Report

of the

Examination of

National Mortgage Insurance Corporation

Emeryville, California

As of December 31, 2016

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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February 15, 2018

Honorable Theodore K. Nickel
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 (hereinafter also NMIC or the company) was conducted in 2012 as of June 30, 2012. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 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 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.

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 with respect to the alternative or additional examination steps performed during the course of 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 in order 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 the 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., agreed to acquire from MAC Financial Ltd. all of the outstanding equity interest in MAC Financial Holding Corporation and its three wholly-owned subsidiaries, National Mortgage Insurance Corporation (then known as Mortgage Assurance Corporation), National Mortgage Reinsurance Inc One (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 currently used on January 10, 2012, in anticipation of the acquisition by NMI Holdings, Inc. The plan for this acquisition of control was approved by the OCI on February 20, 2012.

On April 24, 2012, in a transaction perfected on April 26, 2012, NMI Holdings, Inc., 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, NMI Holdings, Inc. closed on its acquisition of MAC Financial Holding Corporation from MAC Financial Ltd. The company received $200,000,000 in cash from NMI Holdings, Inc. on June 29, 2012. The Stipulation and Order in the Matter of Case No. 09-C32499 was rescinded by the 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 2016, the company wrote direct premium in the following states:

California	$24,012,374	13.49%
Michigan	21,512,933	12.09
Virginia	17,275,406	9.71
Texas	8,992,801	5.05
Utah	7,737,197	4.35
All others	98,431,518	55.31
Total	$177,962,229	100.00%

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 home buyer, 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 the Fannie Mae and the 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 2016, approximately 19.4% 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 but is generally written on first mortgage loans secured by owner-occupied one-to-four family houses and condominiums. Single family homes constituted approximately 86% of 2016 NIW with the remainder being condominiums, planned unit developments with homeowners' associations, and two-to-four family units. While primary mortgage insurance is also written on first liens secured by nonowner-occupied houses, often referred to as investor loans, and on vacation or second homes, approximately 97% of the properties the company insures were owner-occupied as of December 31, 2016.

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. In 2016, 65% of the company's new insurance written was borrower paid.

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 2016, the monthly premium plan represented 67% of new insurance written.

As of December 31, 2016, the company's products were marketed through approximately 77 properly licensed full-time marketing employees of the company.

The following table is a summary of the net insurance premiums written by the company in 2016. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Ceded to Affiliates**	**Reinsurance Ceded to Non-Affiliates**	**Net Premium**
Mortgage guaranty	$177,962,229	$(2,409,919)	$50,552,888	$129,819,260
Total All Lines	$177,962,229	$(2,409,919)	$50,552,888	$129,819,260

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five 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.

As of December 31, 2016, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bradley M. Shuster Piedmont, California	Chairman, President, and Chief Executive Officer NMI Holdings, Inc. National Mortgage Insurance Corporation	2018
Glenn M. Farrell (#) Lafayette, California	Executive Vice President and Chief Financial Officer National Mortgage Insurance Corporation	2018
William J. Leatherberry Carmel, California	Executive Vice President and Chief Legal Officer National Mortgage Insurance Corporation	2018
Patrick L. Mathis Alamo, California	Executive Vice President and Chief Risk Officer National Mortgage Insurance Corporation	2018
Claudia J. Merkle Larkspur, California	Executive Vice President and Chief Operating Officer National Mortgage Insurance Corporation	2018

(#) Mr. Farrell was replaced as Director by Adam Pollitzer effective May 2, 2017.

Officers of the Company

The senior officers serving as of December 31, 2016 were as follows:

Officer	Office	2016 Compensation*
Bradley M. Shuster	Chairman, President and Chief Executive Officer	$926,508
William J. Leatherberry	Executive Vice President and Chief Legal Officer	527,597
Glenn M. Farrell (#1)	Executive Vice President and Chief Financial Officer	486,672
Claudia J. Merkle	Executive Vice President and Chief Operating Officer	913,278
Patrick L. Mathis	Executive Vice President and Chief Risk Officer	739,095
Michael J. Dirrane	Senior Managing Director and Chief Sales Officer	1,006,231
Norman P. Fitzgerald	Senior Vice President, Field Sales	1,101,180
Mark N. Daly	Senior Vice President, National Accounts	534,465
Mary L. Sharp	Senior Vice President and Chief Human Resources Officer	430,351
Laura E. Amato	Senior Vice President, Information Technology	420,600
Robert O. Smith	Senior Vice President, Pricing and Portfolio Analytics	412,570
Christopher G. Brunetti	Senior Vice President, General Counsel, and Secretary	341,885
Robert H. Fore III (#2)	Senior Vice President and Controller	272,699

* The “2016 Compensation” reported represents the portion of total gross compensation paid to each individual that has been allocated to, and paid by, the company and includes salary, bonus, long-term incentive plans, and deferred compensation.

(#1) Mr. Farrell was replaced as Executive Vice President and Chief Financial Officer by Adam Pollitzer effective May 2, 2017.

(#2) Mr. Fore was replaced as Senior Vice President and Controller by Julie Norberg effective June 1, 2017.

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. notified the OCI of its election to designate the Audit Committee of NMIH as the Audit Committee for each of National Mortgage Insurance Corporation and National Mortgage Reinsurance Inc One.

IV. AFFILIATED COMPANIES

National Mortgage Insurance Corporation is a member of a holding company system whose ultimate controlling person is NMI Holdings, Inc. (hereinafter NMI Group). NMI Holdings, Inc. is a stock holding company domiciled in Delaware whose common shares are publicly-traded on the NASDAQ Stock Market under the ticker symbol "NMIH". Through its subsidiaries, NMIH provides products and services that protect mortgage investors from credit losses, principally through private mortgage insurance. 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.

Since the prior examination as of June 30, 2012, the holding company structure has been streamlined through two mergers among affiliates with the NMI Group.

MAC Financial Holding Corporation was an intermediate stock holding company organized under the laws of Delaware on July 6, 2009. It functioned only as a holding company for the common stock of the Wisconsin-domiciled insurers, National Mortgage Insurance Corporation and National Mortgage Reinsurance Inc One, and was the acquisition subsidiary whereby NMI Holdings, Inc. acquired from MAC Financial Ltd. all of the outstanding equity interest in MAC Financial Holding Corporation and its three wholly-owned subsidiaries, National Mortgage Insurance Corporation (then known as Mortgage Assurance Corporation), National Mortgage Reinsurance Inc One (then known as Mortgage Assurance Reinsurance Inc One), and National Mortgage Reinsurance Inc Two (then known as Mortgage Assurance Reinsurance Inc Two). Effective September 30, 2013, MAC Financial Holding Corporation merged with and into NMI Holdings, Inc.

National Mortgage Reinsurance Inc Two (hereinafter also NMI Re Two) was incorporated as Mortgage Assurance Reinsurance Inc Two 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 National Mortgage Reinsurance Inc Two on January 10, 2012. It was a wholly-owned subsidiary of National Mortgage Insurance Corporation. NMI Re

Two was organized to provide NMIC with excess of loss reinsurance coverage on primary residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. It was intended that NMI Re Two would reinsure risks written on a direct basis by NMIC in every state and jurisdiction other than California, Illinois, New York, Ohio, and Texas, which at one time did not permit a direct writing insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer: However, NMI Re Two was never activated because the volume of business that NMIC needed to reinsure was insufficient to segregate risks between NMI Re Two and its affiliate, National Mortgage Reinsurance Inc One. Effective September 30, 2013, National Mortgage Reinsurance Inc Two merged with and into National Mortgage Insurance Corporation.

The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the company's affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2016

NMI Holdings, Inc. (Delaware)
- National Mortgage Insurance Corporation (Wisconsin)
- National Mortgage Reinsurance Inc One (Wisconsin)
- NMI Services, Inc. (Delaware)

NMI Holdings, Inc.

NMI Holdings, Inc. 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 NMI Holdings, Inc. trades on the NASDAQ under the ticker symbol "NMIH". As of December 31, 2016, the financial statements of the corporation, prepared in accordance with generally accepted accounting principles, reported assets of $841,737,000, liabilities of $364,388,000, and shareholders' equity of $477,349,000. Operations for the period ended December 31, 2016, produced a net income of $65,841,000.

National Mortgage Reinsurance Inc One

National Mortgage Reinsurance Inc One (hereinafter 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 currently used on January 10, 2012. NMI Re was organized to provide its affiliated insurer, National Mortgage Insurance Corporation (hereinafter also NMIC), with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. As of December 31, 2016, the financial statements of NMI Re, prepared on a statutory accounting basis, reported assets of $36,092,355, liabilities of $9,321,080, and policyholders' surplus of $26,771,275. Operations for the period ended December 31, 2016, produced a net income of $1,845,728.

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, 2016, the financial statements of NMI Services, Inc., prepared in accordance with generally accepted accounting principles, reported assets of $873,273, liabilities of $103,426, and total stockholders' equity of $769,847. Operations for the period ended December 31, 2016, produced a net loss of $341,360.

Agreements with Affiliates

As previously noted, the company has no employees of its own. All day-to-day operations are conducted with staff provided by NMI Holdings, Inc., 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 three written agreements. The reinsurance agreement is described in the reinsurance section of this report. A brief summary of the other two agreements follows.

Cost Allocation Agreement

There is a Cost Allocation Agreement (hereinafter the CAA) dated as of August 1, 2012, by and among NMI Holdings, Inc., MAC Financial Holding Corporation, National Mortgage Insurance Corporation, National Mortgage Reinsurance Inc One, 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. NMI Holdings, Inc., 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 under Wisconsin law.

The Cost Allocation Agreement was amended on January 9, 2013, retroactive to August 1, 2012, such that no costs would be allocated from NMIH to any party until such time as approval was received from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (each a "GSE"). Additionally, the parties agreed that all bonus payments based on GSE approval, as well as bonus payments paid or accrued prior to June 30, 2013 are to be allocated solely to NMIH.

The Cost Allocation Agreement was again amended on December 8, 2015, retroactive to April 29, 2015, to include NMI Services, Inc. It was further agreed that whereas, effective September 30, 2013, MAC Financial Holding Corporation was merged with and into NIMH and National Mortgage Reinsurance Inc Two was merged with and into NMIC, any reference to MAC Financial Holding Corporation or National Mortgage Reinsurance Inc Two in the agreement shall be replaced with references to NMIH or NMIC, respectively.

On March 10, 2017, the 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 certain Credit Agreement, whereby NMIH received a term loan of $150 million from a syndicate of creditors organized by JP Morgan Bank, N.A. on November 10, 2015, as such Credit Agreement was amended effective February 9, 2017. The basis for the 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 OCI approval is subject to the following conditions:

(1) This allocation shall not apply to repayment of principal on any indebtedness of NMIH, whether or not such indebtedness was incurred on behalf of National Mortgage Insurance Corporation.

(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

There is a Tax Sharing Agreement effective as of August 23, 2012, by and among NMI Holdings, Inc., MAC Financial Holding Corporation, National Mortgage Insurance Corporation, National Mortgage Reinsurance Inc One, 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 NMI Holdings, Inc., as the direct tax payer. 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 NMI Holdings, Inc., 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 NMI Holding, Inc.'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 under Wisconsin law.

The Tax Sharing Agreement was amended on December 8, 2015, retroactive to April 29, 2015, to include NMI Services, Inc. It was further agreed that whereas, effective September 30, 2013, MAC Financial Holding Corporation was merged with and into NIMH and National Mortgage Reinsurance Inc Two was merged with and into NMIC, any reference to MAC Financial Holding Corporation or National Mortgage Reinsurance Inc Two in the agreement shall be replaced with references to NMIH or NMIC, respectively.

The Tax Sharing Agreement was amended again effective September 1, 2016, to include state income tax returns that are required to be filed by NMIH. It was further agreed that NMIH shall pay each party for such party's losses or tax credits that NMIH reasonably anticipates that it will be able to use in the current or future income tax returns.

V. REINSURANCE

National Mortgage Insurance Corporation's reinsurance portfolio encompasses four treaties: (1) a quota share reinsurance agreement with a panel of non-affiliated reinsurers; (2) a mortgage-linked note program with Oaktown Re, Ltd., a Bermuda special purpose captive reinsurer; (3) a primary excess share reinsurance agreement with affiliate, National Mortgage Reinsurance Inc One; and (4) a facultative pool reinsurance agreement with affiliate, National Mortgage Reinsurance Inc One. The quota share reinsurance agreement allowed the company to significantly reduce risk ceded to its affiliate NMI Re under the primary excess share reinsurance agreement and to completely suspend its cessions to NMI Re under the facultative pool reinsurance agreement. The company's reinsurance contracts contained proper insolvency provisions. A description of the company's reinsurance contracts that comprise the reinsurance portfolio can be summarized as follows:

Nonaffiliated Ceding Contracts

1.	Type:	Quota Share Reinsurance	
	Reinsurers:	Renaissance Reinsurance Ltd.	30.0%
		Greenlight Reinsurance Limited	18.0%
		Third Point Reinsurance Company Ltd.	17.5%
		Harco National Ins. Co. with cut-through to IAT Reinsurance Company Ltd.	17.0%
		Everest Reinsurance Company	5.0%
		AXIS Reinsurance Company	5.0%
		Hamilton Re, Ltd.	5.0%
		Aspen Insurance UK Limited	2.5%
		Total	100.0%
	Scope:	Approximately $5.3 billion of risk in force at September 1, 2016, which met certain eligibility criteria, plus new business written from September 1, 2016 through December 31, 2017 that meets certain eligibility criteria	
	Retention:	75% of losses and loss adjustment expenses under policies and certificates of insurance within the scope of this contract and 100% of any extra contractual obligations and losses in excess of policy limits In addition, for each default year, the company shall retain 100% of losses and loss adjustment expenses in excess of either a 225% default year loss ratio for that default year or a 150% aggregate (i.e., all default years combined) loss ratio cap.	

Coverage:	25% of losses and loss adjustment expenses under policies and certificates of insurance within the scope of this contract If, at the end of any Accounting Period, the aggregate loss ratio on covered policies and certificates of insurance exceeds either a 225% loss ratio for any default year or a 150% aggregate loss ratio, then the Reinsurers' obligation with respect to such losses shall be suspended until such time as the default loss ratio for the applicable default year or the aggregate loss ratio falls below the 225% default year loss ratio cap or the 150% aggregate loss ratio cap. The company shall continue to remit reinsurance premium to the Reinsurers during any suspension period. Accounting Period means the period from September 1, 2016 through 11:59 p.m., Pacific Standard Time, December 31, 2016, and each subsequent twelve-month period thereafter, except that if the Termination Time does not fall on December 31st, then the final Accounting Period shall be the period ending on the date upon which the Termination Time falls.
Premium:	25% of net premiums written on covered policies and certificates of insurance
Ceding Commission:	20% of ceded net written premium
Profit Commission:	100% of ceded premium earned, net of ceded losses and loss adjustment expenses incurred, ceding commission earned, and a reinsurer margin of 20% of net premiums earned
Effective date:	September 1, 2016
Termination:	The contract applies to all earned premium on, and to all losses incurred under, covered policies until 11:59 p.m. (Pacific Standard Time) on December 31, 2027. For the portfolio of loans insured under a certain pool insurance policy with the Federal National Mortgage Association, effective September 1, 2013 with a maturity date of August 31, 2023, coverage will terminate on the pool policy's maturity date. The company may, subject to certain restrictions related to being current on payments due the Reinsurers, terminate this contract on December 31, 2020, or at the end of any calendar quarter thereafter, with a termination fee ranging between $4,900,000 (if terminated in 2020) and $792,000 (if terminated in to $4,900,000, depending on the date of the early termination. The company may terminate this contract on either a runoff or a cutoff basis and without penalty with 10 days' written notice in the event that the company is unable to realize full financial statement credit, full credit under applicable regulatory capital requirements, or the full credit amount for reinsurance ceded under the GSEs' Private Mortgage Insurer Eligibility Requirements or upon the occurrence of certain events suggestive of financial distress on the part of a Reinsurer. Any Reinsurer may terminate on a runoff basis with 30 days' written notice if, at any time prior to December 31, 2017, the

company is placed under the supervision of the OCI, is otherwise restricted by order of the OCI in its ability to insure new loans or to cede new business under this contract, or voluntarily ceases insuring new loans in all jurisdictions.

2.	Type:	Excess of Loss Reinsurance supported by Mortgage Insurance-Linked Notes
	Reinsurer:	Oaktown Re, Ltd., a special purpose insurer domiciled in Bermuda
	Scope:	Eligible policies issued by the company from January 1, 2013 to December 31, 2016
	Retention:	$126,792,589.11
	Coverage:	Losses under eligible policies issued from January 1, 2013 to December 31, 2016 of up to $211,320,000 in excess of the company's retention, divided into three tranches in reverse order of seniority: Class B-1, $14,088,000; Class M-2, $98,616,000; and Class M-1, $98,616,000. Any extra-contractual obligations, losses in excess of policy limits, and gratuitous payments are excluded from coverage.
	Premium:	Reinsurance premium consists of an Initial Expense Premium, annual Supplemental Premiums, and Coverage Level Premiums. The Initial Expense Premium is the amount of expenses incurred by the Reinsurer in connection with the issuance of the Mortgage Insurance-Linked Notes and the anticipated operating expenses payable by the Reinsurer to third parties during the twelve months following the May 2, 2017 closing date, including the management company, the corporate service provider, the indenture trustee, the paying agent, the note registrar, the account bank, the reinsurance trustee, and any other service providers. The annual Supplemental Premiums is payable on or about each anniversary of the closing date in an amount equal to the operational expenses incurred or expected to be incurred during the following twelve months for all third party service providers. The Coverage Level Premiums are equal to the amount of interest owed monthly in arrears at a per annum floating rate of one-month LIBOR plus a spread of 575 basis points for Class B-1, 400 basis points for Class M-2, and 225 basis points for Class M-1. For each interest accrual period after April 2023, the spread shall be 862.5 basis points for Class B-1, 600 basis points for Class M-2, and 337.5 basis points for Class M-1.
	Commissions:	None
	Effective date:	February 28, 2017
	Termination:	April 30, 2027

Other: The non-affiliated quota share reinsurance contract effective September 1, 2016 does not inure to the benefit of the Reinsurer under this contract.

Affiliated Ceding Contracts

1. Type: Primary Excess Share Reinsurance Agreement

   Reinsurer: National Mortgage Reinsurance Inc One

   Scope: All mortgage guaranty insurance policies issued by NMIC that provide coverage greater than 25% of the indebtedness under the insured loan

   Coverage, retention: and premium:

Certificates covered by External Quota Share

Policy Coverage	NMIC Retention	NMI Re Coverage	NMI Re QS Ceded Premium Rate	NMI Re XOL Ceded Premium Rate
26%	19.50%	0.00%	0.00%	0.00%
27%	20.25%	0.00%	0.00%	0.00%
28%	21.00%	0.00%	0.00%	0.00%
29%	21.75%	0.00%	0.00%	0.00%
30%	22.50%	0.00%	0.00%	0.00%
31%	23.25%	0.00%	0.00%	0.00%
32%	24.00%	0.00%	0.00%	0.00%
33%	24.75%	0.00%	0.00%	0.00%
34%	25.50%	0.50%	1.47%	1.36%
35%	26.25%	1.25%	3.57%	3.30%
36%	27.00%	2.00%	5.56%	5.13%
37%	27.75%	2.75%	7.43%	6.86%
38%	28.50%	3.50%	9.21%	8.50%
39%	29.25%	4.25%	10.90%	10.06%
40%	30.00%	5.00%	12.50%	11.54%
41%	30.75%	5.75%	14.02%	12.95%
42%	31.50%	6.50%	15.48%	14.29%
43%	32.25%	7.25%	16.86%	15.56%
44%	33.00%	8.00%	18.18%	16.78%
45%	33.75%	8.75%	19.44%	17.95%
46%	34.50%	9.50%	20.65%	19.06%
47%	35.25%	10.25%	21.81%	20.13%
48%	36.00%	11.00%	22.92%	21.15%
49%	36.75%	11.75%	23.98%	22.14%
50%	37.50%	12.50%	25.00%	23.08%

Certificates not covered by External Quota Share

Policy Coverage	NMIC Retention	NMI Re Coverage	NMI Re Ceded Premium Rate
26%	25.00%	1.00%	3.85%
27%	25.00%	2.00%	7.41%
28%	25.00%	3.00%	10.71%
29%	25.00%	4.00%	13.79%
30%	25.00%	5.00%	16.67%
31%	25.00%	6.00%	19.35%
32%	25.00%	7.00%	21.88%

Certificates not covered by External Quota Share

Policy Coverage	NMIC Retention	NMI Re Coverage	NMI Re Ceded Premium Rate
33%	25.00%	8.00%	24.24%
34%	25.00%	9.00%	26.47%
35%	25.00%	10.00%	28.57%
36%	25.00%	11.00%	30.56%
37%	25.00%	12.00%	32.43%
38%	25.00%	13.00%	34.21%
39%	25.00%	14.00%	35.90%
40%	25.00%	15.00%	37.50%
41%	25.00%	16.00%	39.02%
42%	25.00%	17.00%	40.48%
43%	25.00%	18.00%	41.86%
44%	25.00%	19.00%	43.18%
45%	25.00%	20.00%	44.44%
46%	25.00%	21.00%	45.65%
47%	25.00%	22.00%	46.81%
48%	25.00%	23.00%	47.92%
49%	25.00%	24.00%	48.98%
50%	25.00%	25.00%	50.00%

The XOL Reinsurance Ceded Premium Rate applies to all quota share certificates that are reinsured under that certain May 2, 2017 Excess of Loss Reinsurance Agreement between NMIC and Oaktown Re, Ltd. This includes all quota share certificates that insure loans that were incepted prior to January 1, 2017 and were in-force, and not in default, as of February 28, 2017.

Ceding commissions: NMIC shall receive an 18% ceding commission

Effective date: August 1, 2012

Termination: Either party may terminate this agreement as respects new business by providing not less than 90 days' advance written notice to the other. Either party may terminate this agreement by providing 30 days' notice to the other in the event of an uncured material breach. NMIC may terminate this agreement in the event that NMI Re should at any time become insolvent, suffer a material impairment of capital, or suffer certain other evidences of financial distress.

The liabilities of the parties will continue until the final expiration of all policies reinsured hereunder, unless the parties mutually agree to commutate. If the parties agree to commutate on a cut-off basis, the commutation fee shall, at a minimum reflect the following factors: (i) outstanding loss and loss adjustment expense reserves and unearned premium reserves to be reassumed; (ii) the present value of reinsurance premiums, less ceding commissions, that the reinsurer will no longer receive after cut-off, and (iii) the cost that NMIC would incur to reestablish contingency reserves in respect of the reassumed business.

Other:	Effective September 1, 2016, NMIC entered into a quota share reinsurance agreement with a panel of non-affiliated reinsurers, under which NMIC ceded 25% of the risk on most of its primary insured loans, together with 25% of the risk on most loans insured on or after September 1, 2016 through December 1, 2017. As a result, the risk ceded to NMI Re under this contract was eliminated altogether for loans with coverage levels of less than 34% of the initial unpaid principal balance or significantly reduced for loans with coverage levels of 34% or more of the initial unpaid principal balance.

2. Type: Facultative Pool Reinsurance Agreement

Reinsurer:	National Mortgage Reinsurance Inc One
Scope:	Each Reference Policy reinsured pursuant to a Reinsurance Memorandum
Coverage and retention:	As provided by the applicable Reinsurance Memorandum. Under the only Reinsurance Memorandum yet issued under this reinsurance contract, NMIC retained the first portion of risk under each covered loan in the amount of up to 25% of the initial principal balance, while NMI Re assumed any risk in excess of NMIC's retention.
Premium:	As provided by the applicable Reinsurance Memorandum. Under the only Reinsurance Memorandum yet issued under this reinsurance contract, NMI Re received 6% of the subject premium.
Ceding commissions:	As provided by the applicable Reinsurance Memorandum. Under the only Reinsurance Memorandum yet issued under this reinsurance contract, NMIC received an 18% ceding commission.
Effective date:	September 1, 2013
Termination:	Either party may terminate this agreement as respects new business by providing not less than 30 days' advance written notice to the other. Either party may terminate this agreement by providing 30 days' notice to the other in the event of an uncured material breach. NMIC may terminate this agreement in the event that NMI Re should at any time become insolvent, suffer a material impairment of capital, or suffer certain other evidences of financial distress. The liabilities of the parties will continue until the final expiration of all policies reinsured hereunder, unless the parties mutually agree to commutate. If the parties agree to commutate on a cutoff basis, the commutation fee shall, at a minimum reflect the following factors: (i) outstanding loss and loss adjustment expense reserves and unearned premium reserves to be reassumed; (ii) the present value of reinsurance premiums, less ceding commissions, that the reinsurer will no longer receive after cut-off, and (iii) the cost that NMIC would incur to

reestablish contingency reserves in respect of the reassumed business.

Other:	Under the only Reinsurance Memorandum yet issued under this reinsurance contract, NMI Re reinsured NMIC with respect to a pool policy issued to the Federal National Mortgage Association effective September 1, 2013. Effective September 1, 2016, NMIC ceded 100% of its risk under this pool policy to a panel of non-affiliated reinsurers under the terms of a quota share reinsurance agreement. If this quota share reinsurance agreement were to be terminated prior to September 1, 2023, coverage under the Reinsurance Memorandum will automatically be reactivated. This reinsurance contract is available to provide reinsurance coverage, if necessary, under any future pool policy that NMIC might enter into.

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, 2016, 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, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$507,702,041	$	$507,702,041
Cash, cash equivalents, and short-term investments	59,552,824		59,552,824
Investment income due and accrued	3,105,467		3,105,467
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	13,728,370	7,681	13,720,689
Net deferred tax asset	58,860,461	8,102,860	50,757,600
Receivable from parent, subsidiaries, and affiliates	2,107,250	2,107,250	
Total Assets	$645,056,413	$10,217,791	$634,838,622

National Mortgage Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$ 2,421,360
Loss adjustment expenses		58,563
Other expenses (excluding taxes, licenses, and fees)		50,684
Taxes, licenses, and fees (excluding federal and foreign income taxes)		189,417
Unearned premiums		114,713,335
Advance premium		863
Ceded reinsurance premiums payable (net of ceding commissions)		1,949,290
Funds held by company under reinsurance treaties		30,633,127
Payable to parent, subsidiaries, and affiliates		9,094,369
Write-ins for liabilities:		
Statutory contingency reserve		83,858,717
Deferred ceding commission		4,831,467
Total Liabilities		247,801,192
Common capital stock	$ 2,530,000	
Gross paid in and contributed surplus	494,573,352	
Unassigned funds (surplus)	(110,065,922)	
Surplus as Regards Policyholders		387,037,430
Total Liabilities and Surplus		$634,838,622

National Mortgage Insurance Corporation
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$ 97,277,925
Deductions:		
Losses incurred	$ 2,145,242	
Loss adjustment expenses incurred	63,799	
Other underwriting expenses incurred	79,998,275	
Write-ins for underwriting deductions:		
Statutory contingency reserve	54,954,900	
Total underwriting deductions		137,162,216
Net underwriting gain (loss)		(39,884,291)
Investment Income		
Net investment income earned	12,357,458	
Net realized capital gains (losses)	(224,523)	
Net investment gain (loss)		12,132,935
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(27,751,356)
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(27,751,356)
Federal and foreign income taxes incurred		746,913
Net Loss		$(28,498,269)

National Mortgage Insurance Corporation
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$122,033,275
Net investment income			12,844,987
Total			134,878,262
Benefit- and loss-related payments		$333,123	
Commissions, expenses paid, and aggregate write-ins for deductions		125,831,484	
Federal and foreign income taxes paid (recovered)		618,857	
Total deductions			126,783,464
Net cash from operations			8,094,798
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 71,951,253		
Miscellaneous proceeds	31,912		
Total investment proceeds		71,983,165	
Cost of investments acquired (long-term only):			
Bonds	136,289,626		
Total investments acquired		136,289,626	
Net cash from investments			(64,306,461)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		80,546,402	
Net cash from financing and miscellaneous sources			80,546,402
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			24,334,739
Cash, cash equivalents, and short-term investments:			
Beginning of year			35,218,085
End of Year			$ 59,552,824

National Mortgage Insurance Corporation
Policyholder Position Calculation
December 31, 2016

Surplus as regards policyholders		$387,037,430	
Contingency reserve		83,858,717	
Loss reserves on specified loans		2,636	
Total policyholders position			$470,898,783
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$223,011,216		
Total individual loans		223,011,216	
Total minimum policyholders position			223,011,216
Excess of total policyholders position over minimum policyholders position			$247,887,567

National Mortgage Insurance Corporation
Analysis of Surplus
For the Period from June 30, 2012 to December 31, 2016

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

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	06/30/2012
Surplus, beginning of year	$366,890,055	$223,118,299	$180,309,875	$210,003,693	$210,000,000
Net income	(28,498,269)	(50,306,596)	(47,191,257)	(32,694,709)	3,586
Change in net unrealized capital gains/losses					107
Change in net deferred income tax	58,860,461				
Change in non-admitted assets	(10,214,817)	(2,655)	(319)	3,000,891	
Surplus adjustments:					
Paid in		194,081,007	90,000,000	(5,626,415)	
Write-ins for gains and (losses) in surplus:					
Quasi-reorganization of net loss cumulative and prior to acquisition by NMI Holdings, Inc.	_			5,626,415	
Surplus, End of Year	$387,037,430	$366,890,055	$223,118,299	$180,309,875	$210,003,693

National Mortgage Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. The company's IRIS results prior to 2013 are not meaningful because the company only commenced the writing of business in 2013. Unusual IRIS results are denoted with asterisks and discussed following the table.

	Ratio	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	46%	31%	15%	2%	N/A
#2	Net Premium to Surplus	34%	28%	14%	2%	N/A
#3	Change in Net Premiums Written	25%	232%*	846%*	999%*	N/A
#4	Surplus Aid to Surplus	2%	0%	0%	0%	N/A
#5	Two-Year Overall Operating Ratio	89%	106%*	255%*	1,009%*	N/A
#6	Investment Yield	2.4%*	1.2%*	1.1%*	1.0%*	N/A
#7	Gross Change in Surplus	5%	64%*	24%	(14)%*	N/A
#8	Change in Adjusted Surplus	5%	(23)%*	(26)%*	(11)%*	N/A
#9	Liabilities to Liquid Assets	43%	25%	15%	7%	N/A
#10	Agents' Balances to Surplus	4%	1%	0%	0%	N/A
#11	One-Year Reserve Development to Surplus	0%	0%	0%	0%	N/A
#12	Two-Year Reserve Development to Surplus	0%	0%	0%	0%	N/A

	Ratio	2016	2015	2014	2013	2012
#13	Estimated Current Reserve Deficiency to Surplus	0%	0%	0%	0%	N/A

The exceptional results for Ratio No. 3, “Change in Net Premiums Written”, for 2013 through 2015 inclusive were due to premium growth from a base of zero when the company first began writing business in April 2013.

Ratio No. 5, “Two-Year Overall Operating Ratio,” measures the company’s profitability over the previous two-year period and was exceptional from 2013 to 2015 inclusive. The exceptional ratios were due to the large net losses of those years, which were due to growth in the company’s allocated share of the expense of hiring new employees and expanding operations and sales activities. For mortgage insurers, it is necessary to build the operational capacity, including an IT platform, to underwrite and service new business before the business is transacted. Expenses were also driven by contributions to the statutory contingency reserve. Wisconsin law provides that changes in the contingency reserve run through the income statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC’s Statement of Statutory Accounting Principles No. 58, paragraph 22.

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 and was considered exceptional from 2013 to 2016 inclusive. The exceptional ratios can be attributed to a conservative investment approach and the prolonged low interest rate environment in the United States during the period under examination. In 2014 and 2015, the results were further exacerbated by the company’s receipt of material surplus contributions from its parent in those years, because the company did not have the full calendar year to invest such surplus contributions.

Ratio No. 7, “Gross Change in Surplus,” was exceptional in 2013 due to expenses and statutory contingency reserve contributions associated with the commencement of writing business and in 2015 due to the receipt of paid-in surplus adjustments in that year totaling $194,081,007.

Ratio No. 8, “Change in Adjusted Surplus”, is intended to measure the improvement or deterioration in an insurer’s financial condition during the year based on operational results. Changes in surplus notes, capital changes, and surplus adjustments are removed from the calculation in order to highlight the results of the insurer’s operations. The exceptional results for 2013 through 2015 inclusive reflects the large net losses of those years, which were due to growth in the company’s allocated share of the expense of hiring new employees and expanding operations and sales activities. For mortgage insurers, it is necessary to build the operational capacity, including an IT platform, to underwrite and service new business before the business is acquired. Expenses were also driven by contributions to the statutory contingency reserve. Wisconsin law provides that changes in the contingency reserve run through the income statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC’s Statement of Statutory Accounting Principles No. 58, paragraph 22.

Growth of National Mortgage Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$634,838,622	$247,801,192	$387,037,430	$(28,498,269)
2015	487,699,415	120,809,360	366,890,055	(50,306,596)
2014	261,907,635	38,789,337	223,118,299	(47,191,257)
2013	194,180,118	13,870,243	180,309,875	(32,694,709)
2012	210,003,693	0	210,003,693	(17,868)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$177,962,229	$129,819,260	$97,277,925	2.3%	104.0%	106.3%
2015	114,210,694	103,907,204	41,918,096	1.4%	93.0%	94.4%
2014	34,028,777	31,254,422	12,409,381	0.6%	199.1%	199.7%
2013	3,541,228	3,302,872	1,965,021	0.0%	1,108.4%	1,108.4%
2012	0	0	0	0.0%	0.0%	0.0%

From 2009 until April 2013, the company was in an extended start-up phase, during which it raised capital, developed an information technology platform necessary to interface with mortgage originators and servicers, obtained certificates of authority from most U.S. states and the District of Columbia, secured authorizations as an eligible mortgage insurer from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and hired employees. It began writing business in April 2013. Since it is necessary to build the capacity to underwrite and service new business by hiring new employees and expanding operations and sales activities before the business is acquired, the company has experienced net losses on a statutory accounting basis since it began writing business. While under generally accepted accounting principles, the company passed its break-even point and achieved profitability in 2016, it is expected that it will take a number of additional years before the company achieves critical mass under statutory accounting principles. The company has adhered to a conservative investment strategy and has been affected by the extended period of low interest rates in the United States.

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, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Identification of Foreign Investments

The review of the company's reporting of investments in the statutory financial statements indicated that several foreign investments were not appropriately coded in accordance with the NAIC Annual Statement Instructions – Property/Casualty. 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.

Reinsurance Intermediary Agreement

The company uses a reinsurance intermediary to procure reinsurance. The examination review disclosed that the company does not have a written agreement with the reinsurance intermediary. 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.

Fidelity Bond

The review of the company's fidelity bond policy coverage disclosed that the fidelity bond amount is less than the recommended fidelity bond amount specified in the NAIC Financial Condition Examiners Handbook. 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.

Executive Compensation

The company filed its Report on Executive Compensation (Form OCI 22-060) as required by ss. 601.42 and 611.63(4), Wis. Stat. The review of the company's Report on Executive Compensation disclosed that the company does not include the company paid portion of the cost of employer sponsored healthcare coverage. 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.

Reporting of Non-Investment Grade Bonds

The company has investments in both investment grade bonds and non-investment grade bonds. The review of the company's reporting of non-investment grade bonds disclosed that the company is not reporting bonds on the asset page of the statutory financial statements in accordance with Statements of Statutory Accounting Principles (hereinafter SSAP) No. 26. According to SSAP No. 26, entities that do not maintain an Asset Valuation Reserve are required to report non-investment grade bonds (NAIC designations 3 to 6) at the lower of amortized cost or fair value. The company is invested in one non-investment grade bond which reported fair value less than amortized cost as of December 31, 2016. The amount reported as invested in bonds on the asset page was equal to the total amortized cost of bonds as of December 31, 2016. The difference in reported amount of bonds on the asset page is approximately $38,927, which is well below the materiality established for this examination. It is recommended that the company report non-investment grade bonds on the asset page in accordance with SSAP No. 26.

Settlement of Litigation

At the time of the prior examination as of June 30, 2012, which was an organizational examination of the company, there was pending in the Superior Court of the State of California, County of Alameda, a lawsuit filed on August 8, 2012, styled <u>Germaine L. Marks, as Receiver and Truitte D. Todd, as Special Deputy Receiver, of PMI Mortgage Insurance Co., an Arizona insurance company in rehabilitation as Plaintiffs v. NMI Holdings, Inc., a Delaware corporation; National Mortgage Insurance Corporation, a Wisconsin insurance company; Peter C. Pannes, an</u>

individual; James McCourt, an individual; Maria Scime, an individual; Does 1 – 10, as Defendants. The Complaint alleged:

1. Breach of Fiduciary Duty;
2. Breach of Duty of Loyalty;
3. Aiding and Abetting Breach of Fiduciary Duty;
4. Aiding and Abetting Breach of Loyalty;
5. Misappropriation of Trade Secrets;
6. Conversion;
7. Breach of Proprietary Information Agreement;
8. Breach of Separation Agreement;
9. Intentional Interference with Contractual Relations;
10. Unfair Competition; and
11. Conspiracy.

Pursuant to the terms of an Asset Purchase Agreement, dated February 7, 2013, between Arch U.S. MI Services, Inc. (hereinafter Arch MI) and PMI Mortgage Insurance co., in Rehabilitation (hereinafter PMI), PMI transferred and assigned to Arch MI all causes of action pursued in the Complaint. Effective July 1, 2014, NMI Holdings, Inc. entered into a settlement agreement with Arch MI, Germaine J. Marks and Truitte D. Todd, in their capacities as, respectively, Receiver and Special Deputy Receiver of PMI to settle the Complaint. Pursuant to the terms of the settlement agreement, NMIH and its insurance carriers made a settlement payment in favor of Arch MI in an amount that NMIH did not consider material and Arch MI released the defendants from all claims alleged in the Complaint.

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.

As of December 31, 2016, the company reported assets of $634,838,622, liabilities of $247,801,192, and policyholders' surplus of $387,037,430. Operations for 2016 produced a net loss of $28,498,269. Policyholders' surplus has increased from $210,000,000 as of June 30, 2012 to $387,037,430 as of year-end 2016. This represents an increase of 84.3% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from June 30, 2012, when policyholders' surplus was last verified by examination, to December 31, 2016:

Policyholders' surplus, June 30, 2012	$210,000,000
Paid-in surplus adjustments	278,454,592
Net income	(158,687,245)
Change in net deferred income tax	58,860,461
Change in non-admitted assets	(7,216,900)
Quasi-reorganization of net loss cumulative and prior to acquisition by NMI Holdings, Inc.	5,626,415
Change in net unrealized capital gains/(losses)	107
Policyholders' Surplus, December 31, 2016	$387,037,430

From 2009 until April 2013, the company was in an extended start-up phase, during which it raised capital, developed an information technology platform necessary to interface with mortgage originators and servicers, obtained certificates of authority from most U.S. states and the District of Columbia, secured authorizations as an eligible mortgage insurer from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and hired employees. It began writing business in April 2013. Since it is necessary to build the operational capacity to underwrite and service new business by hiring new employees, building an IT platform and expanding operations and sales activities before the business is acquired, the company has experienced net losses on a statutory accounting basis since it began writing business. While under generally accepted accounting principles, the company passed its break-even point and achieved profitability, it is expected that it will take a number of additional years before the company achieves critical mass under statutory accounting principles. The company has adhered to a conservative investment strategy and has been affected by the extended period of low interest rates in the United States. Underwriting losses under statutory accounting principles have been exacerbated by the fact that Wisconsin law provides that changes in the contingency reserve run through the income statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC's Statement of Statutory Accounting Principles No. 58, paragraph 22.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 31 - 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.

2. Page 31 - 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.

3. Page 31 - 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.

4. Page 32 - 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.

5. Page 32 - 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.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company 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**
Jerry C. DeArmond, CFE	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Terry Lorenz	Insurance Financial Examiner – Senior
Karl K. Albert, CFE	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Eleanor Lu	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Thomas Hilger	Insurance Financial Examiner

Respectfully submitted,

Adrian A. Jaramillo
Examiner-in-Charge