiums written increased 71% and net premiums earned increased 65%, respectively, compared to the three months ended March 31, 2017. The increase in net premiums written is due to the growth of our IIF and increased monthly and single policy production, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume. The increase in net premiums earned is primarily due to the growth in our IIF, increased monthly and single policy production, and higher earnings from cancellations, partially offset by increased cessions under the QSR Transactions tied to the growth of our direct premium volume and the inception of the 2017 ILN Transaction in May 2017. Pool premiums written and earned for the three months ended March 31, 2018 and 2017, were \$0.9 million and \$1.0 million, respectively, before the effects of the 2016 QSR Transaction, under which all of our written and earned pool premiums have been ceded.

Portfolio Statistics

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

Primary portfolio trends	As of and for the three months ended				
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	(\$ In Millions)				
New insurance written	\$6,460	\$ 6,876	\$ 6,115	\$5,037	\$3,559
Percentage of monthly premium	84	% 83	% 79	% 81	% 81
Percentage of single premium	16	% 17	% 21	% 19	% 19
New risk written	\$1,580	\$ 1,665	\$ 1,496	\$1,242	\$868
Insurance in force (IIF) ⁽¹⁾	53,434	48,465	43,259	38,629	34,779
Percentage of monthly premium	70	% 69	% 66	% 64	% 62
Percentage of single premium	30	% 31	% 34	% 36	% 38
Risk in force ⁽¹⁾	\$13,085	\$ 11,843	\$ 10,572	\$9,417	\$8,444
Policies in force (count) ⁽¹⁾	223,263	202,351	180,089	161,195	145,632
Average loan size ⁽¹⁾	\$0.239	\$ 0.240	\$ 0.240	\$0.240	\$0.239
Average coverage ⁽²⁾	24.5	% 24.4	% 24.4	% 24.4	% 24.3
Loans in default (count)	1,000	928	350	249	207
Percentage of loans in default	0.5	% 0.5	% 0.2	% 0.2	% 0.1
Risk in force on defaulted loans	\$57	\$ 53	\$ 19	\$14	\$12
Average premium yield ⁽³⁾	0.43	% 0.44	% 0.43	% 0.41	% 0.40
Earnings from cancellations	\$2.8	\$ 4.2	\$ 4.3	\$3.8	\$2.5
Annual persistency ⁽⁴⁾	85.7	% 86.1	% 85.1	% 83.1	% 81.3
Quarterly run-off ⁽⁵⁾	3.1	% 3.9	% 3.8	% 3.4	% 2.9

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

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

⁽³⁾

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

- (4) Defined as the percentage of IIF that remains on our books after any 12-month period.
- (5) Defined as the percentage of IIF that is no longer on our books after any 3-month period.

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

Primary IIF	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Millions)	
IIF, beginning of period	\$48,465	\$32,168
NIW	6,460	3,559
Cancellations and other reductions	(1,491)	(948)
IIF, end of period	\$53,434	\$34,779

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

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

Primary IIF and RIF	As of March 31, 2018		As of March 31, 2017	
	IIF	RIF	IIF	RIF
	(In Millions)			
March 31, 2018	\$6,427	\$1,573	\$—	\$—
2017	20,272	4,948	3,544	865
2016	17,497	4,262	19,774	4,756
2015	7,913	1,971	9,681	2,384
2014	1,292	323	1,735	428
2013	33	8	45	11
Total	\$53,434	\$13,085	\$34,779	\$8,444

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

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

Primary NIW by FICO	For the three months ended	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
>= 760	\$2,619	\$1,683
740-759	1,073	551
720-739	914	456
700-719	811	396
680-699	567	264
<=679	476	209
Total	\$6,460	\$3,559
Weighted average FICO	743	749

Primary NIW by LTV	For the three months ended	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
95.01% and above	\$997	\$274
90.01% to 95.00%	2,765	1,612
85.01% to 90.00%	1,755	1,101
85.00% and below	943	572
Total	\$6,460	\$3,559
Weighted average LTV	92.5 %	92.0 %

Primary NIW by purchase/refinance mix	For the three months ended	
	March 31, 2018	March 31, 2017
	(In Millions)	
Purchase	\$5,425	\$2,984
Refinance	1,035	575
Total	\$6,460	\$3,559

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

Primary IIF by FICO	As of	
	March 31, 2018	March 31, 2017
	(\$ In Millions)	
>= 760	\$25,371 48 %	\$17,408 50 %
740-759	8,635 16	5,658 16
720-739	6,981 13	4,460 13
700-719	5,814 11	3,533 10
680-699	3,852 7	2,336 7
<=679	2,781 5	1,384 4

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Total \$53,434 100% \$34,779 100%

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Primary RIF by FICO As of

	March 31, 2018		March 31, 2017	
	(\$ In Millions)			
>= 760	\$6,246	48 %	\$4,253	50 %
740-759	2,125	16	1,383	16
720-739	1,710	13	1,081	13
700-719	1,416	11	851	10
680-699	932	7	556	7
<=679	656	5	320	4
Total	\$13,085	100%	\$8,444	100%

Primary IIF by LTV As of

	March 31, 2018		March 31, 2017	
	(\$ In Millions)			
95.01% and above	\$4,872	9 %	\$1,931	5 %
90.01% to 95.00%	23,937	45	15,601	45
85.01% to 90.00%	16,034	30	11,058	32
85.00% and below	8,591	16	6,189	18
Total	\$53,434	100%	\$34,779	100%

Primary RIF by LTV As of

	March 31, 2018		March 31, 2017	
	(\$ In Millions)			
95.01% and above	\$1,294	10 %	\$533	6 %
90.01% to 95.00%	6,978	53	4,585	55
85.01% to 90.00%	3,831	29	2,626	31
85.00% and below	982	8	700	8
Total	\$13,085	100%	\$8,444	100%

Primary RIF by Loan Type As of

	March 31, 2018		March 31, 2017	
Fixed	98 %	99 %		
Adjustable rate mortgages:				
Less than five years	—	—		
Five years and longer	2	1		
Total	100%	100 %		

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The table below shows selected primary portfolio statistics, by book year, as of March 31, 2018.

As of March 31, 2018

Book year	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) ⁽¹⁾	Cumulative default rate ⁽²⁾
(\$ Values in Millions)									
2013	\$ 162	\$ 33	20 %	655	177	1	1	0.3 %	0.3 %
2014	3,451	1,292	37 %	14,786	6,627	79	17	3.8 %	0.6 %
2015	12,427	7,913	64 %	52,548	36,383	338	27	3.1 %	0.7 %
2016	21,187	17,497	83 %	83,626	72,004	374	11	2.4 %	0.5 %
2017	21,583	20,272	94 %	85,900	82,145	207	—	2.3 %	0.2 %
2018	6,460	6,427	99 %	26,026					