

NMI Holdings, Inc.
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-36174
NMI Holdings, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE 45-4914248
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2100 Powell Street, Emeryville, CA 94608
(Address of principal executive offices) (Zip Code)

(855) 530-6642
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on July 30, 2018 was 65,755,084 shares.

TABLE OF CONTENTS

<u>Cautionary Note Regarding Forward Looking Statements</u>	<u>3</u>
<u>PART I</u>	<u>5</u>
Item 1. <u>Financial Statements</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
Item 4. <u>Controls and Procedures</u>	<u>45</u>
<u>PART II</u>	<u>46</u>
Item 1. <u>Legal Proceedings</u>	<u>46</u>
Item 1A. <u>Risk Factors</u>	<u>46</u>
Item 6. <u>Exhibits</u>	<u>46</u>
<u>Signatures</u>	<u>47</u>
<u>Exhibit Index</u>	<u>i</u>

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believe," "can," "could," "may," "predict," "potential," "should," "will," "estimate," "plan," "project," "continuing," "ongoing," "expect," "intend" or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. All forward looking statements are necessarily only estimates of future results, and actual results may differ materially from expectations. You are, therefore, cautioned not to place undue reliance on such statements which should be read in conjunction with the other cautionary statements that are included elsewhere in this report. Further, any forward looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. We have based these forward looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy and financial needs. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward looking statements including, but not limited to:

- changes in the business practices of Fannie Mae and Freddie Mac (collectively, the GSEs), including decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement;
- our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements (PMIERS) and other requirements imposed by the GSEs, which they may change at any time;
- retention of our existing certificates of authority in each state and the District of Columbia (D.C.) and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- our future profitability, liquidity and capital resources;
- actions of existing competitors, including governmental agencies like the Federal Housing Administration (FHA) and the Veterans Administration (VA), and potential market entry by new competitors or consolidation of existing competitors;
- developments in the world's financial and capital markets and our access to such markets, including reinsurance;
- adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators;
- changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance in particular;
- potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries;
- changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance;
- our ability to successfully execute and implement our capital plans, including our ability to access the capital, credit and reinsurance markets and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators;
- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;
- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
-

potential adverse impacts arising from recent natural disasters, including, with respect to the affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages;

3

the inability of our counter-parties, including third party reinsurers, to meet their obligations to us;
our ability to utilize our net operating loss carryforwards, which could be limited or eliminated in various ways, including if we experience an ownership change as defined in Section 382 of the Internal Revenue Code;
failure to maintain, improve and continue to develop necessary information technology (IT) systems or the failure of technology providers to perform; and
ability to recruit, train and retain key personnel.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the Risk Factors in Part II, Item 1A of this report and in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 10-K), as updated in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (First Quarter 10-Q) and as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

Unless expressly indicated or the context requires otherwise, the terms "we," "our," "us" and the "Company" in this document refer to NMI Holdings, Inc., a Delaware corporation, and its wholly owned subsidiaries on a consolidated basis.

PART I

Item 1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	<u>6</u>
Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2018 and 2017	<u>7</u>
Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2018 and the year ended December 31, 2017	<u>8</u>
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	<u>9</u>
Notes to Condensed Consolidated Financial Statements	<u>10</u>

NMI HOLDINGS, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2018	December 31, 2017
	(In Thousands, except for share data)	
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$852,029 and \$713,859 as of June 30, 2018 and December 31, 2017, respectively)	\$ 838,265	\$ 715,875
Cash and cash equivalents	16,454	19,196
Premiums receivable	31,252	25,179
Accrued investment income	4,789	4,212
Prepaid expenses	2,907	2,151
Deferred policy acquisition costs, net	42,363	37,925
Software and equipment, net	22,803	22,802
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	35,798	40,250
Deferred tax asset, net	12,378	19,929
Other assets	5,836	3,695
Total assets	\$ 1,016,479	\$ 894,848
Liabilities		
Term loan	\$ 147,262	\$ 143,882
Unearned premiums	165,658	163,166
Accounts payable and accrued expenses	21,407	23,364
Reserve for insurance claims and claim expenses	10,601	8,761
Reinsurance funds withheld	31,011	34,102
Deferred ceding commission	4,507	5,024
Warrant liability, at fair value	6,391	7,472
Total liabilities	386,837	385,771
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, \$0.01 par value; 65,753,784 and 60,517,512 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively (250,000,000 shares authorized)	658	605
Additional paid-in capital	670,870	585,488
Accumulated other comprehensive loss, net of tax	(15,043)	(2,859)
Accumulated deficit	(26,843)	(74,157)
Total shareholders' equity	629,642	509,077
Total liabilities and shareholders' equity	\$ 1,016,479	\$ 894,848
See accompanying notes to consolidated financial statements.		

NMI HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(In Thousands, except for per share data)			
Revenues				
Net premiums earned	\$61,615	\$37,917	\$116,529	\$71,142
Net investment income	5,735	3,908	10,309	7,715
Net realized investment gains	59	188	59	130
Other revenues	44	185	108	265
Total revenues	67,453	42,198	127,005	79,252
Expenses				
Insurance claims and claim expenses	643	1,373	2,212	2,008
Underwriting and operating expenses	29,020	28,048	57,473	54,037
Total expenses	29,663	29,421	59,685	56,045
Other expense				