

Report
of the
Examination of
National Mortgage Reinsurance Inc One
Emeryville, California
As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 15, 2018

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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 REINSURANCE INC ONE
Emeryville, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Mortgage Reinsurance Inc One (hereinafter also NMI Re 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 Reinsurance Inc One 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. The company’s ultimate controlling person and immediate parent is NMI Holdings, Inc. Effective September 30, 2013, its affiliate, National Mortgage Reinsurance Inc Two merged with and into the company.

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. The company derives all of its written business from its assumption of risks written by NMIC and does not cede any reinsurance. The regulatory limits on coverage have been repealed in all states other than Ohio, but Ohio applies this requirement on an extra-territorial basis. In September 2016, NMIC entered into a third-party quota-share reinsurance agreement with a panel of highly-rated reinsurers. Due to this treaty, risk that NMIC needed to cede to NMI Re was significantly reduced. Accordingly, the reinsurance treaties between NMIC and NMI Re were amended and a large portion of the previously ceded unearned premium was reassumed from NMI Re by NMIC.

NMI Re does not have any employees, and all of its business operations are performed by its ultimate controlling parent NMI Holdings, Inc. (hereinafter also NMIH) pursuant to an intercompany cost allocation agreement. Further discussion of the holding company system led by NMIH, description of NMI Re’s significant affiliates, and description of the company’s intercompany agreements are included in the section of this report captioned “Affiliated Companies.”

The company is currently licensed only in Wisconsin and California. At this time, it is not anticipated that the company will seek licensure in any other states.

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 Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	<u>\$0</u>	<u>\$(2,409,919)</u>	<u>\$0</u>	<u>\$(2,409,919)</u>
Total All Lines	<u>\$0</u>	<u>\$(2,409,919)</u>	<u>\$0</u>	<u>\$(2,409,919)</u>

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	\$ 0
William J. Leatherberry	Executive Vice President and Chief Legal Officer	13,162
Glenn M. Farrell (#1)	Executive Vice President and Chief Financial Officer	17,762
Claudia J. Merkle	Executive Vice President and Chief Operating Officer	0
Patrick L. Mathis	Executive Vice President and Chief Risk Officer	19,357
Michael J. Dirrane	Senior Managing Director and Chief Sales Officer	0
Norman P. Fitzgerald	Senior Vice President, Field Sales	0
Mark N. Daly	Senior Vice President, National Accounts	0
Mary L. Sharp	Senior Vice President and Chief Human Resources Officer	0
Laura E. Amato	Senior Vice President, Information Technology	11,016
Robert O. Smith	Senior Vice President, Pricing and Portfolio Analytics	10,805
Christopher G. Brunetti	Senior Vice President, General Counsel, and Secretary	8,506
Robert H. Fore III (#2)	Senior Vice President and Controller	9,953

* 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 Reinsurance Inc One is a member of a holding company system under the ultimate control of NMI Holdings, Inc. (hereinafter also 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 Insurance Corporation

National Mortgage Insurance Corporation was incorporated in Wisconsin under the name Mortgage Assurance Corporation on June 30, 2009, and it received its Wisconsin

certificate of authority on October 23, 2009. The name of the corporation was changed to that presently used on January 10, 2012. NMIC provides primary mortgage guaranty insurance on residential mortgage loans in all U.S. states and the District of Columbia. It began writing this business in April 2013. As of December 31, 2016, the financial statements of NMIC, prepared on a statutory accounting basis, reported assets of \$634,838,622, liabilities of \$247,801,192, and policyholders' surplus of \$387,037,430. Operations for the period ended December 31, 2016, produced a net loss of \$28,498,269.

NMI Services, Inc.

NMI Services, Inc. was incorporated in Delaware on 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 policyholders' surplus 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, NMI Re'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 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. 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.

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

The company's reinsurance program is described below. The company has two reinsurance contracts in force, both affiliated assuming contracts with NMIC. The contracts contain proper insolvency provisions.

Affiliated Assuming Contracts

1. Type: Primary Excess Share Reinsurance Agreement
- Reinsured: National Mortgage Insurance Corporation
- 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%

Certificates not covered by External Quota Share

Policy Coverage	NMIC Retention	NMI Re Coverage	NMI Re Ceded Premium Rate
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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%
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 commute. If the parties agree to commute 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 cutoff, 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

Reinsured: National Mortgage Insurance Corporation

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 commute. If the parties agree to commute 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:

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 Reinsurance Inc One
Assets
As of December 31, 2016**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$35,332,404	\$	\$35,332,404
Cash, cash equivalents, and short-term investments	581,347		581,347
Investment income due and accrued	165,100		165,100
Net deferred tax asset	<u>2,316,804</u>	<u>2,303,300</u>	<u>13,504</u>
Total Assets	<u>\$38,395,655</u>	<u>\$2,303,300</u>	<u>\$36,092,355</u>

**National Mortgage Reinsurance Inc One
Liabilities, Surplus, and Other Funds
As of December 31, 2016**

Losses		\$ 219,941
Loss adjustment expenses		4,496
Unearned premiums		271,098
Payable to parent, subsidiaries, and affiliates		2,205,684
Write-ins for liabilities:		
Statutory contingency reserve		<u>6,619,861</u>
Total Liabilities		9,321,080
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	24,429,464	
Unassigned funds (surplus)	<u>(1,158,189)</u>	
Surplus as Regards Policyholders		<u>26,771,275</u>
Total Liabilities and Surplus		<u>\$36,092,355</u>

**National Mortgage Reinsurance Inc One
Summary of Operations
For the Year 2016**

Underwriting Income		
Premiums earned		\$5,919,893
Deductions:		
Losses incurred	\$ 177,449	
Loss adjustment expenses incurred	5,422	
Other underwriting expenses incurred	(52,597)	
Write-ins for underwriting deductions:		
Statutory contingency reserve contributions	<u>2,959,946</u>	
Total underwriting deductions		<u>3,090,220</u>
Net underwriting gain (loss)		2,829,673
Investment Income		
Net investment income earned	678,357	
Net realized capital gains (losses)	<u>12,349</u>	
Net investment gain (loss)		690,706
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		
		3,520,379
Dividends to policyholders		<u>0</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		
		3,520,379
Federal and foreign income taxes incurred		<u>1,674,651</u>
Net Income		<u>\$1,845,728</u>

National Mortgage Reinsurance Inc One
Cash Flow
For the Year 2016

Premiums collected net of reinsurance		\$(1,255,074)
Net investment income		<u>624,898</u>
Total		(630,176)
Benefit- and loss-related payments	\$ 27,281	
Commissions, expenses paid, and aggregate write-ins for deductions	2,908,275	
Federal and foreign income taxes paid (recovered)	<u>1,668,817</u>	
Total deductions		<u>4,604,373</u>
Net cash from operations		(5,234,549)
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$2,579,484</u>	
Total investment proceeds	2,579,484	
Cost of investments acquired (long-term only):		
Bonds	6,778,219	
Miscellaneous applications	<u>3,210,331</u>	
Total investments acquired	<u>9,988,550</u>	
Net cash from investments		(7,409,066)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>4,717,055</u>	
Net cash from financing and miscellaneous sources		<u>4,717,055</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(7,926,560)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>8,507,907</u>
End of Year		<u>\$ 581,347</u>

**National Mortgage Reinsurance Inc One
Policyholder Position Calculation
December 31, 2016**

Surplus as regards policyholders		\$26,771,275	
Contingency reserve		<u>6,619,861</u>	
Total policyholders position			<u>\$33,391,136</u>
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	\$574,964		
Total individual loans		<u>574,964</u>	
Total minimum policyholders position			<u>574,964</u>
Excess of total policyholders position over minimum policyholders position			<u>\$32,816,172</u>

**National Mortgage Reinsurance Inc One
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	6/30/2012
Surplus, beginning of year	\$24,912,042	\$13,618,693	\$9,387,978	\$10,000,107	\$10,000,000
Net income	1,845,728	(1,636,115)	(769,285)	(612,129)	107
Change in net deferred income tax	2,316,804				
Change in non-admitted assets	(2,303,300)				
Surplus adjustments: Paid in	_____	<u>12,929,464</u>	<u>5,000,000</u>	_____	_____
Surplus, End of Year	<u>\$26,771,274</u>	<u>\$24,912,042</u>	<u>\$13,618,693</u>	<u>\$9,387,978</u>	<u>\$10,000,107</u>

**National Mortgage Reinsurance Inc One
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 2014 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	0%	41%	20%	N/A	N/A
#2 Net Premium to Surplus	0%	41%	20%	N/A	N/A
#3 Change in Net Premiums Written	(123)%*	271%*	1,064%*	N/A	N/A
#4 Surplus Aid to Surplus	0%	0%	0%	N/A	N/A
#5 Two-Year Overall Operating Ratio	86%	41%	65%	N/A	N/A
#6 Investment Yield	1.8%*	0.8%*	0.9%*	N/A	N/A
#7 Gross Change in Surplus	7%	83%*	45%	N/A	N/A
#8 Change in Adjusted Surplus	7%	(12)%*	(8)%	N/A	N/A
#9 Liabilities to Liquid Assets	26%	40%	22%	N/A	N/A
#10 Agents' Balances to Surplus	0%	5%	6%	N/A	N/A
#11 One-Year Reserve Development to Surplus	0%	0%	0%	N/A	N/A
#12 Two-Year Reserve Development to Surplus	0%	0%	0%	N/A	N/A
#13 Estimated Current Reserve Deficiency to Surplus	(1)%	0%	0%	N/A	N/A

The exceptional results for Ratio No. 3, "Change in Net Premiums Written", for 2014 and 2015 were due to the premium growth of its affiliate, National Mortgage Insurance

Corporation, from a base of zero when NMIC first began writing business in April 2013. The company's only function is to provide NMIC with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. As NMIC grew, so did the business that it had to cede to NMI Re. The exceptional result for 2016 was due to the fact that, in September 2016, NMIC entered into a quota share reinsurance agreement with a panel of highly-rated non-affiliated reinsurers. Due to this transaction, the Primary Excess Share Reinsurance Agreement by and between NMIC and the company was amended and the risk ceded to the company was significantly reduced. A large portion of the previously ceded unearned premium was reassumed by NMIC and then ceded to the panel of non-affiliated reinsurers.

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 2014 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 2015 due to the receipt of paid-in surplus adjustments in that year totaling \$12,929,464.

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 result for 2015 reflects the large net loss of that year, which was due to growth in the company's allocated share of the expense of hiring new employees and expanding operations and sales activities. It is necessary to build the capacity 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 Reinsurance Inc One

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	\$36,092,355	\$9,321,080	\$26,771,275	\$1,845,728
2015	40,901,547	15,989,505	24,912,042	(1,636,115)
2014	17,186,149	3,567,456	13,618,693	(769,285)
2013	10,179,570	791,592	9,387,978	(612,129)
2012	10,000,107	0	10,000,107	107

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	\$(2,409,919)	\$(2,409,919)	\$5,919,893	3.1%	(120.6)%	(117.5)%
2015	10,303,490	10,303,490	3,588,367	2.0%	42.1%	44.1%
2014	2,774,355	2,774,355	997,240	0.7%	58.7%	59.4%
2013	238,356	238,356	129,684	0.0%	345.7%	345.7%
2012	0	0	0	0.0%	0.0%	0.0%

NMI Re was organized to provide its affiliated insurer, National Mortgage Insurance Corporation, with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. The company derives all of its written business from its assumption of risks written by NMIC and does not cede any reinsurance. From 2013 to 2015, the company's financial experience reflects the premium growth of its affiliate, National Mortgage Insurance Corporation, from a base of zero when NMIC first began writing business in April 2013. From 2013 to 2015, the company experienced net losses due to growth in its allocated share of the NMI Group's expense of hiring new employees and expanding operations and sales activities. It is necessary to build the capacity 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.

In September 2016, NMIC entered into a quota share reinsurance agreement with a panel of highly-rated non-affiliated reinsurers. Due to this transaction, the Primary Excess Share Reinsurance Agreement by and between NMIC and the company was amended and the risk ceded to the company was significantly reduced. A large portion of the previously ceded unearned premium was reassumed by NMIC and then ceded to the panel of non-affiliated reinsurers. In 2016, the primary driver of the decrease to expenses was the return of unearned ceding commission from NMIC as a result of the non-affiliated quota share reinsurance, thereby reducing the company's acquisition expense.

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.

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.

VIII. CONCLUSION

National Mortgage Reinsurance Inc One is a direct wholly-owned subsidiary NMI Holdings, Inc., its ultimate controlling person. NMI Re was organized to provide its affiliated insurer, National Mortgage Insurance Corporation, with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. The company derives all of its written business from its assumption of risks written by NMIC and does not cede any reinsurance.

As of December 31, 2016, the company reported assets of \$36,092,355, liabilities of \$9,321,080, and policyholders' surplus of \$26,771,275. Operations for 2016 produced net income of \$1,845,728. Policyholders' surplus has increased from \$10,000,000 as of June 30, 2012 to \$26,771,275 as of year-end 2016. This represents an increase of 167.7% 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	\$10,000,000
Paid-in surplus adjustments	17,929,464
Change in net deferred income tax	2,316,804
Change in non-admitted assets	(2,303,300)
Net income	<u>(1,171,694)</u>
Policyholders' Surplus, December 31, 2016	<u>\$26,771,275</u>

From 2013 to 2015, the company's financial experience reflects the premium growth of its affiliate, National Mortgage Insurance Corporation, from a base of zero when NMIC first began writing business in April 2013. From 2013 to 2015, the company experienced net losses due to growth in its allocated share of the NMI Group's expense of hiring new employees and expanding operations and sales activities. It is necessary to build the capacity 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.

In September 2016, NMIC entered into a quota share reinsurance agreement with a panel of highly-rated non-affiliated reinsurers. Due to this transaction, the Primary Excess Share Reinsurance Agreement by and between NMIC and the company was amended and the risk ceded to the company was significantly reduced. A large portion of the previously ceded unearned premium was reassumed by NMIC and then ceded to the panel of non-affiliated reinsurers. In 2016, the primary driver of the decrease to expenses was the return of unearned ceding commission from NMIC as a result of the non-affiliated quota share reinsurance, thereby reducing the company's acquisition expense.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - 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.

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