

NMI Holdings, Inc.
Form 424B3
March 12, 2014
Filed pursuant to Rule 424(b)(3)
Registration Number 333-189507

Prospectus Supplement No. 3
(To the Prospectus dated December 6, 2013)

51,101,434 Shares

NMI Holdings, Inc.
Class A Common Stock

This Prospectus Supplement supplements the prospectus dated December 6, 2013, as previously supplemented (the “Prospectus”), relating to the offering of up to 51,101,434 shares of Class A common stock of NMI Holdings, Inc. by the selling stockholders identified in the Prospectus. This Prospectus Supplement should be read in conjunction with the Prospectus which is to be delivered with this Prospectus Supplement. If there is any inconsistency between the information in the Prospectus and this Prospectus Supplement, you should rely on the information in this Prospectus Supplement.

INVESTING IN OUR COMMON STOCK INVOLVES RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 15 OF THE PROSPECTUS.

This Prospectus Supplement is filed for the purpose of including in the Prospectus the information contained in the attached quarterly report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission on March 12, 2014.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus Supplement (or the Prospectus, including any supplements or amendments thereto). Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement is March 12, 2014.

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2013

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)

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

Title of each class

Class A Common Stock, \$.01 par value per share

Name of each exchange on which registered

NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

As of June 30, 2013, the last business day of the registrant’s most recently completed second fiscal quarter, there was no established public market for the registrant’s common stock and, therefore, the registrant cannot calculate the aggregate market value of its common stock held by non-affiliates as of such date.

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on March 7, 2014 was 58,065,326 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2013.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. 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,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” “similar words or phrases. Accordingly, these statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described in this report in Part I, Item 1A., “Risk Factors”, in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report, including the exhibits hereto.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely 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, statements regarding:

- our status as a recently organized corporation and lack of operating history;
- receipt of a certificate of authority to act as a mortgage insurer in Wyoming;
- retention of our existing certificates of authority in states where we have obtained them and our ability to remain a mortgage insurer in good standing in those states;
- changes in the business practices of the GSEs, including modifications to their mortgage insurer eligibility requirements or decisions to decrease or discontinue the use of mortgage insurance;
- our ability to remain a qualified mortgage insurer under the requirements imposed by the GSEs;
- actions of existing competitors and potential market entry by new competitors;
- changes to laws and regulations, including 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;
- 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;
- changes in the regulatory environment;
- our ability to implement our business strategy, including our ability to attract customers, 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;
- failure of risk management or investment strategy;
- claims exceeding our reserves or amounts we had expected to experience;
- failure to develop, maintain and improve necessary information technology systems or the failure of technology providers to perform;
- ability to recruit, train and retain key personnel; and
- emergence of claim and coverage issues.

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. You should, however, review the risk factors we describe in the reports we will file from time to time with the Securities and Exchange Commission ("SEC") after the date of this report.

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.

PART I

Item 1. Business

While we intend to operate our business as described in this report, we are a new company without a significant operating history. As a result of our experience, changes in market conditions and other factors, we may alter certain of our business methods, plans or strategies, such as the amount and types of mortgage insurance we underwrite.

General

NMI Holdings, Inc. ("NMIH" or the "Company") was formed in May 2011 and, through its subsidiaries, provides private mortgage guaranty insurance (which we refer to as "mortgage insurance" or "MI"). As used below, "we" and "our" refer to NMIH's consolidated operations. 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 and helping to revitalize our residential communities. MI also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Fannie Mae and Freddie Mac. 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 United States. Following our formation, we focused our efforts on organizational development, capital raising and other start-up related activities. In November 2011, we entered into a definitive agreement to acquire MAC Financial Holding Corporation and its Wisconsin licensed insurance subsidiaries, Mortgage Assurance Corporation, Mortgage Assurance Reinsurance Inc One and Mortgage Assurance Reinsurance Inc Two, each a Wisconsin corporation, which we renamed National Mortgage Insurance Corporation ("NMIC"), National Mortgage Reinsurance Inc One ("Re One") and National Mortgage Reinsurance Inc Two ("Re Two"), respectively. We refer to this acquisition as the "MAC Acquisition". In April 2012, we raised net proceeds of approximately \$510 million from a private placement of our common stock (the "Private Placement") and completed the acquisition of MAC Financial and its insurance subsidiaries. The proceeds from the Private Placement were and will be primarily used to capitalize our insurance subsidiaries and fund our operating expenses until our insurance subsidiaries generate positive cash flows. On September 30, 2013, we merged MAC Financial Holding Corporation into NMIH, with NMIH surviving the merger, and we merged Re Two into NMIC, with NMIC surviving the merger.

In January 2013, Fannie Mae and Freddie Mac (collectively the "GSEs") approved NMIC as a qualified MI provider on loans purchased by the GSEs. With our GSE Approval, our customers who originate loans insured by NMIC may sell such loans to the GSEs (as of April 1, 2013 for Freddie Mac and as of June 1, 2013 for Fannie Mae). Our primary insurance subsidiary, NMIC, requires a certificate of authority, or insurance license, in each state or jurisdiction where we issue insurance policies. We applied for a certificate of authority in each of the 50 states and D.C. in June 2012. We are currently licensed in 49 states and D.C. On November 8, 2013, we filed a final prospectus announcing the sale of 2.1 million shares of common stock through an initial public offering ("IPO"). The principal reason for conducting the IPO was to expedite an increase in the number of holders of our common stock to permit a listing of our common stock on the NASDAQ Global Market ("NASDAQ"). Obtaining a listing on the NASDAQ satisfied certain contractual obligations we had to our stockholders under a Registration Rights Agreement we entered into in connection with the Private Placement. On November 12, 2013, the underwriters exercised their option in full to purchase an additional 315,000 shares of common stock at a price of \$13.00 per share, before underwriting discounts. The offering closed on November 14, 2013. Gross proceeds to us were \$31.4 million. Net proceeds from the offering were approximately \$28 million, after an approximate 6% underwriting fee and other offering expenses and reimbursements pursuant to the underwriting agreement.

Following our IPO, and to meet our obligations under the Registration Rights Agreement, we filed a final prospectus on December 9, 2013 registering 51,101,434 Class A common shares. These shares had previously been issued during our Private Placement.

Our principal office is located at 2100 Powell Street, 12th floor, Emeryville, CA 94608. Our main telephone number is (855) 530-NMIC (6642), and our website is www.nationalmi.com. Copies of our Annual Reports on Form 10-K,

Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, a written copy of the Company's Business Conduct Policy, containing our code of ethics that is applicable to all of our directors, officers and employees, is also available on our website. Information contained or referenced on our website is not incorporated by reference into, and does not form a part of, this report.

Overview of the Private Mortgage Insurance Industry

The modern MI industry was established in the late 1950's to provide a private market alternative to federal government insurance programs, principally the Federal Housing Administration ("FHA"). MI covers losses of the insured institutions should homeowners default on their residential mortgage loans, up to pre-established coverage levels, reducing the loss to the insured institutions. MI enables consumers, especially first-time homebuyers, to finance homes with less than a 20% down payment, thereby expanding homeownership opportunities. Loans with less than 20% down payments are generally referred to as "low down payment" mortgages or loans.

The MI industry has from time to time experienced catastrophic losses similar to the losses recently experienced by the existing MI providers. In the past, such losses have followed (i) severe regional or national recessions and attendant declines in property values in the regions affected and (ii) the lenders' development of new mortgage products to defer the impact on home buyers of adjustable rate mortgages with a below market teaser rate. Prior to the 2005-2010 cycle of such losses, the last time that private mortgage insurers experienced substantial losses of this nature was in the mid-to-late 1980s. The mortgage crisis in recent years had a profound negative effect on the operating results and capital position of the MI industry and some companies were forced into receivership and ceased writing new business.

Financial Crisis and Recovery

The severe economic downturn and housing market decline experienced during the recent financial crisis had a profound impact on our industry. Legacy insurers experienced record high claims activity and sustained significant financial losses, resulting in depleted capital positions. Since 2007, three private mortgage insurers ceased writing new business and exited the market, and several other insurers were forced to raise capital to repair their balance sheets and remain in operation. Although certain remaining legacy insurers continue to deal with challenges, the ongoing improvement of housing market fundamentals and the high credit quality of post-crisis new business are expected to support improved growth and profitability in the private MI sector post-crisis.

Following the financial crisis, mortgage lenders have significantly tightened their underwriting standards, generally limiting the availability of loans to borrowers with higher credit scores and low debt to income ratios who can fully document their income and assets. From 2011 through 2013, the average borrower credit score on all mortgage loans originated in the United States and sold to the GSEs was 758, compared to 717 for the period from 2005 through 2007. Banks have largely stopped offering loans with certain characteristics that generated high levels of defaults and losses during the financial crisis, including interest only and negative amortization loans. We believe that prudent underwriting standards coupled with higher credit quality borrowers will result in lower mortgage default experience that will translate into fewer claims for the mortgage insurance industry on policies written in the post-crisis period.

Prior to the recent financial crisis, private mortgage insurers accounted for the majority of the insured mortgage origination market. In 2007, private mortgage insurance represented approximately 77% of insured mortgages and covered approximately 16% of the total mortgage origination volume. To stabilize the disruption in the housing market resulting from the financial crisis, the Federal government, among other things, significantly expanded its role in the mortgage insurance market. Government agencies, including the Federal Housing Agency ("FHA") and the Veterans Administration ("VA"), began to insure an increasing percentage of the market as incumbent private insurers came under significant financial stress. By 2009, private mortgage insurance represented approximately 15% of insured mortgages and covered approximately 4% of the total mortgage origination volume.

The private mortgage insurance industry has begun to recover, capturing an increasing share of the total insured market and thereby leading to higher private mortgage insurance penetration of the total mortgage origination market. In the fourth quarter of 2013, according to Inside Mortgage Finance, private mortgage insurance increased to approximately 38% of insured mortgages and covered approximately 10% of the total mortgage origination volume. These gains have been driven in part by the improved financial position of legacy insurers, the influx of private capital into the sector to support new entrants like NMIC and the FHA's decision to increase its mortgage insurance premium rates and upfront fees multiple times since 2010. We expect that, as the U.S. housing market continues to recover, the demand for private capital to insure mortgage risk and to facilitate secondary market loan sales will grow. As a result of this trend, we believe that private mortgage insurance will continue to increase its share of the insured mortgage market in the coming years.

The two graphs below show the relative share of the insured mortgage market (excluding activity under the Federal Home Affordable Refinance Program ("HARP") covered by public and private participants, and private mortgage insurance penetration rates, which represent private mortgage insurance new insurance written ("NIW") to total U.S. residential mortgage origination volume.

Source: Inside Mortgage Finance ©, February 21, 2014 www.insidemortgagefinance.com

Private MI NIW (\$ in billions)

Source: Inside Mortgage Finance ©, February 21, 2014 www.insidemortgagefinance.com

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GSEs

The GSEs are the principal purchasers of the mortgages insured by MI companies, primarily as a result of their governmental mandate to provide liquidity in the secondary mortgage market. Freddie Mac's and Fannie Mae's federal charters prohibit the GSEs from purchasing a low down payment loan, unless the loan is insured by a qualified mortgage insurer, the mortgage seller retains at least a 10% participation in the loan or the seller agrees to repurchase or replace the loan in the event of a default. As a result, the nature of the private mortgage insurance industry in the United States is driven in large part by the requirements and practices of the GSEs, which include:

- the minimum capital levels required to be maintained by MI companies;
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans;
- the terms that the GSEs require to be included in MI policies for loans that they purchase;
- the level of MI coverage, subject to the requirements of the GSEs' charters as to when MI is used as the required credit enhancement on low down payment mortgages;
- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require MI; and
- the availability of different loan purchase programs from the GSEs that allow different levels of MI coverage.

The FHFA, as the GSEs' conservator, has the authority to control and direct the GSEs' operations and the FHFA's policy objectives can result in changes to the GSEs' requirements and practices.

Each GSE maintains qualified mortgage insurer eligibility requirements, which they have been in the process of revising since mid-2010. The FHFA has announced its intent that the GSEs achieve uniformity in their respective requirements and that the requirements be finalized in the near term future. Although the GSEs and FHFA have not publicly commented on the final content of the revised mortgage insurer requirements, we believe they will include a new capital adequacy framework. The GSEs have announced to the MI industry that draft standards will be issued in 2014 and that there will be a public comment period prior to finalization of the standards. Under the terms of our GSE Approval, the GSEs have already imposed capitalization, operational and reporting conditions on NMIC and our holding company. It is difficult to predict whether any changes the GSEs might impose in their revised mortgage insurer eligibility requirements will have an effect on our business or the industry.

In addition, in connection with the FHFA's mandate that the GSEs align their mortgage insurer eligibility standards, the GSEs have imposed minimum standards for mortgage insurer master policies, including standards related to claim settlement and limitations on a mortgage insurer's rescission rights. During 2013, we agreed to terms of a new master policy with the GSEs and are in the process of seeking state insurance regulatory approvals of the policy form. We believe each of our competitors has also received GSE approval of its respective new policy and is likewise seeking state insurance regulatory approvals. The GSEs have announced preliminarily that, on and after July 1, 2014, in order to be eligible for purchase by the GSEs, low down payment loans requiring MI must be insured under a new master policy that they have approved through their policy alignment initiative.

In 2013, the FHFA's policy direction of the GSEs resulted in new business opportunities for MI companies. In its 2013 strategic plan for the GSEs, the FHFA included a target of \$30 billion of unpaid principal balance in multiple types of risk-sharing transactions for both Fannie Mae and Freddie Mac, including the use of MI. The \$30 billion of unpaid principal balance refers to the outstanding loan amount for all loans under consideration in these transactions. As discussed in this report, NMIC entered into a pool insurance agreement with Fannie Mae, pursuant to which NMIC initially insured approximately 22,000 residential mortgage loans with insurance-in-force (the aggregate unpaid principal balance) of \$5.2 billion (as of September 1, 2013).

The placement of the GSEs into the conservatorship of the FHFA has also increased the likelihood that the U.S. Congress will act to address the role and purpose of the GSEs in the U.S. housing market and potentially legislate structural and other changes to the GSEs and the functioning of the secondary mortgage market. For additional discussion of GSE and housing finance reform, see below in "- Regulation - Other U.S. Regulation - Housing Finance Reform".

Mortgage Insurance

The U.S. residential mortgage market is one of the largest in the world with over \$9.9 trillion of debt outstanding as of December 31, 2013, and includes a range of private and government sponsored participants. Private industry participants include mortgage banks, mortgage brokers, commercial, regional and investment banks, savings institutions, credit unions, REITs, mortgage insurers and other financial institutions. Public participants include government agencies such as the FHA, VA and Ginnie Mae, and government-sponsored enterprises such as Fannie Mae and Freddie Mac. The overall U.S. residential mortgage market encompasses both primary and secondary markets. The primary market consists of lenders originating home loans to borrowers, and includes loans made to support home purchases, which are referred to as purchase originations, and loans made to refinance existing mortgages, which are referred to as refinancing originations. The secondary market includes institutions buying and selling mortgages in the form of whole loans or securitized assets, such as mortgage-backed securities.

Residential MI protects mortgage lenders and investors in the event of borrower default, by reducing and, in some instances, eliminating the resulting credit loss to the insured institution. By mitigating losses as a result of borrower default, mortgage insurance facilitates the origination of "low down payment" mortgages, which are mortgages to borrowers who make down payments of less than 20% of the value of the homes. Mortgage insurance also may reduce the capital that financial institutions are required to hold against insured loans and facilitates the sale of low down payment mortgage loans in the secondary mortgage market, primarily to the GSEs. NMIC's residential mortgage insurance products will primarily provide first loss protection on loans originated by residential mortgage lenders and sold to the GSEs and, to a lesser extent, on low down payment loans held by portfolio lenders. NMIC offers the two principal types of MI, "primary" and "pool" which we discuss further below. We wrote our first primary insurance policy in April 2013 and we have entered into a pool coverage insurance transaction with Fannie Mae, which constitutes a significant percentage of our risk-in-force until our primary business writings reach a material level. We ultimately expect that most of the insurance that we write in the future will be primary insurance.

Primary Mortgage Insurance

Primary mortgage insurance provides mortgage default protection on individual loans at specified coverage percentages. Primary business is typically offered in one of two ways, either on a "flow" basis or in structured, bulk transactions. Mortgage insurers place flow mortgage insurance coverage as loan originations occur, one loan at a time. A structured, bulk transaction occurs when mortgage insurance coverage is placed on more than one loan, and typically after the loans have been originated. We currently offer primary mortgage insurance products on a flow basis to our customers. Our maximum obligation to an insured with respect to a claim is generally determined by multiplying the coverage percentage selected by the insured by the loss amount on the defaulted loan. The loss amount on an insured loan includes unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale of the property, all as specified in our master policy. At the time of a claim, we will typically pay the coverage percentage of the claim amount specified in the primary policy, but have the option to (i) pay 100% of the claim amount and acquire title to the property, or (ii) in the event the property is sold prior to settlement of the claim, pay the insured's actual loss up to the maximum level of coverage. We expect that most of our primary insurance will be written on first mortgage loans secured by owner occupied single-family homes, which are defined as one-to-four family homes and condominiums. To a lesser extent, we may also write primary insurance on first mortgages secured by non-owner occupied single-family homes, which are referred to in the home mortgage lending industry as investor loans, and on vacation or second homes.

Primary insurance-in-force ("IIF") is the unpaid principal balance of insured loans. Primary risk-in-force ("RIF") is the product of the coverage percentage multiplied by the unpaid principal balance. Lenders that purchase our mortgage insurance select specific coverage levels for insured loans, from the coverage percentages that we offer. For loans sold to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered. For other loans, the lender makes the determination. We expect our risk across all policies written to approximate 25% of the primary IIF but will vary between 6% and 35% coverage. We charge higher premium rates to account for the risk of higher coverage percentages, as higher coverage percentages generally result in higher amounts paid per claim.

Depending on the loan and the lender, the premium payments for flow primary mortgage insurance coverage are typically borne by the borrower and paid to the lender. Our industry refers to loans having this requirement as borrower paid mortgage insurance ("BPMI"). If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as lender paid mortgage insurance ("LPMI"). In either case, the payment of premium to us is the responsibility of the insured (i.e., the lender) and not the borrower. We currently expect that most of our primary insurance written will be BPMI, although this could change in the future.

Our premium rates are based on rates that we have filed with the various state insurance departments. To establish these rates, we use pricing models that assess risk across a spectrum of variables, including coverage percentages, loan-to-value ("LTV"),

loan and property attributes, and borrower risk characteristics. Premium rates cannot be changed after the issuance of coverage. Because we believe that over the long term, each region of the United States is subject to similar factors affecting risk of loss on insurance written, we generally utilize a nationally based, rather than a regional or local, premium rate policy for insurance written on a flow basis.

In general, premiums are calculated as basis points of the unpaid principal balance of an insured loan. We have four distinct types of premium plans:

• single — the insured pays all premium upfront at the time coverage is placed;

• annual — the insured pays premium at the time coverage is placed for the first 12 months of coverage. To maintain coverage, the insured subsequently pays renewal premiums for successive 12 month periods, with such renewals owed prior to the expiration of the then applicable 12 month period;

• monthly — coverage begins and the insured pays premium for the first month of coverage on the loan close date. We subsequently bill the insured each month for the next month's coverage; and

• monthly Advantage — coverage begins as of the loan close date, and when we receive notice of such close date, we subsequently bill the insured for the previous month of coverage and each month thereafter, the insured pays premium for the prior month of coverage.

In general, we may not terminate MI coverage except in the event there is non-payment of premiums or certain material violations of NMIC's mortgage insurance policies; although, as discussed below, the terms of our master policy restrict our rescission rights when certain criteria are met. Mortgage insurance coverage is renewable at the option of the insured lender, at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, the GSEs' guidelines generally provide that a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower's request when the principal balance of the loan is 80% or less of the property's current value. The federal Homeowners Protection Act of 1998 ("HOPA") also requires the automatic termination of BPMI on most loans when the LTV ratio (based upon the loan's amortization schedule) reaches 78%, and provides for cancellation of BPMI upon a borrower's request when the LTV ratio (based on the original value of the property) reaches 80%, upon satisfaction of the conditions set forth in the HOPA. In addition, some states impose their own notice and cancellation requirements on mortgage loan servicers.

National MI TrueGuideSM and SafeGuardSM Solutions

We believe our products and services provide our lender customers with a transparent and efficient method of placing primary mortgage insurance. Our underwriting guidelines, National MI TrueGuideSM, reflect what we believe are clear and straightforward eligibility requirements that are easy for our customers to follow. In addition, we believe the terms of our master policy offer a unique approach to rescission relief, as compared to historical standards, that sets us apart from other MI companies. Existing MI companies have rescinded or denied coverage on a significant number of mortgage insurance policies in recent years. We believe this has strained the relationship between a number of the mortgage originators and some existing mortgage insurers, providing an opportunity for a new entrant to more effectively compete with existing providers.

Through our National MI SafeGuardSM solution, as set forth in National MI's current master policy, after a borrower has made his or her first 18 monthly payments in a timely manner on a loan we insure, we have agreed that we will not rescind or cancel coverage of that loan for material borrower misrepresentation or underwriting defects. In addition, if a borrower makes his first 18 payments in a timely manner, we have agreed to limitations on our ability to initiate an investigation of fraud or misrepresentation by our insureds or any other party involved in the origination of an insured loan, which we collectively refer to in our master policies as a "First Party." We refer to these provisions of our master policy as "rescission relief." We believe the standard approach used by most MI companies is to provide rescission relief with respect to underwriting defects and investigation of First Party fraud or misrepresentation after 36 months of full and timely consecutive monthly payments.

On December 10, 2013, we announced that through a new version of our master policy and through an endorsement to our existing master policy, we will provide rescission relief after a borrower has timely made 12 consecutive monthly payments on a loan, rather than 18 months as provided in the current master policy. In January 2014, we filed an

endorsement to our existing Master Policy to provide rescission relief after 12 months to loans insured under the existing policy on or after the effective date of the endorsement in each state in which the property securing the insured mortgage is located. We are also in the process of seeking state insurance regulatory approvals of the new policy form which contains the same 12 months rescission relief provisions that we offer in our existing endorsement. We believe the terms of our insurance coverage described in our master policy have been and will continue to be favorably received by our customers. We further believe that the new version of our master policy may result in us

gaining incrementally more market share, with no material increase in our underwriting expenses or losses incurred, than if we remained at an 18-month standard for rescission relief. Based on GSE requirements for the MI industry's implementation of new master policies, we expect that loans we insure will be covered by our new master policy, including the 12 months rescission relief provisions, on and after July 1, 2014. The new master policy is pending final approvals from state insurance regulators.

Pool Insurance

Pool insurance is generally used as an additional "credit enhancement" or "risk-sharing" strategy for certain secondary market mortgage transactions. Pool insurance generally covers the excess of loss on a defaulted mortgage loan that exceeds the claim payment under the primary MI coverage, if such loan has primary coverage, as well as the total loss on a defaulted mortgage loan that did not have primary coverage. 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 mortgage insurer until the insured's losses on the pool of loans exceed the deductible.

As discussed above in "- Overview of the Private Mortgage Insurance Industry - GSEs", in 2013, the FHFA set goals for the GSEs to engage in \$30 billion of risk sharing transactions in 2013. As described below in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Our Operating Results - Start-up Operations - New Business Writings", NMIC entered into an agreement with Fannie Mae, pursuant to which NMIC agreed to insure approximately 22,000 loans with insurance-in-force (the aggregate unpaid principal balance) of \$5.2 billion (as of September 1, 2013). The effective date of the agreement and the coverage was September 1, 2013. Fannie Mae pays monthly insurance premiums in exchange for NMIC assuming net insurance risk of \$93.1 million. We received our first premium payment in September 2013. This pool transaction is unlike a typical pool transaction in that the loans which make up this particular pool do not have primary MI on them, as the LTVs of those loans at origination were below what would have resulted in the lenders requiring MI to be placed. The risk on this pool transaction represents approximately two-thirds of our risk-in-force as of December 31, 2013. We expect this percentage to decrease as our primary flow business increases.

Customers

Our sales strategy is focused on attracting, as customers, mortgage originators in the United States that fall into two distinct categories, which we refer to as "National Accounts" and "Regional Accounts".

We define National Accounts as the 37 most significant residential mortgage originators as determined by volume of their own originations as well as volume of insured business they may acquire from other originators. These National Accounts generally originate loans through their retail channels as well as purchase loans originated by other entities, primarily mortgage originators who we would classify as Regional Accounts, as described below. National Account lenders may sell their loans to the GSEs or private label secondary markets or securitize the loans themselves. We plan to service these customers with a specialized team of National Account sales professionals who have experience supporting and developing business from this segment. To date, approximately 20 of the National Account customers have indicated that they intend to do business with us and we continue to work towards completing our customer boarding processes. While we believe we have favorable relationships with the National Accounts who have indicated they will purchase MI from NMIC, there is no obligation to use NMIC as an MI provider and, as of the date of this report, we have received a limited amount of business from four of these National Accounts. We continue to work with the other National Accounts to engage them as customers.

The Regional Accounts originate mortgage loans on a local or regional level throughout the country. Some of these Regional Accounts have origination platforms that span across multiple regions; however, their primary lending focus is local. They sell the majority of their originations to National Accounts, but Regional Accounts may also retain loans in their portfolios or sell portions of their production directly to the GSEs. Our nationwide and regional sales teams address the Regional Accounts segment of the market, and with the early efforts of these teams, we have been able to attract lenders in this segment who have agreed to purchase MI from NMIC. Our future efforts will be focused on growing this segment of our customer base. Our ability to make progress penetrating Regional Accounts is primarily dependent on the following three factors:

• Obtaining approval from National Account lenders to be an authorized MI provider enables Regional Accounts to sell loans with insurance from NMIC to those National Accounts. Consequently, these approvals are critical to making

inroads with Regional Accounts. As discussed above, approximately 20 of the 37 National Accounts have indicated that they intend to do business with us.

Achieving connectivity with the largest loan servicing systems. Many loan servicers, including large lenders and those in the industry who service loans originated by Regional Accounts, that do not maintain proprietary servicing systems rely primarily on the two most significant servicing systems, LPS MSP and Fiserv LoanServ™, to service their loans.

In 2013, we completed integration with LPS MSP and Fiserv LoanServ™. Attaining connectivity with these servicing systems is one of the important steps to enable both National and Regional Accounts to purchase MI from NMIC. Achieving connectivity with leading third-party loan origination systems utilized by Regional Accounts, including Ellie Mae Encompass360®. The Regional Accounts who originate loans using these third-party loan origination systems will be able to automatically select NMIC as an MI provider within those systems. The progress we have made to date connecting with these loan origination systems is another significant achievement with respect to our readiness to engage with Regional Accounts.

The GSEs, as major purchasers of conventional mortgage loans in the United States, are the primary beneficiaries of our mortgage insurance coverage. Revenues from our customers are expected to be generated in the United States only.

Customers exceeding 10% of consolidated revenues

In 2013, the premiums paid to NMIC by each of Fannie Mae (pool transaction) and Quicken Loans Inc. exceeded 10% of our consolidated revenues.

Sales and Marketing and Competition

Sales and Marketing

Our sales and marketing efforts are designed to help us establish and maintain in-depth, quality customer relationships. We organize our sales and marketing efforts based on our national and regional customer segmentation. We seek to support our national and regional sales force, and improve our effectiveness in acquiring new customers, by raising our brand awareness through advertising and marketing campaigns, website enhancements, electronic communication strategies and sponsorship of industry and educational events. NMIC's product development and marketing department has primary responsibility for creating and supporting our MI products. Our current sales resources are designed to optimize our opportunity in the market as well as balance our expenses effectively. In 2013, we built our sales force by hiring qualified mortgage professionals that generally have well-established relationships with industry leading lenders and significant experience in both MI and mortgage lending. Our sales force is located throughout the United States to directly sell our mortgage insurance products to lenders.

Competition

Our competition includes other private mortgage insurers, governmental agencies that sponsor government-backed mortgage insurance programs and alternatives to credit enhancement products, such as piggy-back loans or other risk sharing arrangements. The MI industry is highly competitive. We compete with other private mortgage insurers based on our financial strength, underwriting guidelines, product features, pricing, operational efficiencies, customer relationships, name recognition, reputation, the strength of management teams and field organizations, comprehensiveness of databases covering insured loans, the effective use of technology, innovation in the delivery and servicing of insurance products and our ability to execute. During 2011, two mortgage insurers stopped writing new business and, based on public disclosures, these insurers approximated more than 20% of the MI industry volume in the first half of 2011. We believe their new origi