Report of the Examination of

National Mortgage Insurance Corporation

Emeryville, California

As of December 31, 2021

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March 9, 2023

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONAL MORTGAGE INSURANCE CORPORATION
Emeryville, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Mortgage Insurance Corporation (NMIC or the company) was conducted in 2017 and 2018 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2021, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

National Mortgage Insurance Corporation was incorporated in Wisconsin on June 30, 2009, under the name “Mortgage Assurance Corporation” and was granted its certificate of authority in Wisconsin on October 23, 2009. The company was incorporated and licensed without the usual requisite minimum capital and surplus to facilitate the lengthy review for qualified insurer status with both the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), as well as the due diligence and capital-raising efforts of the original principals of the company. The company entered into the Stipulation and Order in the Matter of Case No. 09-C32499, whereby the company agreed that it would not issue insurance policies or otherwise engage in the acceptance of any form of insurance risk until such time as it provided adequate documentation to Wisconsin’s Office of the Commissioner of Insurance (OCI) of sufficient capital funding, a walkthrough review of its completed information systems development, and that the foregoing facts were verified and acknowledged by OCI. At the time of the company’s inception, the two major principals in control of the company were Philip S. Pelanek and John C. Thompson.

Control of the company and its affiliates by the original principals was exercised first through MAC Financial Holding Corporation, a Delaware corporation, and later through MAC Financial Ltd., a Bermuda corporation.

On November 30, 2011, NMI Holdings, Inc. (NMIH), agreed to acquire from MAC Financial Ltd. all of the outstanding equity interest in MAC Financial Holding Corporation and its three wholly owned subsidiaries, NMIC (then known as Mortgage Assurance Corporation), National Mortgage Reinsurance Inc One (NMI Re) (then known as Mortgage Assurance Reinsurance Inc One), and National Mortgage Reinsurance Inc Two (then known as Mortgage Assurance Reinsurance Inc Two). The names of the insurance companies were changed to those used on January 10, 2012, in anticipation of the acquisition by NMIH. The plan for this acquisition of control was approved by OCI on February 20, 2012.

On April 24, 2012, in a transaction perfected on April 26, 2012, NMIH raised gross proceeds of $550,000,000 through the sale of 55,000,000 shares of common stock at an issue price of $10 per share in a Rule 144A private placement transaction managed by FBR Capital Markets & Co., a subsidiary of FBR & Co. On April 26, 2012, NMIH closed on its acquisition of MAC Financial Holding Corporation from MAC Financial Ltd. The company received $200,000,000 in cash from NMIH on June 29, 2012. The Stipulation and Order in the Matter of Case No. 09-C32499 was rescinded by OCI as no longer being necessary on September 26, 2012.

The company is licensed in all U.S. states and the District of Columbia. In 2021, the company wrote direct premium in the following states:

California	$ 58,165,131	10.4%
Texas	55,076,843	9.9
Florida	48,138,646	8.6
Virginia	25,301,611	4.5
Michigan	23,707,252	4.3
All others	346,660,574	62.2
Total	$557,050,057	100.0%

Private mortgage insurance coverages are issued to mortgage lenders, including mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions, and other lenders. Mortgage guaranty insurance is generally required by a lender to insure the lender’s risk in originating a low-down-payment mortgage loan to a homebuyer, and a lender typically requires mortgage insurance when the mortgage loan exceeds 80% of the value of the mortgaged real estate. In the event of borrower default, private mortgage insurance covers the risk exposure of the insured lender in excess of 80% of the value of the underlying mortgaged property. Private mortgage insurance also facilitates the sale of low-equity mortgage loans in the secondary mortgage securities market, primarily to Fannie Mae and Freddie Mac.

Primary mortgage insurance may be written on a flow, bulk, or pool basis. As previously noted, the flow basis is underwriting each individual mortgage loan as it is submitted for consideration. Bulk mortgage guaranty insurance provides coverage under a single transaction on each mortgage loan included in a defined portfolio of mortgage loans that have already been originated. Pool mortgage guaranty insurance provides coverage under a single transaction or a defined series of transactions on a defined portfolio of mortgage loans for losses up to an aggregate limit. Except for one pool policy written for Fannie Mae in 2013, all of the company’s business has been written on a flow or bulk basis. Private mortgage insurers refer to the unpaid principal balance of an insured loan as the insurance-in-force. Risk-in-force is the product of the unpaid principal balance of an insured loan, or the insurance-in-force, and the coverage percentage. New insurance written (NIW) is used by private mortgage insurers to refer to the new insurance-in-force (aggregate principal amount of the mortgages) insured during a period.

The company offers primary coverage in the range of 6% to 35% of the mortgage principal, with most coverage ranging from 20% to 30%. For loans sold to Fannie Mae and Freddie Mac, the coverage percentage must comply with the requirements established by the particular government-sponsored enterprise (GSE) to which the loan is delivered. For other loans, the coverage percentages selected by insureds is based primarily on the loan-to-value (LTV) of the loan, with higher LTVs generally having higher coverage percentages. In 2021, approximately 17% of the company's new insurance written was for LTVs up to 85%, with the remainder for LTVs from 85% to 97%. The company does not offer coverage for LTVs in excess of 97% and only limited amounts above 95%.

Primary mortgage guaranty insurance can be placed on many loan and property types. The primary insurance is written on first-lien mortgage loans secured by owner occupied single-family homes (defined as one-to-four family homes and condominiums). A small amount of primary insurance is written on first-lien mortgages secured by vacation properties, second homes, and investment properties.

Mortgage insurance premiums are usually paid by the mortgage borrower to the mortgage lender or servicer, which in turn remits the premium to the mortgage insurer. This form of payment is referred to as "borrower paid." In a "lender paid" payment structure the premium is paid by the mortgage lender to the mortgage insurer. The mortgage lender then typically recovers the premium through either an increase in the mortgage interest rate or through higher origination fees.

The company offers two basic types of premium payment plans: a single premium plan and a monthly premium plan. Under the single premium plan, the premium is paid in advance by adding the premium to the principal amount of the mortgage or by paying in cash at the mortgage closing. The premium can either cover an initial fixed term with annual renewals or the entire term of the mortgage. Under the monthly premium plan, the borrower or lender pays a premium payment on a monthly basis for each month of insurance coverage. In 2021, the monthly premium plan represented 90% of new insurance written.

The following table is a summary of the net insurance premiums written by the company in 2021. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$557,050,057	$0	$148,587,287	$408,462,770
Total All Lines	$557,050,057	$0	$148,587,287	$408,462,770

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation specific to their service on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Norman P. Fitzgerald Melrose, Massachusetts	Executive Vice President, Chief Sales Officer National Mortgage Insurance Corporation	2024
William J. Leatherberry Carmel, California	Executive Vice President, General Counsel and Corporate Secretary National Mortgage Insurance Corporation	2024
Ravi Mallela Moraga, California	Executive Vice President, Chief Financial Officer and Treasurer National Mortgage Insurance Corporation	2024
Adam S. Pollitzer Orinda, California	President, Chief Executive Officer National Mortgage Insurance Corporation	2024
Bradley M. Shuster Piedmont, California	Executive Chairman and Chairman of the Board NMI Holdings, Inc.	2024
Robert O. Smith Kentfield, California	Executive Vice President, Chief Risk Officer NMI Holdings, Inc.	2024
Mohammad Yousaf Colleyville, Texas	Executive Vice President, Operations and Information Technology National Mortgage Insurance Corporation	2024

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Bradley M. Shuster	Executive Chairman
William J. Leatherberry	Chief Legal Officer
Adam S. Pollitzer	Chief Executive Officer
Ravi Mallela	Chief Financial Officer
Robert O. Smith	Chief Risk Officer
Norman P. Fitzgerald	Chief Sales Officer
Mohammad Yousaf	Executive Vice President, Operations and Information Technology

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed at the time of this examination. The company’s ultimate controlling person, NMI Holdings, Inc., has established the following board committees:

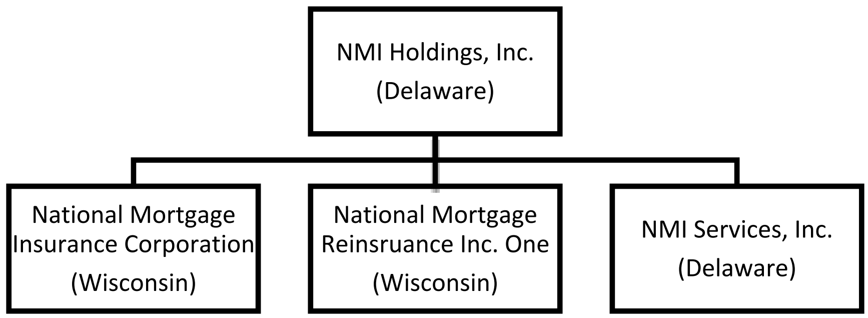
- Audit Committee
- Risk Committee
- Nominating and Governance Committee
- Compensation Committee

On March 19, 2014, pursuant to s. Ins 50.15 (6), Wis. Adm. Code, NMI Holdings, Inc., NMIH notified OCI of its election to designate the Audit Committee of NMIH as the Audit Committee for NMIC and NMI Re.

IV. AFFILIATED COMPANIES

NMIC is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2021



NMI Holdings, Inc.

NMIH is a Delaware stock holding company organized on May 19, 2011, the principal activities of which have been raising capital and acquiring the assets and approvals necessary to provide mortgage guaranty insurance and related ancillary services through direct wholly owned subsidiaries. The common stock of NMIH trades on the NASDAQ under the ticker symbol “NMIH”. On June 19, 2020, NMIH contributed approximately $445 million of capital to NMIC following the completion of the notes and equity offerings. This includes a sale of 15.9 million shares of common stock, raising net proceeds of approximately $220 million, and the sale of a $400 million aggregate principal amount of senior secured notes. The notes mature on June 1, 2025, and bear interest at a rate of 7.375%, payable semi-annually. NMIH may at any time redeem the notes, in whole or in part.

As of December 31, 2021, the audited GAAP consolidated financial statements of NMIH reported assets of $2,450,581,000, liabilities of $884,795,000, and shareholders’ equity of $1,565,786,000. Operations for 2021 produced net income of $231,130,000.

National Mortgage Reinsurance Inc One

NMI Re was incorporated as Mortgage Assurance Reinsurance Inc One under the laws of Wisconsin on March 4, 2010, and it received its certificate of authority in Wisconsin on March 5, 2010. The name of the company was changed to that used on January 10, 2012. NMI Re was organized to provide its affiliated insurer, NMIC, with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks to comply with certain states' limitations on coverage. Effective October 1, 2021, the Primary Excess Share Reinsurance Agreement was terminated. After executing the commutation agreement, NMI Re paid an extraordinary dividend of $26 million to NMIH. As a result of the transaction NMI Re no longer has any risk-in-force. As of December 31, 2021, the audited statutory financial statements of NMI Re reported assets of $5,932,208, liabilities of $304,331, and policyholders' surplus of $5,627,877. Operations for 2021 produced net income of $2,974,710.

NMI Services, Inc.

NMI Services, Inc. was incorporated in Delaware on or about April 29, 2015. It provides outsourced loan review services on a limited basis to mortgage loan originators. As of December 31, 2021, the audited financial statements of NMI Services, Inc., prepared in accordance with generally accepted accounting principles, reported assets of $1,148,132, liabilities of $436,193, and total stockholders' equity of $711,939. Operations for the period ended December 31, 2021, produced a net loss of $1,288,940.

Agreements with Affiliates

The company has no employees of its own. All day-to-day operations are conducted with staff provided by NMIH under a co-employment agreement with ADP (a non-affiliated provider of human resource services) in accordance with the business practices and internal controls NMIH maintains with respect to its employees. In addition to common staffing and management control by NMIH, NMIC's relationship to its affiliates is defined by two written agreements. A brief summary of the two agreements follows.

Cost Allocation Agreement

NMIC entered into a Cost Allocation Agreement (CAA) with NMIH, MAC Financial Holding Corporation, NMIC, NMI Re, and National Mortgage Reinsurance Inc Two. The purpose is to allow the parties to the agreement to share internal and external resources, services and facilities, and facilitate the joint acquisition of goods and services from third parties, while allocating the costs and expenses of such services, facilities, and goods in a fair and equitable manner. The agreement encompasses every form of facility and service that the parties may require or request. To the extent that any party collects monies on behalf of an affiliate, the monies shall be held for such affiliate in a fiduciary capacity and a separate account for such monies shall be maintained on the books and records of the collecting entity. NMIH is the principal co-employer of personnel among the affiliates, and employee compensation and benefits costs are allocated under the CAA to the company (and the other affiliates) based on time and resources devoted by each employee to the business and affairs of the company. Under the CAA, settlements are required no later than 60 days after each calendar quarter.

The Cost Allocation Agreement may be terminated in whole or in part by mutual written consent or by any party giving at least 30 days' written notice to the others, provided that each party has the right to elect to continue to receive and use data processing services and facilities and related software for up to one year following the date of notice. The agreement is subject to renegotiation every three years. The agreement is governed by Wisconsin law.

The CAA was amended multiple times for a variety of reasons. Two amendments pertained to the removal MAC Financial Holding Corporation and National Mortgage Reinsurance Inc Two following these companies being merged into NMIH. One amendment included the then-newly formed NMI Services, Inc. as a party to the agreement. Effective August 1, 2012, the CAA was amended so that no costs would be allocated from NMIH to any party until approval was received from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (each a "GSE") and all bonus payments based on GSE approval are to be allocated solely to NMIH.

On March 10, 2017, OCI confirmed its approval for NMI Holdings, Inc., pursuant to Section 3(b)(ii) of the CAA, to allocate to National Mortgage Insurance Corporation 100% of the interest, amortized underwriting fees, and related costs under that Credit Agreement. NMIH received a term loan of $150 million from a syndicate of creditors organized by JP Morgan Bank, N.A. on November 10, 2015. This agreement has been amended multiple times, most recently as of November 29, 2021, to extend the bond indenture up to $400 million and increase the revolving credit facility to $250 million. The basis for OCI's approval was that the entire proceeds NMIH received under the Credit Agreement were contributed to the company to support its growth and capital needs. The most recent OCI approval is subject to the following conditions:

(1) The allocation of allowable expenses shall be based on the daily pro-rata share of proceeds that have been distributed to NMIC or used to repay, redeem, or otherwise defease amounts raised by NMIH under prior credit arrangements that have previously been distributed to NMIC.

(2) This approval shall be subject to review and possible modification or termination in the event of any modification or replacement of the Credit Agreement or subsequent credit arrangements undertaken by NMIH.

(3) This approval will sunset not later than December 31, 2027, by which time it should be unnecessary, owing to a general stabilization of contingency reserve contributions and releases. However, this Office will undertake a review of this allocation of holding company debt service expenses upon the request of the company.

Tax Sharing Agreement

NMIC entered into a Tax Sharing Agreement effective as of August 23, 2012, with NMIH, MAC Financial Holding Corporation, NMIC, NMI Re, and National Mortgage Reinsurance Inc Two. Under this agreement, each of the parties mutually agrees to file a consolidated federal income tax return for 2012 and subsequent tax years with NMIH as the direct taxpayer. The tax liability of each insurer that is party to the agreement is limited to the amount of liability it would incur if it filed a separate tax return. All settlements under this agreement between NMIH and any insurer that is party to the agreement shall be made within 30 days of the filing of the applicable federal corporate income tax return with the Internal Revenue Service (IRS), including subsequent amended filings and IRS adjustments, except when a refund is due to an insurer, in which case payment shall be made to the insurer within 30 days after NMIH's receipt of the applicable tax refund.

The Tax Sharing Agreement may be terminated in whole or in part by any party giving at least 30 days' written notice to the others. Upon termination, each party is obligated to deliver to the terminating party all books and records that are, or are deemed by this agreement to be, the property of such terminating party. The agreement is subject to renegotiation every three years. The agreement is governed by Wisconsin law.

The Tax Sharing Agreement was amended multiple times. Two amendments pertained to the removal MAC Financial Holding Corporation and National Mortgage Reinsurance Inc Two following these companies being merged into NMIH. One amendment included the then-newly-formed NMI Services, Inc. as a party to the agreement. Effective August 1, 2016, the Tax Sharing Agreement was amended to include state income taxes required to be filed by NMIH and payments for each party's losses or tax credits anticipated for current or future income tax returns.

V. REINSURANCE

NMIC's reinsurance portfolio encompasses two treaties: a quota share reinsurance agreement with a panel of non-affiliated reinsurers, and a mortgage-linked note program with Oaktown Re, Ltd., a Bermuda special purpose captive reinsurer. The company's reinsurance contracts contained proper insolvency provisions.

The company also had a primary excess share reinsurance agreement and a facultative pool reinsurance agreement with affiliate NMI Re. Effective October 1, 2021, NMIC entered into a Commutation Agreement and settled its obligations and liabilities with NMI Re and released and discharged one another from these reinsurance agreements. This included a one-time payment from NMI Re to NMIC to cover outstanding obligations.

A description of the company's reinsurance contracts that comprise the reinsurance portfolio is summarized below.

Excess of Loss Reinsurance

NMIC is party to a series of reinsurance agreements with Oaktown Re Vehicles to provide aggregate excess of loss reinsurance coverage on defined portfolios of mortgage insurance policies. Under each agreement, NMIC retains a first layer of aggregate loss exposure on covered policies and the respective Oaktown Re Vehicle then provides a second layer of loss protection up to a defined reinsurance coverage amount. NMIC retains losses in excess of the respective reinsurance coverage amounts. The Oaktown Re Vehicles are required to fully collateralize their outstanding reinsurance coverage amounts to NMIC with funds deposited into segregated reinsurance trusts that are invested in short-term U.S. Treasury money market funds at all times. Each Oaktown Re Vehicle financed its respective collateral requirement through the issuance of mortgage insurance-linked notes (ILNs) to unaffiliated investors. The coverage amounts provided by each Oaktown Re Vehicle decrease over a 10-year or 12.5-year period, as applicable, as the underlying insured mortgages are amortized or repaid or their coverage is canceled.

The following table presents the inception date, covered production period, initial reinsurance coverage, and initial and first layer retained aggregate loss under each of the ILN transactions as of December 31, 2021. Dollar values are in thousands.

ILN Transaction	Inception Date	Covered Production	Reinsurance Coverage		First Layer Retained Loss	
			Initial	Current	Initial	Current
2017	5/02/2017	1/1/2013 – 12/31/2016	$211	$27	$127	$121
2018	7/25/2018	1/1/2017 – 5/30/2018	265	158	125	123
2019	7/30/2019	6/1/2018 – 6/30/2019	327	232	123	123
2020-1	7/30/2020	7/1/2019 – 3/31/2020	322	50	170	169
2020-2	10/29/2020	4/1/2020 – 9/30/2020	242	155	122	121
2021-1	4/27/2021	10/1/2020 – 3/31/2021	367	367	164	164
2021-2	10/26/2021	4/1/2021 – 9/30/2021	364	364	146	146

Quota Share Reinsurance

NMIC is a party to seven active quota share reinsurance (QSR) treaties. Each treaty includes multiple subscribing reinsures who assume varying amounts of the ceded reinsurance. The following table presents the covered production period, the amount ceded, and the termination date. The 2016 QSR Transaction also covers 100% of the risk under the pool agreement with Fannie Mae. The 2021 QSR Transaction initially covered policies written through the end of 2021, but its aggregate risk written limit was exhausted on October 31, 2021.

QSR Transaction	Covered Production	Ceded Amount	Termination Date
2016	Inception through 12/31/2017	25.0%	12/31/2027*
2018	1/1/2018 – 12/31/2018	25.0%	12/31/2029
	1/1/2019 – 12/31/2019	20.0%	12/31/2029
2020	4/1/2020 – 12/31/2020	21.0%	12/31/2030
2021	1/1/2021 – 10/31/2021	22.5%	12/31/2031
2022	10/1/2021 – 12/31/2022	20.0%	12/31/2032
2023	1/1/2023 – 12/31/2023	20.0%	12/31/2033

*Pooled risk will terminate on August 31, 2023

In addition, effective August 5, 2022, NMIC entered into a seasoned quota share reinsurance agreement with RenaissanceRe Europe AG, Bermuda Branch. Under this agreement, NMIC ceded 95% of covered business produced from September 12, 2013 through September 18, 2020. The agreement terminates on a cut-off basis on June 30, 2032.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2021, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned “Reconciliation of Surplus per Examination.” Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

National Mortgage Insurance Corporation
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,079,297,417	$	$2,079,297,417
Cash, cash equivalents, and short-term investments	54,743,358		54,743,358
Write-ins for invested assets:			
Prepaid expenses	591,903	591,903	
Investment income due and accrued	11,527,794		11,527,794
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	60,699,084	5,708	60,693,376
Net deferred tax asset	69,459,859	1,302,594	68,157,265
Total Assets	$2,276,319,415	$1,900,205	$2,274,419,210

National Mortgage Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2021

Losses		$ 81,116,341
Loss adjustment expenses		2,115,089
Other expenses (excluding taxes, licenses, and fees)		313,847
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,865,217
Unearned premiums		136,843,524
Ceded reinsurance premiums payable (net of ceding commissions)		22,624,335
Funds held by company under reinsurance treaties		5,600,624
Payable to parent, subsidiaries, and affiliates		90,961,988
Write-ins for liabilities:		
Statutory contingency reserve		1,036,638,786
Deferred ceding commission		344,272
Premium refund reserve		1,147,086
Total Liabilities		1,380,571,109
Common capital stock	$ 2,530,000	
Gross paid in and contributed surplus	1,010,021,399	
Unassigned funds (surplus)	(118,703,298)	
Surplus as Regards Policyholders		893,848,101
Total Liabilities and Surplus		$2,274,419,210

National Mortgage Insurance Corporation
Summary of Operations
For the Year 2021

Underwriting Income		
Premiums earned		$384,152,372
Deductions:		
Losses incurred	$ 11,431,941	
Loss adjustment expenses incurred	865,134	
Other underwriting expenses incurred	71,883,796	
Write-ins for underwriting deductions:		
Statutory contingency reserve	267,796,299	
Total underwriting deductions		351,977,170
Net underwriting gain (loss)		32,175,202
Investment Income		
Net investment income earned	5,660,448	
Net realized capital gains (losses)	105,694	
Net investment gain (loss)		5,766,142
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		37,941,344
Federal and foreign income taxes incurred		2,966,041
Net Income (Loss)		$ 34,975,303

National Mortgage Insurance Corporation
Cash Flow
For the Year 2021

Premiums collected net of reinsurance			$401,282,719
Net investment income			9,091,367
Total			410,374,086
Benefit- and loss-related payments		$ 1,723,982	
Commissions, expenses paid, and aggregate write-ins for deductions		45,441,974	
Federal and foreign income taxes paid (recovered)		3,102,211	
Total deductions			50,268,167
Net cash from operations			360,105,919
Proceeds from investments sold, matured, or repaid:			
Bonds	$117,449,938		
Miscellaneous proceeds	2		
Total investment proceeds		117,449,940	
Cost of investments acquired (long-term only):			
Bonds	511,452,469		
Miscellaneous applications	8,000,000		
Total investments acquired		519,452,469	
Net cash from investments			(402,002,529)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(7,192,157)	
Net cash from financing and miscellaneous sources			(7,192,157)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(49,088,767)
Cash, cash equivalents, and short-term investments:			
Beginning of year			103,832,125
End of Year			$ 54,743,358

National Mortgage Insurance Corporation
Policyholders' Position Calculation
December 31, 2021

Surplus as regards policyholders	$ 893,848,101	
Contingency Reserve	1,036,638,786	
Loss reserves on specified loans	1,429,934	
Total policyholders position		$1,931,916,821
Net minimum policyholders position:		
Individual loans:		
Loan-to-value more than 75%	831,740,019	
Deduction of individual or group loans for which the insurer has established a loss and LAE reserve greater than or equal to the minimum policyholders position for said loan	7,882,753	
Total minimum policyholders position		823,857,266
Excess of total policyholders position over minimum policyholders position		$1,108,059,555

National Mortgage Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2021

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2021	2020	2019	2018	2017
Surplus, beginning of year	$865,673,283	$421,340,194	$403,141,036	$344,017,675	$387,037,430
Net income	34,975,303	(20,533,735)	14,613,073	(20,362,918)	(36,246,085)
Change in net unrealized capital gains/losses			829,352	(829,352)	
Change in net deferred income tax	(6,300,079)	6,828,375	2,337,170	22,715,615	(14,981,681)
Change in nonadmitted assets	(500,405)	12,590,401	419,562	(12,399,983)	8,208,011
Surplus adjustments:					
Paid in		445,448,047		70,000,000	
Surplus, End of Year	$893,848,101	$865,673,283	$421,340,194	$403,141,036	$344,017,675

National Mortgage Insurance Corporation
Insurance Regulatory Information System
For the 5-Year Period Ending December 31, 2021

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed following the table.

	Ratio	2021	2020	2019	2018	2017
#1	Gross Premium to Surplus	62%	53%	89%	71%	59%
#2	Net Premium to Surplus	46	40	68	53	42
#3	Change in Net Premiums Written	18	21	34*	47*	12
#4	Surplus Aid to Surplus	0	0	3	6	8
#5	Two-Year Overall Operating Ratio	95	101*	96	104*	106*
#6	Investment Yield	0.3*	0.5*	1.8*	1.2*	0.2*
#7	Gross Change in Surplus	3	105*	5	17	-11*
#8	Change in Adjusted Surplus	3	0	5	-3	-11*
#9	Liabilities to Liquid Assets	64	59	70	63	57
#10	Agents' Balances to Surplus	7	6	11	9	7
#11	One-Year Reserve Development to Surplus	-1	-2	-1	-1	0
#12	Two-Year Reserve Development to Surplus	-2	-1	-1	0	0
#13	Estimated Current Reserve Deficiency to Surplus	-5	-7	-2	-1	-1

Ratio No. 3, "Changes in Net Premiums Written", represents the change in net premiums written from the prior year. The unusually high results in 2018 and 2019 were due to the company's initial growth. NMIC began writing business in 2013 and increased its growth rate until peaking in 2018. This is common in newly formed insurance companies as they establish their economic footprint. The company scaled its growth back in 2020 and 2021 as it was becoming a more established and stabilized company.

Ratio No. 5, "Two-Year Overall Operating Ratio", measures the company's profitability over the previous two-year period. The exceptional results in 2017, 2018, and 2020 were due to increases in the company's contingency reserve. The contingency reserve is a special statutory reserve required of all mortgage insurers, which is designed to provide a capital cushion during periods of extreme economic contraction. The contingency reserve contribution is typically 50% of earned premium and must be held for 10 years. Section Ins 3.09 (12) (C), Wis. Adm. Code, requires mortgage insurers to report changes to the contingency reserve as a reduction to underwriting income, which has the effect of significantly increasing a company's expenses during periods of premium growth. As a relatively newly-formed insurance company, NMIC made significant contributions to its contingency reserve.

Ratio No. 6, "Investment Yield", measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The exceptional results in all five years is due to investment income falling below the 2% threshold for unusual results. This is very common due to the low interest rate environment and is not a concern.

Ratio No. 7, "Gross Change in Surplus", and Ratio No. 8, "Change in Adjusted Surplus", represent the change in policyholders' surplus compared to the prior year. Ratio No. 7 takes operational results and paid-in or transferred capital into account while Ratio No. 8 does not. The exceptional results for both in 2017 are due to a $11 million decline in surplus largely driven by contingency reserve contributions. The exceptional result for No.7 in 2020 is due to a $445 million capital contribution provided by parent company NMIH.

Growth of National Mortgage Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	$2,274,419,210	$1,380,571,109	$893,848,101	$34,975,303
2020	1,928,425,610	1,062,752,327	865,673,283	(20,533,735)
2019	1,177,886,787	756,546,593	421,340,194	14,613,073
2018	942,794,437	539,653,401	403,141,036	(20,362,918)
2017	717,815,260	373,797,585	344,017,675	(36,246,085)
2016	634,838,622	247,801,192	387,037,430	(28,498,269)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	$557,050,057	$408,462,770	$384,152,372	3.2%	83.2%	86.4%
2020	455,172,323	345,733,552	354,178,812	16.7	91.8	108.5
2019	376,052,490	286,132,433	293,442,254	4.2	96.0	100.2
2018	287,790,977	213,157,232	207,514,546	2.6	97.2	99.8
2017	202,585,844	145,058,822	137,126,635	3.8	113.6	117.4
2016	177,962,229	129,819,260	97,277,925	2.3	104.0	106.3

Admitted assets grew 258%, liabilities grew 457%, and surplus grew 131% over the past five years. This growth is due to the company expanding after it began writing mortgage insurance policies in

2013. The company has continued to show significant growth through the examination period. Surplus grew by $445 million in June 2020 through a capital contribution from NMIH.

The company has fluctuated between reporting net losses and net incomes. There were net losses of $37 million and $20 million in 2017 and 2018 respectively, a net income of $15 million in 2019, a net loss of $21 million in 2020, and a net income of $35 million in 2021. The net losses in 2017, 2018, and 2020 were primarily due to mandatory contingency reserve contributions.

The COVID-19 pandemic caused significant impacts to all businesses. In March 2020, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, which provided a mortgage payment forbearance option for all borrowers with a federally backed mortgage who, either directly or indirectly, suffered a financial hardship due to the COVID-19 pandemic. The forbearance is a temporary postponement of required mortgage payments for a period of 12 months (certain borrowers also qualified for an additional six months of forbearance). Two or more missed payments due to this postponement result in the loan being reported to the mortgage insurer as a delinquency. In most cases, resolution of the forbearance will be achieved by the borrower making one payment at the end of their forbearance period. A loan in forbearance does not necessarily mean that there were missed loan payments. As of December 31, 2021, about 76% of defaulted loans were in a COVID-related forbearance program.

In light of the unpredictable economic environment caused by the pandemic and the increased number of mortgages entering an ongoing state of forbearance due to the CARES Act, the company made significantly higher contributions to their reserves. Furthermore, when a mortgage loan has missed one payment the company establishes a reserve for a potential payment, regardless of whether the missed payment was due to a forbearance pertaining to the CARES Act. While the number of loans in forbearance significantly increased, the increase in loans in default was much less significant. As such, the company reported a net income in 2021 and in 2022 has begun releasing redundant loss reserves.

The company saw an increase of 213% in gross premium written, 215% in net premium written, and 295% in premiums earned over the past five years. The combined ratio rose from 106% in 2016 to 117% in 2017, then fluctuated before falling to a low of 86% in 2021. The combined ratio is elevated because of mandatory contributions to the contingency reserve which flow through the income statement. The company has continued to show healthy growth over the examination period as they increased their sales while keeping their expense ratio consistent or lowering it from prior years. In 2021, the loss and LAE ratio increased significantly before returning to normal levels in 2021 because the company increased their reserves amount in 2020 due to the mortgage loans in forbearance and CARES Act issues. Overall, the company has shown consistently strong growth despite an unusual economic environment in 2020 and 2021.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2021, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Identification of Foreign Investments - It is recommended that the company correctly identify foreign investments in Schedule D, Part 1 of the statutory financial statements with the appropriate foreign code specified in the NAIC *Annual Statement Instructions – Property/Casualty*.

   Action—Compliance.

2. Reinsurance Intermediary Agreement - It is recommended that the company secure a contract with its reinsurance intermediary that includes the provisions required by s. Ins 47.03, Wis. Adm. Code.

   Action—Compliance.

3. Fidelity Bond - It is recommended that the company obtain and maintain fidelity bond policy coverage equal to or greater than the recommended fidelity bond amount specified in the NAIC *Financial Condition Examiners Handbook*.

   Action—Compliance.

4. Executive Compensation - It is recommended that the company properly complete the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

   Action—Compliance.

5. Reporting of Non-Investment Grade Bonds - It is recommended that the company report non-investment grade bonds on the asset page in accordance with SSAP No. 26.

   Action—Compliance.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

National Mortgage Insurance Corporation is a direct wholly owned subsidiary NMI Holdings, Inc., its ultimate controlling person. NMIC was incorporated in Wisconsin on June 30, 2009, and was granted its certificate of authority in Wisconsin on October 23, 2009. The company was formed to write mortgage insurance in the wake of the deepest economic and housing price decline in the United States since the Great Depression. It began to write business in April 2013. Private mortgage insurance is a critical component of the residential mortgage finance system in the United States that helps families and individuals achieve homeownership by making low down payment mortgages possible. -Business is actively conducted in all U.S. States and the District of Columbia.

From 2017 to 2021, the company continued its growth and expansion that began with its first policy in April 2013. All metrics, including assets, surplus, and premiums, have increased significantly over the time period. The company continued to grow despite difficulties imposed by COVID-19, such as the CARES Act increasing the number of mortgages in forbearances and requiring the company to increase their reserves. In particular, the company reported record premiums and surplus balances in 2021 while the expense and combined ratios are at their lowest in the past five years. The company is displaying consistent, healthy growth in an unusual market environment.

The current examination resulted in no recommendations. There were no reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2021 statutory financial statements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Caleb Lindert	Insurance Financial Examiner
Michael Miller, CFE	Insurance Financial Examiner
Junji Nartatez	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Diana M. Havitz
Examiner-in-Charge