NMI Holdings, Inc. (NMIH)

# Investor Presentation

September 2017

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# Cautionary Note Regarding Forward–Looking Statements

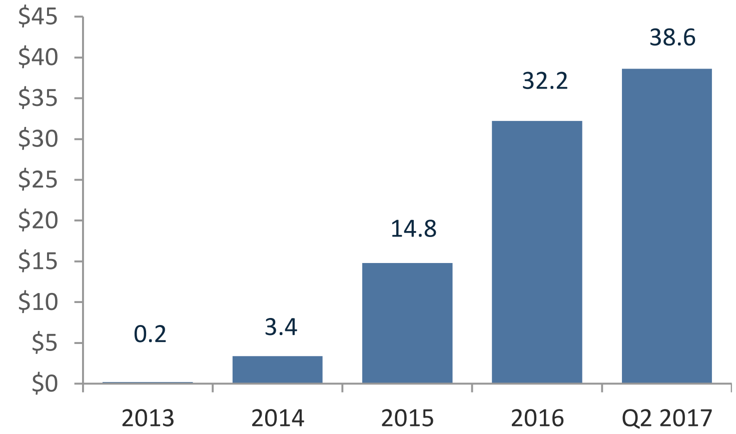
This presentation contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995 (PSLRA). The PSLRA provides a “safe harbor” for any forward-looking statements. 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 only predictions and involve estimates, known and unknown risks, assumptions and uncertainties that may turn out to be inaccurate and could cause actual results to differ materially from those expressed in them. Many risks and uncertainties are inherent in our industry and markets. Others are more specific to our business and operations. You are, therefore, cautioned not to place undue reliance on such statements, which speaks only as of the date on which it is made, and we undertake no obligation to publicly 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 the GSEs that may impact the use of private mortgage insurance as credit enhancement; our ability to remain an eligible mortgage insurer under the PMIERs, including the financial requirements, and other requirements of 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 reinsurance market 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 claims and coverage issues, including claims exceeding our reserves or amounts we expected to experience; 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 systems or the failure of technology providers to perform; ability to recruit, train and retain key personnel; and general economic downturns and volatility.

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 I, Item IA, of our Annual Report on 10-K for the year ended December 31, 2016, as subsequently updated on other reports we file from time to time with the U.S. Securities and Exchange Commission.

# Company Overview

- Solid foundation
  - Founded in 2012
  - ~300 employees, including 58-person national salesforce across all 50 states
  - Primary operating subsidiary, National Mortgage Insurance Corp., has a financial strength rating of BBB- by S&P, Ba1 by Moody's
- Differentiated business model
  - Focus on customer service
  - Innovative terms of coverage
  - No legacy risk
- Significant and growing market penetration
  - Master policies with 1,203 lender customers – growing every week
- Growing portfolio of high-quality mortgage insurance
  - $39 billion primary Insurance in Force ("IIF") as of 6/30/17
  - Weighted average FICO of risk-in-force for the quarter ended 6/30/17 was 752

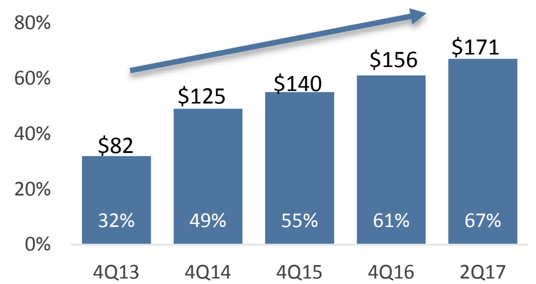
**NMI Growth in Insurance In-Force ($bn)**



# Significant Success to Date

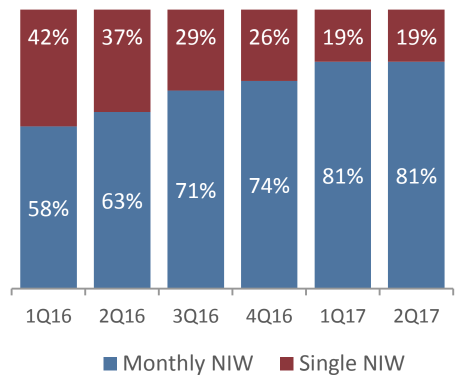
### Activating Customer Relationships

Estimated $Market Penetration
Based on Delivering Customers



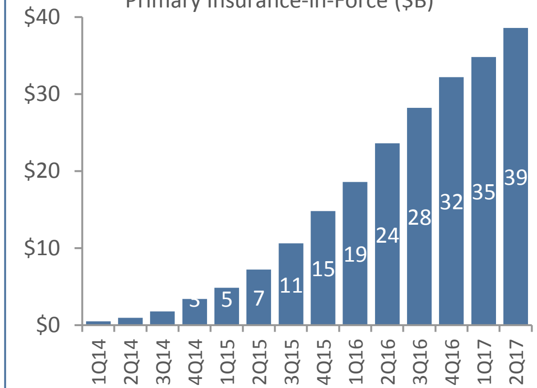

Estimated value of annual NIW and corresponding market penetration based on lenders who have provide at least one application or NIW. Lender volume per Morstat.

### Favorable Mix Shift



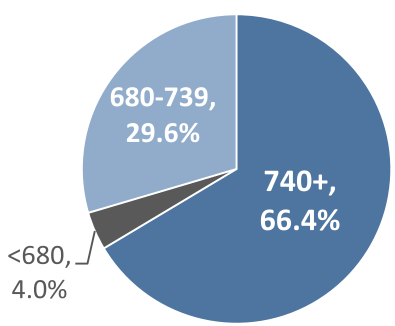

### Growing Our Insured Portfolio

Primary Insurance-in-Force ($B)



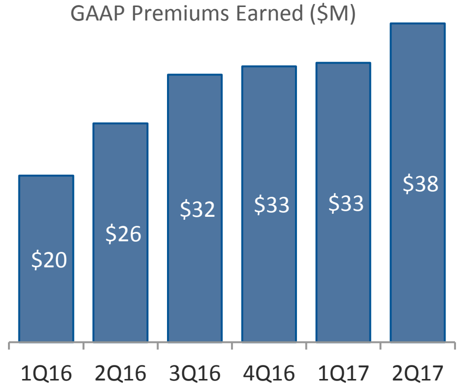

### High Quality Portfolio

FICO Mix of Primary Risk-in-Force




### Strong Revenue Growth

GAAP Premiums Earned ($M)




### Balance Sheet Strength

- Book value of $495M, equal to $8.27 per share as of 6/30/17
- $150M Term Loan maturing November 2019
- 2016 Quota Share reinsurance through panel of 6 reinsurers
- 2017 Insurance-Linked Notes issuance providing significant capital relief at estimated 3% cost of capital
- $187 million excess PMIERs assets after benefit of insurance-linked notes

## Current Market Drivers

- Interest Rates
  - Current <4.00% 30-year mortgage supports a vibrant and growing purchase market; we have seen stronger purchase markets in higher rate environments
  - Recent decline in rates and waning outlook for Fed action through year-end modestly positive
- Demographics and Supply/Demand Imbalance
  - Millenials entering First-Time Home Buyer cohort in record numbers
  - Tight supply creating pent-up demand for entry-level housing stock
- Improving Government/Regulatory Backdrop
  - New administration is biased toward increasing opportunities for private capital to step in front of taxpayer risk
  - Reduced competitive threat from FHA
- Industry Consolidation
  - Pending acquisition of Genworth by China Oceanwide leading to counterparty concerns among lenders
  - Arch/United Guaranty merger expected to lead to redistribution of market share among other 5 market players

# Hurricanes Harvey and Irma

- **No material direct loss exposure**
  - Longstanding industry practice excluding claims for defaults caused by casualty/natural disasters
    - National MI policy specifically excludes any claim where there is physical damage to a property, and the physical damage is the proximate cause of a borrower's default
  - However, servicers expected to continue to report NODs, which could create noise in loss reserves until cause of borrower default is clarified
  - MIs largely not affected by past hurricanes - Katrina

- **New insurance written**
  - Loans in process pushed out due to power outages and evacuations or cancelled due to property damage
  - Refinancing and purchase activity will be disrupted in the affected areas
  - Greater Houston market accounts for ~2.5% of our risk-in-force
  - Coastal Florida market is less significant as typical loan balances are higher than conforming limits

- **Other considerations**
  - Minimal exposure in investment portfolio
  - Estimate no material risk from defaults related to storm-related job losses
    - Houston is nation's fourth-largest metro economy
    - We have very little exposure to coastal Florida
    - Rebuilding effort likely to be stimulative

- **Reinsurance partners**
  - Harvey insured loss is estimated at $10-25bn
  - Insured losses for Irma estimated at $20-$30bn in U.S and Caribbean
  - While significant events, Harvey and Irma are not expected to have a meaningful impact on reinsurance industry in terms of counter-party strength or appetite for reinsuring mortgage insurance
    - Storms validate the premise of mortgage insurance as high-return, non-correlated risk to diversify reinsurer portfolios

# Mortgage Insurance Market Overview

Purchase Originations ~$1.1 Trillion

~20%

Penetration of Private MI

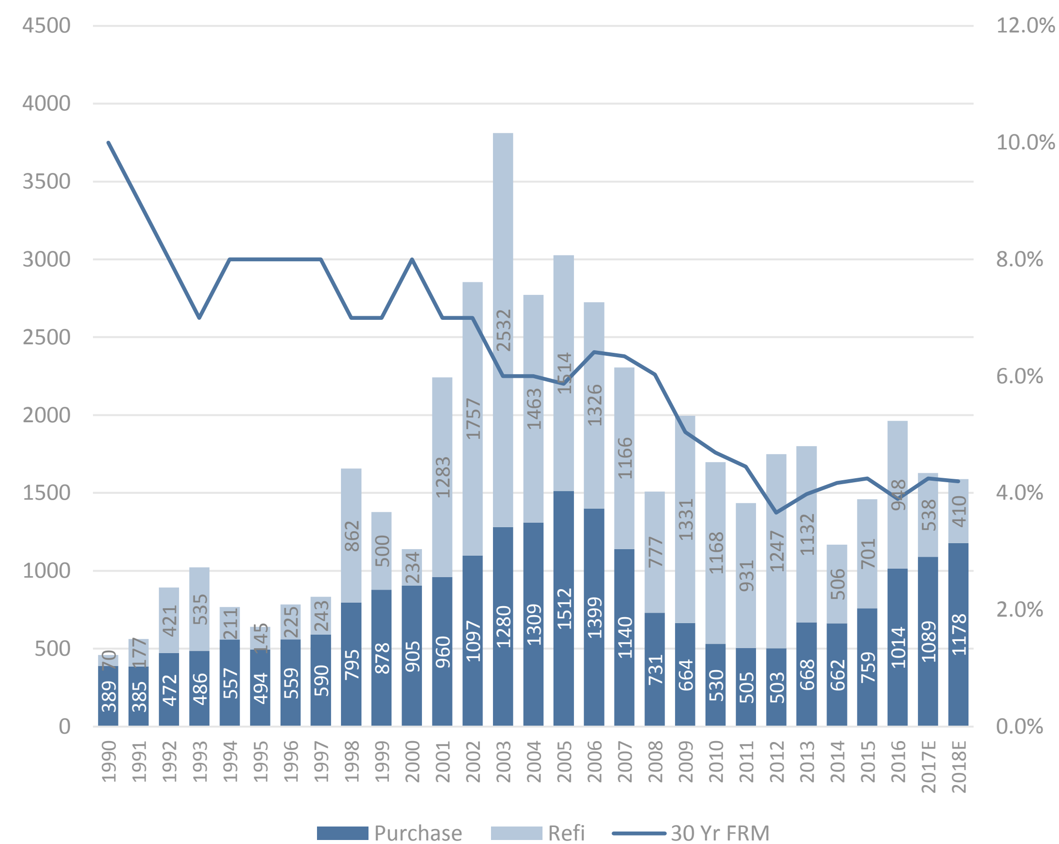
Refinance Originations ~$500 Billion

~5%

Penetration of Private MI

Estimated $250+ Billion 2017 Private MI Market

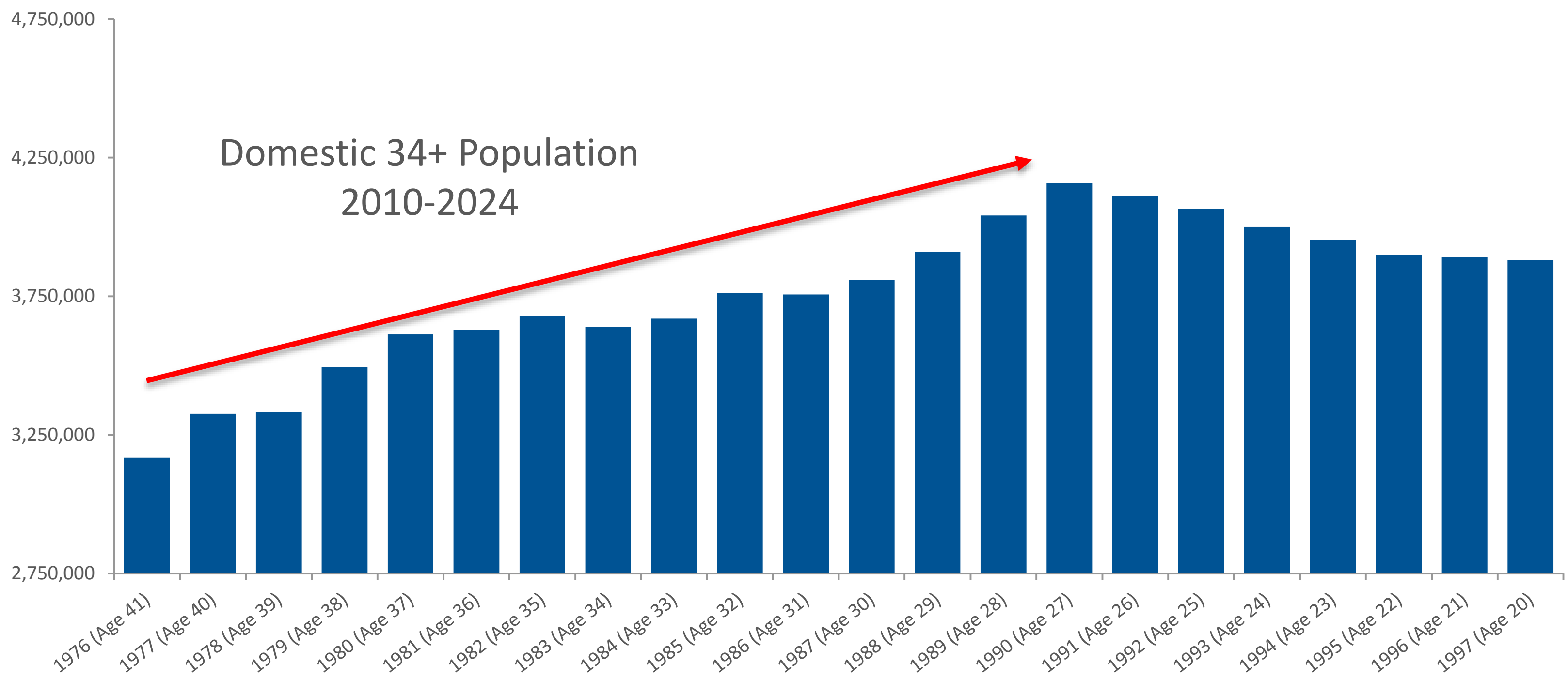
**Total Mortgage Originations (1990-2017E, $bn)**




Source: Mortgage Bankers Association, Fannie Mae, Freddie Mac

# Favorable Demographic Trend

- First-time homebuyers represent a significant future opportunity
- Average age of a first-time homebuyer is 34
  - Over the next 7 years, ~4 million Americans will enter the first-time homebuyer cohort each year




Source: Vital Statistics Bureau

# Regulatory Environment

- **FHA Competition:** New administration may limit FHA mission creep
  - Post-inauguration, HUD suspended announced FHA rate cut of 25bps
  - Loan limits exceeding $600k in some markets likely over-step FHA's affordable housing mission
  - Potential for private MI to take FHA share over time
- **Housing Finance Reform:** New administration has signaled serious intent to examine potential GSE reform, and National MI is well positioned to benefit from any housing finance reform that may occur
  - Every serious GSE reform proposal has emphasized putting private capital in front of taxpayer risk, and has included Private MI as a component of any new system
  - National MI's unique business model, which marries extensive underwriting with risk retention, aligns perfectly with post-Great Recession legislative objectives
- **Corporate Taxes:** Potential changes to corporate tax structure
  - Reduced corporate rates for domestically domiciled mortgage insurers would reduce the relative tax advantage of offshore-based insurers
  - Other tax reforms that curtail tax avoidance schemes between domestic operating companies and their offshore parents would also proffer a relative benefit to domestic-only companies
- **PMIERs:** PMIERs rules created strong risk-based framework for capital and a substantial layer of protection against default risk for the GSE's
  - Significant barrier to entry for any new MI entrant
  - PMIERs 2.0 not expected to be effective before fourth quarter 2018

NationalMI

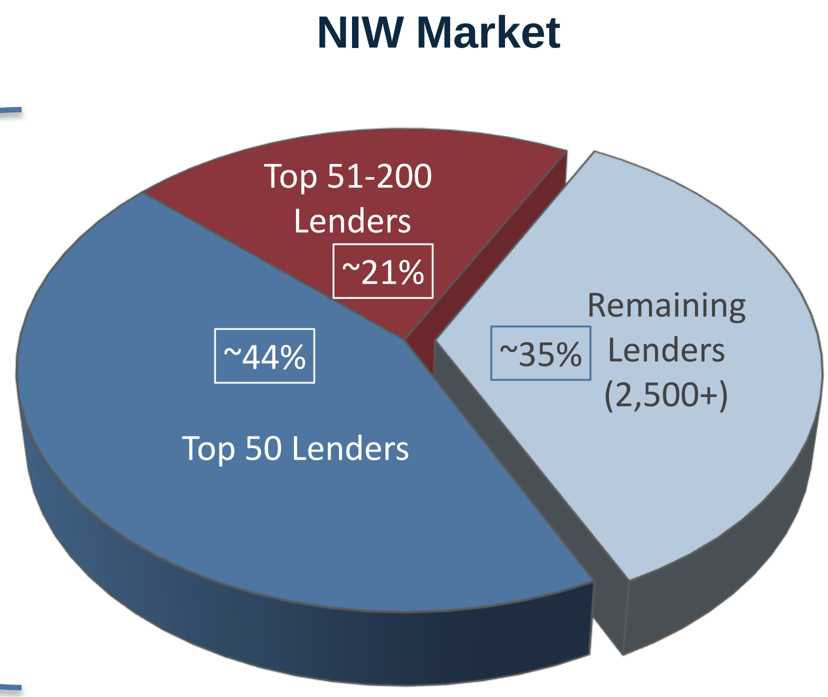
# Building our Franchise

1. Winning new customers with a differentiated value proposition
2. Managing returns through disciplined product mix and pricing
3. Protecting long-term shareholder value through diligent risk management
4. Leveraging low-cost reinsurance and reinsurance-like capital markets products to support growth

Executing on significant market opportunity and focused on delivering value to shareholders

# NIW Market:
## Top 200 Lenders Control $170B of Market

**Sales Leverage:**
Expanding our business with the Top 200 lenders




**We are driving customer development across the landscape with a strong strategy and team addressing both large national accounts and smaller regional originators**

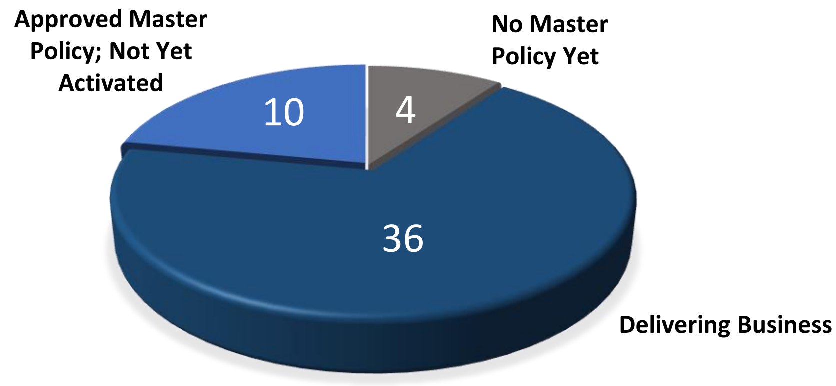
Lender data from Morstat.

# Great Progress Coupled with Substantial Opportunity

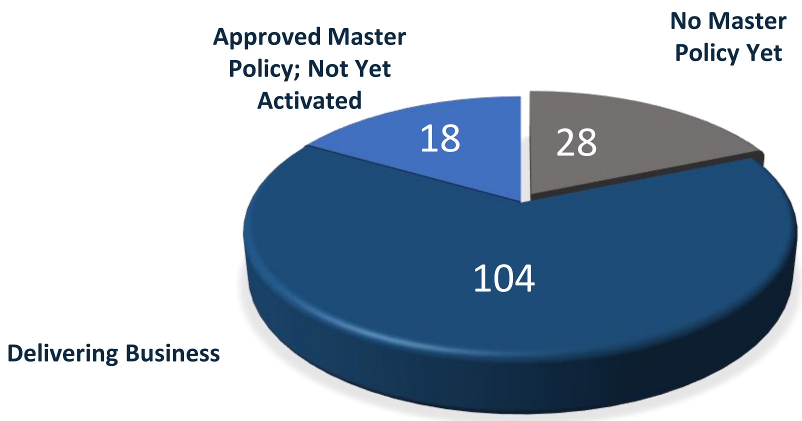
**New Customer Activations:**

- In 1H2017 activated 73 new accounts representing ~$17B of annual NIW volume -- 19 of these were Top 200 lenders
- Expect to activate new accounts representing $5B+ of additional opportunity in 2H17

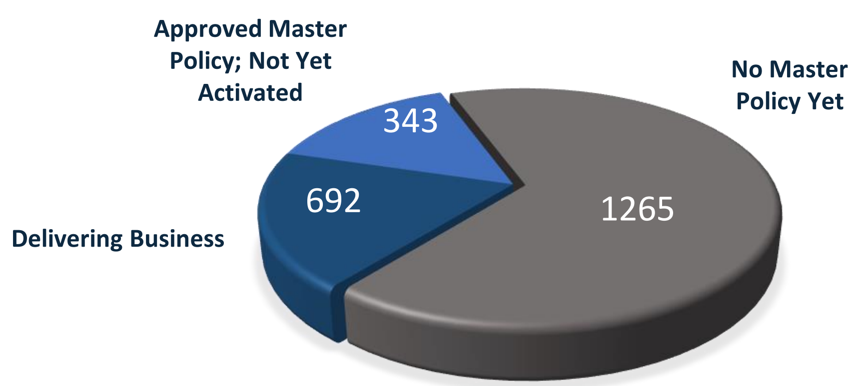
**#1-50 MORTGAGE LENDERS (~44% OF ALL NIW)**




**#50-200 MORTGAGE LENDERS (~21% OF ALL NIW)**




**REMAINING LENDERS (~35% OF ALL NIW)**




Lender data from Morstat.

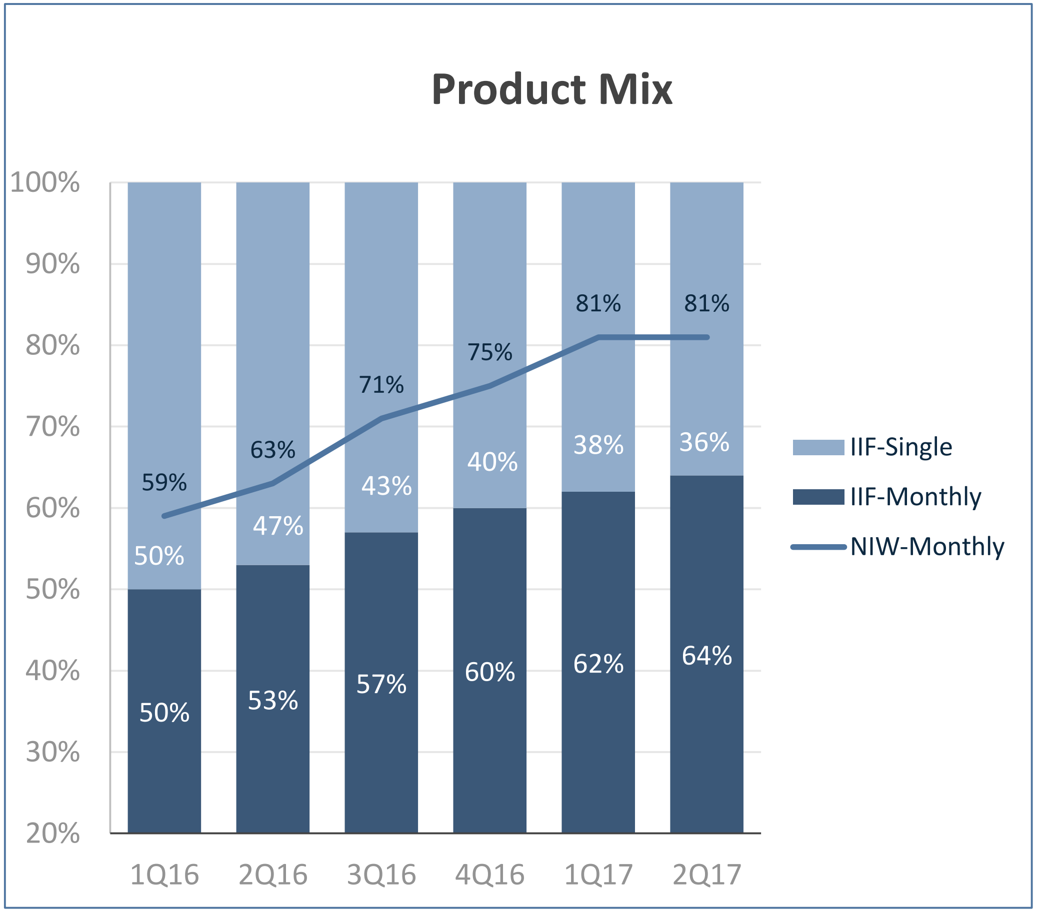
# Customer Development

**Continued growth in approved master policies drives increased market opportunity and growth for National MI**


- Grew master policies 13% over past 12 months
- We currently have master policies in place with lenders representing approximately 80% of industry NIW volume
- Substantial opportunity to continue to grow share with existing customers and continue to add new customers

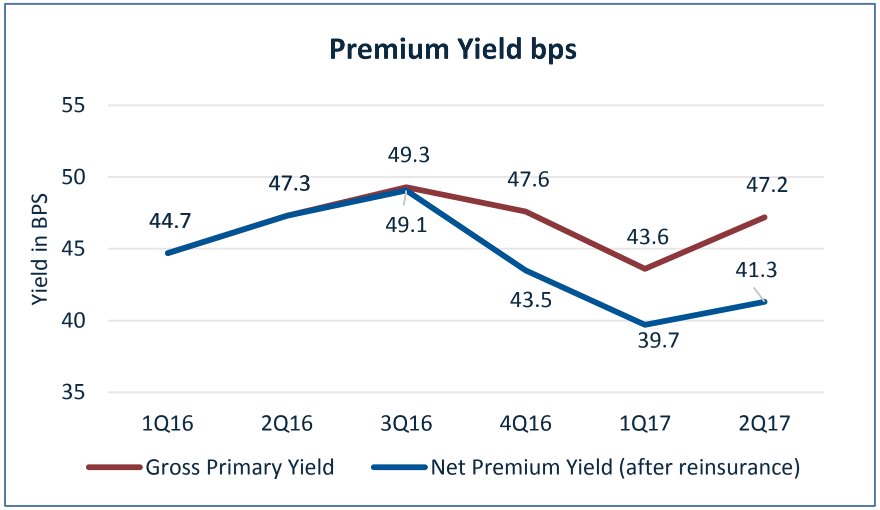
Lender data from Morstat.

# Product Mix Transformed



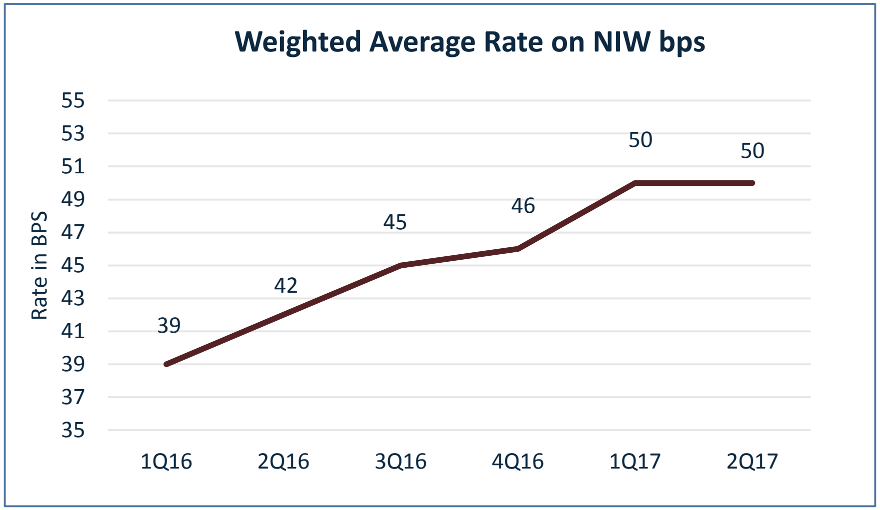

- Used single-premium lender-paid mortgage insurance (LPMI) programs to gain access to customers in 2015
- With new PMIERs surcharges due to take effect as of January 2016 on single-premium LPMI policies, we made strategic shift to align product mix with industry
- We believe approximately 80/20 mix of monthly vs. single premium product optimally hedges interest rate impact on prepayment speeds and extension risk

# Premium Yield




**Premium Yield:**

- Rebound in second quarter of 2017 attributable primarily to higher average rate on monthly portfolio and higher mix of monthly product
- Cancellation of single premium policies = 4 bps in 2Q17
- Approximately 6 bps impact from quota share reinsurance and insurance-linked notes (ILN)




**Rates (pricing):**

- Our weighted average rates have generally trended up
  - Raised prices on single premium
  - Increased mix of monthly premium
  - Slightly broader credit quality

# Risk Management

- Continued high credit quality – FICO 750+
- Rigorous underwriting standards
  - All loans are full documentation, no subprime
- We have underwritten or conducted post-close validation of 85% of the loans in our portfolio
  - This is far more than any other mortgage insurer
  - We expect better credit performance across a full credit cycle
  - Increases confidence in our loss assumptions and enables better customer relations over time

# Insurance Portfolio Metrics

| Vintage | Policies Ever in Force | Current Policies in Force | Wtd Avg Credit Score | Wtd Avg Orig LTV | Wtd Avg Curr LTV[1] | # of Loans in Default | # of Claims Paid | Incurred Loss Ratio to Date[2] | Cum Default Rate[3] |
|---|---|---|---|---|---|---|---|---|---|
| 2013 | 655 | 212 | 754 | 89.9% | 71.7% | 1 | 1 | 0.2% | 0.3% |
| 2014 | 14,786 | 7,963 | 748 | 91.1% | 76.4% | 53 | 7 | 3.5% | 0.4% |
| 2015 | 52,548 | 41,747 | 752 | 91.1% | 80.8% | 128 | 13 | 2.7% | 0.3% |
| 2016 | 83,628 | 78,111 | 754 | 91.0% | 85.8% | 67 | 2 | 1.3% | 0.1% |
| 2017 | 33,593 | 33,162 | 748 | 91.7% | 90.6% | -- | -- | -- | -- |
| Total | 185,208 | 161,195 | 752 | 91.2% | 85.0% | 249 | 23 | | |

**Portfolio Performance:**

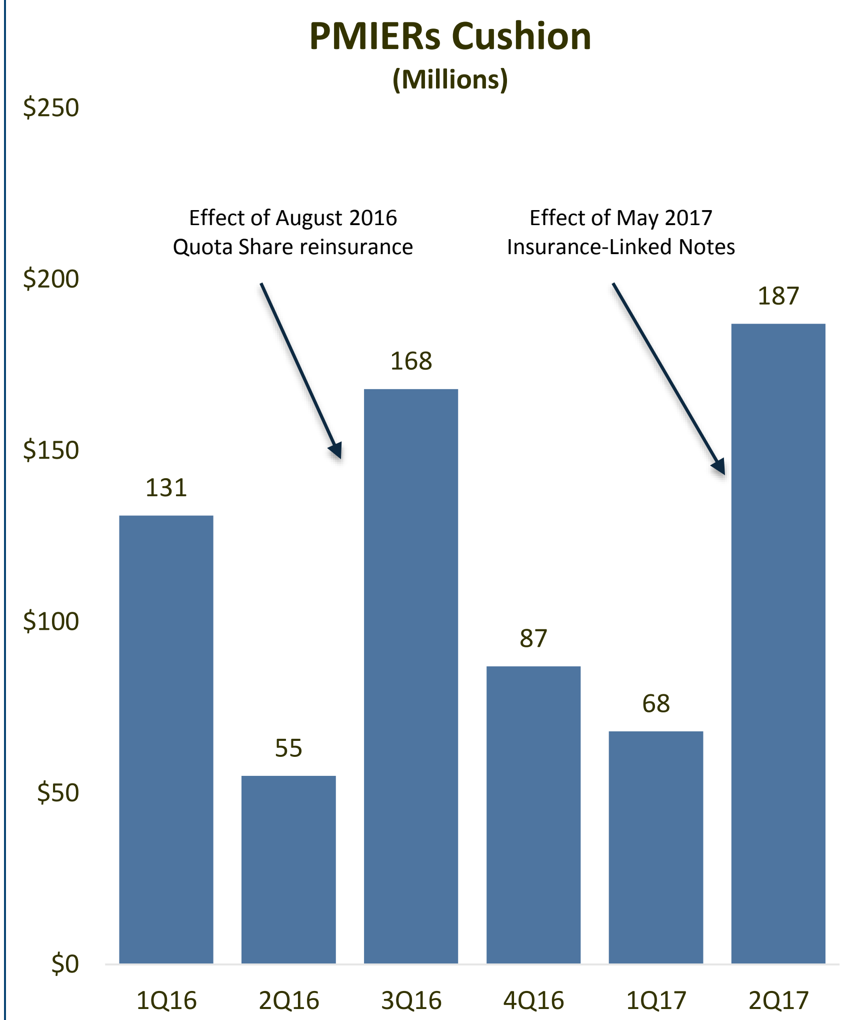
- Better-than-expected claims experience to date
- Loss development has been modest as a result of solid job growth and healthy home price appreciation
- We price to a 2% cumulative default rate over a full economic cycle, expected to drive long-run 20% loss ratios (losses as % of earned premiums)
- We believe our current book will develop ultimate default rate of 0.90 – 1.30%

1. Current LTV includes amortization and assumed Home Price Appreciation per Corelogic
2. Cumulative Loss Ratio = [cumulative losses ÷ cumulative premiums earned]
3. Cumulative Default Rate = [(# loans in default + # claims paid) ÷ policies ever in force]

# Balance Sheet & Capital Position

## Balance Sheet Strength

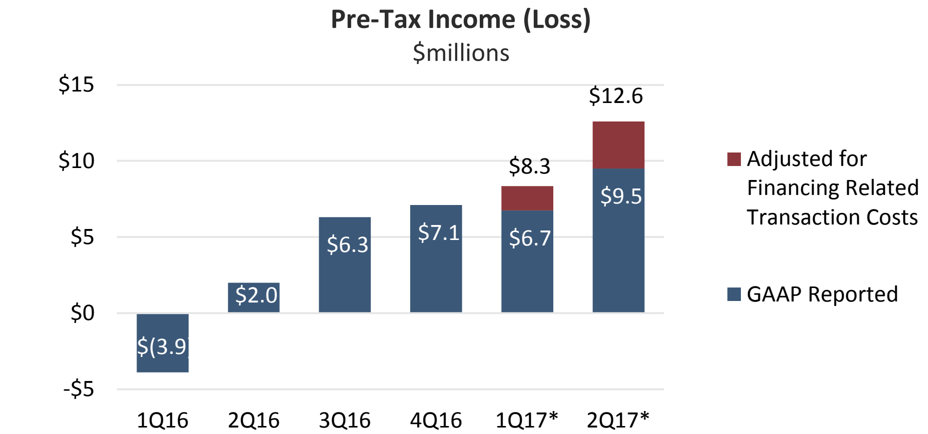
- Book value of $495M, equal to $8.27 per share as of 6/30/17
- $150M Term Loan maturing November 2019
  - GAAP debt/capital ratio of 22% at 6/30/2017
- 2016 Quota Share reinsurance through panel of 6 reinsurers
- $187 million excess PMIERs capital after benefit of insurance-linked notes



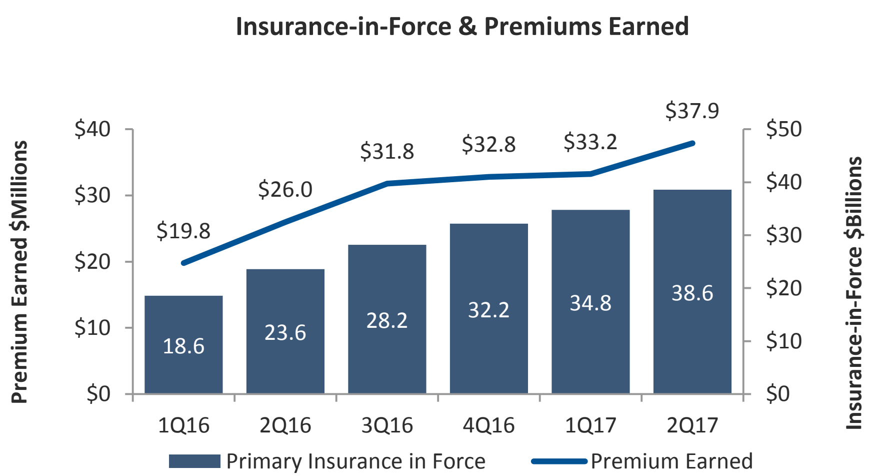
# Reinsurance & Capital Markets Supporting Growth

- Quota share reinsurance and Insurance-Linked Notes
  - $187 million of current PMIERs cushion
  - Cost of capital 3-4%
  - Adverse loss development on pre-2017 book now fully reinsured, protecting policy holders and shareholders from effects of catastrophic downturn
- Stable capital structure with enhanced flexibility
  - Term loan extended to 2019
  - Ability to service debt from operating company
  - Broad access to capital markets

# Second Quarter 2017 Financial Highlights




*First and second quarter 2017 adjusted for financing-related transaction costs of $1.6 million and $3.1 million, respectively. Reconciliation of GAAP to Non-GAAP measures posted on www.nationalmi.com.




## Second Quarter 2017:

- Insurance-in-force up 11% sequentially and 64% vs. prior year
- Premiums earned up 14% sequentially and 46% over prior year
- Significant operating leverage as 14% increase in premium drove 41% increase in pre-tax income
- Delivered GAAP combined ratio of 78%; 69% adjusted for $3.1 million of financing related transaction cost
- GAAP net income of $6 million or $0.10 per share and ROE of 5%; adjusted net income of $8 million or $0.13 per share, ROE of 6.5%

# Financial Highlights

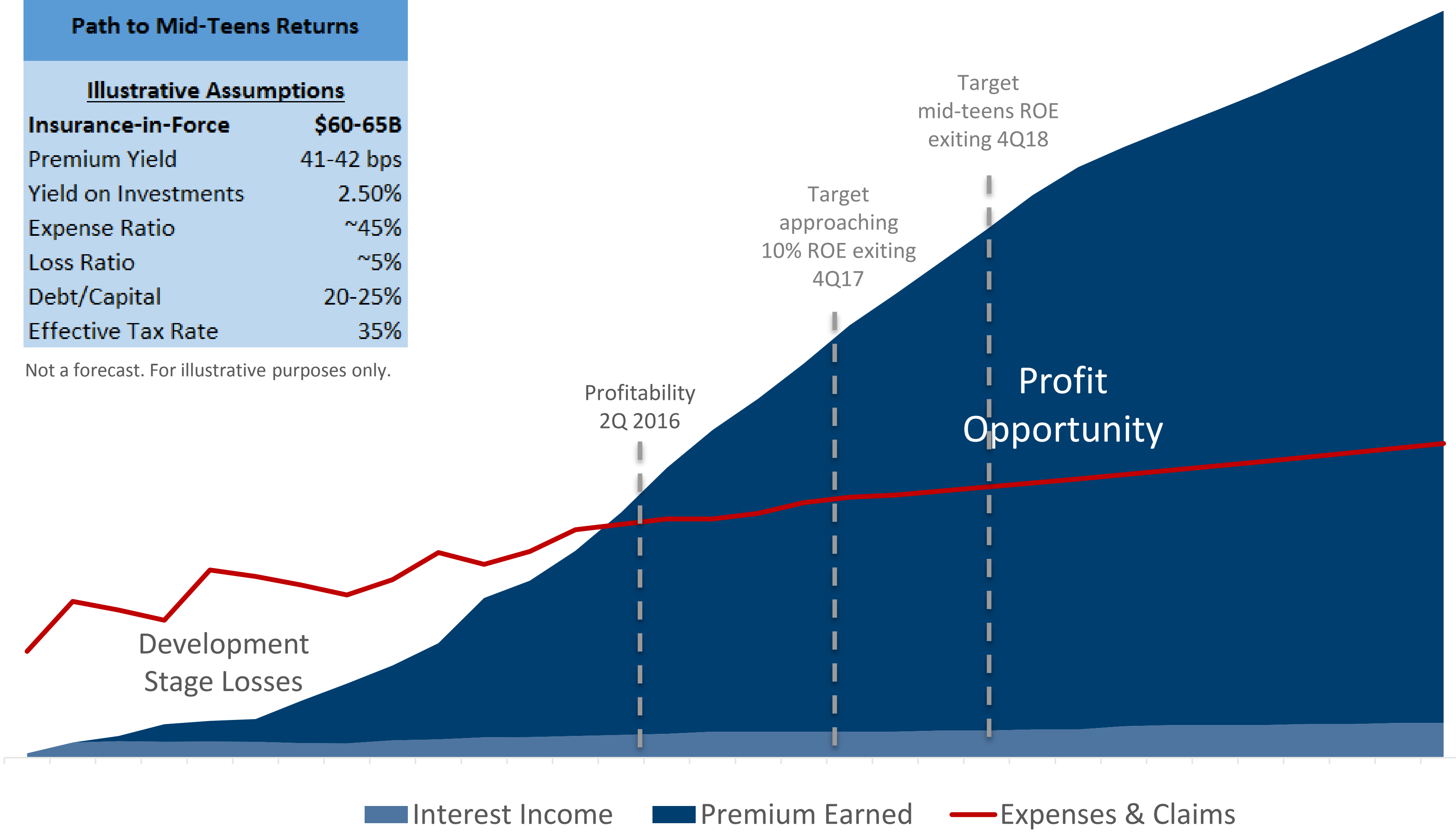
| | Second Quarter 6/30/2017 | First Quarter 3/31/2017 | Fourth Quarter 12/31/2016 | Second Quarter 6/30/2016 | Change Qtr/Qtr | Change Yr/Yr |
|---|---|---|---|---|---|---|
| Net Premiums Earned | $ 37,917 | $ 33,225 | $ 32,825 | $ 26,041 | 14% | 46% |
| Investment Income | 3,908 | 3,807 | 3,634 | 3,342 | 3% | 17% |
| Net realized investment gains (losses) and other revenue | 373 | 22 | 170 | 98 | | |
| Revenue | 42,198 | 37,054 | 36,629 | 29,481 | 14% | 43% |
| Underwriting and operating expenses | 28,048 | 25,989 | 23,281 | 23,234 | 8% | 21% |
| Insurance claims and claims expenses | 1,373 | 635 | 800 | 470 | | |
| Underwriting Income (Loss) | 12,777 | 10,430 | 12,548 | 5,777 | 23% | 121% |
| Interest expense | (3,300) | (3,494) | (3,777) | (3,707) | -6% | -11% |
| Gain (Loss) from change in fair value of warrants | 19 | (196) | (1,713) | (59) | | |
| Pretax Income (Loss) | 9,496 | 6,740 | 7,058 | 2,011 | 41% | 372% |
| Income tax expense (benefit)[1] | 3,484 | 1,248 | (52,664) | - | | |
| Net income (loss) | 6,012 | 5,492 | 59,722 | 2,011 | 9% | 199% |
| Net income (loss) per diluted share | $ 0.10 | $ 0.09 | $ 0.98 | $ 0.03 | | |
| *Expense Ratio* | *74%* | *78%* | *71%* | *89%* | | |
| *Loss Ratio* | *3.6%* | *1.9%* | *2.4%* | *1.8%* | | |
| *Combined Ratio* | *78%* | *80%* | *73%* | *91%* | | |
| Total Cash & Investments | 693,730 | 671,183 | 676,715 | 654,145 | 3% | 6% |
| Shareholders' Equity | 495,040 | 483,909 | 475,509 | 422,435 | 2% | 17% |
| Book Value Per Share | $ 8.27 | $ 8.09 | $ 8.04 | $ 7.14 | $ 0.02 | $ 0.16 |
| *Annualized Return-on-Equity* | *4.9%* | *4.6%* | | | | |

1) Reflects reversal of valuation allowance on the company's deferred tax asset

# National MI Profit Trajectory

| Path to Mid-Teens Returns | |
|---|---|
| **Illustrative Assumptions** | |
| **Insurance-in-Force** | **$60-65B** |
| Premium Yield | 41-42 bps |
| Yield on Investments | 2.50% |
| Expense Ratio | ~45% |
| Loss Ratio | ~5% |
| Debt/Capital | 20-25% |
| Effective Tax Rate | 35% |

Not a forecast. For illustrative purposes only.




Not a forecast. For illustrative purposes only.

# Financial Take-Aways

- ✓ Returns above all else
- ✓ Compelling earnings leverage
- ✓ Low-cost capital to support profitable growth