

Report
of the
Organizational Examination of
National Mortgage Reinsurance Inc Two
Emeryville, California
As of June 30, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

September 28, 2012

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

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 TWO
Emeryville, California

and this report is respectfully submitted.

I. INTRODUCTION

This is the organizational examination of National Mortgage Reinsurance Inc Two (NMRe Two or the company), which covers the period from the company's incorporation on March 4, 2010, to June 30, 2012, and includes a review of such subsequent 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners' Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

II. HISTORY AND PLAN OF OPERATION

National Mortgage Reinsurance Inc Two was incorporated 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 parents are NMI Holdings, Inc., and National Mortgage Insurance Corporation, respectively.

NMI Re Two was organized to provide its affiliated insurer, National Mortgage Insurance Corporation (NMIC), with excess of loss reinsurance coverage on primary residential mortgage guaranty insurance risks. It is anticipated that the company will derive all of its written business from its assumption of NMIC's mortgage guaranty coverage in excess of 25% of the indebtedness per insured loan. In the intermediate term, it is anticipated that NMI Re Two will reinsure risks written on a direct basis by NMIC in every state and jurisdiction other than the following five states that do not permit a direct writing insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer: California, Illinois, New York, Ohio, and Texas. In the first few years of operation, however, it is anticipated that the company will remain inactive because the volume of reinsurance business will not be sufficient to segregate risks between the company and its affiliate, National Mortgage Reinsurance Inc One.

NMI Re Two does not have any employees, and all of its business operations are performed by 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 Two'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 in the state of Wisconsin and is seeking a license in the state of California. It is not anticipated that the company will seek licensure in any other states.

III. MANAGEMENT AND CONTROL

Board of Directors

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

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bradley M. Shuster Piedmont, California	Chairman, President, and Chief Executive Officer NMI Holdings, Inc. National Mortgage Insurance Corporation	2013
John "Jay" M. Sherwood Orinda, California	Executive Vice President and Chief Financial Officer National Mortgage Insurance Corporation	2013
Glen S. Corso Alexandria, Virginia	Executive Vice President and General Counsel National Mortgage Insurance Corporation	2013
James R. McCourt Sun Prairie, Wisconsin	Executive Vice President – Insurance Operations National Mortgage Insurance Corporation	2013
Patrick L. Mathis Alamo, California	Executive Vice President and Chief Risk Officer National Mortgage Insurance Corporation	2013
Stanley M. Pachura Danville, California	Chief Information Officer National Mortgage Insurance Corporation	2013
Peter C. Pannes San Anselmo, California	Executive Vice President and Head of Sales National Mortgage Insurance Corporation	2013

Officers of the Company

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

Officer	Office
Bradley M. Shuster	Chairman, President and Chief Executive Officer
John "Jay" M. Sherwood	Executive Vice President and Chief Financial Officer
James R. McCourt	Executive Vice President – Insurance Operations
Glen S. Corso	Executive Vice President, General Counsel, and Assistant Secretary
Patrick L. Mathis	Executive Vice President and Chief Risk Officer
Peter C. Pannes	Executive Vice President and Head of Sales
Stanley M. Pachura	Chief Information Officer
Christopher G. Brunetti	Senior Vice President, Deputy General Counsel and Secretary
Claudia Merkle	Senior Vice President – Customer Operations and Underwriting Fulfillment
Bridget E. Williams	Senior Vice President – Field Sales
Joseph M. Francesconi	Vice President and Controller

Committees of the Board

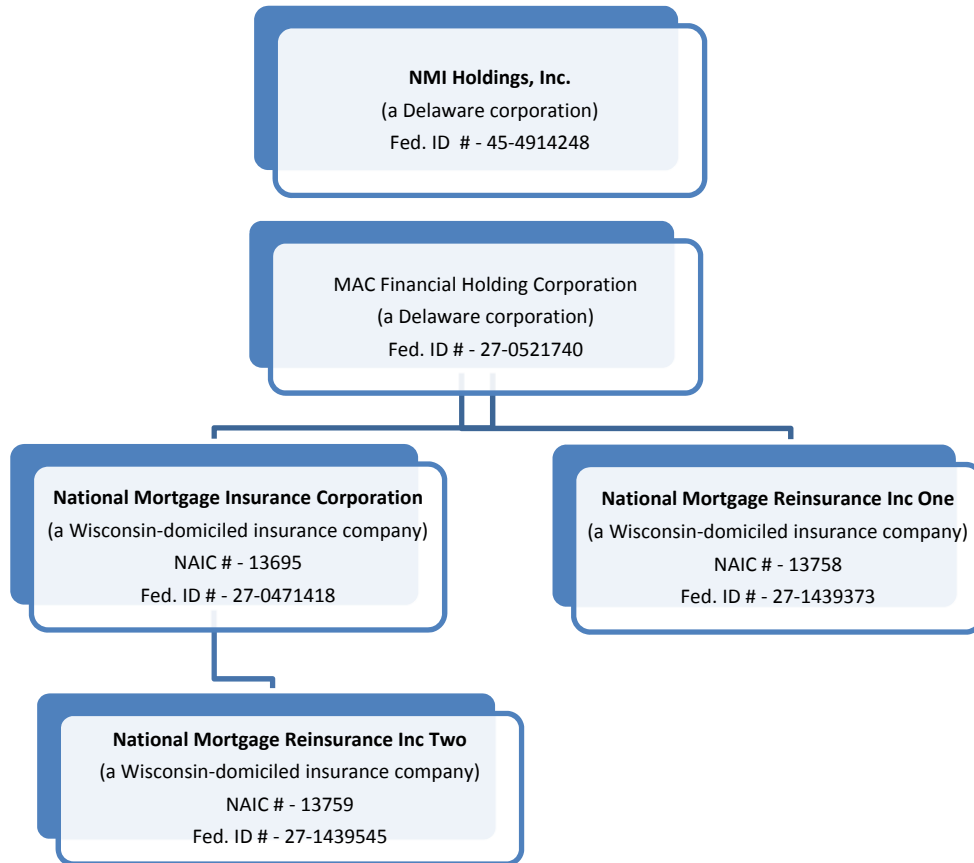
The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed at the time of this examination. The company's ultimate controlling person, NMI Holdings, Inc., has established the following board committees:

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

IV. AFFILIATED COMPANIES

NMI Re Two is a member of a holding company system under the ultimate control of NMI Holdings, Inc. 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.

Holding Company Chart



NMI Holdings, Inc.

NMI Holdings, Inc., is a privately held 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 through indirectly wholly owned Wisconsin-domiciled insurance subsidiaries. As of June 30, 2012, the financial statements of the corporation, prepared in accordance with generally accepted accounting principles, reported assets of \$534,014,140, liabilities of \$24,986,753, and shareholders' equity of \$509,027,387. Operations for the period ended June 30, 2012, produced a net loss of \$(6,582,150).

MAC Financial Holding Corporation

MAC Financial Holding Corporation is an intermediate stock holding company organized under the laws of Delaware on July 6, 2009. To date, it has 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 has otherwise not engaged in any business directly. As of June 30, 2012, the books and records of the corporation, prepared on a statutory accounting basis, indicated assets of \$223,000,891, no liabilities, and shareholder's equity of \$223,000,891. Operations for 2012 produced a net loss of \$(21,454).

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 was organized to provide primary mortgage guaranty insurance written on a flow basis. As of June 30, 2012, the financial statements of NMIC, prepared on a statutory accounting basis, reported assets of \$210,000,000, liabilities of \$0, and policyholders' surplus of \$210,000,000. Operations for the period ended June 30, 2012, produced a net loss of \$(21,454).

National Mortgage Reinsurance Inc One.

National Mortgage Reinsurance Inc One was organized in Wisconsin on March 4, 2010, under the name Mortgage Assurance Reinsurance Inc One, and it received its certificate of authority in Wisconsin on March 5, 2010. The name of the corporation was changed to that presently used on January 10, 2012. It was organized to provide reinsurance on all of NMIC's mortgage guaranty coverage in excess of 25% of indebtedness per insured loan in the following five states that do not permit a subsidiary to provide such reinsurance: California, Illinois, New York, Ohio, and Texas. In the first few years of operation, however, it is anticipated that the company will reinsure all of NMIC's mortgage guaranty coverage in excess of 25% of indebtedness per insured loan nationwide, because the volume of reinsurance business will not be sufficient to segregate risks between the company and its affiliate, National Mortgage

Reinsurance Inc Two. As of June 30, 2012, the financial statements of NMI Re One, prepared on a statutory accounting basis, reported assets of \$10,000,000, liabilities of \$0, and policyholders' surplus of \$10,000,000. Operations for the period ended June 30, 2012, produced a net income of \$0.

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 Insperity, Inc. (a non-affiliated provider of human resource services) in accordance with the business practices and internal controls NMIH maintains with respect to its employees. It is anticipated that following commencement of insurance operations, NMI Holdings, Inc., will cause the co-employment agreement to be assigned to NMIC, at which time NMIC will be the employer under the co-employment agreement with Insperity, Inc. In addition to common staffing and management control by NMIH, NMI Re Two's relationship to its affiliates is affected 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 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 parties. 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.

Tax Sharing Agreement

There is a Tax Sharing Agreement 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. 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.

V. REINSURANCE

National Mortgage Reinsurance Inc Two has no assuming or ceding reinsurance contracts in place at the time of this examination.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the June 30, 2012, quarterly statement. 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. 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."

National Mortgage Reinsurance Inc Two
Assets
As of June 30, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash and short-term Investments	<u>\$10,000,000</u>	<u>\$0</u>	<u>\$10,000,000</u>
Total Assets	<u>\$10,000,000</u>	<u>\$0</u>	<u>\$10,000,000</u>

Liabilities, Surplus, and Other Funds
As of June 30, 2012

Total liabilities		\$ 0
Common capital stock	\$3,500,000	
Gross paid in and contributed surplus	6,500,000	
Unassigned funds (surplus)	<u>0</u>	
Surplus as regards policyholders		<u>10,000,000</u>
Total Liabilities and Surplus		<u>\$10,000,000</u>

**National Mortgage Reinsurance Inc Two
Summary of Operations
For the Period Ended June 30, 2012**

Underwriting Income		
Premiums earned		\$0
Deductions:		
Losses incurred	\$0	
Loss adjustment expenses incurred	0	
Other underwriting expenses incurred	<u>0</u>	
 Total underwriting deductions		 <u>0</u>
Net underwriting gain (loss)		0
Investment Income		
Net investment income earned	<u>0</u>	
Net investment gain (loss)		0
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		0
Dividends to policyholders		<u>0</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		0
Federal and foreign income taxes incurred		<u>0</u>
Net Income (Loss)		<u>\$0</u>

National Mortgage Reinsurance Inc Two
Cash Flow
For the Year 2011

Premiums collected net of reinsurance		\$ 0
Net investment income		<u>0</u>
Total		0
Benefit- and loss-related payments	\$ 0	
Commissions, expenses paid, and aggregate write-ins for deductions	0	
Dividends paid to policyholders	0	
Federal and foreign income taxes paid (recovered)	<u>0</u>	
Total deductions		<u>0</u>
Net cash from operations		0
Cash from financing and miscellaneous sources:		
Capital and paid in surplus less treasury stock	10,000,000	
Net cash from financing and miscellaneous sources		<u>10,000,000</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		10,000,000
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>0</u>
End of year		<u>\$10,000,000</u>

**National Mortgage Reinsurance Inc Two
Policyholder Position Calculation
As of June 30, 2012**

Surplus as regards policyholders	\$10,000,000	
Deferred risk premium maintained in unearned premium reserve	0	
Contingency reserve	0	
Subsidiaries' minimum policyholder position	0	
Total policyholders' position		\$10,000,000
Net minimum policyholders' position		
Individual loans:		
Loan-to-value more than 75%	\$0	
Loan-to-value 50 - 75%	0	
Loan-to-value less than 50%	0	
Total individual loans		0
Group loans:		
Equity 20 - 50%, or equity plus prior insurance or deductible 25 - 55%	0	
Equity more than 50%, or equity plus prior insurance or a deductible more than 55%	0	
Total group loans	0	
Minimum policyholder position		0
Excess of Total Policyholders' Position Over Minimum Policyholders' Position		<u>\$10,000,000</u>

**National Mortgage Reinsurance Inc Two
Analysis of Surplus
For the Period from March 4, 2010, to June 30, 2012**

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

	6/30/2012	2011	2010
Surplus, beginning of year	\$ 0	\$0	\$0
Capital changes:			
Paid in	3,500,000	0	0
Surplus adjustments:			
Paid in	<u>6,500,000</u>	<u>0</u>	<u>0</u>
Surplus, End of Year	<u>\$10,000,000</u>	<u>\$0</u>	<u>\$0</u>

**National Mortgage Reinsurance Inc Two
Insurance Regulatory Information System
For the Period from March 4, 2010, to June 30, 2012**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are not meaningful because the company has not commenced the writing of business.

**Financial Experience of National Mortgage Reinsurance Inc Two
From March 4, 2010, to June 30, 2012**

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
6/30/2012	\$10,000,000	\$0	\$10,000,000	\$0
2011	0	0	0	0
2010	0	0	0	0

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
6/30/2012	\$0	\$0	\$0	0.0%	0.0%	0.0%
2011	0	0	0	0.0	0.0	0.0
2010	0	0	0	0.0	0.0	0.0

The company and its insurance affiliates were incorporated and licensed without the usual requisite minimum capital and surplus in order to facilitate the lengthy review of its affiliate National Mortgage Insurance Corporation for qualified insurer status with both the Federal

National Mortgage Association and the Federal Home Loan Mortgage Corporation, as well as the due diligence and capital-raising efforts of the original principals of the company. The company was capitalized on June 29, 2012. There was no financial activity in the company prior to that date. Efforts to attract capital were protracted, owing in no small part to the economic circumstances of recent years and uncertainties surrounding the system of housing finance in the United States, but were ultimately successful.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to the balances reported by the company. The company's surplus as regards policyholders as of June 30, 2012, was \$10,000,000.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

This is not applicable as this is the first examination of the company.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where emphasis was deemed necessary. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Confirmation of Company's Ownership

The examination included inspection of a copy of the stock certificate evidencing the ownership of the company. This stock certificate indicated that National Mortgage Insurance Corporation owned 3,500,000 common shares of NMI Re Two having a par value of \$1 per share. The sole stockholder of NMI Re Two is National Mortgage Insurance Corporation.

Cash and Short-term Investments **\$10,000,000**

The above balance represents cash on deposit with a San Francisco, California, branch of First Republic Bank. This deposit was verified by direct confirmation from the depository. The deposit was made by NMI Holdings, Inc., on behalf of the company on June 29, 2012. All funds held by NMI Holdings, Inc., and each of its affiliates, including NMI Re Two, are held in 100% Federal Deposit Insurance Corporation insured non-interest bearing deposit accounts consistent with the entities' need to preserve capital until receipt of GSE approval. Accordingly, no interest was received for the period ended June 30, 2012.

Information Systems Review

The company has no information technology systems of its own, but rather depends upon the information technology and software of its affiliate, National Mortgage Insurance Corporation.

The examination included a thorough review of the National Mortgage Insurance Corporation's pre-production information systems general controls and detailed demonstrations and walkthroughs of the company's insurance management modules on:

- Master policy administration;
- Intake of new business and underwriting;

- Policy servicing;
- Premium billing;
- Delinquency and claims;
- Rate administration;
- Validation and integrity.

The agenda items for the interviews of company information technology personnel

included:

- IT strategic planning;
- IT governance;
- Leadership development and succession planning;
- Organizational structure;
- Risk management;
- Development and maintenance of policies;
- Budgeting;
- Security;
- E-Business;
- Business continuity;
- Acquisitions and integration;
- Architecture, development and implementation of major programs;
- External environment.

After reviews of NMIC's IT governance, operations, demonstrations of its IMS

(Insurance Management System) at its Emeryville, California, headquarters and of the CDW data center in Madison, Wisconsin, the examination concluded that NMIC has sound key IT controls in place and appeared to be ready for production.

VIII. CONCLUSION

National Mortgage Reinsurance Inc 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 was changed to that currently used on January 10, 2012.

The company was organized to assume NMIC's mortgage guaranty coverage in excess of 25% of the indebtedness per insured loan. In the intermediate term, it is anticipated that NMI Re Two will reinsure risks written on a direct basis by NMIC in every state and jurisdiction other than the following five states that do not permit a direct writing insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer: California, Illinois, New York, Ohio, and Texas. In the first few years of operation, however, it is anticipated that the company will remain inactive because the volume of reinsurance business will not be sufficient to segregate risks between the company and its affiliate, National Mortgage Reinsurance Inc One.

The sole shareholder of the company is National Mortgage Insurance Corporation, which in turn is a wholly owned subsidiary of NMI Holdings, Inc.

NMI Re Two does not have any employees, and all of its business operations are performed by NMI Holdings, Inc., pursuant to an intercompany cost allocation agreement. After reviews of NMIC's IT governance, operations, demonstrations of its IMS (Insurance Management System) at its Emeryville, California, headquarters and of the CDW data center in Madison, Wisconsin, the examination concluded that NMIC has sound key IT controls in place and appeared to be ready for production.

The examination did not make any reclassification of or adjustment to the balances reported by the company. The company's surplus as regards policyholders as of June 30, 2012, was \$10,000,000.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination had no comments or recommendations.

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 representative of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Victoria Chi, CISA, CISM, CRISC	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Frederick H. Thornton, CFE	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Steven J. Junior	Insurance Examiner Supervisor

Respectfully submitted,

Karl K. Albert, CFE
Examiner-in-Charge