

NMI Holdings, Inc.  
Form 424B3  
February 20, 2015

Filed pursuant to Rule 424(b)(3)  
Registration Number 333-189507

Prospectus Supplement No. 9  
(To the Prospectus dated December 6, 2013)

51,101,434 Shares  
NMI Holdings, Inc.  
Class A Common Stock

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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 AND IN OUR ANNUAL REPORT ON FORM 10-K FILED ON FEBRUARY 20, 2015.**

This Prospectus Supplement is filed for the purpose of including in the Prospectus the information contained in the attached annual report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission on February 20, 2015.

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.

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The date of this Prospectus Supplement is February 20, 2015.

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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, 2014

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, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the calculated aggregate market value of common stock held by non-affiliates was \$546,126,819.

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on February 16, 2015 was 58,519,558 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2015 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, 2014.

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

- our limited operating history;
- our future profitability, liquidity and capital resources;
- developments in the world's financial and capital markets and our access to such markets;
- retention of our existing certificates of authority in each state and the District of Columbia ("D.C.") and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- changes in the business practices of the GSEs, including adoption and implementation of their proposed new 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 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 investment strategy;
- claims exceeding our reserves or amounts we had expected to experience;
- failure to maintain, improve and continue to develop 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.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors 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.



## PART I

### Item 1. Business

#### General

NMI Holdings, Inc. ("NMIH" or the "Company") is a Delaware corporation, incorporated in May 2011, and, through its subsidiaries, provides private mortgage guaranty insurance (which we refer to as "mortgage insurance" or "MI"). Unless expressly indicated or the context requires otherwise, the terms "we," "our," "us" and "Company" in this document refer to NMIH and its wholly owned subsidiaries on a consolidated basis. Our primary insurance subsidiary, National Mortgage Insurance Corporation ("NMIC"), is a qualified MI provider on loans purchased by Fannie Mae and Freddie Mac (collectively the "GSEs") and is licensed in all 50 states and D.C. to issue mortgage insurance. Our reinsurance subsidiary, National Mortgage Reinsurance Inc One ("Re One"), solely provides reinsurance to NMIC on certain loans insured by NMIC, as described in Note 13, Statutory Information, below. Our stock trades on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "NMIH."

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

We are a fully operational MI company that began writing business in April 2013. In 2014, we continued to make progress achieving our goals, through the addition of new customers and becoming licensed to write MI nationwide. We had 735 master policy holders in 2014, compared to 305 in 2013. Of those master policy holders, 37.7% were delivering business in 2014, compared to 7.2% delivering business in 2013. Primary new insurance written ("NIW") as of December 31, 2014 and December 31, 2013 was \$3.5 billion and \$162.2 million, respectively. In addition, we had \$5.2 billion of NIW related to our pool deal with Fannie Mae in 2013. We had total insurance-in-force ("IIF") of \$8.1 billion and total risk-in-force ("RIF") of \$894.7 million as of December 31, 2014.

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](http://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 Securities and Exchange Commission (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 1950s to provide a private market alternative to federal government insurance programs, principally the Federal Housing Administration ("FHA"). The industry mitigates mortgage credit risk within the residential mortgage lending system, supports increased levels of homeownership, offers liquidity and process efficiencies for lenders and provides consumers with lower-cost products and increased choice of mortgage and homeownership options.

The MI industry has from time to time experienced catastrophic losses. 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 most recent mortgage crisis 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 while others in the industry raised capital in the public markets or entered into reinsurance agreements to continue to write new business. Prior to the recent financial crisis, private mortgage insurers accounted for the majority of the insured mortgage origination market. 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 FHA and the Veterans Administration ("VA"), insured increasing percentages of the market as incumbent private insurers came under significant financial stress. The private mortgage insurance industry has significantly recovered, capturing an increasing share of the total insured market and thereby leading to higher private mortgage insurance penetration of the total mortgage origination market. These previous 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. Recent action by the Obama administration to reduce the FHA's premium rates has made it difficult to predict whether this market share shift from governmental agencies to private mortgage insurance will continue at the same pace it has since 2010. For a discussion of the government agencies' combined market share and the FHA's recent rate reduction announcement, see "- Sales and Marketing and Competition - Competition" below.

The graph below shows the private mortgage insurance penetration rates, which represents private mortgage insurance NIW (excluding activity under the Federal Home Affordable Refinance Program ("HARP")) to total U.S. residential mortgage origination volume.

Private MI NIW (\$ in billions)

(1) The dotted line and light gray shading in 2014 represent National MI's estimate.

Source: Inside Mortgage Finance ©, November 14, 2014 [www.insidemortgagefinance.com](http://www.insidemortgagefinance.com)

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 U.S. 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.

On September 6, 2008, the Federal Housing Finance Agency ("FHFA") used its authorities to place the GSEs into conservatorship. As the GSEs' conservator, the FHFA 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. 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."

Each GSE maintains its own private mortgage insurer eligibility requirements (the "Eligibility Requirements") applicable to approved mortgage insurers, which they have been in the process of revising since mid-2010. As discussed below under "Regulation - U.S. Mortgage Insurance Regulation - GSE Eligibility Requirements," the FHFA released for public input proposed updated Private Mortgage Insurer Eligibility Requirements ("PMIERS"), that when adopted will replace the Eligibility Requirements. We believe that each GSE will publish its own set of PMIERS and that final publication will likely occur during the first half of 2015.

#### 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 September 30, 2014, 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 the GSEs. 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 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 expect that most of the insurance that we write 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" or "non-flow" basis. Mortgage insurers place flow mortgage insurance coverage as loan originations occur, one loan at a time. A non-flow transaction occurs when mortgage insurance coverage is placed on more than one loan and typically after the loans have been originated. We currently offer both types of primary mortgage insurance products 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 mortgage insurance policy (the "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.

IIF is the unpaid principal balance of insured loans. 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. 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. In general, we structure our premium rates so that they increase as the coverage percentage increases, to account for relatively increased levels of risk that are present as the coverage percentages increase. Higher coverage percentages generally result in greater amounts paid per claim relative to policies with lower coverage percentages.

Depending on the requirements of the loan instrument and the lender, the premium payments for primary MI coverage may either be paid by the borrower or the lender. Premium payments borne by the borrower and paid to the lender are referred to as borrower paid mortgage insurance ("BPMI"). Premium payments made directly by the lender are referred to as lender paid mortgage insurance ("LPMI"). The lender may structure the loan transaction to recover LPMI premiums through an increase in the note rate on the mortgage or higher origination fees. In general, premium received on LPMI business is non-refundable. In either case, the payment of premium to us is the responsibility of the insured (i.e., the lender) and not the borrower.

Our premium rates are based on rates and rating rules 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") ratios, loan and property attributes, and borrower risk characteristics. Premium rates cannot be changed after the issuance of coverage. However, we review every loan and through this review process confirm underwriting eligibility, either prior to loan closing in the non-delegated channel or through a post-closing underwriting review in the delegated channel. Based on this review, we may re-price. Because we believe that over the long term, each region of the U.S. 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. We have discretion under our rates and rating rules to offer discounts, and we may choose to offer such discounts for certain high quality business.

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

• single — the insured pays all premium up front 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 due 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 our master policy; 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 at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. To the extent those cancellations are on LPMI business, we recognize any remaining unearned premium immediately. In the case of a loan purchased by the GSEs, their 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 TrueGuide® and SafeGuard® Solutions

We believe National MI's products and services provide our lender customers with a transparent and efficient method of securing primary mortgage insurance. Our underwriting guidelines, National MI TrueGuide®, reflect what we believe are clear and straightforward eligibility requirements that are easy for our customers to understand. Through

National MI SafeGuard®, we agree that we will not rescind or cancel coverage of an insured loan for material borrower misrepresentation or underwriting defects after a borrower timely makes the first 12 monthly payments, subject to our confirmation of coverage eligibility, as discussed below under "- Underwriting." In addition, if a borrower makes the first 12 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 policy as a "First Party." We refer to these provisions of our master policy

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as "rescission relief." Until October 1, 2014, we believe that most MI companies' standard approach was 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. As of October 1, 2014, we believe all MI companies offer a form of 12-month rescission relief.

#### 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 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 a pool agreement with Fannie Mae.

#### Customers

Our sales strategy is focused on attracting and retaining as customers mortgage originators in the U.S. that fall into two distinct categories, which we refer to as "National Accounts" and "Regional Accounts." We define National Accounts as the 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 through their correspondent channels. 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 Accounts may sell their loans to the GSEs or private label secondary markets or securitize the loans themselves. We service these customers with a specialized team of National Account sales professionals who have experience supporting and developing business from this segment. The Regional Accounts originate mortgage loans on a local or regional level throughout the country. Some of these Regional Accounts have origination platforms 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. During the year ended December 31, 2014, we received NIW from 277 National and 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 have been generated in the U.S. only.

#### Customers exceeding 10% of consolidated revenues

In 2014, the premiums earned by NMIC from each of Fannie Mae (pool transaction) and Quicken Loans Inc. exceeded 10% of our consolidated revenues. The loss of these customers could have a material adverse impact on our financial condition and results of operations.

#### Sales and Marketing and Competition

##### Sales and Marketing

Our sales and marketing efforts are designed to establish and maintain quality customer relationships through effective communication of our product offerings. Our sales force is strategically deployed throughout the U.S. to directly service our National and Regional accounts. We support our sales force and seek to increase acquisition of new customers by targeted product development, improving our brand awareness through advertising and marketing campaigns, website enhancements, mobile technology and sponsorship of industry and educational events. NMIC's product development and marketing department has primary responsibility for the creation and launch of our MI products. In 2014, we expanded 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.

##### 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 U.S. MI industry is highly competitive, and currently consists of seven active private

mortgage insurers, including NMIC, Mortgage Guaranty Insurance Corporation ("MGIC"), Radian Guaranty Inc. ("Radian"), United Guaranty Corporation ("UGI"), a division of American International Group, Inc., Genworth Mortgage Insurance Corporation ("Genworth"), Essent Guaranty ("Essent") and Arch Mortgage Insurance Company ("Arch").

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With seven private MI companies actively competing for business from the same residential mortgage originators, it is important that we continue to differentiate ourselves from the other companies who sell substantially similar products as ours. We compete with other private mortgage insurers based on our financial strength, underwriting guidelines, information security, product features, pricing, operating efficiencies, customer relationships, name recognition, reputation, the strength of management teams and field organizations, comprehensiveness of databases covering insured loans, effective use of technology, innovation in the delivery and servicing of insurance products and ability to execute.

We and other private mortgage insurers also compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the VA. These agencies' market share declined during each of the years in the three-year period ended December 31, 2014, from 68% to 63% to 58%, respectively, of low down payment residential mortgages that were subject to governmental and private mortgage insurance. While declining from a high of approximately 85% in 2009, the market share of governmental agencies remains substantially above the low of approximately 23% in 2007, according to statistics reported by Inside Mortgage Finance. The combined market share of the FHA and VA has decreased each year since 2010, a trend that we believe has been positive for the MI industry. In our view, this decrease may have been influenced by the relative ease of use of private MI compared to FHA products, as well as previous increases in the cost of FHA insurance, stricter FHA guidelines and the inability of the borrower to cancel FHA mortgage insurance. Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, recent action by the current administration has made it difficult to predict whether the market share of these governmental agencies will continue to recede at the same pace it has since 2010. On January 26, 2015, the FHA reduced its single-family annual mortgage insurance premiums by 50 basis points. It is difficult to predict what, if any, material impact this premium reduction will have as there are factors beyond premium rate that influence a lender's decision to choose private MI over FHA insurance, including among others, relative ease of use of private MI products compared to FHA products. In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies may consider expanding the authority of their state governments to insure residential mortgages.

#### Underwriting

The terms of our mortgage insurance coverage are governed by our master policy, which we issue to each lender with which we do business. The master policy sets forth the general terms and conditions of our MI coverage. Our primary mortgage insurance coverage is placed through our delegated and non-delegated programs. Through our underwriting solution, National MI TrueInsight<sup>SM</sup>, we currently underwrite every loan we insure by confirming coverage eligibility, either prior to loan closing in our non-delegated channel or through a post-closing underwriting review in our delegated channel, which we refer to as our "Delegated Assurance Review" or "DAR" process. DAR provides an underwriting review of each mortgage insurance decision made by our customers under their delegated authority. Our DAR process differentiates us from other MI companies, which typically underwrite a sampling of policies originated through their delegated underwriting channels. With our current underwriting strategy, we believe we can more effectively manage the risk characteristics in our portfolio and provide a high level of confidence to our lenders that valid claims will be paid. We believe this process provides our customers with timely, value-added feedback on the risk characteristics of their loan originations.

#### Non-Delegated Program

Through our non-delegated channel, we underwrite the insurance application and provide a response to the lender, prior to the loan closing. To obtain mortgage insurance on a loan, a master policyholder submits an insurance application to us, along with documentation we require to support loan qualification for mortgage insurance. We do not provide primary MI in instances where the lender has waived certain documentation requirements, such as written verification of employment and proof of source of funds for closing. Our underwriters review all materials submitted to us and render an insurance decision, typically within 24 to 48 hours, depending on the MI application volume.



In addition to our non-delegated underwriter employees located at our corporate headquarters and remotely across the country, we have entered into agreements with third-party underwriting service providers ("USPs") under which they underwrite the mortgage insurance decision on certain loans for us, consistent with our underwriting guidelines and subject to the terms of the outsourcing agreements. Our USPs share in the daily underwriting of mortgage insurance applications submitted to us, depending on the volume and with targeted assignments of particular loans to particular USPs, to ensure timely response-times to lenders. These USPs use AXIS, our insurance management system, and are trained to follow the same process outlined above that our own employees follow when they render an insurance decision. Any underwriting decisions requiring escalation or a second review will be referred back to management for decision making.

We have vendor management processes in place to manage the risk associated with outsourcing a component of our underwriting functions. In collaboration with the USP's management team, we monitor the USP's day-to-day underwriting of mortgage insurance decisions. We also review the qualifications of the USP's underwriters and provide system and guideline training to ensure the USP's underwriting philosophy is consistent with ours. We perform regular quality control reviews of each USP's performance, and our agreements with the USPs require them to give us access to the results of their internal quality control reviews. Underwriters with unacceptable performance will be carefully monitored with specific action plans, and our agreements provide for their timely replacement with 30 days' notice.

#### Delegated Program

Through our delegated program, if deemed eligible by us, certain loan originators may bind our mortgage insurance coverage following their own underwriting reviews. We permit delegated underwriting with lenders that have a track record of originating quality mortgage loans. The lenders are required to underwrite a mortgage insurance decision in accordance with our eligibility rules and approved underwriting guidelines. If the lender believes a loan is eligible for mortgage insurance coverage from us, it may bind the insurance coverage in accordance with the delegated authority conferred under our delegated underwriting program, as set forth in the terms of our master policy and related endorsements. In order to bind coverage, the lender must provide a dataset to us to help demonstrate the loan meets our threshold eligibility rules. In addition, as part of our National MI TrueInsight<sup>SM</sup> solution, or DAR process, delegated lenders are required to submit a full loan file (which contains all information and documentation required by the traditional underwriting process) to us within 60 days of the coverage effective date, and we will perform a post-close underwriting review of the lender's underwriting decision for each insured loan. We created the DAR process to provide us with confidence that loans we insure comply with our eligibility criteria and meet our underwriting guidelines. This process also assists us with early identification of a particular lender's underwriting defects that need attention and remediation going forward in order for such a lender to continue participating in our delegated program. We believe that our delegated program's full underwriting file review differentiates our process from the delegated underwriting process historically practiced by the MI industry and provides what we believe is valuable clarity to our lenders within the first several months of coverage. If a loan is found to be uninsurable during the DAR process, we cancel the insurance certificate and return any premiums we have received.

We utilize USPs with which we have outsourcing agreements to perform the majority of our post-close reviews of delegated decisions. If one of our USPs determines that a loan is ineligible for coverage, we will review the results to determine if we agree with our vendor before giving notice of cancellation of coverage to our insured. In addition to this review, we also perform routine quality control reviews of a statistically relevant sample of each USP's post-close reviews to help ensure that we are receiving the quality of underwriting that we expect from these providers.

#### Underwriting and Risk Management Guidelines

Our underwriting and risk management guidelines are based on what we believe to be the major factors that impact mortgage credit risk. Such factors include but are not limited to the following:

- the borrower's credit strength, including the borrower's credit history, debt-to-income ratios and cash reserves and the willingness of a borrower with sufficient resources to make mortgage payments when the mortgage balance exceeds the value of the home;
- the loan product, which encompasses the LTV ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property, the purpose of the loan and the interest rate;
- origination practices of lenders;
- the percentage coverage and size of insured loans; and
- the condition of the economy, including housing values and employment, in the geographic area in which the property is located.

We believe that, excluding other factors, claim incidence increases:

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