Business and Financial Disclosures of Genworth Mortgage Holdings, Inc.

August 19, 2020

INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

Audited Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)	December 31, 2019	December 31, 2018
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value (amortized cost $3,643,347 and $3,305,775)	$ 3,764,432	$ 3,274,497
Investment in unconsolidated affiliate, at fair value	—	424,756
Total investments	3,764,432	3,699,253
Cash and cash equivalents	585,058	159,051
Accrued investment income	24,159	21,922
Deferred acquisition costs	30,332	28,098
Premiums receivable	41,161	40,006
Other assets	54,811	30,358
Deferred tax asset	2,971	92,112
Total assets	**$ 4,502,924**	**$ 4,070,800**
Liabilities and equity		
Liabilities:		
Loss reserves	$ 235,062	$ 297,879
Unearned premiums	383,458	421,788
Other liabilities	57,329	77,394
Total liabilities	**675,849**	**797,061**
Equity:		
Common stock, $0.01 par value; 1,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid in capital	2,363,606	2,357,851
Retained earnings	1,370,038	942,410
Accumulated other comprehensive income (losses)	93,431	(26,522)
Total equity	**3,827,075**	**3,273,739**
Total liabilities and equity	**$ 4,502,924**	**$ 4,070,800**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)	Years ended December 31, 2019	2018
Revenues:		
Premiums	$ 856,976	$ 746,864
Net investment income	116,927	93,198
Net investment gains (losses)	718	(552)
Other income	4,232	1,587
Total revenues	**978,853**	**841,097**
Losses and expenses:		
Losses incurred	49,850	36,405
Acquisition and operating expenses, net of deferrals	195,768	176,986
Amortization of deferred acquisition costs and intangibles	15,065	14,037
Total losses and expenses	**260,683**	**227,428**
Income before income taxes and change in fair value of unconsolidated affiliate	**718,170**	**613,669**
Provision for income taxes	155,832	129,807
Income before change in fair value of unconsolidated affiliate	**562,338**	**483,862**
Change in fair value of unconsolidated affiliate, net of tax	115,290	(30,261)
Net income	**$ 677,628**	**$ 453,601**
Net income per common share—basic and diluted	$ 6,776	$ 4,536
Weighted average common shares outstanding—basic and diluted	100	100

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Years ended December 31, 2019	2018
Net income	$ 677,628	$ 453,601
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than temporarily impaired	119,953	(43,212)
Foreign currency translation and other adjustments	—	485
Total comprehensive income (loss)	**$ 797,581**	**$ 410,874**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands)	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total equity
Balances as of January 1, 2018	**$ —**	**$ 2,348,751**	**$ 16,205**	**$ 538,809**	**$ 2,903,765**
Comprehensive income (loss):					
Net income	—	—	—	453,601	453,601
Other comprehensive income (loss), net of taxes	—	—	(42,727)	—	(42,727)
Dividends to Genworth	—	—	—	(50,000)	(50,000)
Capital contributions from Genworth	—	9,100	—	—	9,100
Balance December 31, 2018	**$ —**	**$ 2,357,851**	**$ (26,522)**	**$ 942,410**	**$ 3,273,739**
Comprehensive income (loss):					
Net income	—	—	—	677,628	677,628
Other comprehensive income (loss), net of taxes	—	—	119,953	—	119,953
Dividends to Genworth	—	—	—	(250,000)	(250,000)
Capital contributions from Genworth	—	5,755	—	—	5,755
Balance December 31, 2019	**$ —**	**$ 2,363,606**	**$ 93,431**	**$ 1,370,038**	**$ 3,827,075**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years ended December 31, 2019	2018
Cash flow from operating activities:		
Net income	$ 677,628	$ 453,601
Adjustments to reconcile net income from operating activities:		
Net (gains) losses on investments	(718)	552
Amortization of fixed maturity securities discounts and premiums	(2,594)	(2,390)
Amortization of deferred acquisition costs and intangibles	15,065	14,037
Acquisition costs deferred	(10,618)	(9,228)
Deferred income taxes	56,731	119,042
Change in fair value of investment in unconsolidated affiliate, excluding cash dividend	(85,491)	77,400
Other	6,220	10,378
Change in certain assets and liabilities:		
Accrued investment income	(2,237)	(3,866)
Premiums receivable	(1,155)	(5,752)
Other assets	(31,599)	(6,261)
Loss reserves	(62,817)	(159,576)
Unearned premiums	(38,330)	17,150
Other liabilities	(20,065)	6,029
Net cash provided by (used in) operating activities	**$ 500,020**	**$ 511,116**
Cash flows from investing activities:		
Purchase of fixed maturity securities available-for-sale	(951,281)	(1,258,824)
Proceeds from sales of fixed maturity securities available-for-sale	257,710	402,479
Maturities of fixed maturity securities available-for-sale	359,311	337,941
Proceeds from sales of investment in unconsolidated affiliate	510,247	20,229
Net cash provided by (used in) investing activities	**$ 175,987**	**$ (498,175)**
Cash flows from financing activities:		
Dividends paid to Genworth	(250,000)	(50,000)
Net cash provided by (used in) financing activities	**$ (250,000)**	**$ (50,000)**
Net (decrease) increase in cash and cash equivalents	426,007	(37,059)
Cash and cash equivalents at beginning of year	159,051	196,110
Cash and cash equivalents at end of year	**$ 585,058**	**$ 159,051**
Supplementary disclosure of cash flow information:		
Non-cash contribution of capital from Genworth	$ 5,755	$ 9,100

See Notes to Consolidated Financial Statements

(1) Nature of business and organization structure

Nature of Business

Genworth Mortgage Holdings, Inc. ("GMHI", together with its subsidiaries, the "Company", "we", "us" or "our") has been a wholly owned subsidiary of Genworth Financial, Inc. ("Genworth") since GMHI's incorporation in Delaware in 2012. On November 29, 2019, Genworth completed a holding company reorganization whereby Genworth contributed 100% of the issued and outstanding voting securities of the Company to Genworth Holdings, Inc. ("Genworth Holdings"). Post-contribution, the Company is a direct, wholly owned subsidiary of Genworth Holdings, and Genworth Holdings is still a direct, wholly owned subsidiary of Genworth. The Company is engaged in the business of writing and assuming residential mortgage guaranty insurance. The insurance protects lenders and investors against certain losses resulting from nonpayment of loans secured by mortgages, deeds of trust, or other instruments constituting a lien on residential real estate.

In the United States, we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans ("primary mortgage insurance"). Our private mortgage insurance enables borrowers to buy homes with a down payment of less than 20% of the home's value. Private mortgage insurance also facilitates the sale of these low down payment mortgage loans in the secondary mortgage market, most of which are sold to government sponsored enterprises. We also selectively enter into insurance transactions with lenders and investors, under which we insure a portfolio of loans at or after origination.

The Company operates its business through its primary insurance subsidiary, Genworth Mortgage Insurance Corporation ("GMIC"), with operations in all 50 states and the District of Columbia. GMIC is an approved private mortgage guaranty insurer by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Fannie Mae and Freddie Mac are government-sponsored enterprises and we refer to them collectively as the "GSEs."

We also perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and expedites the approval process.

We operate our business in a single segment, which is how our chief operating decision maker (who is our chief executive officer) reviews financial performance of the Company and allocates resources. Our segment includes a run-off insurance block with reference properties in Mexico and business activity in South Korea ("run-off business"), which is immaterial to our consolidated financial statements. All insurance policies in South Korea were commuted in 2017, and all business activity in South Korea ceased in 2018.

(2) Summary of significant accounting policies

Basis of Presentation

The accompanying financial statements of the Company are presented on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of GMHI, its subsidiaries and those entities required to be consolidated under the applicable accounting standards. All intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared on a standalone basis and were derived from the consolidated financial statements and accounting records of Genworth. The consolidated financial statements include our assets, liabilities, revenues, expenses and cash flows.

The consolidated financial statements include allocations of certain Genworth expenses. We believe the assumptions and methodologies underlying the allocation of these expenses are reasonable. The allocated expenses relate to various services that have historically been provided to us by Genworth, including investment management, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of equity, proportional effort or other relevant measures. Expenses allocated to the Company are not necessarily representative of the amounts that would have been incurred had the Company operated independently of Genworth. See Note 10 for further information regarding the allocation of Genworth expenses.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the amounts included in our consolidated financial statements include our best estimates and assumptions, actual results may vary materially.

Premiums

For monthly insurance contracts, we report premiums as revenue over the period that coverage is provided. For single premium mortgage insurance contracts, we report premiums over the estimated policy life in accordance with the expected pattern of risk emergence as further described in our accounting policy for unearned premiums. In addition, we refund post-delinquent premiums received in our U.S. mortgage insurance business to the insured party if the delinquent loan goes to claim. We record a liability for premiums received on the delinquent loans consistent with our expectations of ultimate claim rates.

Net Investment Income and Net Investment Gains and Losses

Investment income is recognized when earned. Income or loss upon call or prepayment of available-for-sale fixed maturity securities is recognized in net investment income, except for hybrid securities where the income or loss upon call is recognized in net investment gains and losses. Investment gains and losses are calculated on the basis of specific identification on the trade date.

Investment income on asset-backed securities is initially based upon yield, cash flow and prepayment assumptions at the date of purchase. Subsequent revisions in those assumptions are recorded using the retrospective or prospective method. Under the retrospective method used for asset-backed securities of high credit quality (ratings equal to or greater than “AA” or that are backed by a U.S. agency) which cannot be contractually prepaid in such a manner that we would not recover a substantial portion of the initial investment, amortized cost of the security is adjusted to the amount that would have existed had the revised assumptions been in place at the date of purchase. The adjustments to amortized cost are recorded as a charge or credit to net investment income. Under the prospective method, which is used for all other asset-backed securities, future cash flows are estimated, and interest income is recognized going forward using the new internal rate of return.

Other Income

Other income primarily includes underwriting fee revenue and other revenue. Underwriting fee revenue is earned for underwriting services provided on a per-unit or per-diem basis, as defined in the underwriting agreements. Underwriting fee revenue is recognized at the point in time when the service obligation is satisfied.

Investments

The Company's investment portfolio is managed by Genworth. Purchases, sales, and related investment management decisions are conducted by the Company with the advice of Genworth. As part of these services, the Company is charged an investment management fee, as agreed between both parties. These fees are charged to investment expense and are included in net investment income in the consolidated statements of income. Refer to Note 10 for further details.

Fixed maturity securities classified as available-for-sale are carried at fair value. Changes in the fair value of available-for-sale investments, net of deferred income taxes, are reflected as unrealized investment gains or losses in a separate component of accumulated other comprehensive income ("OCI"). Our portfolio of fixed maturity securities comprises primarily investment grade securities.

Other-Than-Temporary Impairments on Available-For-Sale Securities

As of each balance sheet date, we evaluate securities in an unrealized loss position for other-than-temporary impairments. For debt securities, we consider all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. More specifically for asset-backed securities, we also utilize performance indicators of the underlying assets including default or delinquency rates, loan to collateral value ratios, third-party credit enhancements, current levels of subordination, vintage and other relevant characteristics of the security or underlying assets to develop our estimate of cash flows. Estimating the cash flows expected to be collected is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third-party sources.

We recognize other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

- we do not expect full recovery of our amortized cost basis when due,
- the present value of cash flows expected to be collected is less than our amortized cost basis,
- we intend to sell a security, or
- it is more likely than not that we will be required to sell a security prior to recovery.

Total other-than-temporary impairments that emerged in the current period are calculated as the difference between the amortized cost and fair value. For other-than-temporarily impaired securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, total other-than-temporary impairments are adjusted by the portion of other-than-temporary impairments recognized in OCI ("non-credit"). Net other-than-temporary impairments recorded in net income (loss) represent the credit loss on the other-than-temporarily impaired securities with the offset recognized as an adjustment to the amortized cost to determine the new amortized cost basis of the securities.

For securities that were deemed to be other-than-temporarily impaired and a non-credit loss was recorded in OCI, the amount recorded as an unrealized gain (loss) represents the difference between the current fair value and the new amortized cost for each period presented. The unrealized gain (loss) on an other-than-temporarily impaired security is recorded as a separate component in OCI until the security is sold or until we record an other-than-temporary impairment where we intend to sell the security or will be required to sell the security prior to recovery.

To estimate the amount of other-than-temporary impairment attributed to credit losses on debt securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, we determine our best estimate of the present value of the cash flows expected to be collected from a security using the effective yield on the security prior to recording any other-than-temporary impairment. If the present value of the discounted cash flows is lower than the amortized cost of the security, the difference between the present value and amortized cost represents the credit loss associated with the security with the remaining difference between fair value and amortized cost recorded as a non-credit other-than-temporary impairment in OCI.

The evaluation of other-than-temporary impairments is subject to risks and uncertainties and is intended to determine the appropriate amount and timing for recognizing an impairment charge. The assessment of whether such impairment has occurred is based on management's best estimate of the cash flows expected to be collected at the individual security level. We regularly monitor our investment portfolio to ensure that securities that may be other-than-temporarily impaired are identified in a timely manner and that any impairment charge is recognized in the proper period.

While the other-than-temporary impairment model for debt securities generally includes fixed maturity securities, there are certain hybrid securities that are classified as fixed maturity securities where the application of a debt impairment model depends on whether there has been any evidence of deterioration in credit of the issuer, such as a downgrade to below investment grade. Under certain circumstances, evidence of deterioration in credit of the issuer may result in the application of the equity securities impairment model.

Investment in Unconsolidated Affiliate

Investments in which the Company is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting except in cases where the fair value option has been elected. For such investments where we have elected the fair value option, the election is irrevocable and is applied on an investment by investment basis at initial recognition. The change in fair value of such investments is included within change in fair value of unconsolidated affiliate in the consolidated statements of income. See Note 3 for details.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have fixed maturity securities, which are carried at fair value, and an investment in an unconsolidated affiliate for which the fair value option has been elected.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

All assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations for which inputs are observable or where those significant value drivers are observable.
- Level 3—Instruments for which significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as equity securities and actively traded mutual fund investments.

Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. These models are primarily industry-standard models that consider various inputs, such as interest rate, credit spread and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable, information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed maturity securities; government or agency securities; and certain asset-backed securities.

Level 3 comprises financial instruments whose fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on, nor corroborated by, readily available market information. In certain instances, this category may also utilize non-binding broker quotes. This category primarily consists of certain less liquid fixed maturity securities where we cannot corroborate the significant valuation inputs with market observable data.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability, such as the relative impact on the fair value as a result of including a particular input. We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. See Note 4 for additional information related to fair value measurements.

Cash and Cash Equivalents

Certificates of deposit, money market funds and other time deposits with original maturities of 3 months or less are considered cash equivalents in the consolidated balance sheets and consolidated statements of cash flows. Items with maturities greater than 3 months but less than one year at the time of acquisition are considered short-term investments.

Accrued Investment Income

Accrued investment income consists primarily of interest. Interest is recognized on an accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income is not recorded on fixed maturity securities in default and fixed maturity securities delinquent more than 90 days or where collection of interest is improbable.

Deferred Acquisition Costs ("DAC")

Acquisition costs include costs that are directly related to the successful acquisition of new insurance contracts. Acquisition costs are deferred and amortized to the extent they are recoverable from future profits. Acquisition costs primarily consist of underwriting costs and are amortized in proportion to estimated gross profit. Considerable judgment is used in evaluating these estimates and the assumptions on which they are based. The use of different assumptions may have a significant effect on the amortization of deferred acquisition costs.

Deferred acquisition costs were $30.3 million and $28.1 million for the years ended December 31, 2019 and 2018, respectively. Amortization of DAC was $8.4 million and $9.1 million for the years ended December 31, 2019 and 2018, respectively, and was included within amortization of deferred acquisition costs and intangibles in the consolidated statements of income.

Premium Deficiency Reserves ("PDR")

Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. The discount rate used in the calculation is based upon our pretax investment yield. The Company does not utilize anticipated investment income on the Company's assets when evaluating the need for a PDR. The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The differences between the actual results and our estimates could vary materially. The Company completed a PDR analysis as of December 31, 2019 and 2018, and determined that no PDR was required.

Reinsurance

Premium revenue, benefits and acquisition and operating expenses, net of deferrals, are reported net of the amounts relating to reinsurance ceded to other companies. The cost of reinsurance is accounted for over the terms of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies. See Note 6 for details.

Loss reserves

Loss reserves represents the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. The estimated liability includes requirements for future payments of: (a) losses that have been reported to the insurer; (b) losses related to insured events that have occurred but that have not been reported to the insurer as of the date the liability is estimated; and (c) loss adjustment expenses ("LAE"). Loss adjustment expenses include costs incurred in the claim settlement process such as legal fees and costs to record, process and adjust claims. Consistent with U.S. GAAP and industry accounting practices, we do not establish loss reserves for future claims on insured loans that are not in default or believed to be in default.

Estimates and actuarial assumptions used for establishing loss reserves involve the exercise of significant judgment, and changes in assumptions or deviations of actual experience from assumptions can have material impacts on our loss reserves and net income (loss). Because these assumptions relate to factors that are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. The sources of uncertainty affecting the estimates are numerous and include factors internal and external to the Company. Internal factors include, but are not limited to, changes in the mix of exposures, loss mitigation activities and claim settlement practices. Significant external influences include changes in home prices, unemployment, government housing policies, state foreclosure timeline, general economic conditions, interest rates, tax policy, credit availability, and mortgage products. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our reserves, results of operations and financial condition.

We establish reserves to recognize the estimated liability for losses and LAE related to defaults on insured mortgage loans. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. The estimates are determined using a factor-based approach, in which assumptions of claim rates for loans in default and the average amount paid for loans that result in a claim are calculated using traditional actuarial techniques. Over time, as the status of the underlying delinquent loans moves toward foreclosure and the likelihood of the associated claim loss increases, the amount of the loss reserves associated with the potential claims may also increase.

Management monitors actual experience, and where circumstances warrant, will revise its assumptions. Our liability for loss reserves is reviewed regularly, with changes in our estimates of future claims recorded through net income (loss). Estimation of losses are based on historical claim and cure experience and covered exposures and is inherently judgmental. Future developments may result in losses greater or less than the liability for loss reserves provided.

Unearned Premiums

Premiums written on single premium policies and annual premium policies are initially deferred as unearned premium reserve and earned over the policy life. A portion of the revenue from single premium policies is recognized in premiums earned in the current period, and the remaining portion is deferred as unearned premiums and earned over the estimated expiration of risk of the policy. If single premium policies are cancelled and the premium is non-refundable, then the remaining unearned premium related to each cancelled policy is recognized to earned premiums upon notification of the cancellation. For borrower-paid mortgage insurance, coverage ceases at the earlier of prepayment or when the original principal is amortized to a 78 percent loan-to-value ratio in accordance with the Homeowners Protection Act of 1998.

We periodically review our premium earnings recognition models with any adjustments to the estimates reflected on a retrospective basis in current period income. These reviews include the consideration of recent and projected loss and policy cancellation experience, and adjustments to the estimated earnings patterns are made, if warranted. In 2019, the review resulted in an increase in earned premiums of $13.7 million. There was no adjustment recorded in 2018.

Share-Based Compensation

Certain of the Company's employees participate in Genworth's incentive plans, under which the Company's employees may be granted share-based awards, including stock options. Compensation expense is recognized based on a grant date fair value, adjusted for expected forfeitures, through the income statement over the respective vesting period of the awards. See Note 9 for additional information related to share-based compensation.

Employee Benefit Plans

The Company's employees are provided a number of Genworth employee benefits. Genworth, as sponsor of these employee benefit plans, is ultimately responsible for maintenance of these plans in compliance with applicable laws. The plans are accounted for by Genworth in accordance with relevant accounting guidance. Expenses related to employee benefits are included within acquisition and operating expenses, net of deferrals in the consolidated statements of income. See Note 8 for additional information related to employee benefits.

Income Taxes

We determine deferred tax assets and/or liabilities by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled if there is no change in law. The effect on deferred taxes of a change in tax rates is recognized in net income (loss) in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

The Company has elected to participate in a single U.S. consolidated income tax return filing (the "Genworth consolidated return"). All Genworth companies domesticated in the United States are included in the Genworth consolidated return as allowed by the tax law and regulations. We have a tax sharing agreement in place and all intercompany balances related to this agreement are settled at least annually. Refer to Note 7 for further details.

Variable Interest Entities

We are involved in certain entities that are considered variable interest entities ("VIEs") as defined under U.S. GAAP, and, accordingly, we evaluate the VIE to determine whether we are the primary beneficiary and are required to consolidate the assets and liabilities of the entity. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance and has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The determination of the primary beneficiary for a VIE can be complex and requires management judgment regarding the expected results of the entity and how those results are absorbed by variable interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIEs.

We have a reinsurance agreement with an entity that is considered a VIE. Our involvement with this VIE includes significant insurance risk and a reasonable possibility of a significant loss but does not result in the unilateral power to direct the activities that most significantly affect the VIE's economic performance or result in the obligation to absorb losses or the right to receive benefits. Accordingly, consolidation of the VIE is not required. The assets of the VIE are deposited in a reinsurance trust for our benefit that will be the source of reinsurance claim payments. See Note 6 for details.

Accounting Pronouncements Adopted

Amortization Period of Certain Callable Debt Securities Held at a Premium

On January 1, 2019, we adopted new accounting guidance related to the shortening of the amortization period of certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. We adopted this new accounting guidance using the modified retrospective method, which had no significant impact on our consolidated financial statements at adoption.

Accounting for Leases

On January 1, 2019, we adopted new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-of-use asset and a corresponding lease liability on the balance sheet. We adopted this new accounting guidance using the effective date transition method, which permits entities to apply the new lease standard using a modified retrospective transition approach at the date of adoption. As such, historical periods will continue to be measured and presented under the previous guidance while current and future periods will be subject to this new accounting guidance. The package of practical expedients was also elected upon adoption. Upon adoption we recorded a $22.6 million right-of-use asset related to operating leases and a $23.4 million lease liability. In addition, we de-recognized accrued rent expense of $0.8 million recorded under the previous accounting guidance. The right-of-use asset and the lease liability are included in other assets and other liabilities, respectively, and did not have a significant impact on our consolidated balance sheet as of December 31, 2019. The initial measurement of our right-of-use asset had no significant initial direct costs, prepaid lease payments or lease incentives; therefore, a cumulative-effect adjustment was not recorded to the opening retained earnings balance as a result of the change in accounting principle.

Our leased assets are classified as operating leases and consist of office space in two locations in the United States. Lease payments included in the calculation of our lease liability include fixed amounts contained within each rental agreement and variable lease payments that are based upon an index or rate. We have elected to combine lease and non-lease components, as permitted under this new accounting guidance, and as a result, non-lease components are included in the calculation of our lease liability as opposed to being separated and accounted for as consideration under the new revenue recognition standard. Our remaining lease terms ranged from less than 3 years to 8 years and had a weighted-average remaining lease term of 7.9 years as of December 31, 2019. The implicit rate of our lease agreements was not readily determinable; therefore, we utilized our incremental borrowing rate to discount future lease payments. The weighted-average discount rate was 7.1% as of December 31, 2019.

In 2019, under this new accounting guidance, annual rental expense was $4.2 million. Annual rental expense and future minimum lease payments were not significantly different under this new accounting guidance as compared to the previous guidance. See Note 11 for details.

Stranded Tax Effects

On January 1, 2018, we early adopted new accounting guidance on the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (“TCJA”), or “stranded tax effects.” Under U.S. GAAP, deferred tax assets and liabilities are adjusted for the effect of a change in tax laws or rates with the effect included in income (loss) from continuing operations in the period that the changes were enacted. This also includes situations in which the related tax effects were originally recognized in other comprehensive income (loss) as opposed to net income (loss).

The accounting for the temporary differences related to investment in foreign subsidiaries recorded in accumulated other comprehensive income (loss) at adoption of the TCJA were provisional. Additional reclassification adjustments are permitted under this new accounting guidance in future periods as the tax effects of the TCJA on related temporary differences are finalized. However, no reclassification adjustments were recorded during the second, third or fourth quarters of 2018. Other than those effects related to the TCJA, our policy is to release stranded tax effects from accumulated other comprehensive income (loss) using the portfolio approach for items related to investments and derivatives, and upon disposition of a subsidiary for items related to outside basis differences.

Accounting for Share-Based Compensation as a Modification

On January 1, 2018, we adopted new accounting guidance that clarifies when to account for a change to share-based compensation as a modification. The new guidance requires modification accounting only if there are changes to the fair value, vesting conditions or classification as a liability or equity of the share-based compensation. We adopted this new accounting guidance prospectively, and therefore, the guidance did not have any impact at adoption.

Income Tax Effects of Intra-Entity Transfers of Assets Other Than Inventory

On January 1, 2018, we adopted new accounting guidance related to the income tax effects of intra-entity transfers of assets other than inventory. The new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted this new accounting guidance using the modified retrospective method, which did not have a significant impact on our consolidated financial statements or disclosures at adoption.

Classification of Certain Cash Payments and Receipts

On January 1, 2018, we adopted new accounting guidance related to the classification of certain cash payments and cash receipts on our statements of cash flows. The guidance reduces diversity in practice related to eight specific cash flow issues. We adopted this new accounting guidance using the modified retrospective method, which did not have a significant impact on our consolidated financial statements at adoption.

Recognition and Measurement of Financial Assets and Liabilities

On January 1, 2018, we adopted new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. Changes to the current financial instruments accounting primarily affects equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, equity investments with readily determinable fair value, except those accounted for under the equity method of accounting, are measured at fair value with changes in fair value recognized in net income (loss). The new guidance also clarifies that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with other deferred tax assets. We adopted this new accounting guidance using the modified retrospective method which did not have a significant impact on our consolidated financial statements at adoption.

Revenue Recognition

On January 1, 2018, we adopted new accounting guidance related to revenue from contracts with customers. The key principle of the new guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. The Financial Accounting Standards Board (the “FASB”) has clarified that insurance contracts, including mortgage insurance contracts, are specifically excluded from the scope of this new guidance. We adopted this new accounting guidance, which applies to our underwriting fee revenue, using the modified retrospective method, which did not have a significant impact on our consolidated financial statements at adoption.

Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued new accounting guidance related to simplifying the accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. We revised our plan adoption date as a private company, and accordingly this new accounting guidance is now effective for us on January 1, 2022, using the retrospective method or modified retrospective method for certain changes and prospective method for all other changes, with early adoption permitted. Should we issue securities registered under the Securities Act as a public company, this new accounting guidance would be effective for us on January 1, 2021. We are in process of evaluating the impact the guidance may have on our consolidated financial statements and disclosures.

In August 2018, the FASB issued new accounting guidance related to disclosure requirements for defined benefit plans as part of its disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for defined benefit pension and other postretirement benefit plans. We adopted this new accounting guidance on January 1, 2020, using the retrospective method, which did not have a significant impact on our consolidated financial statements and disclosures.

In August 2018, the FASB issued new accounting guidance related to fair value disclosure requirements as part of its disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for fair value measurements. The guidance includes new disclosure requirements related to the change in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. We adopted this new accounting guidance on January 1, 2020, using the prospective method for disclosures related to changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period, the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty and the retrospective method for all other disclosures. This accounting guidance did not have a significant impact on our consolidated financial statements and disclosures.

In June 2016, the FASB issued new accounting guidance related to accounting for credit losses on financial instruments. The guidance requires entities to recognize an allowance equal to its estimate of lifetime expected credit losses and applies to most debt instruments not measured at fair value. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. The new guidance further requires that expected credit losses on premiums receivable are measured in accordance with the credit loss requirements for financial instruments measured at amortized cost. Due to the short-term nature of the Company's premiums receivable, we consider lifetime expected credit losses on premiums receivable to be substantially immaterial. We revised our plan adoption date as a private company, and accordingly this new accounting guidance is now effective for us on January 1, 2023, using the modified retrospective method, with early adoption permitted. Should we issue securities registered under the Securities Act as a public company, this new accounting guidance would be effective for us on January 1, 2020. Adoption of the new accounting guidance is not expected to have a significant impact on our financial statements and disclosures.

(3) Investments

Net Investment Income

Sources of net investment income were as follows for the year ended December 31:

(Amounts in thousands)	2019	2018
Fixed maturity available-for-sale securities	$117,407	$94,031
Cash and cash equivalents	3,881	2,841
Gross investment income before expenses and fees	121,288	96,872
Investment expenses and fees	(4,361)	(3,674)
Net investment income	**$116,927**	**$93,198**

Available-for-Sale Securities

The amortized cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

2019 (Amounts in thousands)	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. government, agencies and GSEs	$ 90,815	$ 1,535	$ (14)	$ 92,336
State and political subdivisions	88,482	9,706	(29)	98,159
Non-U.S. government	18,806	628	—	19,434
U.S. corporate	2,175,580	86,489	(623)	2,261,446
Non-U.S. corporate	349,975	14,525	(31)	364,469
Other asset-backed	919,689	9,923	(1,024)	928,588
Total fixed maturities	**$3,643,347**	**$122,806**	**$(1,721)**	**$3,764,432**

2018 (Amounts in thousands)	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. government, agencies and GSEs	$ 86,238	$ 338	$ (1,386)	$ 85,190
State and political subdivisions	137,394	6,447	(1,716)	142,125
Non-U.S. government	31,878	87	(462)	31,503
U.S. corporate	1,992,558	6,430	(30,320)	1,968,668
Non-U.S. corporate	324,522	532	(9,178)	315,876
Other asset-backed	733,185	2,412	(4,462)	731,135
Total fixed maturities	**$3,305,775**	**$16,246**	**$(47,524)**	**$3,274,497**

Gross Unrealized Losses and Related Fair Values of Available-for-Sale Securities

The following tables present the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position:

2019 (Amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Fixed maturity securities:									
U.S. government, agencies and GSEs	$ 1,856	$ (13)	1	$ 2,129	$ (1)	1	$ 3,985	$ (14)	2
State and political subdivisions	9,221	(29)	3	—	—	—	9,221	(29)	3
Non-U.S. government	—	—	—	—	—	—	—	—	—
U.S. corporate	57,946	(623)	11	—	—	—	57,946	(623)	11
Non-U.S. corporate	4,976	(6)	1	6,007	(25)	2	10,983	(31)	3
Other asset-backed securities	169,880	(717)	29	48,759	(307)	13	218,639	(1,024)	42
Total fixed maturity securities in an unrealized loss position	**$ 243,879**	**$ (1,388)**	**45**	**$ 56,895**	**$ (333)**	**16**	**$ 300,774**	**$ (1,721)**	**61**

2018 (Amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Fixed maturity securities:									
U.S. government, agencies and GSEs	$ 19,221	$ (164)	5	$ 51,079	$ (1,222)	16	$ 70,300	$ (1,386)	21
State and political subdivisions	29,141	(190)	11	58,011	(1,526)	21	87,152	(1,716)	32
Non-U.S. government	11,638	(308)	1	12,816	(154)	3	24,454	(462)	4
U.S. corporate	938,966	(15,934)	201	457,306	(14,386)	103	1,396,272	(30,320)	304
Non-U.S. corporate	194,881	(6,293)	44	60,149	(2,885)	17	255,030	(9,178)	61
Other asset-backed securities	204,104	(2,044)	46	236,916	(2,418)	66	441,020	(4,462)	112
Total fixed maturity securities in an unrealized loss position	**$1,397,951**	**$(24,933)**	**308**	**$876,277**	**$(22,591)**	**226**	**$2,274,228**	**$(47,524)**	**534**

As of December 31, 2019, we held 61 individual fixed maturity securities that were in an unrealized loss position, of which 16 were in a continuous unrealized loss position for 12 months or more. These unrealized losses were primarily attributable to the increase in interest rates, mostly concentrated in other asset-backed securities and corporate securities.

For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of the amount and timing of cash flows to be collected. We do not intend to sell, nor do we expect that we will be required to sell these securities prior to recovering our amortized cost.

Contractual Maturities of Fixed Maturity Securities Available-for-sale

The scheduled maturity distribution of fixed maturity securities is set forth in the tables below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

2019 (Amounts in thousands)	Amortized cost	Fair value
Due in one year or less	$ 230,837	$ 232,470
Due after one year through five years	1,589,449	1,638,658
Due after five years through ten years	867,013	923,849
Due after ten years	36,359	40,867
Subtotal	2,723,658	2,835,844
Other asset-backed securities	919,689	928,588
Total fixed maturities	**$3,643,347**	**$3,764,432**

2018 (Amounts in thousands)	Amortized cost	Fair value
Due in one year or less	$ 148,784	$ 148,328
Due after one year through five years	1,385,318	1,365,650
Due after five years through ten years	1,009,629	997,533
Due after ten years	28,859	31,851
Subtotal	2,572,590	2,543,362
Other asset-backed securities	733,185	731,135
Total fixed maturities	**$3,305,775**	**$3,274,497**

As of December 31, 2019, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of equity.

As of December 31, 2019 and 2018, $26.1 million and $25.6 million, respectively, of securities were on deposit with various state insurance commissioners in order to comply with relevant insurance regulations.

Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the years ended December 31:

(Amounts in thousands)	2019	2018
Fixed maturity available-for-sale securities:		
Gross realized gains	$1,270	$ 12,401
Gross realized (losses)	(552)	(12,953)
Net investment gains (losses)	**$ 718**	**$ (552)**

Other-Than-Temporary Impairments

The Company had no other-than-temporary impairment charges for the years ended December 31, 2019 and 2018.

Unrealized Investment Gains and Losses

The change in net unrealized gains (losses) on fixed maturity available-for-sale securities reported in accumulated other comprehensive income (loss) was as follows as of and for the years ended December 31:

(Amounts in thousands)	2019	2018
Beginning balance	**$ (26,522)**	**$ 16,690**
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	153,062	(55,452)
Provision for income taxes	(32,557)	11,804
Change in unrealized gains (losses) on investment securities	120,505	(43,648)
Reclassification adjustments to net investment (gains) losses, net of taxes of $(147) and $116, respectively	(552)	436
Change in net unrealized investment gains (losses)	119,953	(43,212)
Ending balance	**$ 93,431**	**$(26,522)**

Investment in Unconsolidated Affiliate

As of December 31, 2018, the Company held 14.4 million, or approximately 16.4%, of outstanding common shares of Genworth MI Canada Inc. (“Genworth Canada”), a publicly traded company on the Toronto Stock Exchange. The Company concluded it had significant influence over Genworth Canada primarily due to board representation, and therefore, the Company classified its investment in Genworth Canada as an equity method investment. We have elected to account for the investment in Genworth Canada under the fair value option because the investment has a readily determinable fair value.

On December 12, 2019, we completed the sale of our investment in Genworth Canada to an affiliate of Brookfield Business Partners L.P. (“Brookfield”) and received approximately $501.8 million in net cash proceeds. We also received cash proceeds from the sale of common shares in Genworth Canada of $8.4 million and $20.2 million in 2019 and 2018, respectively, related to share repurchases from Genworth Canada.

The fair value of the investment in Genworth Canada was $0 and $424.8 million as of December 31, 2019 and 2018, respectively. The change in fair value of the investment in Genworth Canada was $127.4 million and $(55.6) million in 2019 and 2018, respectively, and is included within change in fair value of unconsolidated affiliate in the consolidated statements of income, net of tax provision (benefit) for income taxes of $12.1 million and $(25.3) million in 2019 and 2018, respectively.

The following tables present summarized financial information for our investment in Genworth Canada as of and for the years ended:

(Amounts in thousands)	December 31, 2018
Balance sheet data:	
Total assets	$4,978,204
Total liabilities	$2,074,399

(Amounts in thousands)	For the years ended December 31, 2019 (1)	2018
Statements of income data:		
Revenue	$585,066	$529,202
Expense	$197,889	$193,734

(1) Amounts represent activity from January 1, 2019 to December 12, 2019, the period the Company held an equity method investment in Genworth Canada.

(4) Fair value

Valuation Methodologies of Fixed Maturity Securities Measured at Fair Value

We have fixed maturity available-for-sale securities, which are carried at fair value. The fair value of fixed maturity securities is estimated primarily based on information derived from third-party pricing services ("pricing services"), internal models and/or third-party broker provided prices ("broker quotes"), which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, a security is valued using that market information for similar securities, which is also a market approach. When market information is not available for a specific security or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

We utilize certain third-party data providers when determining fair value. We consider information obtained from pricing services as well as broker quotes in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information. We also use various methods to obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received, including an understanding of the assumptions and inputs utilized to determine the appropriate fair value. For pricing services, we analyze the prices provided by our primary pricing services to other readily available pricing services and perform a detailed review of the assumptions and inputs from each pricing service to determine the appropriate fair value when pricing differences exceed certain thresholds. We evaluate changes in fair value that are greater than certain pre-defined thresholds each month to further aid in our review of the accuracy of fair value measurements and our understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed. A pricing committee provides additional oversight and guidance in the evaluation and review of the pricing methodologies used to value our investment portfolio.

In general, we first obtain valuations from pricing services. If a price is not supplied by a pricing service, we will typically seek a broker quote for public or private fixed maturity securities. In certain instances, we utilize price caps for broker quoted securities where the estimated market yield results in a valuation that may exceed the amount that we believe would be received in a market transaction. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for identical securities are not readily observable and these securities are not typically valued by pricing services. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quotes valuation is available, we determine fair value using internal models.

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service's assumptions to determine if we agree with the service's derived price. When available, we also evaluate the prices sampled as compared to other public prices. If a variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

For private fixed maturity securities, we utilize an income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction and value all private fixed maturity securities at par that have less than 12 months to maturity. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. To evaluate the reasonableness of the internal model, we review a sample of private fixed maturity securities each month. In that review we compare the modeled prices to the prices of similar public securities in conjunction with analysis on current market indicators. If a pricing variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. At the end of each month, all internally modeled prices are compared to the prior month prices with an evaluation of all securities with a month-over-month change greater than a pre-defined threshold. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating or public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

For broker quotes, we consider the valuation methodology utilized by the third party and analyze a sample each month to assess reasonableness given then-current market conditions. Broker quotes are typically based on an income approach given the lack of available market data. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we determine fair value using an income approach. We analyze a sample each month to assess reasonableness given then-current market conditions. We maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

A summary of the inputs used for our fixed maturity securities based on the level in which instruments are classified is included below. We have consolidated certain classes of instruments together as the nature of the inputs is similar.

Level 1 measurements

The Company had no fixed maturity securities classified as Level 1 as of December 31, 2019 and 2018.

Level 2 measurements

Third-party Pricing Services

In estimating the fair value of fixed maturity securities, approximately 96% of our portfolio is priced using third-party pricing sources. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by third-party pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our third-party pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers. The following table presents a summary of the significant inputs used by our third-party pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of December 31, 2019:

2019 (Amounts in thousands)	**Fair value**	**Primary methodologies**	**Significant inputs**
U.S. government, agencies and GSEs	$92,336	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread ("OAS") to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions	$98,159	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	$19,434	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	$2,053,899	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine ("TRACE") reports

2019 (Amounts in thousands)	Fair value	Primary methodologies	Significant inputs
Non-U.S. corporate	$240,044	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
Other asset-backed securities	$924,550	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models	Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

Internal Models

A portion of our U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities was $107.7 million and $47.2 million, respectively, as of December 31, 2019. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

Level 3 measurements

Internal Models

A portion of our U.S. corporate, non-U.S. corporate, and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities where there are no external ratings of the instrument and include a significant unobservable input. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was $181.1 million as of December 31, 2019.

Broker Quotes

A portion of our U.S. corporate, non-U.S. corporate, and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by third-party pricing services. Brokers utilized for valuation of assets are reviewed annually. There were no Level 3 fixed maturity securities priced by broker quotes as of December 31, 2019.

Valuation Methodologies of Investment in Unconsolidated Affiliate at Fair Value

Level 1 measurements

The Company's investment in common shares of Genworth Canada was classified as Level 1 as of December 31, 2018. The Company had no investments in unconsolidated affiliates classified as Level 1 as of December 31, 2019. The primary inputs to the valuation of publicly traded common shares include quoted prices for the identical instrument.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables set forth our assets by class of instrument that are measured at fair value on a recurring basis as of December 31:

2019 (Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturity securities:				
U.S. government, agencies and GSEs	$ 92,336	$—	$ 92,336	$ —
State and political subdivisions	98,159	—	98,159	—
Non-U.S. government	19,434	—	19,434	—
U.S. corporate	2,261,446	—	2,161,584	99,862
Non-U.S. corporate	364,469	—	287,280	77,189
Other asset-backed securities	928,588	—	924,550	4,038
Total fixed maturity securities	3,764,432	—	3,583,343	181,089
Investment in unconsolidated affiliate	—	—	—	—
Total	**$3,764,432**	**$—**	**$3,583,343**	**$181,089**

2018 (Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturity securities:				
U.S. government, agencies and GSEs	$ 85,190	$ —	$ 85,190	$ —
State and political subdivisions	142,125	—	142,125	—
Non-U.S. government	31,503	—	31,503	—
U.S. corporate	1,968,668	—	1,892,136	76,532
Non-U.S. corporate	315,876	—	250,342	65,534
Other asset-backed securities	731,135	—	727,205	3,930
Total fixed maturity securities	3,274,497	—	3,128,501	145,996
Investment in unconsolidated affiliate	424,756	424,756	—	—
Total	**$3,699,253**	**$424,756**	**$3,128,501**	**$145,996**

The Company has no liabilities recorded at fair value.

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers between levels at the beginning fair value for the reporting period in which the changes occur. Given that we have no fixed maturity securities classified as Level 1, we typically do not have any transfers between Level 1 and Level 2 measurement categories and did not have any such transfers during any period presented.

Our assessment of whether or not there were significant unobservable inputs related to fixed maturity securities was based on our observations obtained through the course of managing our investment portfolio, including interaction with other market participants, observations related to the availability and consistency of pricing and/or rating, and understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from third-party pricing sources to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

The following tables present additional information about assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value as of or for the dates indicated:

2019 (Amounts in thousands)	Balance as of January 1, 2019	Realized and unrealized gains (losses)		Purchases	Sales	Issuance	Settlement	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Balance as of December 31, 2019	Total gains (losses) included in net income attributable to assets still held
		Included in net income	Included in OCI								
Fixed maturity securities:											
U.S. government, agencies and GSEs	$ —	$ —	$ —	$ —	$ —	$—	$ —	$ —	$ —	$ —	$ —
State and political subdivisions	—	—	—	—	—	—	—	—	—	—	—
Non-U.S. government	—	—	—	—	—	—	—	—	—	—	—
U.S. corporate	76,532	(99)	5,082	38,000	(5,003)	—	(13,663)	5,341	(6,328)	99,862	(102)
Non-U.S. corporate	65,534	(18)	5,594	6,500	—	—	(422)	3,015	(3,014)	77,189	(18)
Other asset-backed securities	3,930	—	490	16,797	—	—	(507)	—	(16,672)	4,038	—
Total	**$145,996**	**$(117)**	**$11,166**	**$61,297**	**$(5,003)**	**$—**	**$(14,592)**	**$8,356**	**$(26,014)**	**$181,089**	**$(120)**

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities. Notably, the majority of the transfers out of Level 3 related to a reclassification of collateralized loan obligation securities previously valued using a broker priced source to now being valued using third-party pricing services.

2018 (Amounts in thousands)	Balance as of January 1, 2018	Realized and unrealized gains (losses)		Purchases	Sales	Issuance	Settlement	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Balance as of December 31, 2018	Total gains (losses) included in net income attributable to assets still held
		Included in net income	Included in OCI								
Fixed maturity securities:											
U.S. government, agencies and GSEs	$ —	$ —	$ —	$ —	$—	$—	$ —	$ —	$ —	$ —	$ —
State and political subdivisions	—	—	—	—	—	—	—	—	—	—	—
Non-U.S. government	—	—	—	—	—	—	—	—	—	—	—
U.S. corporate	86,290	(157)	(2,050)	8,000	—	—	(14,411)	9,949	(11,089)	76,532	(129)
Non-U.S. corporate	29,195	(17)	(2,200)	27,000	—	—	(3,483)	18,998	(3,959)	65,534	(18)
Other asset-backed securities	14,776	—	(135)	4,999	—	—	—	—	(15,710)	3,930	—
Total	**$130,261**	**$(174)**	**$(4,385)**	**$39,999**	**$—**	**$—**	**$(17,894)**	**$28,947**	**$(30,758)**	**$145,996**	**$(147)**

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities. Notably, the majority of the transfers out of Level 3 related to a reclassification of collateralized loan obligation securities previously valued using a broker priced source to now being valued using third-party pricing services.

Purchases, sales, issuances and settlements represent the activity that occurred during the period that results in a change of the asset but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity consists of purchases, sales and settlements of fixed maturity securities.

The following table presents the gains and losses included in net income from assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the years ended December 31:

(Amounts in thousands)	2019	2018
Total realized and unrealized gains (losses) included in net income:		
Net investment loss	$(117)	$(174)
Net investment gains	—	—
Total	**$(117)**	**$(174)**
Total gains (losses) included in net income attributable to assets still held:		
Net investment loss	$(120)	$(147)
Net investment gains	—	—
Total	**$(120)**	**$(147)**

The amounts presented for realized and unrealized gains (losses) included in net income for available-for-sale securities primarily represents amortization and accretion of premiums and discounts on certain fixed maturity securities.

The following table presents a summary of the significant unobservable inputs used for certain asset fair value measurements that are based on internal models and classified as Level 3 as of December 31, 2019:

(Amounts in thousands)	Valuation technique	Fair value (1)	Unobservable input	Range	Weighted-average
Fixed maturity securities:					
U.S. corporate	Internal models	$99,862	Credit spreads	63—135	97
Non-U.S. corporate	Internal models	$77,189	Credit spreads	60—186	112

(1) Certain classes of instruments classified as Level 3 are excluded above as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value.

(5) Loss reserves

Activity for the liability for loss reserves is summarized as follows:

(Amounts in thousands)	2019	2018
Loss reserves, beginning of year	$ 297,879	$ 457,455
Reinsurance recoverable and run-off reserves	(2,059)	(3,494)
Net loss reserves, beginning of year	295,820	453,961
Losses and LAE incurred related to current accident year	105,734	116,842
Losses and LAE incurred related to prior accident years	(55,917)	(80,755)
Total incurred (1)	49,817	36,087
Losses and LAE paid related to current accident year	(1,871)	(3,134)
Losses and LAE paid related to prior accident years	(110,301)	(191,094)
Total paid (1)	(112,172)	(194,228)
Net loss reserves, end of year	233,465	295,820
Reinsurance recoverable and run-off reserves	1,597	2,059
Loss reserves, end of year	**$ 235,062**	**$ 297,879**

(1) Losses and LAE incurred and paid exclude losses related to our run-off business.

Losses incurred for the current accident year relate to defaults that occurred in that year and represent the estimated ultimate amount of losses to be paid on such defaults. Losses incurred related to insured events of prior accident years represent the (favorable) or unfavorable development of reserves as a result of actual claim rates and claim amounts being different than those we estimated when originally establishing reserves. Such estimates were based on our historical experience, which we believed was representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the reporting of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change. During 2019 and 2018, we experienced favorable reserve development of $55.9 million and $80.8 million, respectively, in incurred losses attributable to prior years, resulting from lower actual and expected claim rates due to improvements in the overall housing market. Included within these reductions to incurred losses attributable to prior years, we recorded $22.7 million favorable reserves adjustments in 2019 compared to $28.2 million of favorable reserves adjustments in 2018 primarily associated with lower expected claim rates. The remaining reductions of $33.2 million and $52.6 million in 2019 and 2018, respectively, were primarily the result of higher than expected delinquency cures.

The following table sets forth information about incurred claims, net of reinsurance, as well as cumulative number of reported delinquencies and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims as of December 31, 2019. The information about the incurred claims development for the years ended December 31, 2010 to 2018 are presented as supplementary information.

(Amounts in thousands)	Incurred claims and allocated loss adjustment expenses, net of reinsurance (3)										Total IBNR liabilities including expected development on reported claims as of December 31, 2019	Number of reported delinquencies (2)
	For the years ended December 31,											
Accident year (1)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
	Unaudited											
2010	$976,869	$1,156,800	$1,139,043	$1,145,554	$1,164,732	$1,172,859	$1,173,308	$1,174,465	$1,173,790	$1,173,971	$ 104	90,500
2011	—	909,973	930,551	912,975	929,309	937,647	938,802	939,275	938,513	938,232	79	69,249
2012	—	—	717,871	675,230	670,773	673,660	671,492	668,452	666,673	665,775	103	48,499
2013	—	—	—	475,120	407,106	391,523	386,794	383,366	382,231	380,949	127	34,319
2014	—	—	—	—	327,857	287,865	268,980	260,752	258,872	258,172	230	26,613
2015	—	—	—	—	—	235,251	208,149	186,077	180,923	179,650	612	21,599
2016	—	—	—	—	—	—	198,121	161,041	138,784	136,381	1,204	18,869
2017	—	—	—	—	—	—	—	170,713	120,568	101,755	1,131	19,002
2018	—	—	—	—	—	—	—	—	116,842	83,959	1,031	13,688
2019	—	—	—	—	—	—	—	—	—	105,734	14,367	11,883
Total incurred										**$4,024,578**	**$18,988**	

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.
(2) Represents reported and outstanding delinquencies less actual cures as of December 31 for each respective accident year.
(3) Excludes incurred claims and allocated LAE related to run-off business.

The following table sets forth paid claims development, net of reinsurance, for the year ended December 31, 2019, and a reconciliation to the Company's total loss reserves as of December 31, 2019. The information about paid claims development for the years ended December 31, 2010 to 2018, are presented as supplementary information.

(Amounts in thousands)	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance (2)									
	For the years ended December 31,									
Accident year (1)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Unaudited									
2010	$140,308	$567,541	$844,272	$972,253	$1,048,932	$1,108,931	$1,138,539	$1,158,061	$1,166,759	$1,169,868
2011	—	65,370	496,623	721,879	815,610	874,509	906,028	926,518	934,632	937,397
2012	—	—	92,445	390,527	532,768	601,530	634,301	650,031	658,438	661,974
2013	—	—	—	44,334	202,095	297,029	340,031	361,973	372,374	375,243
2014	—	—	—	—	21,494	126,404	195,461	232,502	246,963	252,549
2015	—	—	—	—	—	12,688	84,706	145,362	167,458	172,825
2016	—	—	—	—	—	—	9,593	63,585	109,793	123,800
2017	—	—	—	—	—	—	—	5,733	45,879	77,297
2018	—	—	—	—	—	—	—	—	3,134	31,625
2019	—	—	—	—	—	—	—	—	—	1,871
Total paid										**$3,804,449**
Total incurred										$4,024,578
Total paid										3,804,449
All outstanding liabilities before 2010, net of reinsurance										13,335
Run-off reserves										1,598
Liability for unpaid losses and loss adjustment expenses										**$ 235,062**

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.
(2) Excludes cumulative paid claims and allocated claim adjustment expenses related to run-off business.

The following table sets forth our average payout of incurred claims by age as of December 31, 2019:

	Average annual percentage payout of incurred claims, net of reinsurance, by age (unaudited) (1)									
Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Percentage of payout	7.8%	40.2%	27.4%	11.3%	5.3%	3.1%	1.7%	1%	0.5%	0.3%

(1) Excludes run-off business.

(6) Reinsurance

We reinsure a portion of our policy risks to other companies in order to reduce our ultimate losses, diversify our exposures and comply with regulatory requirements. We also assume certain policy risks written by other companies.

Reinsurance does not relieve us from our obligations to policyholders. In the event that the reinsurers are unable to meet their obligations, we remain liable for the reinsured claims. We monitor both the financial condition of individual reinsurers and risk concentrations arising from similar geographic regions, activities and economic characteristics of reinsurers to lessen the risk of default by such reinsurers.

The following table sets forth the effects of reinsurance on premiums written and earned for the years ended December 31:

(Amounts in thousands)	2019	2018
Net premiums written:		
Direct	$ 840,086	$ 785,228
Assumed	625	585
Ceded	(22,065)	(21,798)
Net premiums written	**$ 818,646**	**$ 764,015**
Net premiums earned:		
Direct	878,416	768,078
Assumed	625	586
Ceded	(22,065)	(21,800)
Net premiums earned	**$ 856,976**	**$ 746,864**

Excess of loss reinsurance treaties

The Company has entered into excess of loss reinsurance treaty agreements with external panels of reinsurers covering the 2016 through 2019 books of business. Premiums ceded under these reinsurance agreements were $22.1 million and $21.8 million for the years ended December 31, 2019 and 2018, respectively. During 2018, the reinsurance agreements for the 2014 and 2015 book years were terminated. Premiums ceded under the terminated reinsurance agreements were $5.7 million during 2018.

On November 25, 2019, the Company obtained $302.8 million of excess of loss reinsurance coverage with Triangle Re 2019-1 Ltd. (“Triangle Re”), on a portfolio of existing mortgage insurance policies written from January 2019 through September 2019. The excess of loss reinsurance coverage is fully collateralized by a reinsurance trust agreement that provides that the trust assets may only be invested in (i) money market funds; (ii) U.S. treasury securities; and (iii) uninvested cash. In connection with entering into the reinsurance agreement with Triangle Re, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re is assuming significant insurance risk and a reasonable possibility of significant loss. Triangle Re is a VIE and special purpose insurer domiciled in Bermuda. For the reinsurance coverage, we retain the first layer of aggregate losses up to $237.7 million. Triangle Re and other reinsurers provide 95% reinsurance coverage for losses above our retained first layer up to $713.0 million of total losses. We are responsible for losses on the portfolio above the reinsurance coverage amount of $713.0 million.

(7) Income taxes

Income before income taxes and change in fair value of unconsolidated affiliate of $718.2 million and $613.7 million in 2019 and 2018, respectively, was domestic.

The total provision for income taxes was as follows for the years ended December 31:

(Amounts in thousands)	2019	2018
Current federal income taxes	$152,748	$ (5,805)
Deferred federal income taxes	(562)	133,607
Total federal income taxes	**152,186**	**127,802**
Current state income taxes	294	(1,471)
Deferred state income taxes	3,352	3,476
Total state income taxes	**3,646**	**2,005**
Total provision for income taxes	**$155,832**	**$129,807**

The Company had current income taxes receivable of $41.1 million as of December 31, 2019, which is included in other assets in our consolidated balance sheets. The Company had current income taxes payable of $12.6 million as of December 31, 2018, which is included in other liabilities in our consolidated balance sheets.

The Company paid federal taxes of $166.2 million and state taxes of $0.3 million for the year ended December 31, 2019 and received refunds of federal taxes of $32.3 million and paid state taxes of $0.1 million for the year ended December 31, 2018.

The reconciliation of the federal statutory tax rate to the effective income tax rate was as follows for the years ended December 31*:*

	2019	2018
Statutory U.S. federal income tax rate	21.0%	21.0%
Increase (reduction) in rate resulting from:		
State income tax, net of federal income tax effect	0.4%	0.3%
Other, net (1)	0.3%	(0.1%)
Effective rate	**21.7%**	**21.2%**

(1) "Other, net" is comprised primarily of non-deductible expenses and tax-exempt income.

The components of the deferred income taxes were as follows as of December 31:

(Amounts in thousands)	2019	2018
Assets:		
Accrued commissions and general expenses	$ 5,254	$ 4,573
Net operating loss carry forwards	2,021	3,746
Capital loss carry forwards	10,720	657
Foreign tax credit carryforwards	—	19,041
Unearned premium and loss reserves	35,280	35,049
Other	—	6
Net unrealized losses on investment securities	—	6,546
Investment in foreign affiliate	—	44,746
State income taxes	7,922	12,949
Gross deferred income tax assets	61,197	127,313
Valuation allowance	(6,104)	(7,188)
Total deferred income tax assets	**55,093**	**120,125**
Liabilities:		
Deferred acquisition costs	6,347	5,877
Net unrealized gains on investment securities	25,340	—
Investments	17,409	17,386
Other	3,026	4,750
Total deferred income tax liabilities	**52,122**	**28,013**
Net deferred income tax assets	**$ 2,971**	**$ 92,112**

The above valuation allowance of $6.1 million and $7.2 million as of December 31, 2019 and 2018, respectively, related to state deferred tax assets. The state deferred tax assets related primarily to the future deductions associated with non-insurance and insurance net operating loss (“NOL”) carryforwards.

U.S. federal NOL carryforwards amounted to $9.6 million as of December 31, 2019, and, if unused, will expire beginning in 2031. The benefits of the NOL carryforwards have been recognized in our consolidated financial statements.

The Company’s ability to realize its net deferred tax asset of $3.0 million as of December 31, 2019, which includes deferred tax assets related to NOL carryforwards and capital loss carryforwards, is primarily dependent upon generating sufficient taxable income and capital gains in future years. Management has concluded that there is sufficient positive evidence to support the expected realization of the net operating losses and capital losses. This positive evidence includes the fact that: (i) the Company is currently in a cumulative three-year income position; (ii) the Company’s U.S. operating forecasts are profitable; and (iii) the Company is forecasting sufficient capital gains. After consideration of all available evidence, the Company has concluded that it is more likely than not that our deferred tax assets, with the exception of state deferred tax assets for which a valuation allowance has been established, will be realized. If our actual results do not validate the current projections of pre-tax income, we may be required to record an additional valuation allowance which could have a material impact on our consolidated financial statements in future periods.

The total amount of unrecognized tax benefits was $— as of December 31, 2019 and 2018.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as components of the provision for income taxes. The Company recorded $0 of benefits related to interest and penalties for 2019 and 2018.

As previously discussed, the Company has elected to participate in the Genworth consolidated return. All Genworth companies domesticated in the United States, are included in the Genworth consolidated return as allowed by the tax law and regulations. With possible exceptions, the Company is no longer subject to U.S. federal tax examinations for years through 2015. Potential state and local examinations for those years are generally restricted to results that are based on closed U.S. federal examinations.

The Company is part of a tax allocation agreement (together with amendments to the tax allocation agreement, the "TAA") between Genworth and certain of its subsidiaries. The TAA was approved by state insurance regulators and the Company's Board of Directors. The tax allocation methodology is based on the separate return liabilities with offsets for losses and credits utilized to reduce the current consolidated tax liability as allowed by applicable law and regulation. The Company's policy is to settle intercompany tax balances quarterly, with a final settlement after filing of Genworth's federal consolidated U.S. corporate income tax return.

Additionally, Genworth Mortgage Insurance Corporation, Genworth Mortgage Reinsurance Corporation, Genworth Mortgage Insurance Corporation of North Carolina and Genworth Financial Assurance Corporation (collectively, the "MI Group"), is party to a supplemental tax sharing agreement that allows them to accelerate the utilization of benefits as if they filed a stand-alone MI Group federal income tax return, even if those benefits would not have been utilized in the consolidated federal return ("deemed used losses").

If any deemed used losses are subsequently actually used in a consolidated return, the members of the MI Group which receive the benefit for such deemed used losses will not receive a second benefit for such losses. Also, if any member of the MI Group receives benefit for any deemed used losses and leaves the consolidated group before such deemed used losses are actually used in a consolidated return, such member will repay such benefit received.

The TAA prevents any allocation of tax to a separate company that is greater than the tax incurred on a separate company basis, subject to consolidated loss carry-forward adjustments. The total tax refund allocated to the MI Group, therefore, may exceed the consolidated tax refund received.

Separate Return Method

If during the year ended December 31, 2019, the Company had computed taxes using the separate return method, the unaudited pro forma provision for income taxes would remain unchanged. The total unaudited pro forma income tax benefit recognized from the change in fair value of unconsolidated affiliate would have been $3.9 million. The difference in income tax expense from change in fair value of unconsolidated affiliate between the separate return with benefits for loss method and the separate return method would have resulted from the utilization of capital loss carryforwards.

(8) Employee benefits

As a consolidated company within Genworth, the Company's employees are generally provided a number of Genworth employee benefits. Genworth, as sponsor of the plans described below (collectively, "Shared Plans"), is ultimately responsible for maintenance of these plans in compliance with applicable laws. The Company's obligation results from an allocation of its share of expenses from Genworth's plans based on benefits eligible earnings. Benefits eligible earnings includes base pay, overtime, annual incentives and sales commissions.

We account for such Shared Plans as multiemployer benefit plans. Accordingly, we do not record an asset or liability to recognize the funded status of the Shared Plans. We recognize a liability only for any required contributions to the Shared Plans that are accrued and unpaid at the balance sheet date, which is included within other liabilities in the consolidated balance sheets.

Pension and Retiree Health and Life Insurance Benefit Plans

Most of our employees are enrolled in a qualified defined contribution pension plan sponsored by Genworth. The plan is 100% funded by Genworth. Genworth makes annual contributions to each employee's pension plan account based on the employee's age, service and eligible pay. Employees are vested in the plan after three years of service. Expenses associated with the qualified defined contribution pension plan were $ 2.7 million in 2019 and 2018.

In addition, certain employees also participate in non-qualified defined contribution plans and qualified and non-qualified defined benefit pension plans sponsored by Genworth. Expenses associated with non-qualified defined contribution plans were $0.6 million for 2019 and 2018. Expenses allocated to the Company for qualified and non-qualified defined benefit pension plans were $0.3 million and $0.4 million in 2019 and 2018, respectively.

Genworth provides retiree health benefits to domestic employees of the Company hired prior to January 1, 2005, who meet certain service requirements. Under this plan, retirees over 65 years of age receive a subsidy towards the purchase of a Medigap policy, and retirees under 65 years of age receive medical benefits similar to our employees' medical benefits. In December 2009, Genworth announced that eligibility for retiree medical benefits will be limited to associates who are within 10 years of retirement eligibility as of January 1, 2010. Genworth also provides retiree life and long-term care insurance benefits. Expenses allocated to the Company for retiree health and life insurance benefits plans were $0.6 million for the years ended December 31, 2019 and 2018.

Savings Plans

Our employees participate in qualified and non-qualified defined contribution savings plans that allow employees to contribute a portion of their pay to the plan on a pre-tax basis. Beginning January 1, 2017, Genworth began making matching contributions equal to 100% of the first 4% of pay deferred by an employee and 50% of the next 2% of pay deferred by an employee so that our matching contribution will not exceed 5% of an employee's pay. Employees hired on or after January 1, 2011, will not vest immediately in Genworth matching contributions but will fully vest in the matching contributions after two complete years of service. One option available to employees in the defined contribution savings plan is the ClearCourse® variable annuity option offered by certain of Genworth's life insurance subsidiaries. Employees also have the option of purchasing a fund which invests primarily in Genworth stock as part of the defined contribution savings plan. Our cost associated with these plans was $3.1 million and $3.0 million for the years ended December 31, 2019 and 2018, respectively.

Health and Welfare Benefits for Active Employees

We provide health and welfare benefits to our employees, including health, life, disability dental and long-term care insurance. Our long-term care insurance is provided through Genworth's long-term care insurance products. The premiums recorded related to these benefits were insignificant during 2019 and 2018.

(9) Share based compensation

As of December 31, 2019, all share-based awards held by employees of the Company, including stock options, were granted under Genworth's incentive plans described below. The Company has not issued any share-based awards.

Prior to May 2012, share-based awards were granted to employees and directors, including stock options, stock appreciation rights ("SARs"), restricted stock units ("RSUs") and deferred stock units ("DSUs") under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (the "2004 Omnibus Incentive Plan"). In May 2012, the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (the "2012 Omnibus Incentive Plan") was approved by stockholders of Genworth Financial, Inc. Under the 2012 Omnibus Incentive Plan, Genworth is authorized to grant 16 million equity awards, plus a number of additional shares not to exceed 25 million underlying awards outstanding under the 2004 Omnibus Incentive Plan. In December 2018, the 2018 Genworth Financial, Inc. Omnibus Incentive Plan (the "2018 Omnibus Incentive Plan"), was approved by stockholders of Genworth Financial, Inc. Under the 2018 Omnibus Incentive Plan, Genworth was authorized to grant 25 million equity awards, plus a number of additional shares not to exceed 20 million underlying awards outstanding under the prior Plans. The 2004 Omnibus Incentive Plan together with the 2012 Omnibus Incentive Plan and the 2018 Omnibus Incentive Plan are referred to collectively as the "Omnibus Incentive Plans".

Share-based compensation expense under the Omnibus Incentive Plans was $2.9 million and $4.1 million for the years ended December 31, 2019 and 2018, respectively, and is included within acquisition and operating expenses, net of deferrals in the consolidated statements of income. For awards issued prior to January 1, 2006, share-based compensation expense was recognized on a graded vesting attribution method over the awards' respective vesting schedule. For awards issued after January 1, 2006, share-based compensation expense was recognized evenly on a straight-line attribution method over the awards' respective vesting period.

For purposes of determining the fair value of share-based payment awards on the date of grant, Genworth has historically used the Black-Scholes Model. However, no SARs or stock options were granted during 2019 and 2018, and therefore the Black-Scholes Model was not used in those respective years. The Black-Scholes Model requires the input of certain assumptions that involve judgment. Management of Genworth periodically evaluates the assumptions and methodologies used to calculate fair value of share-based compensation. Circumstances may change, and additional data may become available over time, which could result in changes to these assumptions and methodologies.

During 2019, Genworth issued RSUs to employees of the Company with average restriction periods of three years, with a fair value of $3.36 which were measured at the market price of a share of our Class A Common Stock on the grant date.

During 2019, Genworth granted performance stock units ("PSUs") to employees of the Company with a fair value of $4.61. The PSUs were granted at market price as of December 13, 2019, the approved date by the Board of Directors. PSUs may be earned over a three-year period based upon the achievement of certain performance goals. The PSUs granted in 2019 have a three-year measurement period starting on January 1, 2019, going through December 31, 2021. The performance metric is based on consolidated Genworth adjusted operating income. The compensation committee of Genworth's Board of Directors determines and approves, no later than March 15, 2022, following the end of the final year of the three-year performance period, the number of units earned and vested for each distinct performance period.

For the year ended December 31, 2019, the Company recorded less than $0.1 million of expense associated with its PSUs.

There were no RSUs or PSUs granted during 2018.

In 2019 and 2018, Genworth granted cash awards with a fair value of $l.00. These include 2018 performance-based cash awards, which vest over three years. Cash awards granted by Genworth also include 2019 and 2018 time-based cash awards, which vest over three years, with half or a third of the payout occurring per year as determined by the vesting period, beginning on the first anniversary of the grant date. The following table summarizes cash award activity as of December 31:

(Awards in thousands)	Performance-based cash awards number of awards	Time-based cash awards number of awards
Balance as of January 1, 2018	**1,934**	**4,128**
Granted	676	3,196
Vested	—	(2,459)
Forfeited	(13)	(132)
Balance as of January 1, 2019	**2,597**	**4,733**
Granted	489	3,439
Vested	(1,443)	(2,232)
Forfeited	(190)	(370)
Balance as of December 31, 2019	**1,453**	**5,570**

The following table summarizes information about stock options activity as of December 31, 2019:

(Shares in thousands)	Shares subject to option	Weighted-average exercise price
Balance as of January 1, 2018	**131**	**$10.20**
Granted	—	$ —
Exercised	(10)	$ 2.46
Expired and forfeited	(18)	$ 7.80
Balance as of January 1, 2019	**103**	**$11.36**
Granted	—	$ —
Exercised	(25)	$ 2.46
Expired and forfeited	—	$ —
Balance as of December 31, 2019	**78**	**$14.18**
Exercisable as of December 31, 2019	**78**	**$14.18**

The following table summarizes information about stock options outstanding as of December 31, 2019:

Exercise price	Shares in thousands	Average life (1)	Average exercise price
$ 14.18 (2)	78	1.11	$14.18
Total	**78**		**$14.18**

(1) Average contractual life remaining in years.
(2) Shares for total options outstanding and exercisable each have no aggregate intrinsic value.

The following tables summarize the status of other equity-based awards as of December 31:

Shares in thousands	RSUs Number of awards	RSUs Weighted-average grant date fair value	PSUs Number of awards	PSUs Weighted-average grant date fair value	SARs Number of awards	SARs Weighted-average grant date fair value
Balance as of January 1, 2018	**280**	**$8.20**	**—**	**$ —**	**666**	**$2.76**
Granted	—	$ —	—	$ —	—	$ —
Exercised	(183)	$8.64	—	$ —	—	$ —
Terminated	(3)	$7.38	—	$ —	—	$ —
Balance as of January 1, 2019	**94**	**$7.38**	**—**	**$ —**	**666**	**$2.76**
Granted	135	$3.36	135	$4.61	—	$ —
Exercised	(85)	$7.38	—	$ —	—	$ —
Terminated	(9)	$7.38	—	$ —	(24)	$2.76
Balance as of December 31, 2019	**135**	**$3.36**	**135**	**$4.61**	**642**	**$2.76**

As of December 31, 2019, and 2018, total unrecognized share-based compensation expense related to non-vested awards not yet recognized was $0.9 million and $0.1 million, respectively. This expense is expected to be recognized over a weighted-average period of approximately less than one year and one year respectively.

In 2019 and 2018, there was no cash received from stock options exercised in each year. New shares were issued to settle all exercised awards. The actual tax benefit realized for the tax deductions from the exercise of share-based awards was $0.9 million and $0.6 million for 2019 and 2018, respectively.

(10) Related party transactions

Related Party Transactions

The Company has various agreements with Genworth which provide for reimbursement to and from Genworth of certain administrative and operating expenses which include, but are not limited to, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These agreements provide for an allocation of corporate expenses to all Genworth businesses or subsidiaries. The Company incurred costs for these services of $36.9 million and $32.9 million in 2019 and 2018, respectively.

The Company's investment portfolio is managed by Genworth. Under the terms of the investment management agreement the Company is charged a fee by Genworth. All fees paid to Genworth are charged to investment expense and are included in net investment income on the consolidated statements of income. The total investment expenses paid to Genworth were $4.4 million and $3.7 million for the years ended December 31, 2019 and 2018, respectively.

The Company's employees participate in certain benefit plans sponsored by Genworth and certain share-based compensation plans which utilize shares of Genworth common stock and other incentive plans. See Note 8 and Note 9 for further information.

The Company provides certain information technology and administrative services (such as facilities and maintenance) to Genworth. The Company charged Genworth $1.7 million and $1.8 million for these services in 2019 and 2018, respectively.

The Company held an investment in common shares of Genworth Canada as of December 31, 2018. Genworth Canada was consolidated within Genworth until its sale on December 12, 2019. The Company received dividends from Genworth Canada of $41.9 million and $21.8 million in 2019 and 2018, respectively, which is included within change in fair value of unconsolidated affiliate, net of tax in the consolidated statements of income. Refer to Note 3 for further information.

The Company paid cash dividends of $250.0 million and $50.0 million to Genworth in 2019 and 2018, respectively. The evaluation of future dividends is subject to capital requirements of our insurance subsidiaries, capital needs of Genworth and market conditions, among other factors, which are subject to change.

The Company has a tax sharing agreement in place with Genworth, such that the Company participates in a single U.S. consolidated income tax return filing. All intercompany balances related to this agreement are settled at least annually. Refer to Note 7 for further details.

The consolidated financial statements include the following amounts due to and from Genworth relating to recurring service and expense agreements as of December 31:

(Amounts in thousands)	2019	2018
Amounts payable to Genworth	$8,119	$7,813
Amounts receivable from Genworth	$ 997	$ 373

(11) Commitments and contingencies

Leases

The Company leases certain office facilities, equipment and automobiles under operating leases. Operating lease expenses were approximately $4.2 million and $3.1 million for the years ended December 31, 2019 and 2018, respectively. See Note 2 for additional information related to operating leases. The following table presents future minimum rent payments under operating leases as of December 31, 2019:

(Amounts in thousands)	Future minimum payments under operating leases
2020	$ 3,920
2021	3,950
2022	3,860
2023	3,690
2024 and thereafter	3,110
Total	**$18,530**

Litigation

The Company faces the risk of litigation and regulatory investigations and actions in the ordinary course of operating its business and is also subject to litigation arising out of its general business activities, such as its contractual and employment relationships. Past legal and regulatory actions include proceedings specific to the Company and others generally applicable to business practices in the mortgage insurance industry in which it operates. The Company has been, or may become, subject to lawsuits or regulatory investigations alleging, among other things, issues relating to violations of the Real Estate Settlement and Procedures Act of 1974 (“RESPA”) or related state anti-inducement laws, mortgage insurance policy rescissions and curtailments, pricing structures and general business practices, and breaching duties related to the privacy and information security of customer information.

Plaintiffs in lawsuits against the Company may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In addition, it is also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state and federal regulators and other authorities. A substantial legal liability or a significant regulatory action against the Company could have an adverse effect on its business, financial condition and results of operations. Moreover, even if the Company ultimately prevails in the litigation, regulatory action or investigation, it could suffer significant reputational harm, which could have an adverse effect on its business, financial condition or results of operations.

(12) Statutory information

Statutory Accounting Principles

We prepare our statutory financial statements in accordance with the accounting practices required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries. These statements of statutory accounting principles ("SSAP") are established by a variety of National Association of Insurance Commissioners ("NAIC") publications, as well as state laws, regulations and general administrative rules. In addition, insurance departments have the right to permit other specific practices that may deviate from prescribed practices. As of December 31, 2019, we did not have any prescribed or permitted statutory accounting practices that resulted in reported statutory surplus or risk-to-capital ratios being different from what would have been reported had NAIC statutory accounting practices been followed.

The key areas where SSAP financial statements differ from financial statements presented on a U.S. GAAP basis include:

(a) Under SSAP, mortgage insurance companies are required each year to establish a special contingency reserve in their statutory financial statements to provide for losses in the event of significant economic declines. Annual additions to the statutory contingency reserve must be at least 50% of net earned premiums earned in such year. Such amount must be maintained in the contingency reserve for 10 years, after which time it is released to unassigned surplus. Prior to 10 years, the contingency reserve may be reduced with regulatory approval to the extent that losses in any calendar year exceed 35% of earned premiums for such year.

(b) Under SSAP, insurance policy acquisition costs are charged against operations in the year incurred. Under U.S. GAAP, such costs are deferred and amortized.

(c) Under SSAP, income tax expense is calculated on the basis of amounts currently payable. Generally, deferred tax assets are recognized under both SSAP and U.S. GAAP when it is more likely than not that the deferred tax asset will be realized. However, SSAP standards impose additional admissibility requirements whereby deferred tax assets are only recognized to the extent they are expected to be recovered within a one- to three-year period subject to a capital and surplus limitation. Changes in deferred tax assets and liabilities are recognized as a direct benefit or charge to unassigned surplus, whereas under U.S. GAAP changes in deferred tax assets and liabilities, except for changes in unrealized gains and losses on available-for-sale securities, are recorded as a component of income tax expense.

(d) Under SSAP, investment grade fixed-maturity investments are valued at amortized cost and below-investment grade securities are carried at the lower of amortized cost or market value. Under U.S. GAAP, those investments that the Company does not have the ability or intent to hold to maturity are considered to be either available for sale or trading securities and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to equity or current operations, as applicable.

(e) Under SSAP, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on our U.S. GAAP financial statements.

The table below presents statutory net income, statutory policyholders' surplus and contingency reserve for the combined insurance subsidiaries as of and for the year ended December 31:

(Amounts in thousands)	2019	2018
Statutory net income	$ 847,384	$ 696,629
Statutory policyholders' surplus	$1,632,518	$1,615,220
Contingency reserve	$2,031,563	$1,591,133

Statutory Capital Requirements

Mortgage insurers are not subject to the NAIC's RBC requirements, but certain states and other regulators impose another form of capital requirement on mortgage insurers requiring maintenance of a risk-to-capital ratio not to exceed 25:1. The Company's insurance subsidiaries are domiciled in North Carolina. Fifteen other states maintain similar risk-to-capital requirements. As of December 31, 2019 and 2018, the risk-to-capital ratio for our combined insurance subsidiaries under the current regulatory framework as established under North Carolina law and enforced by North Carolina Department of Insurance ("NCDOI") was approximately 12.5:1. Each of the Company's insurance subsidiaries met its respective capital requirement as of December 31, 2019.

PMIERs Regulatory Requirements

Mortgage insurers must meet the private mortgage insurer eligibility requirements ("PMIERs") as set forth by each government-sponsored enterprise ("GSE") in order to remain eligible. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERs. We have met all PMIERs reporting requirements as required by the GSEs. As of December 31, 2019 and 2018, we estimate our U.S. mortgage insurance business had available assets of approximately 138% and 129%, respectively, of the required assets under PMIERs. As of December 31, 2019 and 2018, the PMIERs sufficiency ratios were in excess of approximately $1 billion and $750 million, respectively, of available assets above the PMIERs requirements. Reinsurance transactions provided an aggregate of approximately $870 million of PMIERs capital credit as of December 31, 2019.

Dividend Restrictions

The majority of the Company's investments are held by its regulated U.S. mortgage insurance subsidiaries which may be limited in their ability to make dividends or distributions to a holding company in the future due to restrictions related to their capital levels. The Company's U.S. mortgage insurance subsidiaries are required to maintain minimum capital on a statutory basis, as well as pursuant to the PMIERs promulgated by the GSEs. Moreover, even where such dividends or distributions would not cause capital to fall below the minimum levels required by state insurance regulators and the GSEs, all proposed dividends or distributions, regardless of amount and source, by the Company's U.S. mortgage insurance subsidiaries are subject to review and potential disapproval by the N.C. Commissioner of Insurance (the "Commissioner"). Within that general regulatory right of review process, there are three (3) minor procedural variances depending on (i) the amount of the dividend or distribution as well as (ii) the source thereof. As regards amount, dividends and distributions may be classified as either "ordinary" or "extraordinary". (1) The review standard for an "ordinary" dividend or distribution is that notice must be given to the Commissioner 30 days in advance of the proposed payment date, during which period the Commissioner may disapprove the proposed dividend or distribution. An "extraordinary dividend or distribution" is defined by statute as one, which combined with all others made in the preceding 12 months, exceeds the greater of (i) 10 percent of the insurer's surplus as regards policyholders as of the preceding December 31, or (ii) net income, excluding realized capital gains, for the 12-month period ending the preceding December 31. (2) The review standard for an "extraordinary" dividend or distribution is effectively the same as that for an "ordinary" dividend or distribution that the insurer must give 30 days' notice and the Commissioner has not disapproved the proposal in that 30-day period. For both "ordinary" and "extraordinary" dividends, the Commissioner has the option to affirmatively grant approval prior to the expiration of the 30-day notice period. (3) Finally, as regards source of funds, the payment of any dividend or distribution from any source other than unassigned surplus, regardless of the amount, requires prior written approval of the Commissioner. In each of the three (3) instances, approval or non-disapproval of any dividend or distribution is based upon the reasonableness of the insurer's surplus in relation to its outstanding liabilities and the adequacy of its surplus relative to its financial needs. Based on estimated statutory results, in accordance with applicable dividend restrictions, the Company's U.S. mortgage insurance subsidiaries could pay dividends or distributions from unassigned surplus of approximately $279.0 million in 2020 without obtaining prior regulatory approval, although notice of the intent to pay must be provided to the Commissioner 30 days in advance thereof.

(13) Accumulated other comprehensive income (loss)

The following table presents a roll-forward of accumulated other comprehensive income (loss):

(Amounts in thousands)	Net unrealized gains (losses) on investments	Foreign currency translation adjustments	Total
Balance January 1, 2018, net of tax	**$ 16,690**	**$(485)**	**$ 16,205**
Other comprehensive income (loss) before reclassifications	(43,648)	—	(43,648)
Amounts reclassified (from) to other comprehensive income (loss)	436	485	921
Total other comprehensive income (loss)	(43,212)	485	(42,727)
Balance January 1, 2019, net of tax	**$ (26,522)**	**$ —**	**$ (26,522)**
Other comprehensive income (loss) before reclassifications	120,505	—	120,505
Amounts reclassified (from) to other comprehensive income (loss)	(552)	—	(552)
Total other comprehensive income (loss)	119,953	—	119,953
Balance December 31, 2019, net of tax	**$ 93,431**	**$ —**	**$ 93,431**

Amounts reclassified out of accumulated other comprehensive income (loss) to net investment gains (losses) include realized gains (losses) on sales of securities, which are determined on a specific identification basis.

The following table presents the effect of the reclassification of significant items out of accumulated other comprehensive income on the respective line items of the consolidated statements of income:

(Amounts in thousands)	Amounts reclassified from AOCI 2019	Amounts reclassified from AOCI 2018	Affected line item in consolidated statement of income
Net unrealized gains (losses) on investments	$ 698	$(552)	Net investment gains (losses)
Benefit (expense) for income taxes	$(147)	$ 116	Provision for income taxes

(14) Earnings per share

The basic earnings per share computation is based on the weighted average number of shares of common stock outstanding. For the years ended December 31, 2019 and 2018, the Company had no instruments outstanding that would be dilutive to earnings per share.

The following table presents the computation of earnings per share for the years ended December 31:

(Amounts in thousands, except per share amounts)	2019	2018
Net income attributable to GMHI common shareholders	$677,628	$453,601
Weighted average common shares outstanding—basic and diluted	100	100
Net income per common share—basic and diluted	**$ 6,776**	**$ 4,536**

(15) Subsequent events

The Company is exposed to potential risks associated with the recent outbreak of the COVID-19 pandemic. Subsequent to December 31, 2019, COVID-19 has disrupted the global economy and financial markets, business operations, and consumer behavior and confidence. As a result, the Company could experience significant declines in asset valuations and potential asset impairments, increases in policy cancellations as interest rates remain historically low and borrowers refinance, and increases in delinquent loans and paid claims as borrowers may be unable to maintain their mortgage payments due to rising unemployment rates and other health related matters. While the impact of the developing COVID-19 pandemic is difficult to predict, the related outcomes and impact on the Company will depend on the spread and length of the pandemic, regulatory and government actions to support housing and the economy, social distancing and other spread mitigating actions, and the shape of the economic recovery. The Company is continuing to monitor COVID-19 developments, regulatory and government actions including the impact of the recently passed CARES Act, and the potential financial impacts on our business. However, given the specific risks to our business, it is possible the pandemic could have a significant adverse impact on the Company, including a significant adverse effect on our financial condition and results of operations.

SCHEDULE I

GENWORTH MORTGAGE HOLDINGS, INC.

Summary of Investments—Other Than Investments in Related Parties

As of December 31, 2019, the amortized cost, fair value and carrying value of our invested assets were as follows:

(Amounts in thousands)	Amortized cost	Fair value	Carrying value
U.S. government, agencies and GSEs	$ 90,815	$ 92,336	$ 92,336
State and political subdivisions	88,482	98,159	98,159
Non-U.S. government	18,806	19,434	19,434
U.S. corporate	2,175,580	2,261,446	2,261,446
Non-U.S. corporate	349,975	364,469	364,469
Other asset-backed	919,689	928,588	928,588
Total	**$3,643,347**	**$3,764,432**	**$3,764,432**

See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Balance Sheets

(Amounts in thousands)	December 31, 2019	December 31, 2018
Assets		
Investments in subsidiaries	$3,827,072	$3,273,744
Total investments	3,827,072	3,273,744
Cash and cash equivalents	3	3
Total assets	**$3,827,075**	**$3,273,747**
Liabilities and equity		
Liabilities:		
Other liabilities	$ —	$ 8
Total liabilities	**$ —**	**$ 8**
Equity:		
Common stock	—	—
Additional paid in capital	2,363,606	2,357,851
Retained earnings	1,370,038	942,410
Accumulated other comprehensive income (losses)	93,431	(26,522)
Total equity	**$3,827,075**	**$3,273,739**
Total liabilities and equity	**$3,827,075**	**$3,273,747**

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Income

(Amounts in thousands)	Years ended December 31, 2019	2018
Revenues:		
Total revenues	$ —	$ —
Expenses:		
Total expenses	—	—
Income before income taxes and equity in income of subsidiaries	**—**	**—**
Provision (benefit) for income taxes	—	—
Income (loss) before equity in income of subsidiaries	**—**	**—**
Equity in income of subsidiaries	677,628	453,601
Net income	**$677,628**	**$453,601**

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Comprehensive Income

(Amounts in thousands)	Years ended December 31, 2019	2018
Net income	$677,628	$453,601
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than temporarily impaired	119,953	(43,212)
Foreign currency translation and other adjustments	—	485
Total comprehensive income (loss)	**$797,581**	**$410,874**

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Cash Flows

(Amounts in thousands)	Years ended December 31, 2019	2018
Cash flow from operating activities:		
Net income	$ 677,628	$ 453,601
Adjustments to reconcile net income from operating activities:		
Equity in income from subsidiaries	(677,628)	(453,601)
Dividends from subsidiaries	250,008	50,000
Change in certain assets and liabilities:		
Other liabilities	(8)	1
Net cash provided by operating activities	**250,000**	**50,001**
Cash flows from investing activities:		
Net cash provided by investing activities	**—**	**—**
Cash flows from financing activities:		
Dividends paid to Genworth	(250,000)	(50,000)
Net cash (used in) financing activities	**(250,000)**	**(50,000)**
Net increase in cash and cash equivalents	—	1
Cash and cash equivalents at beginning of year	3	2
Cash and cash equivalents at end of year	**$ 3**	**$ 3**
Supplementary disclosure of cash flow information:		
Non-cash capital contribution from Genworth	$ 5,755	$ 9,100

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Notes to Schedule II
Years Ended December 31, 2019 and 2018

(1) Organization and purpose

Genworth Mortgage Holdings, Inc. ("GMHI") has been a wholly owned subsidiary of Genworth since its incorporation in Delaware in 2012. On November 29, 2019, Genworth completed a holding company reorganization whereby Genworth contributed 100% of the issued and outstanding voting securities of GMHI to Genworth Holdings, Inc. ("Genworth Holdings"). Post-contribution, GMHI is a direct, wholly owned subsidiary of Genworth Holdings, and Genworth Holdings is still a direct, wholly owned subsidiary of Genworth. GMHI is a holding company whose subsidiaries offer U.S. mortgage insurance products.

(2) Summary of significant accounting policies

The accompanying GMHI financial statements have been prepared on the same basis and using the same accounting policies as described in the consolidated financial statements included herein. These financial statements should be read in conjunction with our consolidated financial statements and the accompanying notes thereto.

GMHI includes in its statements of income equity in income of subsidiaries, which represents the net income of each of its subsidiaries.

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share amounts)

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Fixed maturity securities available-for-sale, at fair value	$4,384,126	$3,764,432
Cash and cash equivalents	418,581	585,058
Accrued investment income	28,947	24,159
Deferred acquisition costs	32,101	30,332
Premiums receivable	34,964	41,161
Other assets	55,409	54,811
Deferred tax asset	—	2,971
Total assets	$4,954,128	$4,502,924
Liabilities and equity		
Liabilities:		
Loss reserves	$ 439,542	$ 235,062
Unearned premiums	339,968	383,458
Other liabilities	124,514	57,329
Deferred tax liability	18,166	—
Total liabilities	922,190	675,849
Equity:		
Common stock ($0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding)	—	—
Additional paid-in capital	2,367,727	2,363,606
Accumulated other comprehensive income	152,948	93,431
Retained earnings	1,511,263	1,370,038
Total equity	4,031,938	3,827,075
Total liabilities and equity	$4,954,128	$4,502,924

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands)
(Unaudited)

	Six months ended June 30,	
	2020	2019
Revenues:		
Premiums	$469,051	$399,963
Net investment income	64,693	56,706
Net investment gains (losses)	(344)	109
Other income	3,209	1,912
Total revenues	536,609	458,690
Losses and expenses:		
Losses incurred	246,310	15,931
Acquisition and operating expenses, net of deferrals	100,479	92,550
Amortization of deferred acquisition costs and intangibles	7,580	7,629
Total losses and expenses	354,369	116,110
Income before income taxes and change in fair value of unconsolidated affiliate	182,240	342,580
Provision for income taxes	41,015	73,447
Income before change in fair value of unconsolidated affiliate	141,225	269,133
Change in fair value of unconsolidated affiliate, net of taxes	—	36,439
Net income	$141,225	$305,572

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Six months ended June 30, 2020	Six months ended June 30, 2019
Net income	$141,225	$305,572
Other comprehensive income, net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	59,517	102,146
Total other comprehensive income	59,517	102,146
Total comprehensive income	$200,742	$407,718

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)
(Unaudited)

	Six months ended June 30, 2020				
	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total equity
Balances as of December 31, 2019	$—	$2,363,606	$ 93,431	$1,370,038	$3,827,075
Comprehensive income (loss):					
Net income	—	—	—	141,225	141,225
Other comprehensive income, net of taxes	—	—	59,517	—	59,517
Total comprehensive income					200,742
Capital contributions	—	4,121	—	—	4,121
Balances as of June 30, 2020	$—	$2,367,727	$152,948	$1,511,263	$4,031,938

	Six months ended June 30, 2019				
	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balances as of December 31, 2018	$—	$2,357,851	$ (26,522)	$ 942,410	$3,273,739
Comprehensive income:					
Net income	—	—	—	305,572	305,572
Other comprehensive income, net of taxes	—	—	102,146	—	102,146
Total comprehensive income					407,718
Capital contributions	—	2,430	—	—	2,430
Balances as of June 30, 2019	$—	$2,360,281	$ 75,624	$1,247,982	$3,683,887

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities:		
Net income	$ 141,225	$ 305,572
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums	(1,720)	(1,080)
Net investment (gains) losses	344	(109)
Acquisition costs deferred	(5,967)	(5,044)
Amortization of deferred acquisition costs and intangibles	7,580	7,629
Deferred income taxes	7,695	22,234
Stock-based compensation expense	1,900	805
Change in fair value of unconsolidated affiliate	—	(23,256)
Other, net	4,121	2,430
Change in certain assets and liabilities:		
Accrued investment income	(4,788)	(2,533)
Premiums receivable	6,197	1,916
Other assets	4,348	(27,494)
Loss reserves	204,480	(42,022)
Unearned premiums	(43,490)	(2,785)
Other liabilities	23,216	8,610
Net cash from operating activities	345,141	244,873
Cash flows used by investing activities:		
Proceeds from maturities of fixed maturity securities	183,496	177,037
Proceeds from sales of fixed maturity securities	204,645	78,915
Purchases of fixed maturity securities	(899,759)	(468,732)
Net cash used by investing activities	(511,618)	(212,780)
Cash flows used by financing activities:		
Dividends paid	—	—
Net cash used by financing activities	—	—
Net change in cash and cash equivalents	(166,477)	32,093
Cash and cash equivalents at beginning of period	585,058	159,051
Cash and cash equivalents at end of period	$ 418,581	$ 191,144
Supplementary disclosure of cash flow information:		
Non-cash contributions of capital	$ 4,121	$ 2,430

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

(1) Nature of Business, Organization Structure and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include on a consolidated basis the accounts of Genworth Mortgage Holdings, Inc. ("GMHI") and the affiliate companies in which it holds a majority voting interest, which we refer to as the "Company," "we," "us" or "our" unless the context otherwise requires. GMHI has been a wholly owned subsidiary of Genworth Financial, Inc. ("Genworth") since GMHI's incorporation in Delaware in 2012. On November 29, 2019, Genworth completed a holding company reorganization whereby Genworth contributed 100% of the issued and outstanding voting securities of GMHI to Genworth Holdings, Inc. ("Genworth Holdings"). Post-contribution, GMHI is a direct, wholly owned subsidiary of Genworth Holdings, and Genworth Holdings is still a direct, wholly owned subsidiary of Genworth. We are engaged in the business of writing and assuming residential mortgage guaranty insurance. The insurance protects lenders and investors against certain losses resulting from nonpayment of loans secured by mortgages, deeds of trust, or other instruments constituting a lien on residential real estate.

On October 21, 2016, Genworth entered into an agreement and plan of merger (the "Merger Agreement") with Asia Pacific Global Capital Co., Ltd. ("Parent"), a limited liability company incorporated in the People's Republic of China and a subsidiary of China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China (together with its affiliates, "China Oceanwide"), and Asia Pacific Global Capital USA Corporation ("Merger Sub"), a Delaware corporation and a direct, wholly-owned subsidiary of Asia Pacific Insurance USA Holdings LLC ("Asia Pacific Insurance"), which is a Delaware limited liability company and owned by China Oceanwide, pursuant to which, subject to the terms and conditions set forth therein, Merger Sub would merge with and into Genworth with Genworth surviving the merger as a direct, wholly-owned subsidiary of Asia Pacific Insurance. China Oceanwide has agreed to acquire all of Genworth's outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. At a special meeting held on March 7, 2017, Genworth's stockholders voted on and approved a proposal to adopt the Merger Agreement. The closing of the transaction remains subject to other closing conditions.

In the United States, we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans ("primary mortgage insurance"). Our private mortgage insurance enables borrowers to buy homes with a down payment of less than 20% of the home's value. Private mortgage insurance also facilitates the sale of these low down payment mortgage loans in the secondary mortgage market, most of which are sold to government sponsored enterprises. We also selectively enter into insurance transactions with lenders and investors, under which we insure a portfolio of loans at or after origination.

We operate our business through our primary insurance subsidiary, Genworth Mortgage Insurance Corporation ("GMICO"), with operations in all 50 states and the District of Columbia. GMICO is an approved insurer by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Fannie Mae and Freddie Mac are government-sponsored enterprises and we refer to them collectively as the "GSEs."

We also perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and expedites the approval process.

We operate our business in a single segment, which is how our chief operating decision maker reviews financial performance and allocates resources. Our segment includes a run-off insurance block with reference properties in Mexico, which is immaterial to our condensed consolidated financial statements.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Potential impacts, risks and uncertainties of the coronavirus pandemic ("COVID-19") may include declines in investment valuations and impairments, deferred acquisition cost or intangible assets impairments or the acceleration of amortization, deferred tax asset recoverability and increases to loss reserves, among other matters. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018.

On July 20, 2020, Genworth reached a settlement agreement with AXA S.A. ("AXA") regarding a dispute over payment protection insurance mis-selling claims sold by Genworth's former lifestyle protection insurance business that was acquired by AXA in 2015. As part of the settlement agreement, Genworth issued a secured promissory note agreeing to pay AXA approximately £317 million in two installments in 2022, unless certain events occur that trigger mandatory prepayments, as well as a significant portion of future claims that are still being processed which will be part of the second installment payment in 2022. To secure its obligation under the promissory note, Genworth pledged as collateral to AXA, a 19.9% security interest in the Company's outstanding common stock. AXA does not have the right to sell or repledge the collateral, and the security interest does not entitle AXA to voting rights. The collateral will be released back to Genworth upon full repayment of the promissory note. Accordingly, the collateral arrangement has no impact on our unaudited condensed consolidated financial statements.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2020, we adopted new accounting guidance related to disclosure requirements for defined benefit plans as part of the Financial Accounting Standards Board's (the "FASB") disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for defined benefit pension and other postretirement benefit plans. We adopted this new accounting guidance using the retrospective method, which did not have a significant impact on our condensed consolidated financial statements and disclosures.

On January 1, 2020, we adopted new accounting guidance related to fair value disclosure requirements as part of the FASB's disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for fair value measurements. The guidance includes new disclosure requirements related to changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. We adopted this new accounting guidance using the prospective method for disclosures related to changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period, the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty and the retrospective method for all other disclosures. This accounting guidance did not impact our condensed consolidated financial statements but impacted our fair value disclosures.

In March 2020, the FASB issued new accounting guidance related to reference rate reform, which was effective for us on January 1, 2020. The guidance provides temporary guidance to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform. This new guidance provides optional practical expedients and exceptions for applying generally accepted accounting principles to investments, derivatives, or other transactions that reference the London Interbank Offered Rate ("LIBOR"). In addition to the optional practical expedients, the guidance includes a general principle that permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. We adopted this guidance prospectively and it did not have a significant impact on our condensed consolidated financial statements or disclosures. However, the amendments in this guidance may be elected over time through December 31, 2022 as reference rate reform activities occur and therefore, this guidance may impact our procedures as we implement measures to transition away from LIBOR.

Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued new accounting guidance related to simplifying the accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. As we are a private company, this new accounting guidance is currently effective for us on January 1, 2022 using the retrospective method or modified retrospective method for certain changes and prospective method for all other changes, with early adoption permitted. Should we issue securities registered under the Securities Act as a public company, this new accounting guidance would be effective for us on January 1, 2021. We are in process of evaluating the impact the guidance may have on our condensed consolidated financial statements and disclosures.

In June 2016, the FASB issued new accounting guidance related to accounting for credit losses on financial instruments. The guidance requires entities to recognize an allowance equal to its estimate of lifetime expected credit losses and applies to most debt instruments not measured at fair value. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. The new guidance further requires that expected credit losses on premiums receivable are measured in accordance with the credit loss requirements for financial instruments measured at amortized cost. Due to the short-term nature of our premiums receivable, we consider lifetime expected credit losses on premiums receivable to be substantially immaterial. As we are a private company, this new guidance is currently effective for us on January 1, 2023, using the modified retrospective method, with early adoption permitted. Should we issue securities registered under the Securities Act as a public company, this new accounting guidance would be effective for us on January 1, 2020. Adoption of the new accounting guidance is not expected to have a significant impact on our financial statements and disclosures.

(3) Investments

(a) Net Investment Income

Sources of net investment income were as follows for the six months ended June 30:

(Amounts in thousands)	2020	2019
Available-for-sale fixed maturity securities	$65,109	$56,859
Cash and cash equivalents	2,049	1,903
Gross investment income before expenses and fees	67,158	58,762
Expenses and fees	(2,465)	(2,056)
Net investment income	$64,693	$56,706

(b) Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the six months ended June 30:

(Amounts in thousands)	2020	2019
Available-for-sale fixed maturity securities:		
Realized gains	$ 748	$ 432
Realized losses	(1,092)	(323)
Net realized gains (losses) on available-for-sale fixed maturity securities	(344)	109
Impairments:		
Total other-than-temporary impairments	—	—
Portion of other-than-temporary impairments included in other comprehensive income (loss)	—	—
Net other-than-temporary impairments	—	—
Net investment gains (losses)	$ (344)	$ 109

(c) Unrealized Investment Gains and Losses

Net unrealized gains and losses on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income (loss) were as follows as of the dates indicated:

(Amounts in thousands)	June 30, 2020	December 31, 2019
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities not other-than-temporarily impaired	$194,043	$121,085
Fixed maturity securities other-than-temporarily impaired	—	—
Subtotal	194,043	121,085
Income taxes	(41,095)	(27,654)
Net unrealized investment gains (losses)	$152,948	$ 93,431

The change in net unrealized gains (losses) on available-for-sale investment securities reported in accumulated other comprehensive income (loss) was as follows as of and for the six months ended June 30:

(Amounts in thousands)	2020	2019
Beginning balance	$ 93,431	$ (26,522)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	72,597	129,883
Provision for income taxes	(13,366)	(27,636)
Change in unrealized gains (losses) on investment securities	59,231	102,247
Reclassification adjustments to net investment (gains) losses, net of taxes of $(75) and $27	286	(101)
Ending balance	$152,948	$ 75,624

Amounts reclassified out of accumulated other comprehensive income (loss) to net investment gains (losses) include realized gains (losses) on sales of securities, which are determined on a specific identification basis.

(d) Fixed Maturity Securities

As of June 30, 2020, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in thousands)	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 85,295	$ 4,714	$—	$ —	$—	$ 90,009
State and political subdivisions	116,678	13,589	—	—	—	130,267
Non-U.S. government	29,714	1,051	—	—	—	30,765
U.S. corporate	2,649,632	162,791	—	(9,169)	—	2,803,254
Non-U.S. corporate	526,809	23,676	—	(7,614)	—	542,871
Other asset-backed	781,955	10,943	—	(5,938)	—	786,960
Total available-for-sale fixed maturity securities	$4,190,083	$216,764	$—	$(22,721)	$—	$4,384,126

As of December 31, 2019, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

(Amounts in thousands)	Amortized cost or cost	Gross unrealized gains: Not other-than-temporarily impaired	Gross unrealized gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 90,815	$ 1,535	$—	$ (14)	$—	$ 92,336
State and political subdivisions	88,482	9,706	—	(29)	—	98,159
Non-U.S. government	18,806	628	—	—	—	19,434
U.S. corporate	2,175,580	86,489	—	(623)	—	2,261,446
Non-U.S. corporate	349,975	14,525	—	(31)	—	364,469
Other asset-backed	919,689	9,923	—	(1,024)	—	928,588
Total available-for-sale fixed maturity securities	$3,643,347	$122,806	$—	$(1,721)	$—	$3,764,432

The following table presents the gross unrealized losses and fair values of our fixed maturity securities, aggregated by investment type and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of June 30, 2020:

(Dollar amounts in thousands)	Less than 12 months: Fair value	Less than 12 months: Gross unrealized losses	Less than 12 months: Number of securities	12 months or more: Fair value	12 months or more: Gross unrealized losses	12 months or more: Number of securities	Total: Fair value	Total: Gross unrealized losses	Total: Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. corporate	$182,580	$ (8,561)	34	$ 2,392	$ (608)	1	$184,972	$ (9,169)	35
Non-U.S. corporate	75,539	(7,614)	19	—	—	—	75,539	(7,614)	19
Other asset-backed	225,446	(5,130)	70	18,057	(808)	5	243,503	(5,938)	75
Total for fixed maturity securities in an unrealized loss position	$483,565	$(21,305)	123	$20,449	$(1,416)	6	$504,014	$(22,721)	129
% Below cost:									
<20% Below cost	$468,971	$(16,062)	119	$18,057	$ (808)	5	$487,028	$(16,870)	124
20%-50% Below cost	14,594	(5,243)	4	2,392	(608)	1	16,986	(5,851)	5
Total for fixed maturity securities in an unrealized loss position	$483,565	$(21,305)	123	$20,449	$(1,416)	6	$504,014	$(22,721)	129
Investment grade	$428,830	$(15,617)	108	$18,057	$ (808)	5	$446,887	$(16,425)	113
Below investment grade	54,735	(5,688)	15	2,392	(608)	1	57,127	(6,296)	16
Total for fixed maturity securities in an unrealized loss position	$483,565	$(21,305)	123	$20,449	$(1,416)	6	$504,014	$(22,721)	129

We did not recognize any other-than-temporary impairments on securities in an unrealized loss position. Based on a qualitative and quantitative review of the issuers of the securities, we believe the decline in fair value is largely due to recent market volatility and is not indicative of other-than-temporary impairment. The issuers continue to make timely principal and interest payments. For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of the amount and timing of cash flows to be collected. We do not intend to sell nor do we expect that we will be required to sell these securities prior to recovering our amortized cost.

The following table presents the gross unrealized losses and fair values of our fixed maturity securities, aggregated by investment type and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of December 31, 2019:

(Dollar amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 1,856	$ (13)	1	$ 2,129	$ (1)	1	$ 3,985	$ (14)	2
State and political subdivisions	9,221	(29)	3	—	—	—	9,221	(29)	3
U.S. corporate	57,946	(623)	11	—	—	—	57,946	(623)	11
Non-U.S. corporate	4,976	(6)	1	6,007	(25)	2	10,983	(31)	3
Other asset-backed	169,880	(717)	29	48,759	(307)	13	218,639	(1,024)	42
Total for fixed maturity securities in an unrealized loss position	$243,879	$(1,388)	45	$56,895	$(333)	16	$300,774	$(1,721)	61
% Below cost:									
<20% Below cost	$243,879	$(1,388)	45	$56,895	$(333)	16	$300,774	(1,721)	61
Total for fixed maturity securities in an unrealized loss position	$243,879	$(1,388)	45	$56,895	$(333)	16	$300,774	$(1,721)	61
Investment grade	$241,261	$(1,006)	44	$56,895	$(333)	16	$298,156	(1,339)	60
Below investment grade	2,618	(382)	1	—	—	—	2,618	(382)	1
Total for fixed maturity securities in an unrealized loss position	$243,879	$(1,388)	45	$56,895	$(333)	16	$300,774	$(1,721)	61

The scheduled maturity distribution of fixed maturity securities as of June 30, 2020 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in thousands)	Amortized cost or cost	Fair value
Due one year or less	$ 249,892	$ 252,221
Due after one year through five years	1,937,707	2,056,803
Due after five years through ten years	1,187,811	1,252,285
Due after ten years	32,718	35,857
Subtotal	3,408,128	3,597,166
Other asset-backed	781,955	786,960
Total	$4,190,083	$4,384,126

As of June 30, 2020, securities issued by finance and insurance, consumer—non-cyclical and technology and communications industry groups represented approximately 28%, 18% and 12%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of June 30, 2020, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of equity.

(f) Investment in Unconsolidated Affiliate

As of June 30, 2019, we held 14.1 million, or approximately 16.5%, of outstanding common shares of Genworth MI Canada Inc. ("Genworth Canada"), a publicly traded company on the Toronto Stock Exchange. We concluded that we had significant influence over Genworth Canada primarily due to board representation, and therefore, classified our investment in Genworth Canada as an equity method investment. We elected to account for the investment in Genworth Canada under the fair value option because the investment had a readily determinable fair value.

On December 12, 2019, we completed the sale of our investment in Genworth Canada to an affiliate of Brookfield Business Partners L.P. ("Brookfield") and received approximately $501.8 million in net cash proceeds. We also received cash proceeds from the sale of common shares of Genworth Canada of $8.4 million during the six months ended June 30, 2019 related to share repurchases by Genworth Canada.

The fair value of the investment in Genworth Canada was $448.0 million as of June 30, 2019. The pre-tax change in fair value of the investment in Genworth Canada, including dividends and the sale of common shares, was $46.9 million during the six months ended June 30, 2019. This was included within change in fair value of unconsolidated affiliate in the condensed consolidated statements of income, net of provision for income taxes of $10.5 million during the six months ended June 30, 2019.

The following table presents summarized statement of income information for our investment in Genworth Canada for the six months ended June 30, 2019:

(Amounts in thousands)	
Revenues	$322,266
Expenses	$ 99,430

(4) Fair Value

Recurring Fair Value Measurements

Fixed Maturity Securities Measured at Fair Value

We have fixed maturity securities, which are carried at fair value. The fair value of fixed maturity securities is estimated primarily based on information derived from third-party pricing services ("pricing services"), internal models and/or broker quotes, which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, that security is valued using market information for similar securities, which is also a market approach. When market information is not available for a specific security (or similar securities) or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

Further, while we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information.

In general, we first obtain valuations from pricing services. If prices are unavailable for public securities, we obtain broker quotes. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quotes valuation is available, we determine fair value using internal models. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for similar securities are not readily observable and these securities are not typically valued by pricing services.

Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

Broker quotes are typically based on an income approach given the lack of available market data. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For private fixed maturity securities, we utilize an income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating or public bond spread as Level 3. In general, a significant increase (decrease) in credit spreads would have resulted in a significant decrease (increase) in the fair value for our fixed maturity securities as of June 30, 2020.

For remaining securities priced using internal models, we determine fair value using an income approach. We maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

Our assessment of whether or not there were significant unobservable inputs related to fixed maturity securities was based on our observations obtained through the course of managing our investment portfolio, including interaction with other market participants, observations related to the availability and consistency of pricing and/or rating, and understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from pricing services to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

A summary of the inputs used for our fixed maturity securities based on the level in which instruments are classified is included below. We have combined certain classes of instruments together as the nature of the inputs is similar.

Level 1 measurements

There were no fixed maturity securities classified as Level 1 as of June 30, 2020 and December 31, 2019.

Level 2 measurements

Third-party pricing services

In estimating the fair value of fixed maturity securities, approximately 91% of our portfolio was priced using third-party pricing services as of June 30, 2020. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

The following table presents a summary of the significant inputs used by our pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of June 30, 2020:

(Amounts in thousands)	Fair value	Primary methodologies	Significant inputs
U.S. government, agencies and government-sponsored enterprises	$90,009	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread ("OAS") to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions	$130,267	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	$30,765	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	$2,567,543	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine ("TRACE") reports

(Amounts in thousands)	Fair value	Primary methodologies	Significant inputs
Non-U.S. corporate . .	$393,941	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
Other asset-backed . .	$778,445	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers	Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

Internal models

A portion of our U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities was $126.9 million and $49.9 million, respectively, as of June 30, 2020. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

Level 3 measurements

Broker quotes

A portion of our U.S. corporate, non-U.S. corporate and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was $48.1 million as of June 30, 2020.

Internal models

A portion of our U.S. corporate, non-U.S. corporate and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as the interest rate yield curve, as well as published credit spreads for similar securities, which includes significant unobservable inputs. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was $168.4 million as of June 30, 2020.

The following tables set forth our assets by class of instrument that are measured at fair value on a recurring basis as of the dates indicated:

	June 30, 2020			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 90,009	$—	$ 90,009	$ —
State and political subdivisions	130,267	—	130,267	—
Non-U.S. government	30,765	—	30,765	—
U.S. corporate	2,803,254	—	2,694,386	108,868
Non-U.S. corporate	542,871	—	443,797	99,074
Other asset-backed	786,960	—	778,445	8,515
Total fixed maturity securities	4,384,126	—	4,167,669	216,457
Total assets	$4,384,126	$—	$4,167,669	$216,457

	December 31, 2019			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 92,336	$—	$ 92,336	$ —
State and political subdivisions	98,159	—	98,159	—
Non-U.S. government	19,434	—	19,434	—
U.S. corporate	2,261,446	—	2,161,584	99,862
Non-U.S. corporate	364,469	—	287,280	77,189
Other asset-backed	928,588	—	924,550	4,038
Total fixed maturity securities	3,764,432	—	3,583,343	181,089
Total assets	$3,764,432	$—	$3,583,343	$181,089

We did not have any liabilities recorded at fair value as of June 30, 2020 and December 31, 2019.

The following tables present additional information about assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value as of or for the dates indicated:

(Amounts in thousands)	Beginning balance as of January 1, 2020	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer into Level 3 (1)	Transfer out of Level 3 (1)	Ending balance as of June 30, 2020	Total gains (losses) attributable to assets still held	
		Included in net income	Included in OCI								Included in net income	Included in OCI
Fixed maturity securities:												
U.S. corporate	$ 99,862	$(53)	$ 1,342	$19,554	$—	$—	$ (434)	$ 5,016	$(16,419)	$108,868	$(42)	$ 2,382
Non-U.S. corporate	77,189	(9)	(1,468)	22,000	—	—	(876)	23,468	(21,230)	99,074	(9)	(2,759)
Other asset-backed	4,038	—	(397)	4,874	—	—	—	—	—	8,515	—	(397)
Total fixed maturity securities	181,089	(62)	(523)	46,428	—	—	(1,310)	28,484	(37,649)	216,457	(51)	(774)
Total Level 3 assets	$181,089	$(62)	$ (523)	$46,428	$—	$—	$(1,310)	$28,484	$(37,649)	$216,457	$(51)	$ (774)

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads.

(Amounts in thousands)	Beginning balance as of January 1, 2019	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3 (1)	Ending balance as of June 30, 2019	Total gains (losses) included in net income attributable to assets still held
		Included in net income	Included in OCI								
Fixed maturity securities:											
U.S. corporate	$ 76,532	$(41)	$3,753	$12,000	$—	$—	$(7,332)	$—	$(5,298)	$ 79,614	$(41)
Non-U.S. corporate	65,534	(9)	3,998	—	—	—	(211)	—	—	69,312	(9)
Other asset-backed	3,930	—	358	16,797	—	—	(139)	—	—	20,946	—
Total fixed maturity securities	145,996	(50)	8,109	28,797	—	—	(7,682)	—	(5,298)	169,872	(50)
Total Level 3 assets	$145,996	$(50)	$8,109	$28,797	$—	$—	$(7,682)	$—	$(5,298)	$169,872	$(50)

(1) The transfers out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads.

The following table presents the gains and losses included in net income from assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the six months ended June 30:

(Amounts in thousands)	2020	2019
Total realized and unrealized gains (losses) included in net income:		
Net investment income	$(62)	$(50)
Net investment gains (losses)	—	—
Total	$(62)	$(50)
Total gains (losses) included in net income attributable to assets still held:		
Net investment income	$(51)	$(50)
Net investment gains (losses)	—	—
Total	$(51)	$(50)

The amount presented for realized and unrealized gains (losses) included in net income for fixed maturity securities primarily represents amortization and accretion of premiums and discounts on certain fixed maturity securities.

The following table presents a summary of the significant unobservable inputs used for certain asset fair value measurements that are based on internal models and classified as Level 3 as of June 30, 2020:

(Amounts in thousands)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average (1)
Assets					
Fixed maturity securities:					
U.S. corporate	Internal models	$104,442	Credit spreads	83bps - 247bps	140bps
Non-U.S. corporate	Internal models	$ 60,127	Credit spreads	97bps - 247bps	185bps

(1) Unobservable inputs weighted by the relative fair value of the associated instrument.

Certain classes of instruments classified as Level 3 are excluded above as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value.

(5) Loss Reserves

The following table sets forth changes in the liability for loss reserves for the six months ended June 30:

(Amounts in thousands)	2020	2019
Beginning balance	$235,062	$297,879
Less reinsurance recoverables and run-off reserves	(1,597)	(2,060)
Net beginning balance	233,465	295,819
Losses and LAE (1) incurred:		
Current accident year	238,692	50,275
Prior accident years	8,696	(34,374)
Total incurred (2)	247,388	15,901
Losses and LAE paid:		
Current accident year	(383)	(432)
Prior accident years	(41,352)	(57,506)
Total paid (2)	(41,735)	(57,938)
Net ending balance	439,118	253,782
Add reinsurance recoverables and run-off reserves	424	2,075
Ending balance	$439,542	$255,857

(1) Loss adjustment expenses.
(2) Incurred losses and paid claims exclude amounts related to our run-off business.

The liability for loss reserves represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant, and result in future increases to reserves by amounts that could be material to our results of operations and financial condition and liquidity.

Losses incurred related to insured events of the current accident year relate to defaults that occurred in that year and represent the estimated ultimate amount of losses to be paid on such defaults. Losses incurred related to insured events of prior accident years represent the (favorable) or unfavorable development of reserves as a result of actual claim rates and claim amounts being different than those we estimated when originally establishing the reserves. Such estimates are based on our historical experience, which we believe is representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the reporting of a delinquency and the claim payment, as well as changes in economic conditions and the real estate market, significant uncertainty and variability exist on amounts ultimately paid.

For the six months ended June 30, 2020, losses and LAE incurred of $238.7 million related to insured events of the current accident year was primarily attributable to a significant increase in the number of new delinquencies driven mostly by borrower forbearance programs as a result of COVID-19. When establishing loss reserves for borrower forbearance, we assume a lower rate of delinquencies becoming active claims, which has the effect of producing a lower reserve compared to delinquencies that are not in forbearance. Historical experience with localized natural disasters, such as hurricanes, indicates a higher cure rate for borrowers in forbearance. As COVID-19 is an ongoing health crisis, unlike a hurricane that occurs at a point in time with the rebuild starting soon afterward, our prior hurricane experience was one consideration, among many, in the establishment of loss reserves. Reserves recorded on these new delinquencies have an even higher degree of estimation uncertainty due to the uncertainty regarding how delinquencies driven by forbearance will ultimately cure or result in claim payments. We also recorded additional reserves for incurred but not reported claims as of June 30, 2020 related to delinquencies expected to be reported in the future and strengthened reserves on existing delinquencies primarily due to a deterioration in early cure emergence patterns and modest increases to claim severity.

For the six months ended June 30, 2019, the favorable development of $34.4 million related to insured events of prior accident years was primarily attributable to lower actual claim rates due to improvements in the overall housing market and higher than expected delinquency cures.

(6) Reinsurance

We reinsure a portion of our policy risks to other companies in order to reduce our ultimate losses, diversify our exposures and comply with regulatory requirements. We also assume certain policy risks written by other companies.

Reinsurance does not relieve us from our obligations to policyholders. In the event that the reinsurers are unable to meet their obligations, we remain liable for the reinsured claims. We monitor both the financial condition of individual reinsurers and risk concentrations arising from similar geographic regions, activities and economic characteristics of reinsurers to lessen the risk of default by such reinsurers.

The following table sets forth the effects of reinsurance on premiums written and earned for the six months ended June 30:

	Written		Earned	
(Amounts in thousands)	2020	2019	2020	2019
Direct	$446,369	$406,150	$489,859	$408,936
Assumed	241	336	241	336
Ceded	(21,049)	(9,309)	(21,049)	(9,309)
Net premiums	$425,561	$397,177	$469,051	$399,963
Percentage of amount assumed to net			0.1%	0.1%

The difference of $43.5 million between written premiums of $425.6 million and earned premiums of $469.1 represents the decrease in unearned premiums for the six months ended June 30, 2020. The decrease in unearned premiums was mainly the result of an increase in policy cancellations in our single premium mortgage insurance product driven by low interest rates and higher mortgage refinancing which resulted in lower persistency in the current year.

Excess of loss reinsurance treaties

Effective April 1, 2020, we executed an excess of loss reinsurance transaction with a panel of reinsurers covering a portion of the loss tier on subject loans written between book years 2009 and 2019 to help mitigate higher levels of delinquencies as a result of COVID-19. Under this reinsurance transaction we ceded premiums of approximately $4.5 million during the second quarter of 2020.

Effective January 1, 2020, we executed an excess of loss reinsurance transaction with a panel of reinsurers covering a portion of the loss tier on current and expected new insurance written for the 2020 book year. Under this reinsurance transaction we ceded premiums of approximately $1.6 million for the six months ended June 30, 2020. We have also entered into excess of loss reinsurance agreements with other external panels of reinsurers covering our 2016 through 2019 books of business.

On November 25, 2019, we obtained $302.8 million of excess of loss reinsurance coverage with Triangle Re 2019-1 Ltd. (“Triangle Re”), on a portfolio of existing mortgage insurance policies written from January 2019 through September 2019. The excess of loss reinsurance coverage is fully collateralized by a reinsurance trust agreement that provides that the trust assets may only be invested in (i) money market funds; (ii) U.S. treasury securities; and (iii) uninvested cash. In connection with entering into the reinsurance agreement with Triangle Re, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re is assuming significant insurance risk and a reasonable possibility of significant loss. Triangle Re is a variable interest entity and special purpose insurer domiciled in Bermuda. For the reinsurance coverage, we retain the first layer of aggregate losses up to $237.7 million. Triangle Re and other reinsurers provide 95% reinsurance coverage for losses above our retained first layer up to $713.0 million of total losses. We are responsible for losses on the portfolio above the reinsurance coverage amount of $713.0 million.

Premiums ceded under all these reinsurance agreements were $21.0 million and $9.3 million for the six months ended June 30, 2020 and 2019, respectively.

(7) Income Taxes

We compute the provision for income taxes on a separate return with benefits for loss method. If during the six months ended June 30, 2020, we had computed taxes using the separate return method, the provision for income taxes would have been unchanged.

(8) Related Party Transactions

We have various agreements with Genworth that provide for reimbursement to and from Genworth of certain administrative and operating expenses that include, but are not limited to, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These agreements provide for an allocation of corporate expenses to all Genworth businesses or subsidiaries. We incurred costs for these services of $23.8 million and $18.1 million for the six months ended June 30, 2020 and 2019, respectively.

Our investment portfolio is managed by Genworth. Under the terms of the investment management agreement we are charged a fee by Genworth. All fees paid to Genworth are charged to investment expense and are included in net investment income in the condensed consolidated statements of income. The total investment expenses paid to Genworth were $2.5 million and $2.1 million for the six months ended June 30, 2020 and 2019, respectively.

Our employees participate in certain benefit plans sponsored by Genworth and certain share-based compensation plans that utilize shares of Genworth common stock and other incentive plans.

We provide certain information technology and administrative services (such as facilities and maintenance) to Genworth. We charged Genworth $0.7 million and $0.8 million for these services for the six months ended June 30, 2020 and 2019, respectively.

We held an investment in common shares of Genworth Canada as of June 30, 2019. Genworth Canada was consolidated within Genworth until its sale on December 12, 2019. We received dividends from Genworth Canada of $15.2 million during the six months ended June 30, 2019, which is included within change in fair value of unconsolidated affiliate, net of taxes in the condensed consolidated statements of income. Refer to Note 3 for further information.

We have a tax sharing agreement in place with Genworth, such that we participate in a single U.S. consolidated income tax return filing. All intercompany balances related to this agreement are settled at least annually.

The condensed consolidated financial statements include the following amounts due to and from Genworth relating to recurring service and expense agreements as of June 30:

(Amounts in thousands)	2020	2019
Amounts payable to Genworth	$9,045	$7,839
Amounts receivable from Genworth	$ 645	$ 718

(9) Changes in Accumulated Other Comprehensive Income (Loss)

The following tables show the changes in accumulated other comprehensive income (loss), net of taxes, by component as of and for the periods indicated:

(Amounts in thousands)	Net unrealized investment gains (losses)	Total
Balance as of January 1, 2020	$ 93,431	$ 93,431
OCI before reclassifications	59,231	59,231
Amounts reclassified from (to) OCI	286	286
Current period OCI	59,517	59,517
Balance as of June 30, 2020	$152,948	$152,948

(Amounts in thousands)	Net unrealized investment gains (losses)	Total
Balance as of January 1, 2019	$ (26,522)	$ (26,522)
OCI before reclassifications	102,247	102,247
Amounts reclassified from (to) OCI	(101)	(101)
Current period OCI	102,146	102,146
Balance as of June 30, 2019	$ 75,624	$ 75,624

The following table shows reclassifications in (out) of accumulated other comprehensive income (loss), net of taxes, for the six months ended June 30:

(Amounts in thousands)	Amount reclassified from accumulated other comprehensive income (loss) 2020	2019	Affected line item in the condensed consolidated statements of income
Net unrealized investment (gains) losses:			
Unrealized (gains) losses on investments	$361	$(128)	Net investment (gains) losses
Income taxes	(75)	27	Provision for income taxes
Total	$286	$(101)	

(10) Subsequent Events

Subsequent events have been considered for recognition and/or disclosure through the issuance date of the financial statements on August 19, 2020. The COVID-19 pandemic continues to disrupt the global economy, financial markets and business operations across the globe. In the U.S., while all states have been impacted by COVID-19, certain geographies have been disproportionately impacted either through the spread of the virus or the severity of the mitigation steps taken to control its spread. Economic activity in the U.S. has slowed and unemployment remains elevated. Gross domestic product reflected a material decrease in the second quarter of 2020. Specific to housing, mortgage origination activity remains resilient primarily due to refinance activity given prevailing low interest rates. The pandemic has affected our financial results primarily through increased borrower uptake of forbearance options, as discussed below, many of which resulted in a new delinquency, increased overall new delinquencies, deterioration of existing delinquencies, higher losses and loss reserves, incremental private mortgage insurer eligibility requirements ("PMIERs") capital requirements and low persistency from elevated refinancing as a result of low interest rates.

The impact of the developing COVID-19 pandemic on our future business results is difficult to predict. The related outcomes and impact on our business will depend on the spread and length of the pandemic. Of similar importance will be the amount, type and duration of government stimulus and its impact on home borrowers, regulatory and government actions to support housing and the economy, spread mitigating actions in reaction to the current increase in cases, the possible resurgence of the virus in the future, and the shape of the economic recovery, all of which are unknown at present. It is difficult to predict how long home borrowers will need to use forbearance to assist them during the pandemic. Given the potential for current forbearance plans to extend up to a year, the ultimate resolution as a cure or claim for a delinquency in a forbearance plan may not be known for several quarters, if not longer, and is difficult to estimate. We are continuing to monitor COVID-19 developments, regulatory and government actions and the potential financial impacts on our business. However, given the specific risks to our business, it is possible the pandemic could have a significant adverse impact on our business, including our results of operations and financial condition.

Below is a summary of certain of the trends, impacts and uncertainties relating to COVID-19 which have impacted our quarterly results and are expected to continue to impact our future results of operations and financial condition.

- The Coronavirus Aid, Relief, and Economic Security ("CARES") Act requires mortgage servicers to provide up to 180 days of deferred or reduced payments (forbearance) for borrowers with a federally backed mortgage loan who assert they have experienced a financial hardship related to COVID-19. Forbearance may be extended for an additional 180 days up to a year in total or shortened at the request of the borrower. Federally backed mortgages include

Federal Housing Administration ("FHA") and U.S. Department of Veterans Affairs ("VA") backed loans and those purchased by Fannie Mae and Freddie Mac. Servicer reported forbearance has remained elevated compared to pre-COVID-19 levels; however, the uptake in reported forbearance has slowed since May 2020. Many of the loans reported in forbearance plans are also delinquent.

- We continue to report elevated new delinquencies compared to pre-COVID-19 levels; however, new delinquencies have slowed since May 2020 due in part to the decrease in reported forbearance. Primary delinquency rates are also elevated compared to pre-COVID-19 levels.
- Subsequent to June 30, 2020, cure activity increased, due in part to elevated delinquencies and the completion of previously active forbearances.
- Persistency rates have remained low as a result of elevated refinance mortgage origination activity due to the prevailing low interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes for the six months ended June 30, 2020 and 2019, our audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018 included herein, "Summary—Summary Historical Financial and Operating Information" and "Selected Historical Consolidated Financial Data." This discussion includes forward-looking statements and involves numerous risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations, all of which may be exacerbated by COVID-19. See "—Trends and Conditions" below. Factors that could cause such differences are discussed in this section and the sections entitled "Industry and Market Data," "Forward-Looking Statements" and "Risk Factors." We are not undertaking any obligation to update any forward-looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made. Future results could differ significantly from the historical results presented in this section. References to Genworth Mortgage Holdings, Inc., the "Company," "we" or "our" herein are, unless the context otherwise requires, to Genworth Mortgage Holdings, Inc. on a consolidated basis.

Overview of Business

We are a leading private mortgage insurance company, having served the U.S. housing finance market since 1981, and operate in all 50 states and the District of Columbia. Our mortgage insurance products provide credit protection to mortgage lenders, covering a portion of the unpaid principal balance of a low down payment mortgage loan in the event of a default. We believe we have built a leading platform based on long-tenured customer relationships, underwriting excellence and prudent risk and capital management practices. Our business objective is to leverage our competitive strengths to drive market share, maintain our strong capitalization and strong earnings profile and deliver attractive risk-adjusted returns to our Parent and its stockholders.

We generate revenues by providing mortgage credit protection to our customers in exchange for premiums, which we set based on our evaluation of the underlying risk we insure. Once the premium rate is established and coverage is activated, the premium rate remains unchanged for the first ten years of the policy; thereafter the premium rate resets to a lower rate used for the remaining life of the policy. In general, we can only cancel coverage for a failure to pay premiums or at servicer direction when the borrowers achieve the required amount of home equity. Our premium rate is applied predominantly to the original loan balance to determine either a monthly payment that the lender adds to the borrower's monthly loan payment or a single upfront payment made by either the borrower or lender at loan closing. The amount of premiums earned from our insurance portfolio and the timing of premium recognition are also affected by persistency, which we measure as the percentage of loans that remain on our books based on the annualized cancellations for the period.

We also employ a CRT program to transfer a portion of our risk through both traditional XOL reinsurance arrangements and the issuance of MILNs. In exchange, we cede a negotiated amount of our premiums to the reinsurers and MILN investors that participate in our CRT transactions. Our net premiums earned (i.e., materially, the gross premiums charged less premiums ceded as part of our CRT program) represent the largest source of our revenues. Importantly, our CRT program helps to derisk our operating model and spread the risk of loss across our counterparties while also providing capital relief.

We also invest our premiums in high quality, predominantly fixed income assets with the primary business objectives of preserving capital, generating investment income and maintaining sufficient liquidity to cover our operating expenses and pay future claims. The investment income generated through our investment portfolio is another significant source of our revenues.

We generate profits through collection of premiums less losses, operating expenses and taxes. Our mortgage insurance coverage protects lenders against loss in the event of a borrower default by covering a portion of the outstanding principal balance of a loan. In the event of a borrower default, our coverage reduces and, in certain instances eliminates, losses to the insured by transferring the covered portion of the economic loss to us. Borrower defaults are first reported to us as new delinquencies when the borrower fails to make two consecutive monthly mortgage payments. Incurred losses are our estimate of future claims on these new delinquencies as well as any change in the prior estimates for previously existing delinquencies. In addition, incurred losses include estimates of future claims on incurred, but not reported, delinquencies. Our incurred losses are based on estimates of both the rate at which delinquencies will go to claim (i.e. claim frequency) and the ultimate claim amount (i.e. claim severity). Claim frequency and severity estimates are established based on historical experience focusing on certain delinquency and loan attributes that influence the probability and amount of ultimate claim. Our estimates of ultimate claim amounts for each delinquency include loss adjustment expense ("LAE") that are costs incurred in the settlement of the claim process such as legal fees and costs to record, process and adjust claims. Incurred losses are generally affected by macroeconomic conditions, borrower credit quality, certain loan attributes, underwriting quality and our loss mitigation efforts among other factors detailed below.

Key Factors Affecting Our Results

Our financial position and results of operations depend to a significant extent on the following factors, each of which may be affected by COVID-19 as noted below in "—Trends and Conditions."

Mortgage Origination Volume

The level of mortgage origination volume is a key driver of our future revenues. The overall mortgage origination market is influenced by macroeconomic factors such as the rate of economic growth, the unemployment rate, interest rates, home affordability, household savings rates, the inventory of unsold homes, demographics of potential homebuyers and credit availability. The mortgage origination market is also influenced by various legislative and regulatory actions and GSE programs and policies that impact the housing and mortgage finance industries.

Penetration

The penetration rate of private mortgage insurance is mainly influenced by the competitiveness of private mortgage insurance compared to alternative products for Low-Down Payment Loans provided by government agencies (principally the FHA and the VA), portfolio lenders that self-insure, reinsurers and capital market transactions designed to mitigate risk. In addition, the private mortgage insurance industry's penetration rate is driven by the relative percentage of purchase mortgage originations versus refinances. Private mortgage insurance penetration tends to be significantly higher on new mortgages for purchased homes than on the refinance of existing mortgages, because average LTV ratios are typically higher on home purchases and therefore are more likely to require mortgage insurance. Lastly, we believe the penetration rate of private mortgage insurance is influenced by other factors, including lender preference, loan limits, contractual terms including cancellability and loss mitigation practices.

Credit and Regulatory Environment

The level of private mortgage insurance market penetration ("market penetration") and eventual market size is affected in part by actions taken by the GSEs and the U.S. government, including the FHA, the FHFA and the U.S. Congress, which impact housing or housing finance policy. In the past, these actions have included announced changes, or potential changes, to underwriting standards, FHA pricing, GSE guaranty fees and loan limits, as well as low down payment programs available through the FHA or GSEs.

Competition and Market Share

Competitors include other private mortgage insurers that are eligible to write business for the GSEs. We compete with other private mortgage insurers based on pricing, underwriting guidelines, customer relationships, service levels, policy terms, loss mitigation practices, perceived financial strength (including comparative credit ratings), reputation, strength of management, product features and technology ease-of-use. We also compete with governmental agencies (principally the FHA and the VA) primarily based on price and underwriting guidelines.

Pricing is highly competitive in the mortgage insurance industry, with industry participants competing for market share and customer relationships. Recent pricing trends have introduced an increasing number of loan, borrower, lender and property attributes, resulting in expanded granularity in pricing regimes and a shift from traditional published rate cards to dynamic pricing engines that are intended to better align price and risk. Our risk-based pricing engine, GenRATE, was developed using our proprietary risk model, 1AF, which evaluates returns and volatility under both the PMIERs capital framework and our internal economic capital framework, which is sensitive to economic cycles and current housing market conditions. Our 1AF model assesses the performance of new business under expected and stress scenarios on an individualized loan basis, and it is used to determine pricing and inform our risk selection strategy that optimizes economic value by balancing return and volatility.

Seasonality

Consistent with the seasonality of home sales, purchase mortgage origination volumes typically increase in late spring and peak during summer months, leading to a rise in NIW volume during the second and third quarters of a given year. Refinancing volume, however, does not follow a similar seasonal trend and instead is primarily influenced by interest rates, which can overwhelm typical seasonal trends. Delinquency performance (new delinquency formation and cure behavior) is generally favorable in the first and second quarters of the year. Therefore, we typically experience lower levels of losses resulting from favorable delinquency activity in the first and second quarters, as typically compared to the third and fourth quarters. As the COVID-19 pandemic and U.S. housing market continue to evolve, we may see varying levels of delinquencies from period to period.

The following table presents our NIW, number cures and new delinquencies for primary policies, excluding our run-off insurance block with reference properties in Mexico and prior business activity in South Korea ("run-off business"), for the periods indicated:

	Three months ended								
(Dollar amounts in millions)	**June 30, 2018**	**September 30, 2018**	**December 31, 2018**	**March 31, 2019**	**June 30, 2019**	**September 30, 2019**	**December 31, 2019**	**March 31, 2020**	**June 30, 2020**
NIW	$11,409	$10,252	$9,290	$9,636	$15,790	$18,835	$18,170	$17,908	$28,396
% change		(10.1)%	(9.4)%	3.7%	63.9%	19.3%	(3.5)%	(1.4)%	58.6%
Cure counts	8,395	7,781	7,511	8,726	7,791	7,382	7,464	8,649	9,795
% change		(7.3)%	(3.5)%	16.2%	(10.7)%	(5.3)%	1.1%	15.9%	13.3%
New delinquencies count	6,932	7,783	8,616	8,424	7,606	8,547	8,659	8,114	48,373
% change		12.3%	10.7%	(2.2)%	(9.7)%	12.4%	1.3%	(6.3)%	NM(1)

(1) We define "NM" as not meaningful for increases or decreases greater than 200%.

New Insurance Written

NIW occurs when a lender activates mortgage insurance coverage on a closed mortgage loan. NIW increases our IIF, premiums written, and premiums earned. NIW is affected by the overall size of the mortgage origination market, the penetration rate of private mortgage insurance into the overall mortgage origination market and our market share of the private mortgage insurance market.

Pricing

Our pricing strategy is designed to charge premium rates commensurate with the underlying risk of each loan we insure. GenRATE provides us with a more flexible, granular and analytical approach to selecting and pricing risk. Using GenRATE, we can quickly change price to modify our risk selection levels, respond to industry pricing trends or adjust to changing economic conditions. We believe that GenRATE, powered by our proprietary risk model and our understanding of mortgage risk volatility, provides us with a highly sophisticated pricing regime that improves our risk selection and is designed to yield attractive risk adjusted returns through credit cycles.

Insurance in-force

IIF is used to determine premiums. The vast majority of our IIF (98%) reflects the original loan balance for policies with level renewal premiums as of June 30, 2020 and December 31, 2019. The remainder of IIF is reflected using the amortized loan balance for policies with annual, amortizing renewal premiums. IIF is one of the primary drivers of our future earned premium. Based on the composition of our insurance portfolio, with monthly premium policies comprising a larger proportion of our total portfolio than single premium policies, an increase or decrease in IIF generally has a corresponding impact on premiums earned. Cancellations of our insurance policies as a result of prepayments and other reductions of IIF, such as rescissions of coverage and claims paid, generally have a negative effect on premiums earned.

Persistency Rate and Business Mix

The percentage of IIF that remains insured by us after taking into account annualized cancellations for the period presented is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher or lower persistency rates can have a significant impact on our profitability.

Loan prepayment speeds and the relative mix of business between single premium policies and monthly premium policies also impact our profitability. Assuming all other factors remain constant over the life of the policies, prepayment speeds have an inverse impact on IIF and the expected premium from our monthly policies. Slower prepayment speeds, demonstrated by a higher persistency rate, result in IIF remaining in place, providing increased premium from monthly policies over time as premium payments continue. Earlier than anticipated prepayments, demonstrated by a lower persistency rate, reduce IIF and the premium from our monthly policies.

The following table presents the weighted average mortgage interest rate on outstanding primary IIF as of June 30, 2020, excluding our run-off business. Prepayment speeds may be affected by changes in interest rates, among other factors. An increasing interest rate environment generally will reduce refinancing activity and result in lower prepayments. A declining interest rate environment generally will increase refinancing activity and increase prepayments.

Policy Year	Weighted average rate (1)
2004 and prior	6.07%
2005 to 2008	5.42%
2009 to 2012	4.18%
2013	4.12%
2014	4.44%
2015	4.14%
2016	3.88%
2017	4.23%
2018	4.74%
2019	4.21%
2020 (through June 30, 2020)	3.57%
Total portfolio	**4.19%**

(1) Average Annual Mortgage Interest Rate Weighted by IIF.

In contrast to monthly premium policies, when single premium policies are cancelled by the insured because the loan has been paid off or otherwise, any remaining unearned premiums are earned at cancellation. Although these cancellations reduce IIF, assuming all other factors remain constant, the profitability of our single premium business increases when persistency rates are lower. As of June 30, 2020 and December 31, 2019, single premium policies comprised 18% and 20% of IIF, respectively.

Credit Quality

Improved analytics, stronger loan manufacturing quality controls, and the regulatory implementation of the QM provision have resulted in a significant improvement in the credit quality for loans originated in the private mortgage insurance market over time. Additionally, private mortgage insurers and the GSEs have maintained strong credit standards over the past decade, with average FICO scores for NIW persisting at levels significantly above historical averages. As a result, the industry is insuring loans from borrowers who should be better positioned to meet their mortgage obligations. More recently, in response to FTHB demand, there has been modest credit expansion that accommodates LTV over 95% and higher debt-to-income ratios. Even after this expansion, private mortgage insurers and the GSEs have maintained strong credit standards well above historical norms.

Net Investment Income

Net investment income is determined primarily by the invested assets held and the average yield on our overall investment portfolio.

Net Investment Gains (Losses)

The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on such factors as market opportunities, our capital profile and overall market cycles that impact the timing of selling securities.

Losses Incurred

Losses incurred represent current payments and changes in the estimated future payments on claims that result from delinquent loans. We estimate an expense only for delinquent loans as explained in note 2 to our audited consolidated financial statements for the years ended December 31, 2019 and 2018 included elsewhere in this document. Incurred losses depend to a significant extent on the following factors, each of which in turn may be affected by COVID-19 as noted below in "—Trends and Conditions." Other factors influencing incurred losses include:

- deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments;
- legislative, regulatory or GSE action, or executive orders permitting or mandating forbearance or a moratorium on foreclosures or evictions due to events such as natural disasters or COVID-19;
- a drop in housing values that could expose us to greater loss on resale of properties obtained through foreclosure proceedings and an adverse change in the effectiveness of loss mitigation actions that could result in an increase in the frequency of expected claim rates;
- a drop in housing values that negatively impacts a borrower's willingness to continue mortgage payments, potentially leading to higher delinquencies and ultimately claims;
- if the foreclosure occurs in a state that imposes judicial process, which generally increases the amount of time it takes for a foreclosure to be completed, which impacts severity of the claim;
- the credit characteristics in our in-force portfolio, as loans with higher risk characteristics generally result in more delinquencies and claims;
- the size of loans we insure, as loans with relatively higher average loan amounts generally result in higher incurred losses;
- the coverage percentage on insured loans, as loans with higher percentages of insurance coverage generally correlate with higher incurred losses;
- the level and amount of reinsurance coverage maintained with third parties; and
- the distribution of claims over the life of a book. Historically, the first few years after origination have relatively low claims, with claims increasing for several years subsequently and then declining. However, persistency, the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern.

Reinsurance

We use CRT structures to transfer a portion of our risk to third parties, through both traditional XOL reinsurance and the issuance of MILNs. Our CRT program reduces the volatility of our in-force portfolio and provides capital relief under the PMIERs financial requirements. When we enter into a CRT structure, the reinsurer receives a premium and, in exchange, insures an agreed upon portion of incurred losses. These arrangements have the impact of reducing our earned premiums but also provide capital relief under the PMIERs financial requirements in exchange for a negotiated ceded premium rate. Under certain stress scenarios, our incurred losses are also reduced by any incurred losses ceded in accordance with our reinsurance agreements.

Operating Expenses

Our operating expenses include costs related to the acquisition and ongoing maintenance of our insurance contracts, including sales, underwriting and general operating costs. Acquisition expenses are influenced by the amount of our NIW. Acquisition costs that are related directly to the successful acquisition of new insurance policies, such as underwriting expenses, are deferred and amortized over the life of the underlying insurance policies. These deferred acquisition costs are referred to as "DAC." The ongoing maintenance expenses of our insurance contracts are generally fixed in nature and include costs such as information technology, finance and legal, among others, including costs allocated from our Parent for certain activities on our behalf. See Note 10 to our audited consolidated financial statements for the years ended December 31, 2019 and 2018 and Note 8 to our unaudited condensed consolidated financial statements for the six months ended June 30, 2020 and 2019 for information regarding our related party transactions.

Trends and Conditions

COVID-19 has continued to disrupt the global economy, financial markets, business operations and consumer behavior and confidence across the globe. In the U.S., while all states have been impacted by COVID-19, certain geographic regions have been disproportionately impacted either through the spread of the virus or the severity of the mitigation steps taken to control its spread. Economic activity in the U.S. slowed further in the second quarter of 2020 and unemployment remains elevated. GDP reflected a material decrease in the second quarter of 2020 as over 17 million American workers were unemployed through July 2020. Specific to housing, mortgage origination activity remained resilient in the second quarter of 2020 fueled by refinance activity given prevailing low interest rates. After experiencing a slowdown in sales from the onset of the crisis through May 2020, the purchase market improved in June 2020 with sales of previously owned homes increasing 21% month-over-month and inventories declining from 4.8 months to 4 months. The pandemic has affected our 2020 financial results primarily through increased borrower uptake of forbearance options, as discussed below, many of which resulted in a new delinquency, increased overall new delinquencies, emerging performance deterioration of existing delinquencies, higher losses and loss reserves and incremental PMIERs capital requirements as compared to the first six months of 2019. In addition, we experienced a material decline in persistency in 2020 from low interest rates.

The impact of the developing COVID-19 pandemic on our future business results is difficult to predict. We have performed extensive scenario planning to help us better understand and tailor our actions to mitigate the potential adverse effects of the pandemic on our financial results. While our current financial results to date fall within the range of our current scenarios, the ultimate outcomes and impact on our business will depend on the spread and length of the pandemic. Equally important will be the amount, type and duration of government stimulus and its impact on borrowers, regulatory and government actions to support housing and the economy, spread mitigating actions to curb the current increase in cases, the possible resurgence of the virus in the future and the shape of economic recovery, all of which are unknown at present. It is difficult to predict how long borrowers will need to use forbearance to assist them during the pandemic. Given that current forbearance plans may be extended up to a year, the resolution of a delinquency in a plan, whether it ultimately results in a cure or a claim, is difficult to estimate and may not be known for several quarters, if not longer. We are continuing to monitor COVID-19 developments, regulatory and government actions and the potential financial impacts on our business. However, given the specific risks to our business, it is possible the pandemic could have a significant adverse impact on our business, including our results of operations and financial condition.

Specific to housing finance, the CARES Act requires mortgage servicers to provide up to 180 days of deferred or reduced payments ("forbearance") for borrowers with a federally backed mortgage loan who assert they have experienced a financial hardship related to COVID-19. Forbearance may be extended for an additional 180 days up to a year in total or shortened at the request of the borrower. Federally backed mortgages include FHA and VA backed loans and those purchased by Fannie Mae and Freddie Mac. The CARES Act also prohibited foreclosures on all federally backed mortgage loans, except for vacant and abandoned properties, for a 60-day period that began on March 18, 2020. Since the introduction of the CARES Act, the GSEs as well as most servicers of non-federally backed mortgage loans have extended similar relief to their respective portfolios of loans. The FHFA extended the foreclosure moratorium until August 31, 2020 for mortgages that are purchased by Fannie Mae and Freddie Mac. At the conclusion of the forbearance term, a borrower may either bring their loan current, defer any missed payments until the end of their loan, or the loan can be modified through a repayment plan or extension of the mortgage term. Many servicers have updated and improved their reporting to private mortgage insurers for when a loan is covered by forbearance. Servicer reported forbearance slowed meaningfully during May and June and ended the second quarter of 2020 with 7.7% or 68,937 of our active primary policies reported in a forbearance plan, of which 62% were reported as delinquent. Forbearance to date has been a leading indicator of future new delinquencies; however, it is difficult to predict the future level of reported forbearance and how many of the policies in a forbearance plan that remain current on their monthly mortgage payment will go delinquent. Our forbearance rate decreased to 7.4% as of July 31, 2020, which along with favorable cure development drove a decline in our total delinquencies from 53,587 as of June 30, 2020 to 52,484 as of July 31, 2020.

Market penetration and eventual market size are affected in part by actions that impact housing or housing finance policy taken by the GSEs and the U.S. government, including but not limited to, the FHA and the FHFA. In the past, these actions have included announced changes, or potential changes, to underwriting standards, including changes to the GSEs' automated underwriting systems, FHA pricing, GSE guaranty fees, loan limits and alternative products, such as those offered through Freddie Mac's IMAGIN and Fannie Mae's EPMI pilot programs, as well as low-down payment programs available through the FHA or GSEs. On May 20, 2020, the FHFA re-proposed the Enterprise Framework for Fannie Mae and Freddie Mac. The comment period expires on August 31, 2020, although certain interested parties have requested an extension of the comment period. As proposed, the Enterprise Framework would significantly increase regulatory capital requirements for the GSEs over current requirements. If the Enterprise Framework is finalized in its current form, higher capital requirements could ultimately lead to increased costs to borrowers for GSE loans, which in turn could shift the market away from the GSEs to the FHA or lender portfolios. Such a shift could result in a smaller market for private mortgage insurance. For more information about the potential future impact, see "Risk Factors—Risks Relating to Our Business—Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition" and "Risk Factors—Risks Relating to Our Business—The amount of mortgage insurance we write could decline significantly if alternatives to private mortgage insurance are used or lower coverage levels of mortgage insurance are selected."

Estimated mortgage origination volume increased during the first six months of 2020 compared to the first six months of 2019 primarily as lower interest rates resulted in higher refinance origination volumes. The estimated private mortgage insurance available market increased driven by higher refinance originations and higher purchase market penetration. Our primary persistency declined to 67% during the first six months of 2020 compared to 84% during the same period of 2019. Given the volume to date, we now expect mortgage originations to remain strong for the second half of 2020 fueled by sustained low interest rates driving refinances and by continued strength in the purchase originations market.

The U.S. private mortgage insurance industry is highly competitive. There are currently six active mortgage insurers, including us. The majority of our new insurance written is priced using our proprietary risk-based pricing engine, GenRATE, which provides lenders with a granular approach to pricing for borrowers. All active U.S. mortgage insurers utilize proprietary risk-based pricing engines. Given evolving market dynamics, we expect price competition to remain highly competitive. For more information on the potential impacts due to competition, see "Risk Factors—Risks Relating to Our

Business—Competition within the mortgage insurance industry could result in the loss of market share, loss of customers, lower premiums, wider credit guidelines and other changes that could have a material adverse effect on our business, results of operations and financial condition." At the same time, we believe mortgage insurers, including us, consider many variables when pricing their new insurance written including the prevailing and future macroeconomic conditions. As a result, we raised prices during the second quarter of 2020 to align with our updated view of risk in the prevailing market conditions. We believe our pricing remains competitive.

New insurance written of $46.3 billion increased 82% in the six months ended June 30, 2020 compared to the same period in 2019 primarily due to higher mortgage refinancing originations, a larger private mortgage insurance market as overall housing fundamentals remain strong and our higher estimated share. Our market share is influenced by the execution of our go to market strategy, including but not limited to, the market adoption of GenRATE and our selective participation in forward commitment transactions. Our market share remains impacted by the negative ratings differential relative to our competitors, concerns expressed about our Parent's financial condition, the proposed transaction with China Oceanwide and pricing competition. We continue to manage the quality of new business through pricing and our underwriting guidelines, which we modify from time to time when circumstances warrant.

Net earned premiums increased in the six months ended June 30, 2020 compared to the same period in 2019 primarily from growth in our IIF and from an increase in single premium policy cancellations driven largely by higher mortgage refinancing, partially offset by lower average premium rates in the current year. As a result of COVID-19, we experienced a significant increase in the number of reported delinquent loans during the second quarter of 2020. During this time and consistent with prior years, servicers continued the practice of remitting premium during the early stages of default. As a result, we did not experience an impact to earned premiums during the second quarter of 2020. Additionally, we have a business practice of refunding the post-delinquent premiums to the insured party if the delinquent loan goes to claim. We record a liability and a reduction to net earned premiums for the post-delinquent premiums we expect to refund. The post-delinquent premium liability recorded in the second quarter of 2020 for the increased number of delinquent loans was not significant to the change in earned premiums during the quarter. As a result of COVID-19, certain state insurance regulators have issued orders or provided guidance to insurers requiring or requesting, the provision of grace periods of varying lengths to insureds in the event of non-payment of premium. Regulators differ greatly in their approaches but generally focus on the avoidance of cancellation of coverage for non-payment. We currently comply with all state regulatory requirements and requests. If timely payment is not made, future premiums could decrease and the certificate of insurance could be subject to cancellation after 60 days, or such longer time as required under applicable law. During the second quarter of 2020, servicers continued to remit premium on non-delinquent loans and therefore we did not experience a significant change to earned premiums.

While COVID-19 is unique in that it is a sudden, global economic disruption stemming from a health crisis, we have experience with the financial impacts of sudden, unexpected economic events on our business. Prior localized natural disasters, such as hurricanes, have helped inform our view of the severity and potential duration of the economic shock caused by the efforts to contain the spread of COVID-19. Similar to our hurricane experience, borrowers who have experienced a financial hardship including, but not limited to, the loss of income due to the closing of a business or the loss of a job have taken advantage of available forbearance programs and payment deferral options. As a result, we have seen elevated new delinquencies, but as in past natural disasters, those delinquencies may cure at a higher rate than traditional delinquencies should economic activity quickly return to pre-COVID-19 levels. Severity of loss on loans that do go to claim, however, may be negatively impacted by the extended forbearance timeline, the associated elevated expenses such as accumulated interest, the higher loan amount of the recent new delinquencies and home price depreciation, if any. Unlike a hurricane where the natural disaster occurs at a point in time and the rebuild starts soon after, COVID-19 is an ongoing health crisis and we do not know when it will end, making it more difficult to determine the effectiveness of forbearance and the resulting rates at which delinquencies go to claims ("roll rates") for new delinquencies in forbearance plans. Given this difference, our prior hurricane experience was relied upon as one consideration, of many, in the establishment of an appropriate roll rate estimate for new delinquencies in forbearance plans that have emerged as a result of COVID-19.

Our losses for the six months ended June 30, 2020 were $246 million with an associated loss ratio of 53% as compared to $16 million losses and a loss ratio of 4% for the six months ended June 30, 2019. The increase in losses was driven by several factors. New primary delinquencies increased significantly, largely in the second quarter of 2020 to 48,373 driven primarily by a significant increase in borrower forbearance as a result of COVID-19. Approximately 87% of our primary new delinquencies in the second quarter of 2020 were subject to a forbearance plan. New delinquencies contributed $197 million of losses for the six months ended June 30, 2020 with $170 million of loss expense in the second quarter of 2020 calculated by applying a blended estimated roll rate between the estimate for existing pre-COVID-19 early stage delinquencies and our past hurricane related roll rates related to the former. Such past hurricane related roll rates were materially lower than those related to COVID-19 given the effectiveness of forbearance and government assistance programs. This compares to $60 million of losses from 16,030 new primary delinquencies for the six months ended June 30, 2019. Prior to COVID-19, traditional measures of credit quality, such as FICO score and whether a loan had a prior delinquency were most predictive of new delinquencies. Because the pandemic has affected a broad portion of the population, attribution analysis of second quarter of 2020 new delinquencies revealed that additional factors such as higher debt to income, geographies more affected by the virus or with a higher concentration of affected industries, loan size, and servicer process differences rose in significance.

In addition to new delinquencies, losses in the six months ended June 30, 2020 included a $28 million loss expense recorded in the second quarter associated with incurred but not reported delinquencies, which are expected to be reported at a future date. We also strengthened reserves on existing delinquencies by an additional $28 million in the second quarter of 2020 driven primarily by the deterioration of early cure emergence patterns impacting claim frequency along with a modest increase in claim severity. This reserve strengthening compares to a favorable reserve adjustment of $10 million in the six months ended June 30, 2019 mostly associated with lower expected claim rates. Lastly, the 2020 loss expense reflects lower net benefits from cures and aging of existing delinquencies compared to the prior year.

As of June 30, 2020, GMICO's RTC ratio under the current regulatory framework as established under North Carolina law and enforced by the NCDOI, GMICO's domestic insurance regulator, was 12.2:1, compared to 12.5:1 as of December 31, 2019. This RTC ratio remains below the NCDOI's maximum RTC ratio of 25:1. North Carolina's calculation of RTC excludes the RIF for delinquent loans given the established loss reserves against all delinquencies. As a result, we do not expect any immediate, material pressure to GMICO's RTC ratio in the short term as a result of COVID-19. GMICO's ongoing RTC ratio will depend principally on the magnitude of future losses incurred by GMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, the amount of policy lapses and the amount of additional capital that is generated or distributed by the business or capital support (if any) that we or our Parent may provide.

Under PMIERs, we are subject to operational and financial requirements that private mortgage insurers must meet in order to remain eligible to insure loans that are purchased by the GSEs. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERs. On June 29, 2020, the GSEs issued both temporary and permanent amendments to PMIERs, which became effective on June 30, 2020. With respect to loans that became non-performing due to a COVID-19 hardship, PMIERs was temporarily amended with respect to each non-performing loan that (i) has an initial missed payment occurring on or after March 1, 2020 and prior to January 1, 2021, or (ii) is subject to a forbearance plan granted in response to a COVID-19 hardship, the terms of which are materially consistent with terms of forbearance plans offered by the GSEs. The risk-based required asset amount factor for the non-performing loan will be the greater of (a) the applicable risk-based required asset amount factor for a performing loan were it not delinquent, and (b) the product of a 0.30 multiplier and the applicable risk-based required asset amount factor for a non-performing loan. In the case of (i), the 0.30 multiplier will be applicable for up to four calendar months from the date of the initial missed payment absent a forbearance plan described in (ii) above. The PMIERs amendments also impose temporary capital preservation provisions through March 31, 2021, that require an approved insurer to obtain prior written GSE approval before paying any dividends, pledging or transferring assets to an affiliate or entering into any new, or altering any existing, arrangements under tax sharing and intercompany expense-sharing agreements, even if such insurer has a surplus of available assets. Lastly, the amendments impose permanent revisions to the risk-based required asset amount factor for non-performing loans for properties located in future FEMA Declared Major Disaster Areas eligible for Individual Assistance.

As of June 30, 2020, we had available assets of $4,218 million against $2,943 million net required assets under PMIERs compared to available assets of $3,811 million against $2,754 million net required assets as of December 31, 2019. The sufficiency as of June 30, 2020 was $1,275 million or 143% above the PMIERs requirements, compared to $1,057 million, or 138% above the PMIERs requirements, as of December 31, 2019. The improvement in PMIERs sufficiency was driven in part by business cash flows increasing PMIERs available assets, elevated lapse of existing business driven by low prevailing interest rates and an increase in reinsurance credit. These factors were partially offset by incremental new delinquencies driving higher PMIERs required assets and capital consumed by new insurance written in 2020. In addition, our PMIERs required assets as of June 30, 2020 benefited from the application of a 0.30 multiplier applied to the risk-based required asset amount factor for certain non-performing loans. The application of the 0.30 multiplier to all eligible delinquencies provided $1,057 million of benefit to our June 30, 2020 PMIERs required assets. As a result of the uncertainty regarding the impact of COVID-19 on our business, we intend to preserve PMIERs available assets and defer the payment of dividends in 2020. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors. See “Summary—Recent Developments—PMIERs and GSE Conditions.”

In connection with the offering, we have engaged in discussions with the GSEs and FHFA to address certain GSE objectives of materially improving our Parent’s leverage and coverage ratios or for the Issuer and GMICO to achieve greater independence from our Parent with regard to capital access, capital flows and financial strength ratings. As part of these discussions, we have committed in principle to retain initially $300 million of the net proceeds from the offering to pay interest on the notes and to be available, if needed, to provide capital support to GMICO. In addition, we currently expect that GMICO will agree to maintain, effective as of the closing of the offering, PMIERs capital at a level of 115% of the current requirements. See “Regulation—Agency Qualification Requirements.” We, our Parent and GMICO also have committed to submit a plan to the GSEs to achieve the GSE objectives described above. Following the submission of this plan and as a result of our ongoing discussions (the outcome of which we cannot predict at this time), the GSEs may include additional or different conditions to those described above, which individually or in the aggregate may be material. See “Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs’ interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.”

Our CRT program provided an estimated aggregate of $1,043 million of PMIERs capital credit as of June 30, 2020. Effective January 1, 2020, we executed an excess of loss reinsurance transaction with a panel of reinsurers covering a portion of the loss tier on current and expected new insurance written for the 2020 book year. In the second quarter of 2020, we completed an aggregate excess of loss reinsurance transaction providing up to $300 million of reinsurance coverage on our 2009 to 2019 book years that is intended to provide PMIERs capital credit for elevated delinquencies as result of COVID-19. Our PMIERs sufficiency as of June 30, 2020 includes $122 million and $180 million of capital credit from these transactions, respectively. We may execute future risk transfer transactions to maintain a prudent level of financial flexibility in excess of the PMIERs capital requirements in response to potential changes in performance and PMIERs requirements over time. We believe that future CRT transactions may be more difficult to execute, if possible at all, and may have a higher cost during and following the COVID-19 pandemic. See "Risk Factors—Risks Relating to Our Business—CRT transactions may not be available, affordable or adequate to protect us against losses."

See footnote 10 to our unaudited condensed consolidated financial statements, "Summary—Recent Developments—COVID-19" and "Risk Factors" for additional information and updates related to COVID-19.

Pursuant to its authority under the Dodd-Frank Act, the CFPB issued regulations that became effective on January 10, 2014, establishing underwriting and product feature requirements for mortgages to be deemed QM. The regulations provide that mortgages that comply with certain prohibitions and limitations and meet the GSE underwriting and product guidelines are deemed to be QMs (the "GSE Patch") until the earlier of when the GSEs exit FHFA conservatorship or January 10, 2021. The GSE Patch permits loans that exceed a debt to income ratio of 43% to be eligible for QM status. Many of the loans that qualify under the GSE Patch require credit enhancement, of which private mortgage insurance is the predominate form of coverage. On June 22, 2020, the CFPB issued two Notices of Proposed Rulemaking seeking comments on proposed amendments to its QM regulations, and they extended the GSE Patch until the earlier of the effective date of the revised QM Rule (which is not expected to occur prior to April 1, 2021) or when the GSEs exit conservatorship. It is too early to determine what the proposed amendments will include when/if they become effective or the impact it will have on our business.

Results of Operations and Key Metrics

Results of Operations

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

The following table sets forth our consolidated results for the periods indicated:

(Amounts in thousands)	Six months ended June 30, 2020	Six months ended June 30, 2019	Increase (decrease) and percentage change 2020 vs. 2019	
Revenues:				
Premiums	$469,051	$399,963	$ 69,088	17%
Net investment income	64,693	56,706	7,987	14%
Net investment gains (losses)	(344)	109	(453)	NM(1)
Other income	3,209	1,912	1,297	68%
Total revenues	536,609	458,690	77,919	17%
Losses and expenses:				
Losses incurred	246,310	15,931	230,379	NM(1)
Acquisition and operating expenses, net of deferrals	100,479	92,550	7,929	9%
Amortization of deferred acquisition costs and intangibles	7,580	7,629	(49)	(1)%
Total losses and expenses	354,369	116,110	238,259	NM(1)
Income before income taxes and change in fair value of unconsolidated affiliate	182,240	342,580	(160,340)	(47)%
Provision for income taxes	41,015	73,447	(32,432)	(44)%
Income before change in fair value of unconsolidated affiliate	141,225	269,133	(127,908)	(48)%
Change in fair value of unconsolidated affiliate, net of taxes	—	36,439	(36,439)	(100)%
Net income	$141,225	$305,572	$(164,347)	(54)%
Loss ratio (2)	53%	4%		
Expense ratio (net earned premiums) (3)	23%	25%		

(1) We define "NM" as not meaningful for increases or decreases greater than 200%.
(2) Loss ratio is calculated by dividing losses incurred by net earned premiums.
(3) Expense ratio (net earned premiums) is calculated by dividing acquisition and operating expenses, net of deferrals, plus amortization of DAC and intangibles by net earned premiums.

Revenues

Premiums increased mainly attributable to higher IIF and an increase in policy cancellations in our single premium mortgage insurance product driven largely by higher mortgage refinancing, partially offset by lower average premium rates in the current year.

Net investment income increased primarily from higher average invested assets in the current year mainly driven by the purchase of fixed maturity securities using net proceeds from the sale of Genworth Canada in December 2019. See "—Change in fair value of unconsolidated affiliate, net of taxes" below.

Net investment gains (losses) consist primarily of realized gains and losses from the sale of our fixed maturity securities.

Other income primarily includes underwriting fee revenue charged on a per-unit or per-diem basis, as defined in the underwriting agreement. Other income increased primarily due to higher contract underwriting revenue mainly from a larger mortgage insurance market in the current year.

Losses and expenses

Losses incurred increased largely from $197 million of losses from new delinquencies driven primarily by a significant increase in borrower forbearance as a result of COVID-19. The current year also included additional reserves of $28 million for incurred but not reported delinquencies that are expected to be reported in the future. In addition, existing reserves were strengthened by $28 million in the current year primarily driven by the deterioration of early cure emergence patterns impacting claim frequency along with a modest increase in claim severity. The current year also reflected lower net benefits from cures and aging of existing delinquencies. The prior year included a $10 million favorable reserve adjustment mostly associated with lower expected claim rates.

The following table shows incurred losses related to current and prior accident years for the six months ended June 30:

(Amounts in thousands)	**2020**	**2019**
Losses and LAE incurred related to current accident year	$238,692	$ 50,275
Losses and LAE incurred related to prior accident years	8,696	(34,374)
Total incurred (1)	$247,388	$ 15,901

(1) Excludes run-off business.

Acquisition and operating expenses, net of deferrals, increased primarily attributable to higher costs allocated by our Parent, an increase in acquisition costs mainly driven by increased NIW and higher information technology and other operating expenses in the current year.

Our expense ratio (net earned premiums) decreased primarily from higher net earned premiums, partially offset by higher operating costs in the current year.

Provision for income taxes

The effective tax rate was 22.5% and 21.4% for the six months ended June 30, 2020 and 2019, respectively, consistent with the United States corporate federal income tax rate.

Change in fair value of unconsolidated affiliate, net of taxes

Change in fair value of unconsolidated affiliate consists of the change in the fair value of our previously held investment in Genworth Canada, which also includes dividends and the sale of common shares, net of taxes. The decrease resulted from the sale of Genworth Canada, which closed on December 12, 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table presents our consolidated results for the periods indicated:

(Amounts in thousands)	Years ended December 31 2019	Years ended December 31 2018	Increase (decrease) and percentage change 2019 vs. 2018	
Revenues				
Premiums	$856,976	$746,864	$110,112	15%
Net investment income	116,927	93,198	23,729	25%
Net investment gains (losses)	718	(552)	1,270	NM(1)
Other income	4,232	1,587	2,645	167%
Total revenues	978,853	841,097	137,756	16%
Losses and expenses:				
Losses incurred	49,850	36,405	13,445	37%
Acquisition and operating expenses, net of deferrals	195,768	176,986	18,782	11%
Amortization of deferred acquisition costs and intangibles	15,065	14,037	1,028	7%
Total losses and expenses	260,683	227,428	33,255	15%
Income before income taxes and change in fair value of unconsolidated affiliate	718,170	613,669	104,501	17%
Provision for income taxes	155,832	129,807	26,025	20%
Income before change in fair value of unconsolidated affiliate	562,338	483,862	78,476	16%
Change in fair value of unconsolidated affiliate, net of taxes	115,290	(30,261)	145,551	NM(1)
Net income	$677,628	$453,601	$224,027	49%
Loss ratio (2)	6%	5%		
Expense ratio (net earned premiums) (3)	25%	26%		

(1) We define “NM” as not meaningful for increases or decreases greater than 200%.
(2) Loss ratio is calculated by dividing losses incurred by net earned premiums.
(3) Expense ratio (net earned premiums) is calculated by dividing acquisition and operating expenses, net of deferrals, plus amortization of DAC and intangibles by net earned premiums.

Revenues

Premiums increased mainly attributable to higher IIF and higher policy cancellations in our single premium mortgage insurance product driven largely by mortgage refinancing, partially offset by lower average premium rates in 2019. The year ended December 31, 2019 also included a favorable adjustment of $14 million related to our single premium earnings pattern review driven by our revised assessment of recent claim and cancellation experience and the refinement of loan attributes.

Net investment income increased primarily due to higher average invested assets and higher investment yields in 2019.

Net investment gains (losses) consist primarily of realized gains and losses from the sale of our fixed maturity securities.

Other income primarily includes underwriting fee revenue charged on a per-unit or per-diem basis, as defined in the underwriting agreement. Other income increased primarily due to higher contract underwriting revenue from a larger mortgage insurance market.

Losses and expenses

Losses incurred increased primarily due to lower net benefits from cures and aging of existing delinquencies and less favorable reserve adjustments in 2019. We recorded $23 million of favorable reserve adjustments in 2019 compared to a $28 million favorable reserve adjustment in 2018. These adjustments were mostly associated with lower expected claim rates. These increases were partially offset by a lower average reserve on new delinquencies in 2019. Our loss ratio increased primarily from higher losses, partially offset by higher net earned premiums in 2019, which included a $14 million favorable adjustment associated with the review of our single premium earnings pattern. The favorable reserve adjustments of $23 million and the $14 million favorable adjustment from the single premium earnings pattern review reduced the loss ratio by three percentage points in 2019. The favorable reserve adjustment of $28 million reduced the loss ratio by four percentage points in 2018.

The following table shows incurred losses related to current and prior accident years for the years ended December 31:

(Amounts in thousands)	2019	2018
Losses and LAE incurred related to current accident year	$105,734	$116,842
Losses and LAE incurred related to prior accident years	(55,917)	(80,755)
Total incurred (1)	$ 49,817	$ 36,087

(1) Excludes run-off business.

Acquisition and operating expenses, net of deferrals increased primarily driven by higher acquisition costs mainly driven by increased NIW in 2019 and higher information technology and other expenses due to continued investment in modernization of the business.

Amortization of DAC and intangibles consists primarily of the amortization of acquisition costs that are capitalized and capitalized software. Amortization of DAC and intangibles increased primarily driven by higher amortization of intangible assets in 2019.

Our expense ratio decreased slightly primarily from higher earned premiums, mostly offset by higher acquisition and operating expenses in 2019.

Provision for income taxes

The effective tax rate was 21.7% and 21.2% for the years ended December 31, 2019 and 2018, respectively, consistent with the United States corporate federal income tax rate.

Change in fair value of unconsolidated affiliate, net of taxes

Change in fair value of unconsolidated affiliate consists of the change in the fair value of our previously held investment in Genworth Canada, which also includes dividends and the sale of common shares, net of taxes. The increase was driven by our proportionate share of the change in fair value of our investment in Genworth Canada prior to the sale of our ownership interest in December 2019, as described below.

As of December 31, 2018, we held 14.4 million, or approximately 16.4%, of outstanding common shares of Genworth Canada. The fair value of the investment in Genworth Canada was $424.8 million as of December 31, 2018. Our regulated insurance subsidiaries acquired the investment in Genworth Canada from certain other consolidated subsidiaries of our Parent in 2011. On December 12, 2019, our Parent completed the sale of Genworth Canada to an affiliate of Brookfield Business Partners L.P. Concurrently, we sold our portion as well resulting in approximately $501.8 million in net cash proceeds.

Use of Non-GAAP Measures

We use a non-GAAP financial measure entitled “adjusted operating income.” This non-GAAP financial measure aligns with the way our business performance is evaluated by both management and by our board of directors (our “Board”). This measure has been established in order to increase transparency for the purposes of evaluating our core operating trends and enabling more meaningful comparisons with our peers. Although “adjusted operating income” is a non-GAAP financial measure, for the reasons discussed above we believe this measure aids in understanding the underlying performance of our operations. Our senior management, including our chief operating decision maker, uses “adjusted operating income” as the primary measure to evaluate the fundamental financial performance of our business and to allocate resources.

“Adjusted operating income” is defined as GAAP net income excluding the effects of (i) net investment gains (losses), (ii) change in fair value of unconsolidated affiliate and (iii) infrequent or unusual non-operating items.

(i) *Net investment gains (losses)*—The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities or exposure management. Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized gains and losses. We do not view them to be indicative of our fundamental operating activities. Therefore, these items are excluded from our calculation of adjusted operating income.

(ii) *Change in fair value of unconsolidated affiliate*—The change in fair value of our previously held investment in Genworth Canada could vary significantly across periods and was highly dependent on the performance of the Canadian housing market and Genworth Canada’s operating results. We managed the investment in Genworth Canada separately from our remaining investments portfolio through and up until the sale of our ownership interest in Genworth Canada in December 2019. Prior to the sale, we did not view the results of our investment in Genworth Canada as part of our fundamental operating activities. Therefore, this item is excluded from our calculation of adjusted operating income. Additionally, given the divestiture of Genworth Canada on December 12, 2019, we will no longer have any impact from Genworth Canada in our financial statements going forward.

(iii) Infrequent or unusual non-operating items are also excluded from adjusted operating income if, in our opinion, they are not indicative of overall operating trends.

In reporting non-GAAP measures in the future, we may make other adjustments for expenses and gains we do not consider reflective of core operating performance in a particular period. After the offering, we may disclose other non-GAAP operating measures if we believe that such a presentation would be helpful for investors to evaluate our operating condition by including additional information. See “Basis of Presentation and Non-GAAP Measures—Non-GAAP Measures.”

Total adjusted operating income is not a measure of total profitability, and therefore should not be considered in isolation or viewed as a substitute for GAAP net income. Our definition of adjusted operating income may not be comparable to similarly named measures reported by other companies, including our peers.

Adjustments to reconcile net income to adjusted operating income assume a 21% tax rate (unless otherwise indicated).

The following table includes a reconciliation of net income to adjusted operating income for the six months ended June 30:

(Amounts in thousands)	2020	2019
Net income	$141,225	$305,572
Adjustments to net income:		
Net investment (gains) losses	344	(109)
Change in fair value of unconsolidated affiliate	—	(46,946)
Taxes on adjustments	(72)	10,530
Adjusted operating income	**$141,497**	**$269,047**

The change in fair value of the investment in Genworth Canada was $46.9 million for the six months ended June 30, 2019 and is included within change in fair value of unconsolidated affiliates in the condensed consolidated statements of income, net of provision for income taxes of $10.5 million. There were no infrequent or unusual items excluded from adjusted operating income during the periods presented.

Adjusted operating income decreased primarily attributable to higher losses largely from new delinquencies driven in large part by a significant increase in borrower forbearance and unfavorable reserve adjustments as a result of COVID-19. These decreases were partially offset by higher premiums in the current year.

The following table includes a reconciliation of net income to adjusted operating income for the years ended December 31:

(Amounts in thousands)	2019	2018
Net income	$ 677,628	$453,601
Adjustments to net income:		
Net investment (gains) losses	(718)	552
Change in fair value of unconsolidated affiliate	(127,397)	55,570
Taxes on adjustments	12,259	(25,425)
Adjusted operating income	**$ 561,772**	**$484,298**

The change in fair value of the investment in Genworth Canada was $127.4 million and $(55.6) million for the years ended December 31, 2019 and 2018, respectively, net of provision (benefit) for income taxes of $12.1 million and $(25.3) million for the years ended December 31, 2019 and 2018, respectively. There were no infrequent or unusual items excluded from adjusted operating income during the periods presented.

Adjusted operating income increased primarily attributable to higher premiums and an increase in investment income, partially offset by higher operating costs and an increase in losses largely from lower net benefits from cures and aging of existing delinquencies in 2019. The years ended December 31, 2019 and 2018 included after-tax favorable reserve adjustments of $18 million and $22 million, respectively, which were mostly associated with lower expected claim rates. The year ended December 31, 2019 also included a favorable adjustment of $11 million after-tax related to our single premium earnings pattern review.

Key Metrics

Management reviews the key metrics included within this section when analyzing the performance of our business. The metrics provided in this section exclude activity related to our run-off business, which is immaterial to our consolidated results of operations.

The following table sets forth selected operating performance measures on a primary basis as of or for the six months ended June 30:

(Dollar amounts in millions)	2020	2019
New insurance written	$ 46,304	$ 25,426
Insurance in-force	$206,595	$177,545
Risk in-force	$ 49,868	$ 42,936
Persistency rate	67%	84%
Policies in-force (count)	896,232	808,428
Delinquent loans (count)	53,587	15,227
Delinquency rate	5.98%	1.88%

New insurance written

NIW for the six months ended June 30, 2020 increased 82% compared to the six months ended June 30, 2019 primarily due to higher mortgage refinancing originations, a larger private mortgage insurance market as overall housing fundamentals remain strong and our higher estimated market share. We manage the quality of new business through pricing and our underwriting guidelines, which we modify from time to time as circumstances warrant.

The following table presents NIW by product for the six months ended June 30:

(Amounts in millions)	2020		2019	
Primary	$46,304	100%	$25,426	100%
Pool	—	—	—	
Total	**$46,304**	**100%**	**$25,426**	**100%**

The following table presents NIW by product for the years ended December 31:

(Amounts in millions)	2019		2018	
Primary	$62,431	100%	$39,961	100%
Pool	—	—	—	—
Total	**$62,431**	**100%**	**$39,961**	**100%**

The following table presents primary NIW by underlying type of mortgage for the six months ended June 30:

(Amounts in millions)	2020		2019	
Purchases	$29,429	64%	$22,559	89%
Refinances	16,875	36	2,867	11
Total	**$46,304**	**100%**	**$25,426**	**100%**

The following table presents primary NIW by underlying type of mortgage for the years ended December 31:

(Amounts in millions)	2019		2018	
Purchases	$50,267	81%	$37,231	93%
Refinances	12,164	19	2,730	7
Total	**$62,431**	**100%**	**$39,961**	**100%**

The following table presents primary NIW by policy payment type for the six months ended June 30:

(Amounts in millions)	2020		2019	
Monthly	$42,023	91%	$21,953	87%
Single	4,038	9	3,111	12
Other	243	—	362	1
Total	**$46,304**	**100%**	**$25,426**	**100%**

The following table presents primary NIW by policy payment type for the years ended December 31:

(Amounts in millions)	2019		2018	
Monthly	$54,666	88%	$32,333	81%
Single	7,047	11	6,705	17
Other	718	1	923	2
Total	**$62,431**	**100%**	**$39,961**	**100%**

The following table presents primary NIW by FICO score for the six months ended June 30:

(Amounts in millions)	2020		2019	
Over 760	$19,813	42%	$ 9,828	39%
740—759	7,991	17	4,132	16
720—739	6,805	15	3,708	15
700—719	5,517	12	3,257	13
680—699	3,713	8	2,515	10
660—679 (1)	1,402	3	1,051	4
640—659	756	2	655	2
620—639	307	1	280	1
< 620	—	—	—	—
Total	**$46,304**	**100%**	**$25,426**	**100%**

(1) Loans with unknown FICO scores are included in the 660-679 category.

The following table presents primary NIW by FICO score for the years ended December 31:

(Amounts in millions)	2019		2018	
Over 760	$24,805	40%	$15,702	39%
740—759	10,624	17	6,601	17
720—739	9,154	15	5,944	15
700—719	7,888	13	4,970	12
680—699	5,851	9	3,396	9
660—679 (1)	2,204	3	1,777	4
640—659	1,338	2	1,137	3
620—639	567	1	434	1
< 620	—	—	—	—
Total	**$62,431**	**100%**	**$39,961**	**100%**

(1) Loans with unknown FICO scores are included in the 660-679 category.

The following table presents primary NIW by LTV ratio for the six months ended June 30:

(Amounts in millions)	2020		2019	
95.01% and above	$ 5,020	11%	$ 4,686	18%
90.01% to 95.00%	19,957	43	11,107	44
85.01% to 90.00%	13,628	29	6,783	27
85.00% and below	7,699	17	2,850	11
Total	**$46,304**	**100%**	**$25,426**	**100%**

The following table presents primary NIW by LTV ratio for the years ended December 31:

(Amounts in millions)	2019		2018	
95.01% and above	$ 9,652	15%	$ 7,968	20%
90.01% to 95.00%	26,961	43	17,278	43
85.01% to 90.00%	17,874	29	10,518	26
85.00% and below	7,944	13	4,197	11
Total	**$62,431**	**100%**	**$39,961**	**100%**

The following table presents primary NIW by debt-to-income ratio for the six months ended June 30:

(Amounts in millions)	2020		2019	
45.01% and above	$ 7,499	16%	$ 5,858	23%
38.01% to 45.00%	15,600	34	8,881	35
38.00% and below	23,205	50	10,687	42
Total	**$46,304**	**100%**	**$25,426**	**100%**

The following table presents primary NIW by debt-to-income ratio for the years ended December 31:

(Amounts in millions)	2019		2018	
45.01% and above	$13,587	22%	$ 8,298	21%
38.01% to 45.00%	21,354	34	14,071	35
38.00% and below	27,490	44	17,592	44
Total	**$62,431**	**100%**	**$39,961**	**100%**

Insurance in-force and Risk in-force

IIF increased as a result of higher primary IIF, which increased from $177.5 billion as of June 30, 2019 to $206.6 billion as of June 30, 2020 mostly from NIW, partially offset by lapses and cancellations. In addition, RIF increased predominantly from higher primary IIF. Primary persistency was 67% and 84% for the six months ended June 30, 2020 and 2019, respectively.

The following table sets forth IIF and RIF as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
Primary IIF	$206,595	99%	$191,284	99%	$177,545	99%
Pool IIF	1,040	1	1,142	1	1,248	1
Total IIF	**$207,635**	**100%**	**$192,426**	**100%**	**$178,793**	**100%**
Primary RIF	$ 49,868	100%	$ 46,246	100%	$ 42,936	100%
Pool RIF	169	—	188	—	210	—
Total RIF	**$ 50,037**	**100%**	**$ 46,434**	**100%**	**$ 43,146**	**100%**

The following table sets forth primary IIF by policy year as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
2004 and prior	$ 914	— %	$ 1,003	1%	$ 1,130	— %
2005 to 2008	13,860	7	15,477	8	17,381	10
2009 to 2012	2,178	1	2,837	1	3,577	2
2013	3,002	1	3,808	2	4,755	3
2014	5,719	3	7,000	4	8,277	5
2015	11,858	6	14,397	8	16,648	9
2016	22,566	11	26,695	14	30,515	17
2017	23,845	12	29,243	15	33,245	19
2018	24,767	12	31,454	16	36,887	21
2019	52,069	25	59,370	31	25,130	14
2020	45,817	22	—	—	—	—
Total	**$206,595**	**100%**	**$191,284**	**100%**	**$177,545**	**100%**

The following table sets forth primary RIF by policy year as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
2004 and prior	$ 224	— %	$ 247	— %	$ 277	1%
2005 to 2008	3,145	6	3,523	8	3,983	9
2009 to 2012	481	1	645	1	828	2
2013	723	1	927	2	1,162	3
2014	1,367	3	1,693	4	2,013	5
2015	2,843	6	3,471	8	4,023	9
2016	5,415	11	6,427	14	7,347	17
2017	5,752	12	7,091	15	8,087	19
2018	5,975	12	7,655	17	9,025	21
2019	12,690	25	14,567	31	6,191	14
2020	11,253	23	—	—	—	—
Total	**$49,868**	**100%**	**$46,246**	**100%**	**$42,936**	**100%**

The following table presents the development of primary IIF for the six months ended June 30:

(Amounts in millions)	2020	2019
Beginning balance	$191,284	$165,658
NIW	46,304	25,426
Cancellations, principal repayments and other reductions (1)	(30,993)	(13,539)
Ending balance	**$206,595**	**$177,545**

(1) Includes the estimated amortization of unpaid principal balance of covered loans.

The following table sets forth primary IIF by LTV ratio at origination as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
95.01% and above	$ 36,350	17%	$ 35,307	19%	$ 33,311	18%
90.01% to 95.00%	94,252	46	88,403	46	82,793	47
85.01% to 90.00%	75,854	37	67,428	35	61,288	35
85.00% and below	139	—	146	—	153	—
Total	**$206,595**	**100%**	**$191,284**	**100%**	**$177,545**	**100%**

The following table sets forth primary RIF by LTV ratio at origination as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
95.01% and above	$ 9,008	18%	$ 8,572	19%	$ 8,014	19%
90.01% to 95.00%	25,863	52	24,137	52	22,572	52
85.01% to 90.00%	14,975	30	13,513	29	12,325	29
85.00% and below	22	—	24	—	25	—
Total	**$49,868**	**100%**	**$46,246**	**100%**	**$42,936**	**100%**

The following table sets forth primary IIF by FICO score at origination as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
Over 760	$ 79,215	38%	$ 72,930	38%	$ 67,716	38%
740-759	34,172	17	31,468	16	28,731	16
720-739	29,941	15	27,469	14	25,233	14
700-719	24,774	12	22,574	12	20,510	12
680-699	19,113	9	17,755	9	16,318	9
660-679 (1)	9,278	4	9,004	5	8,893	5
640-659	5,806	3	5,662	3	5,550	3
620-639	2,948	1	2,960	2	2,982	2
<620	1,348	1	1,462	1	1,612	1
Total	**$206,595**	**100%**	**$191,284**	**100%**	**$177,545**	**100%**

(1) Loans with unknown FICO scores are included in the 660-679 category.

The following table sets forth primary RIF by FICO score at origination as of the dates indicated:

(Amounts in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
Over 760	$19,046	38%	$17,606	38%	$16,357	38%
740-759	8,303	17	7,685	17	7,023	16
720-739	7,312	15	6,717	14	6,183	14
700-719	6,016	12	5,464	12	4,959	12
680-699	4,629	9	4,286	9	3,937	9
660-679 (1)	2,180	4	2,113	5	2,086	5
640-659	1,358	3	1,322	3	1,295	3
620-639	707	1	709	1	714	2
<620	317	1	344	1	382	1
Total	**$49,868**	**100%**	**$46,246**	**100%**	**$42,936**	**100%**

(1) Loans with unknown FICO scores are included in the 660-679 category.

Delinquent loans and claims

Our delinquency management process begins with notification by the loan servicer of a delinquency on an insured loan. "Delinquency" is defined in our master policies as the borrower's failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, our master policies require an insured to notify us of a delinquency if the borrower fails to make two consecutive monthly mortgage payments prior to the due date of the next mortgage payment. We generally consider a loan to be delinquent and establish required reserves after the insured notifies us that the borrower has failed to make two scheduled mortgage payments. Borrowers default for a variety of reasons, including a reduction of income, unemployment, divorce, illness/death, inability to manage credit, falling home prices and interest rate levels. Borrowers may cure delinquencies by making all of the delinquent loan payments, agreeing to a loan modification, or by selling the property in full satisfaction of all amounts due under the mortgage. In most cases, delinquencies that are not cured result in a claim under our policy.

The following table shows a roll forward of the number of primary loans in default for the six months ended June 30:

(Loan count)	2020	2019
Number of delinquencies, beginning of period	16,392	16,860
New defaults	56,487	16,030
Cures	(18,444)	(16,517)
Claims paid	(844)	(1,134)
Rescissions and claim denials	(4)	(12)
Number of delinquencies, end of period	**53,587**	**15,227**

The following table shows a roll forward of the number of primary loans in default for the years ended December 31:

(Loan count)	2019	2018
Number of delinquencies, beginning of period	16,860	22,700
New defaults	33,236	31,603
Cures	(31,363)	(33,324)
Claims paid	(2,323)	(4,110)
Rescissions and claim denials	(18)	(9)
Number of delinquencies, end of period	**16,392**	**16,860**

The following table sets forth changes in our direct primary case loss reserves for the six months ended June 30:

(Amounts in thousands)	2020	2019
Loss reserves, beginning of period	$204,749	$262,171
Claims paid	(38,326)	(53,975)
Increase (decrease) in reserves	212,501	15,056
Loss reserves, end of period	**$378,924**	**$223,252**

The following table sets forth changes in our direct primary case loss reserves for the years ended December 31:

(Amounts in thousands)	2019	2018
Loss reserves, beginning of period	$ 262,171	$ 408,623
Claims paid	(103,578)	(184,743)
Increase (decrease) in reserves	46,156	38,291
Loss reserves, end of period	**$ 204,749**	**$ 262,171**

The following tables set forth primary delinquencies, direct case reserves and RIF by aged missed payment status as of the dates indicated:

	June 30, 2020			
(Dollar amounts in millions)	Delinquencies	Direct case reserves (1)	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	43,158	$162	$2,689	6%
4-11 payments	7,448	112	388	29%
12 payments or more	2,981	105	148	71%
Total	**53,587**	**$379**	**$3,225**	**12%**

	December 31, 2019			
(Dollar amounts in millions)	Delinquencies	Direct case reserves (1)	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	8,618	$ 28	$386	7%
4-11 payments	4,876	78	225	35%
12 payments or more	2,898	99	146	68%
Total	**16,392**	**$205**	**$757**	**27%**

	June 30, 2019			
(Dollar amounts in millions)	Delinquencies	Direct case reserves (1)	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	7,704	$ 26	$342	8%
4-11 payments	4,197	76	190	40%
12 payments or more	3,326	121	168	72%
Total	**15,227**	**$223**	**$700**	**32%**

	December 31, 2018			
(Dollar amounts in millions)	Delinquencies	Direct case reserves (1)	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	8,463	$ 31	$366	9%
4-11 payments	4,632	89	208	43%
12 payments or more	3,765	142	189	75%
Total	**16,860**	**$262**	**$763**	**34%**

(1) Direct primary case reserves exclude LAE, IBNR and reinsurance reserves.

Delinquencies increased compared to June 30, 2019 primarily due to a significant increase in the number of new delinquencies and forbearance programs offered to borrowers as a result of COVID-19 and the ensuing rise in unemployment claims in the current year.

Primary insurance delinquency rates differ from region to region in the United States at any one time depending upon economic conditions and cyclical growth patterns. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender. The table below sets forth our primary delinquency rates for the ten largest states by our primary RIF as of June 30, 2020:

By State:	Percent of RIF	Percent of total reserves	Delinquency rate
California	11%	10%	7.67%
Texas	7	7	7.31%
Florida (1)	7	11	9.06%
New York (1)	5	12	8.89%
Illinois (1)	5	6	6.13%
Washington	4	3	5.59%
Michigan	4	2	4.12%
Pennsylvania (1)	4	3	5.44%
North Carolina	4	3	4.99%
Ohio (1)	3	2	4.11%
All other states (2)	46	41	5.30%
Total	**100%**	**100%**	**5.98%**

(1) Jurisdiction predominantly uses a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.
(2) Includes the District of Columbia.

The table below sets forth our primary delinquency rates for the ten largest states by our primary RIF as of December 31, 2019:

By State:	Percent of RIF	Percent of total reserves	Delinquency rate
California	11%	6%	1.42%
Texas	7	5	2.02%
Florida (1)	6	11	2.13%
New York (1)	5	16	2.98%
Illinois (1)	5	6	2.25%
Washington	4	2	1.10%
Michigan	4	2	1.43%
Pennsylvania (1)	4	4	2.12%
North Carolina	4	2	1.79%
Ohio (1)	3	3	1.87%
All other states (2)	47	43	1.92%
Total	**100%**	**100%**	**1.93%**

(1) Jurisdiction predominantly uses a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.
(2) Includes the District of Columbia.

The table below sets forth our primary delinquency rates for the ten largest Metropolitan Statistical Areas ("MSA") or Metro Divisions ("MD") by our primary RIF as of June 30, 2020:

By MSA or MD:	Percent of RIF	Percent of total reserves	Delinquency rate
Chicago-Naperville	3%	4%	7.69%
New York	3	8	12.92%
Phoenix	3	2	5.49%
Atlanta	2	3	8.65%
Washington, DC-Arlington	2	2	8.18%
Houston	2	2	8.74%
Los Angeles-Long Beach	2	2	9.28%
Seattle-Bellevue	2	1	6.38%
Riverside-San Bernardino	2	2	8.55%
Nassau County-Suffolk County, NY	2	5	13.33%
All other MSAs/MDs	77	69	5.37%
Total	**100%**	**100%**	**5.98%**

The table below sets forth our primary delinquency rates for the ten largest MSAs or MDs by our primary RIF as of December 31, 2019:

By MSA or MD:	Percent of RIF	Percent of total reserves	Delinquency rate
Chicago-Naperville	3%	5%	2.50%
New York	3	10	3.68%
Phoenix	2	1	1.38%
Atlanta	2	2	2.14%
Washington DC-Arlington	2	1	1.47%
Seattle-Bellevue	2	1	0.98%
Los Angeles-Long Beach	2	1	1.35%
Houston	2	2	2.62%
Riverside-San Bernardino	2	2	2.08%
Nassau County-Suffolk County, NY	2	5	3.47%
All other MSAs/MDs	78	70	1.86%
Total	**100%**	**100%**	**1.93%**

The frequency of delinquencies often does not correlate directly with the number of claims received because delinquencies may cure. The rate at which delinquencies cure is influenced by borrowers' financial resources and circumstances and regional economic differences. Whether a delinquency leads to a claim correlates highly with the borrower's equity at the time of delinquency, as it influences the borrower's willingness to continue to make payments, the borrower's or the insured's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage loan, and the borrower's financial ability to continue making payments. When we receive notice of a delinquency, we use our proprietary model to determine whether a delinquent loan is a candidate for a modification. When our model identifies such a candidate, our loan workout specialists prioritize cases for loss mitigation based upon the likelihood that the loan will result in a claim. Loss mitigation actions include loan modification, extension of credit to bring a loan current, foreclosure forbearance, pre-foreclosure sale and deed-in-lieu. These loss mitigation efforts often are an effective way to reduce our claim exposure and ultimate payouts.

The following table sets forth the dispersion of primary RIF and loss reserves by policy year and delinquency rates as of June 30, 2020:

Policy Year:	Percent of RIF	Percent of total reserves	Delinquency rate	Cumulative delinquency rate (1)
2004 and prior	—%	4%	17.06%	3.62%
2005 to 2008	6	30	13.34%	18.95%
2009 to 2012	1	1	5.15%	1.00%
2013	1	1	4.94%	1.02%
2014	3	3	5.59%	1.81%
2015	6	5	5.51%	2.42%
2016	11	9	5.67%	3.26%
2017	12	12	6.55%	4.33%
2018	12	13	7.29%	4.96%
2019	25	19	5.77%	4.97%
2020 (through June 30, 2020)	23	3	1.47%	1.46%
Total portfolio	**100%**	**100%**	**5.98%**	**5.11%**

(1) Calculated as the sum of the number of policies where claims were ever paid to date and number of policies for loans currently in default divided by policies ever in-force.

The following table sets forth the dispersion of primary RIF and loss reserves by policy year and delinquency rates as of December 31, 2019:

Policy Year:	Percent of RIF	Percent of total reserves	Delinquency rate	Cumulative delinquency rate (1)
2004 and prior	1%	7%	14.62%	3.61%
2005 to 2008	8	51	8.47%	18.48%
2009 to 2012	1	2	2.42%	0.87%
2013	2	2	1.72%	0.58%
2014	4	4	2.04%	0.94%
2015	7	6	1.59%	0.93%
2016	14	9	1.22%	0.89%
2017	15	10	1.29%	1.05%
2018	17	7	1.05%	0.88%
2019	31	2	0.19%	0.18%
Total portfolio	**100%**	**100%**	**1.93%**	**4.69%**

(1) Calculated as the sum of the number of policies where claims were ever paid to date and number of policies for loans currently in default divided by policies ever in-force.

Loss reserves in policy years 2005 through 2008 are outsized compared to their representation of RIF. The size of these policy years at origination combined with the significant decline in home prices led to significant losses in policy years prior to 2009. Although uncertainty remains with respect to the ultimate losses we will experience on these policy years, they have become a smaller percentage of our total mortgage insurance portfolio. The largest portion of loss reserves has shifted to newer book years as a result of the COVID-19 pandemic given their significant representation of RIF. As of June 30, 2020, our 2013 and newer policy years represented approximately 93% of our primary RIF and 65% of our total reserves.

Investment Portfolio

Our investment portfolio is affected by factors described below, each of which in turn may be affected by COVID-19 as noted above in "—Trends and Conditions." Management of our investment portfolio has been delegated by our Board to our Parent's investment committee and chief investment officer. Our Parent's investment team, with oversight from our Board and our senior management team, is responsible for the execution of our investment strategy. Our investment portfolio is an important component of our consolidated financial results and represents our primary source of claims paying resources. Our investment portfolio primarily consists of a diverse mix of highly rated fixed income securities and is designed to achieve the following objectives:

- Meet policyholder obligations through maintenance of sufficient liquidity;
- Preserve capital;
- Generate investment income;
- Maximize statutory capital; and
- Increase value to our Parent and its stockholders, among other objectives.

To achieve our portfolio objectives, our investment strategy focuses primarily on:

- Our business outlook, current and expected future investment conditions;
- Investments selection based on fundamental, research-driven strategies;
- Diversification across a mix of fixed income, low-volatility investments while actively pursuing strategies to enhance yield;
- Regular evaluation and optimization of our asset class mix;
- Continuous monitoring of investment quality, duration, and liquidity;
- Regulatory capital requirements; and
- Restriction of investments correlated to the residential mortgage market.

Fixed Maturity Securities Available-for-Sale

The following table presents the fair value of our fixed maturity securities available-for-sale as of the dates indicated:

	June 30, 2020		December 31, 2019		December 31, 2018	
(Amounts in thousands)	**Fair value**	**% of total**	**Fair value**	**% of total**	**Fair value**	**% of total**
U.S. government, agencies and government-sponsored enterprises	$ 90,009	2.1%	$ 92,336	2.4%	$ 85,190	2.6%
State and political subdivisions	130,267	3.0	98,159	2.6	142,125	4.3
Non-U.S. government	30,765	0.7	19,434	0.5	31,503	1.0
U.S. corporate	2,803,254	63.9	2,261,446	60.1	1,968,668	60.1
Non-U.S. corporate	542,871	12.4	364,469	9.7	315,876	9.7
Other asset-backed	786,960	17.9	928,588	24.7	731,135	22.3
Total available-for-sale fixed maturity securities	**$4,384,126**	**100.0%**	**$3,764,432**	**100.0%**	**$3,274,497**	**100.0%**

Our investment portfolio did not include any direct residential real estate or whole mortgage loans as of June 30, 2020 and December 31, 2019. We have no derivative financial instruments in our investment portfolio.

As of June 30, 2020 and December 31, 2019, 97% and 99% of our investment portfolio was rated investment grade, respectively. The following table presents the security ratings of our fixed maturity securities as of the dates indicated:

	June 30, 2020	December 31, 2019	December 31, 2018
AAA	6.9%	11.2%	10.4%
AA	12.3	12.0	11.9
A	36.9	36.4	39.9
BBB	41.4	39.3	35.8
BB & below	2.5	1.1	2.0
Total	**100.0%**	**100.0%**	**100.0%**

The table below presents the average duration and investment yield of our fixed maturity investments portfolio as of the dates indicated:

	June 30,		December 31,	
	2020	2019	2019	2018
Duration (in years)	3.5	3.4	3.1	3.4
Pre-tax yield (% of average investment portfolio assets)	3.1	3.4	3.3	3.3

We manage credit risk by analyzing issuers, transaction structures and any associated collateral. We also manage credit risk through country, industry, sector and issuer diversification and prudent asset allocation practices.

We primarily mitigate interest rate risk by employing a buy and hold investment philosophy that seeks to match fixed income maturities with expected liability cash flows in modestly adverse economic scenarios.

Investment in Unconsolidated Affiliate

Refer to the discussion of our results of operations for the years ended December 31, 2019 and 2018 for further information regarding our previously held investment in Genworth Canada.

Liquidity and Capital Resources

Cash Flows

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

The following table summarizes our unaudited condensed consolidated cash flows for the six months ended June 30:

(Amounts in thousands)	2020	2019
Net cash from (used by):		
Operating activities	$ 345,141	$ 244,873
Investing activities	(511,618)	(212,780)
Financing activities	—	—
Net increase (decrease) in cash and cash equivalents	**$(166,477)**	**$ 32,093**

Our most significant source of operating cash flows is from premiums received from our insurance policies, while our most significant uses of operating cash flows are generally for claims paid on our insured policies and our operating expenses. Net cash from operating activities increased principally driven by higher premiums due to a larger IIF balance and lower claims paid in the current year.

Investing activities are primarily related to purchases, sales, and maturities of our investment portfolio. Net cash used by investing activities increased primarily as a result of purchases of fixed maturity securities in the current year using net proceeds from the December 2019 sale of our investment in Genworth Canada.

Financing activities normally reflect dividends paid to our Parent. No dividends were paid during either the six months ended June 30, 2020 or 2019. Our future dividend planning is subject to the evaluation of the prevailing and future macroeconomic conditions, business performance and trends, capital requirements of our regulated insurance operating subsidiaries, our capital needs and those of our regulated insurance operating subsidiaries, and general market conditions, among other factors, which are subject to change, including as a result of the COVID-19 pandemic.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table summarizes our consolidated cash flows for the year ended December 31:

(Amounts in thousands)	2019	2018
Net cash from (used by):		
Operating activities	$ 500,020	$ 511,116
Investing activities	175,987	(498,175)
Financing activities	(250,000)	(50,000)
Net increase (decrease) in cash and cash equivalents	**$ 426,007**	**$ (37,059)**

Net cash provided by operating activities decreased largely from tax payments in 2019 compared to tax refunds in 2018, partially offset by higher premiums due to a larger IIF balance and lower claims paid in 2019.

We had cash inflows from investing activities in 2019 primarily from the sale of our investment in Genworth Canada, partially offset by net purchases of fixed maturity securities. We had cash outflows from investing activities in 2018 principally from net purchases of fixed maturity securities, partially offset by net proceeds from the sale of common shares related to our previously held investment in Genworth Canada.

Financing activity reflects dividends paid to our Parent in 2019 and 2018. Cash flows used in financing activities increased in 2019 compared to 2018 due to increased dividend distributions to our Parent.

Restrictions on the Payment of Dividends

The ability of our regulated insurance operating subsidiaries to pay dividends to us is restricted by certain provisions of North Carolina insurance laws. Notice of all dividends, both ordinary and extraordinary, must be submitted to the Commissioner of the NCDOI (the “Commissioner”) 30 days in advance, and may be subsequently paid if (i) approved or (ii) not disapproved in that timeframe. An extraordinary dividend is defined as one, which combined with all other dividends made in the preceding twelve months, exceeds the greater of (i) 10% of our policyholder surplus as of the prior December 31 or (ii) net income, excluding realized capital gains, for the twelve-month period ending on the prior December 31. In addition, the payment of dividends is also restricted by other North Carolina insurance laws including the provision requiring prior written Commissioner approval for a dividend from any source other than unassigned surplus. Based on our statutory results and, in accordance with applicable dividend restrictions, including the restriction on dividends being limited by the unassigned surplus amount reported in our most recent quarterly statutory financial statement, our regulated insurance operating subsidiaries currently have capacity to pay dividends from unassigned surplus of approximately $182 million in 2020 with 30 day advance notice to the Commissioner of the intent to pay. However, due to changes in the regulatory and economic landscape as a result of COVID-19, we may be unable to obtain the requisite consent necessary from insurance regulators or the GSEs to make any such dividends. For example, the GSEs recently implemented the PMIERs Amendment, which requires our approved insurer (GMICO) to obtain the GSEs prior written consent through March 31, 2021 before paying any dividends. Furthermore, we expect to become subject to additional PMIERs capital requirements or other restrictions as a result of the offering, which directly or indirectly could impair the ability of GMICO to pay dividends to us. See “Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs’ interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition” and “Regulation—United States Insurance Regulation—Insurance Holding Company Regulation.”

In addition, we review multiple other considerations in parallel to determine a prospective dividend strategy for our regulated insurance operating subsidiaries. Given the regulatory focus on the reasonableness of an insurer’s surplus in relation to its outstanding liabilities and the adequacy of its surplus relative to its financial needs for any dividend, our insurance subsidiaries consider the minimum amount of policyholder surplus after giving effect to any contemplated future dividends. Regulatory minimum policyholder surplus is not codified in North Carolina law and limitations may vary based on prevailing business conditions including, but not limited to, the prevailing and future macroeconomic conditions. We estimate regulators would require a minimum policyholder surplus of approximately $300 million to meet their threshold standard. Given (i) we are subject to statutory accounting requirements that establish a contingency reserve of at least 50% of net earned premiums annually for ten years, after which time it is released into policyholder surplus and (ii) that no material 10-year contingency reserve releases are scheduled before 2024, we expect modest growth in policyholder surplus through 2024. As a result, minimum policyholder surplus could be a limitation in the future dividends of our regulated operating subsidiaries. If, however, incurred losses and incurred loss expenses continue to grow due to COVID-19 and exceed 35% of net earned premium, we may seek approval for a contingency reserve release.

Another consideration in the development of the dividend strategies for our regulated insurance operating subsidiaries is our expected level of compliance with PMIERs. Under PMIERs, GMICO is subject to operational and financial requirements that approved insurers must meet in order to remain eligible to insure loans purchased by the GSEs. The PMIERs Amendment, issued on June 29, 2020, also imposes temporary capital preservation provisions through March 31, 2021 that require an approved insurer to obtain prior written GSE approval before paying any dividends, pledging or transferring assets to an affiliate or entering into any new, or altering any existing, arrangements under tax sharing and intercompany expense-sharing agreements, even if such insurer has a surplus of available assets. See “—PMIERs” section below and “—Trends and Conditions” section above for additional PMIERs trend analysis.

Our regulated insurance operating subsidiaries are also subject to statutory RTC requirements that affect the dividend strategies of our regulated operating subsidiaries. GMICO’s domiciliary regulator, the NCDOI, requires the maintenance of a statutory RTC ratio not to exceed 25:1. GMICO had an RTC ratio of 12.2:1 as of June 30, 2020 and 12.5:1 as of December 31, 2019, well within the regulatory standard. Given other dividend constraints are currently more capital intensive than statutory

RTC standards, RTC is not expected to have a significant impact on future dividend strategies for our regulated operating subsidiaries. See "—Risk-to-Capital Ratio" section below for additional RTC trend analysis.

We consider potential future dividends compared to the prior year statutory net income in the evaluation of dividend strategies for our regulated operating subsidiaries. We also consider the dividend payout ratio, or the ratio of potential future dividends compared to the estimated GAAP net income, in the evaluation of our dividend strategies. In either case, we do not have prescribed target or maximum thresholds, but we do evaluate the reasonableness of a potential dividend relative to the actual or estimated income generated in the proceeding or preceding calendar year after giving consideration to prevailing business conditions including, but not limited to the prevailing and future macroeconomic conditions. In addition, the dividend strategies of our regulated operating subsidiaries are made in consultation with our Parent. See "Description of the Notes—Certain Covenants—Limitation on Restricted Payments."

PMIERs

The GSEs' approval of our Parent's proposed merger with China Oceanwide includes certain conditions. These conditions include the requirement for GMICO to hold PMIERs available assets in excess of 115% of PMIERs requirements for a minimum of six quarters following the closing date of the merger. Given the passage of time since their approval, the GSEs are currently reviewing updated information from both China Oceanwide and us, and they may impose additional or different conditions in connection with their approval of our Parent's proposed merger. We cannot predict whether the GSEs will impose new or different conditions, but they may materially increase our capital requirements or impose material restrictions.

In connection with the offering, we have engaged in discussions with the GSEs and FHFA to address certain GSE objectives of improving our Parent's leverage and coverage ratios materially or for the Issuer and GMICO to achieve greater independence from our Parent with regard to capital access, capital flows and financial strength ratings. As part of these discussions, we have committed in principle to retain initially $300 million of the net proceeds from the offering to pay interest on the notes and to be available, if needed, to provide capital support to GMICO. In addition, we currently expect that GMICO will agree to maintain, effective as of the closing of the offering, PMIERs capital at a level of 115% of the current requirements. See "Regulation—Agency Qualification Requirements." We, our Parent and GMICO also have committed to submit a plan to the GSEs to achieve the GSE objectives described above. Following the submission of this plan and as a result of our ongoing discussions (the outcome of which we cannot predict at this time), the GSEs may include additional or different conditions to those described above, which individually or in the aggregate may be material. See "Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

Risk-to-Capital Ratio

We compute our RTC ratio on a separate company statutory basis, as well as for our combined insurance operations. The RTC ratio is net RIF divided by policyholders' surplus plus statutory contingency reserve. Our net RIF represents RIF, net of reinsurance ceded, and excludes risk on policies that are currently delinquent and for which loss reserves have been established. Statutory capital consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet.

Certain states have insurance laws or regulations that require a mortgage insurer to maintain a minimum amount of statutory capital (including the statutory contingency reserve) relative to its level of RIF in order for the mortgage insurer to continue to write new business. While formulations of minimum capital vary in certain states, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25:1.

As of June 30, 2020, GMICO's RTC ratio was approximately 12.2:1, compared to 12.5:1 as of December 31, 2019. This RTC ratio remains below the NCDOI's maximum RTC ratio of 25:1.

The following table presents the calculation of our RTC ratio for our combined insurance subsidiaries as of the dates indicated:

(Dollar amounts in millions)	June 30, 2020	December 31, 2019
Statutory policyholders' surplus	$ 1,539	$ 1,632
Contingency reserves	2,277	2,032
Total statutory capital	**$ 3,816**	**$ 3,664**
Adjusted RIF (1)	$45,783	$44,832
Combined risk-to-capital ratio	12.0	12.2

(1) Adjusted RIF for purposes of calculating combined statutory RTC differs from RIF presented elsewhere in this document. In accordance with NCDOI requirements, adjusted RIF excludes delinquent policies.

The following table presents the calculation of our RTC ratio for our principal insurance company, GMICO, as of the dates indicated:

(Dollar amounts in millions)	June 30, 2020	December 31, 2019
Statutory policyholders' surplus	$ 1,461	$ 1,555
Contingency reserves	2,276	2,032
Total statutory capital	**$ 3,737**	**$ 3,587**
Adjusted RIF (1)	$45,737	$44,811
GMICO risk-to-capital ratio	12.2	12.5

(1) Adjusted RIF for purposes of calculating GMICO statutory RTC differs from RIF presented elsewhere in this document. In accordance with NCDOI requirements, adjusted RIF exclude delinquent policies.

Liquidity

As of June 30, 2020, we maintained liquidity in the form of cash and cash equivalents of $418.6 million compared to $585.1 million as of December 31, 2019, and we also held significant levels of investment-grade fixed maturity securities that can be monetized should our cash and cash equivalents be insufficient to meet our obligations.

The principal sources of liquidity in our business currently include insurance premiums, net investment income and cash flows from investment sales and maturities. We believe that the operating cash flows generated by our mortgage insurance subsidiary will provide the funds necessary to satisfy our claim payments, operating expenses and taxes for at least the next twelve months. However, our subsidiaries are subject to regulatory and other capital restrictions with respect to the payment of dividends. The $300 million of the net proceeds of the offering retained by the Issuer will comprise substantially all of the cash and cash equivalents held directly by the Issuer and initially available to pay interest on the notes. The notes are not subject to a dedicated interest reserve account, and the Issuer's intention to initially retain $300 million of net proceeds is not a binding obligation or commitment in the indenture or otherwise to retain that amount. To the extent the $300 million of net proceeds retained from the offering is used to provide capital support to GMICO, the GSEs and the NCDOI may seek to prevent GMICO from returning that capital to the Issuer in the form of a dividend, distribution or intercompany loan. Additionally, we ultimately may pay a dividend to our stockholder GHI of the $300 million of net proceeds initially retained from the offering, less an amount equal to the first four interest payments on the principal amount of the notes issued on the Issue Date. See "Risk Factors—Risks Relating to the Offering and the Notes—We are a holding company and our only material assets are our equity interests in our subsidiaries. As a consequence, our ability to satisfy our obligations under the notes will depend on the ability of our subsidiaries to pay dividends and distributions to us, which is restricted by law or PMIERs for some subsidiaries." In addition, with certain exceptions, the AXA Settlement requires that proceeds of future debt and equity issuances by the Issuer (excluding the notes) and its subsidiaries be utilized to prepay the promissory note issued by Parent to AXA. See "Risk Factors—Risks Relating to Our Parent's Ownership of Us—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions." We currently have no material financing commitments, such as lines of credit or guarantees, that are expected to affect our liquidity over the next five years, other than the notes offered hereby.

Financial Strength Ratings

Ratings with respect to the financial strength of operating subsidiaries are an important factor in establishing the competitive position of insurance companies. Ratings are important to maintaining public confidence in us and our ability to market our products. Rating organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders.

The financial strength ratings of our operating companies are not designed to be, and do not serve as, measures of protection or valuation offered to investors. These financial strength ratings should not be relied on with respect to making an investment in the notes offered hereby. We cannot predict with any certainty the impact to us from any future disruptions in the credit markets or downgrades by one or more of the rating agencies of the financial strength ratings of our insurance company subsidiaries and/or the credit ratings of our holding company as a result of the impact of the COVID-19 pandemic or otherwise. We also cannot predict the impact on our ratings or future ratings of actions taken with respect to Parent.

On May 15, 2020, Moody's affirmed the "Baa3" (Adequate) financial strength rating of GMICO but changed their outlook from positive to stable. On May 15, 2020, Standard & Poor's affirmed the "BB+" (Marginal) financial strength rating of GMICO but modified its outlook from Creditwatch developing to Creditwatch negative.

Other private mortgage insurers have stronger financial strength ratings than we do. We do not believe our ratings have had a material adverse effect on our overall relationships with existing customers. However, if financial strength ratings become a more prominent consideration for lenders, we may be competitively disadvantaged by customers choosing to do business with private mortgage insurers that have higher financial strength ratings. In addition, the current PMIERs do not include a specific ratings requirement with respect to eligibility, but if this were to change in the future, we may become subject to a ratings requirement in order to retain our eligibility status under the PMIERs. The PMIERs ratios of our operating companies are not designed to be, and do not serve as, measures of protection or valuation offered to investors. The financial strength ratings of our operating subsidiaries may also be impacted by the strength of our Parent. See "Risk Factors—Risk Relating to Our Business—Adverse rating agency actions have resulted in a loss of business and adversely affected our business, results of operations and financial condition, and future adverse rating agency actions could have a further and more significant adverse impact on us." The financial strength ratings of our operating subsidiaries are not a recommendation to buy or hold any of our securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Contractual obligations and commitments

We enter into agreements and other relationships with third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed based upon this analysis of these obligations, as the funding of these future cash obligations will be from future cash flows from premiums and investment income that are not reflected in the following table. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. An example of obligations that are fixed include future lease payments. An example of obligations that will vary include insurance liabilities that depend on losses incurred.

The following table presents our payments due under contractual obligations by period as of December 31, 2019.

	Payments due by period				
(Amounts in thousands)	**Total**	**Less than 1 year**	**1—3 years**	**3—5 years**	**More than 5 years (3)**
Operating lease obligations (1)	$ 18,530	$ 3,920	$ 7,810	$ 6,800	$ —
Primary loss reserves (2)	204,749	80,072	80,087	25,706	18,884
Total	**$223,279**	**$83,992**	**$87,897**	**$32,506**	**$18,884**

(1) Includes the undiscounted lease payments required under our operating leases. The related operating lease liability is recorded on our consolidated balance sheet net of imputed interest of $7.0 million. See Note 11 to our audited consolidated financial statements for additional information related to operating leases.

(2) Our estimate of loss reserves reflects the application of accounting policies described in Note 2 in our audited consolidated financial statements. The payments due by period are based on management's estimates and assume that all of the loss reserves included in the table will result in payments.

(3) The notes offered hereby would mature in 20[25] and are not reflected in the above table at December 31, 2019.

We experienced a significant increase in loss reserves during the six months ended June 30, 2020 driven mostly by higher new delinquencies from borrower forbearance programs due to COVID-19. We expect a large portion of these delinquencies to cure before becoming an active claim; however, reserves recorded related to borrower forbearance have a high degree of estimation. Therefore, it is possible we could have higher contractual obligations related to these loss reserves if they do not cure as we expect. In addition, subsequent to December 31, 2019, we received certain rent holidays and other lease incentives associated with an office lease. These amounts will be included in our future operating lease obligations as a reduction to our total contractual amounts due under operating leases. Lease incentives and other changes in estimated lease payments are determined at lease inception with changes in estimates accounted for prospectively. Accordingly, further changes in operating lease obligations will be disclosed annually. Other than the aforementioned loss reserves and operating lease obligations, there have been no material additions or changes to our contractual obligations as compared to the amounts disclosed within our audited consolidated financial statements for the years ended December 31, 2019 and 2018.

New Accounting Standards

Refer to Note 2 in our unaudited condensed consolidated financial statements for the six months ended June 30, 2020 and 2019 and in our audited consolidated financial statements for the years ended December 31, 2019 and 2018 for a discussion of recently adopted and not yet adopted accounting standards.

Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large investment portfolio of various holdings, types and maturities. Investment income is one of our material sources of revenues and the investment portfolio represents the primary source of cash flows supporting operations and claim payments. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance. While our investment portfolio is exposed to factors affecting markets worldwide, it is most sensitive to fluctuations in the drivers of U.S. markets.

We manage market risk via our defined investment policy guidelines implemented by our Parent's investment team with oversight from our Board and our senior management. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

- *Changes to the level of interest rates.* Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable-rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates that may require that the investment portfolio be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse.
- *Changes to the term structure of interest rates.* Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.
- *Market volatility/changes in the real or perceived credit quality of investments.* Deterioration in the quality of investments, identified through changes to our own or third-party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.
- *Concentration Risk.* If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.
- *Prepayment Risk.* Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

Market risk is measured for all investment assets at the individual security level. Market risks that are not fully captured by the quantitative analysis are highlighted. In addition, material market risk changes that occur from the last reporting period to the current are discussed. Changes to how risks are managed will also be identified and described.

At June 30, 2020, the effective duration of our investments available-for-sale was 3.2 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.2% in fair value of our investments available-for-sale. Excluding cash and cash equivalents, the effective duration on our investments available-for-sale was 3.5 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.5% in fair value of our investments available-for-sale.

INDUSTRY AND MARKET DATA

We obtained the industry, market and competitive position data throughout this document from (1) our own internal estimates and research, (2) industry and general publications and research, (3) studies and surveys conducted by third parties, and (4) other publicly available information. Independent research reports and industry publications generally indicate that the information contained therein was obtained from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that the information included in this document from such publications, research, studies, and surveys is reliable, neither we nor the initial purchasers have independently verified data from these third-party sources. In addition, while we believe our internal estimates and research are reliable and the definitions of our market and industry are appropriate, neither such estimates and research nor such definitions have been verified by any independent source. Furthermore, certain reports, research and publications from which we have obtained industry and market data that are used in this document had been published before the outbreak of the coronavirus pandemic ("COVID-19") and therefore do not reflect any impact of COVID-19 on any specific market or globally. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties as the other forward-looking statements in this document.

BASIS OF PRESENTATION AND NON-GAAP MEASURES

Historical Financial Statements

This document includes our audited consolidated financial statements and related notes for the years ended December 31, 2019 and December 31, 2018 and our unaudited condensed consolidated financial statements and related notes for the six months ended June 30, 2020 and June 30, 2019. These financial statements are presented on the basis of accounting principles generally accepted in the United States ("GAAP"). The consolidated financial statements include the accounts of the Company, its subsidiaries and those entities required to be consolidated under GAAP. All intercompany transactions and balances have been eliminated.

These consolidated financial statements and related notes have been prepared on a standalone basis and were derived from the consolidated financial statements and accounting records of Genworth Financial, Inc. ("Parent"). The consolidated financial statements include our assets, liabilities, revenues, expenses and cash flows. For each of the periods presented, the Company was a wholly owned indirect subsidiary of our Parent.

The consolidated financial statements include allocations of certain of our Parent's expenses. We believe the assumptions and methodologies underlying the allocation of these expenses are reasonable. The allocated expenses relate to various services that have historically been provided to us by our Parent, including investment management, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of equity, proportional effort or other relevant measures. See Note 10 to our audited consolidated financial statements and Note 8 to our unaudited condensed consolidated financial statements for further information regarding the allocation of certain of our Parent's expenses.

Fiscal Period

We operate on a fiscal year ending December 31 of each year.

Non-GAAP Measures

In addition to our GAAP operating results, we use adjusted operating income as a performance measure when planning, monitoring, and evaluating our performance. Adjusted operating income is a non-GAAP financial measure, and we find it to be a useful metric for management and investors to facilitate operating performance comparisons from period-to-period by excluding differences caused by our net investment gains (losses) and changes in the fair value of our previously held investment in Genworth MI Canada Inc. ("Genworth Canada"). While we believe that this non-GAAP financial measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for net income recognized in accordance with GAAP or other measures of profitability. We believe that this non-GAAP measure reflects our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business in conjunction with such data. In addition, other companies, including our peers, may calculate similar non-GAAP measures, such as adjusted operating income differently, reducing their usefulness as comparative measures between companies.

In reporting non-GAAP measures in the future, we may make other adjustments for expenses and gains we do not consider reflective of core operating performance in a particular period. After the offering, we may disclose other non-GAAP financial and operating measures if we believe that such a presentation would be more helpful for investors to evaluate our operating and financial condition by including additional information. For definitions of non-GAAP financial measures used in this document and reconciliations thereof to the most directly comparable GAAP measures, please see the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Use of Non-GAAP Measures” and “Summary—Summary Historical Financial and Operating Information.”

GLOSSARY

Unless otherwise indicated or the context otherwise requires, references in this document to:

- “CARES Act” refer to the Coronavirus Aid, Relief, and Economic Security Act.
- “China Oceanwide” refer to China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People’s Republic of China and its affiliates.
- “Fannie Mae” refer to the Federal National Mortgage Association.
- “Fair Housing Act” refer to the Fair Housing Act of 1968.
- “FEMA” refer to the Federal Emergency Management Agency.
- “FHA” refer to the Federal Housing Administration.
- “FHFA” refer to the Federal Housing Finance Agency.
- “Fitch” refer to Fitch Inc.
- “Freddie Mac” refer to the Federal Home Loan Mortgage Corporation.
- “GHI” refer to Genworth Holdings, Inc.
- “GMICO” refer to Genworth Mortgage Insurance Corporation, our primary operating insurance subsidiary.
- “GSEs” refer to government-sponsored enterprises, specifically Fannie Mae and Freddie Mac.
- “HOPA” refer to the Homeowners Protection Act of 1998.
- “HUD” refer to the United States Department of Housing and Urban Development Administration.
- ”Issuer” refer to Genworth Mortgage Holdings, Inc., a Delaware corporation, and, unless the context otherwise provides, the “Company,” “we,” “our” or “us” refer to Genworth Mortgage Holdings, Inc. together with its subsidiaries.
- “Moody’s” refer to Moody’s Investors Service.
- “NCDOI” refer to the North Carolina Department of Insurance.
- “NYSE” refer to the New York Stock Exchange.
- “Parent” refer to Genworth Financial, Inc., a Delaware corporation.
- “PMIERs” refer to the GSEs’ Private Mortgage Insurer Eligibility Requirements. All data provided herein with respect to PMIERs as of June 30, 2020, is based on PMIERs in effect as of such date. For information with respect to PMIERs following the offering, see “Summary—Recent Developments—PMIERs and GSE Conditions.”
- “Standard & Poor’s” refer to Standard & Poor’s Financial Services LLC.
- “VA” refer to the U.S. Department of Veteran Affairs.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are subject to certain risks and uncertainties. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “potential,” “plan,” “intend,” “seek,” “assume,” “believe,” “may,” “will,” “should,” “could,” “would,” “likely” and other words and terms of similar meaning, including the negative of these or similar words and terms, in connection with any discussion of the timing or nature of future operating or financial performance or other events. However, not all forward-looking statements contain these identifying words. Forward-looking statements appear in a number of places throughout this document and give our current expectations and projections relating to our financial condition, results of operations, plans, strategies, objectives, future performance, business and other matters.

We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity may differ materially from those made in or suggested by the forward-looking statements contained in this document. There can be no assurance that actual developments will be those anticipated by us. In addition, even if our consolidated results of operations, financial condition and liquidity are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results or conditions to differ materially from those contained or implied by the forward-looking statements, including the risks discussed in “Risk Factors.” Factors that could cause actual results or conditions to differ from those reflected in the forward-looking statements contained in this document include:

- the impact of the COVID-19 pandemic and uncertainties, including the scope and duration of the pandemic and responsive actions taken by governmental authorities;
- our ability to meet the requirements mandated by the GSEs and PMIERs;
- a deterioration in economic conditions or decline in home prices;
- our ability to accurately estimate loss reserves;
- inaccuracies in the models we use in our business and the variability in loss development in comparison to our model estimates and actuarial assumptions;
- our ability to compete in the mortgage insurance industry, including with GSEs;
- changes to the role of GSEs or to the charters and business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance;
- effects of alternatives to private mortgage insurance or lower coverage levels of mortgage insurance on the amount of insurance we write;
- effects of adverse impacts on our and our Parent’s brand, reputation, ratings and the adverse impact of the uncertainty of our Parent’s proposed transaction with China Oceanwide;
- effects of the AXA Settlement (as defined herein) on our ability to finance our business with additional debt or equity;
- our ability to maintain customer relationships;
- changes in the composition of our business or undue concentration of customers, geographic regions or products;
- our effectiveness in identifying and adequacy in controlling or mitigating the risks we face through our risk management programs;

- the extent of benefits we will realize from loss mitigation actions or programs;
- effects of interest rates and changes in rates;
- our ability to maintain or increase the capital required for our business in a timely manner and on the terms anticipated;
- the availability, affordability or adequacy of our credit risk transfer ("CRT") transactions in protecting us against losses;
- risks related to defaults by us or our counterparties to our CRT transactions;
- adverse ratings agency actions;
- the ability of our insurance subsidiaries to meet statutory capital and other requirements;
- our ability to manage risks in our investment portfolio;
- the effects of Basel III Capital Accord ("Basel III");
- the effects of the Consumer Financial Protection Bureau's (the "CFPB") final rule defining a qualified mortgage ("QM");
- the effects of the amount of insurance we write as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act's (the "Dodd-Frank Act") risk retention requirement or the definition of adjustable rate mortgage ("ARM");
- changes in accounting and reporting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies and insurance regulators;
- our ability to on-board, retain, attract and motivate qualified employees and senior management;
- our servicers' abilities to adhere to appropriate servicing standards and COVID-19 disruptions;
- our delegated underwriting program subjects us to unanticipated claims;
- potential liabilities in connection with our contract underwriting business;
- our ability to charge premiums that adequately compensate us for the risks and costs associated with the coverage we provide for the duration of a policy;
- a decrease in the volume of Low-Down Payment Loan (as defined herein) originations or an increase in mortgage loan cancellations;
- the impact of unanticipated problems as a result of the failure or compromise of our computer systems;
- actual or perceived failure to protect the consumer information and other data we collect, process and store;
- the occurrence of natural or man-made disasters or a pandemic, such as COVID-19;
- losses in connection with future litigation;
- changes in tax laws; and
- changes in regulation of our insurance operations or adverse changes in our regulatory requirements.

Important factors referenced above may not contain all of the factors that are important to you in making a decision to invest in the notes offered hereby. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect or anticipate. In light of these risks, we caution you against relying upon any forward-looking statements contained in this document. The forward-looking statements included in this document are qualified by these cautionary statements. These forward-looking statements are made only as of the date hereof. We undertake no obligation, except as may be required by law, to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Recent Developments

COVID-19

The spread of COVID-19 and the impact of the virus on the United States economy has resulted in a material negative impact on our business. In particular:

- The pandemic has resulted in a material increase in new defaults as borrowers fail to make timely payments on their mortgages, primarily as a result of unemployment and mortgage forbearance programs that allow borrowers to defer mortgage payments. This may impact our business's ability to remain compliant with the PMIERs financial requirements. We experienced primary new delinquencies of 56,487 during the first six months of 2020 of which 48,373 occurred in the second quarter of 2020. The primary delinquency rate, which includes both new and existing delinquencies, was 5.98% as of June 30, 2020, as of June 30, 2019. Approximately 87% of our primary new delinquencies in the second quarter of 2020 and 76% in July 2020 were subject to a forbearance plan. We experienced additional primary new delinquencies of 2,456, 4,942, 27,496, 15,935 and 6,823 during March, April, May, June and July 2020, respectively, with a primary delinquency rate of 1.78%, 2.03%, 4.79%, 5.98% and 5.81% as of March 31, April 30, May 31, June 30 and July 31, 2020, respectively. Of the total number of loans in forbearance, 39% of the borrowers were still making payments, while 61% were reported as delinquent as of July 31, 2020.
- The pandemic could place a significant strain on the operations and financial condition of mortgage servicers, which could disrupt the servicing or servicing transfers of mortgage loans covered by our insurance policies or result in servicers failing to timely remit premiums and appropriately report the status of loans, including whether the loans are subject to a COVID-19-related forbearance program.
- We could receive fewer mortgage insurance premiums as a result of loans going into default or be unable to cancel insurance coverage for nonpayment of premiums due to state moratoriums that temporarily suspend such actions by insurers.
- As a result of COVID-19-related relief programs, we anticipate that defaults related to the pandemic, if not cured, could remain in our defaulted loan inventory for a protracted period of time, potentially resulting in an increased number of claims and higher levels of claim severity for loans that ultimately result in a claim. Historically, forbearance plans such as those put in place as a result of COVID-19 have reduced the incidence of our losses on affected loans. However, given the uncertainty around the long-term impact of COVID-19, it is difficult to predict whether a loan's delinquency will cure when its forbearance plan ends. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time.
- The extended duration of the COVID-19 pandemic and the resurgence of cases of the disease and the reimposition of restrictions designed to curb its spread could lead to pressure on home prices in addition to elevated unemployment, which could cause additional new delinquencies, as well as potentially result in increased claims and higher levels of claim severity.
- The GSEs' business practices and policies have changed in response to COVID-19, with a shift in their primary objectives to supporting borrowers impacted by the pandemic and protecting the ongoing functioning of the housing finance system. As the situation continues to evolve, the actions of the Federal Housing Finance Agency ("FHFA") and the GSEs in response to COVID-19 are likely to continue to significantly impact the housing finance system. Because private mortgage insurance is an important component of this system, these actions have had, and may continue to have, an adverse impact on our mortgage insurance operations and performance.

- The number of home purchases or mortgage refinancings may be materially affected by the impact of the pandemic on general economic conditions, including the unemployment rate, and the availability of credit for mortgage loans. In addition, public and private sector initiatives to reduce the transmission of COVID-19, such as the imposition of restrictions on business activities, may affect the number of new mortgages available for us to insure as real estate markets confront challenges in the mortgage origination and home sale process created by social distancing and other measures. In addition, while originations remained elevated through the first and second quarters of 2020, higher unemployment could reduce the volume of mortgage originations, and the need for mortgage insurance and have an adverse effect on home prices, all of which would result in a significant adverse impact to our business, results of operations and financial condition. Social distancing and other measures may also lower home sales and new home constructions, which could result in a significant adverse impact on our business, results of operations and financial condition. Any significant adverse impact to our business, results of operations and financial condition could lead to lower credit ratings and impaired capital, both of which could hinder us from offering our products, preclude us from returning capital to our Parent and our holding company, and thereby harm our liquidity.
- The models, assumptions and estimates we use to establish loss reserves and claim rates may not be accurate, especially in the event of an extended economic downturn or a period of extreme market volatility and uncertainty such as we are currently experiencing due to COVID-19. For example, the ultimate cure rate for loan defaults resulting from the pandemic may be lower than we have previously experienced in the context of other FEMA declared emergencies and lower than our expectations. Consequently, the ultimate claim rate may be higher than our expectations.
- Adverse impacts on capital, credit and reinsurance market conditions, which may limit our ability to issue MILNs, purchase reinsurance or access traditional financing methods. Such adverse impacts may increase our cost of capital and affect our ability to meet liquidity needs.
- The rating agencies continually review the financial strength ratings assigned to us, our primary operating subsidiary, GMICO and our Parent and each of their respective mortgage insurance subsidiaries, and the ratings are subject to change. COVID-19 and its impact on our financial condition and results of operations could cause one or more of the rating agencies to downgrade the ratings assigned to one or more of us, GMICO, and our Parent and each of their respective mortgage insurance subsidiaries.

Ultimately, the impact of COVID-19 on our business will depend on a number of factors including the duration of the pandemic, the severity and the impact on the economy with the offsetting effect of any monetary or fiscal stimulus that attempts to ameliorate the impact of the crisis. However, while the COVID-19 pandemic involves a number of unique and unprecedented risks, we believe that we are well positioned to weather the impact of this virus as a result of our strong capitalization, extensive stress testing and scenario planning, proven risk management and pricing actions, and our focus on operational continuity.

- Capital Position: As of June 30, 2020 we have a PMIERs capitalization ratio of 143% which represents $1,275 million of capital. Additionally, our combined risk-to-capital ratio ("RTC") is 12.0:1, which is significantly below the maximum allowed by our primary regulator, NCDOI, of 25:1. See "—Recent Developments—PMIERs and GSE Conditions."
- Regulatory Actions: While publicly announced GSE forbearance programs are expected to drive an increase in delinquencies, the GSEs released an amendment to PMIERs, effective June 30, 2020, providing relief to non-performing loans experiencing hardship as a result of

COVID-19, which reduces the impact on our capitalization of these delinquencies by a factor of 70%. See “Regulation—Agency Qualification Requirements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trends and Conditions.”

- Stress Testing and Scenario Planning: In accordance with our normal business planning, we are conducting a wider range of stress testing to assess the potential impact of various economic conditions on our business; we have continued to evaluate the impact of COVID-19 and are monitoring the impact closely. Key variables include macro-drivers such as the pace of virus transmission, implications for economic recovery, and the impact on the housing market.
- Risk Management and Pricing: We utilize a highly robust risk management strategy to minimize the impact to our balance sheet from losses. These efforts are centered on our CRT program and include a $878 million XOL reinsurance program and $303 million of MILNs as of June 30, 2020. For that same period, over 90% of our RIF was covered by our reinsurance programs. Further supplementing our risk management program are pricings actions that we are taking across our portfolio to align our return profile with our current risk framework.

Given our consistent focus on risk management and the above considerations, we believe we are well positioned to address any potential challenges from the pandemic, although given the ever-changing nature of this health and economic event we continue to monitor the situation closely. See Note 10 to our unaudited condensed consolidated financial statements, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information and updates related to COVID-19.

China Oceanwide Transaction

On October 21, 2016, our Parent entered into an agreement and plan of merger (the “Merger Agreement”) with Asia Pacific Global Capital Co., Ltd., a limited liability company incorporated in the People’s Republic of China and a subsidiary of China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People’s Republic of China, and Asia Pacific Global Capital USA Corporation (“Merger Sub”), a Delaware corporation and a direct, wholly owned subsidiary of Asia Pacific Insurance USA Holdings LLC (“Asia Pacific Insurance”), which is a Delaware limited liability company and owned by China Oceanwide, pursuant to which, subject to the terms and conditions set forth therein, Merger Sub would merge with and into our Parent, with our Parent surviving the merger as a direct, wholly owned subsidiary of Asia Pacific Insurance (the “Merger”). China Oceanwide has agreed to acquire all of our Parent’s outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash.

On June 30, 2020, our Parent entered into a fifteenth waiver and agreement (“Waiver Agreement”) pursuant to which our Parent and Asia Pacific Global Capital Co., Ltd each agreed to waive their right to terminate the Merger Agreement and abandon the Merger until the earliest date of: (i) September 30, 2020, (ii) failure by Asia Pacific Global Capital Co., Ltd to approve final documents provided by our Parent in respect of certain transactions that we or our Parent may undertake or (iii) in the event that after June 30, 2020 any governmental entity imposes or requires, any term, condition, obligation, restriction, requirement, limitation, qualification, remedy or other action that applies to the Merger Agreement, that is materially and adversely different, individually or in the aggregate, from the conditions set forth by the governmental entities with respect to the Merger that were in effect on the date of the Waiver Agreement.

In addition, as part of the conditions set forth in the Waiver Agreement, if China Oceanwide fails to submit to our Parent satisfactory evidence by August 31, 2020 confirming that approximately $1.0 billion is available to China Oceanwide from sources in mainland China to fund the acquisition of our Parent, along with an additional $1.0 billion or more of executed binding commitment letters from

Hony Capital and/or other acceptable third parties providing China Oceanwide funding sources outside of China to fund the acquisition, our Parent has the right, in its sole discretion, to terminate the Merger Agreement as of August 31, 2020. The Waiver Agreement also gave our Parent the right to resolve the AXA S.A. ("AXA") litigation (the "AXA Litigation"), issue debt or other financing instruments, and pursue other strategic transactions, as needed to meet its short-term financial obligations. If China Oceanwide disagrees with any steps that our Parent takes, it has the right to terminate the transaction in its sole discretion. See "Recent Developments—AXA Settlement."

Our Parent and China Oceanwide have publicly expressed their commitment to satisfying the closing conditions under the Merger Agreement as soon as possible and extended the Merger Agreement end date through the Waiver Agreement to provide the parties with additional time to close the transaction. Notwithstanding the extension of the Merger Agreement deadline, the unprecedented market disruption due to COVID-19, including its impact on the high yield financing markets and on the performance and outlook of our Parent's financial results, as well as other factors such as the recent AXA judgment and related settlement, have resulted in increased uncertainty as whether the China Oceanwide transaction will be able to be consummated at the agreed transaction value of approximately $2.7 billion. See "Risk Factors—Risks Relating to Our Parent's Ownership of Us—Our Parent's proposed transaction with China Oceanwide may not be completed or may not be completed within the timeframe, terms or in the manner currently anticipated, which could have a material adverse effect on us" and "—AXA Settlement."

Given the delay in the closing of the Merger, our Parent is taking steps to address its near-term liabilities, which include a secured promissory note issued to AXA under the settlement agreement reached on July 20, 2020 and approximately $1.0 billion of debt maturing in 2021. These steps include the offering by us and, should the pending transaction with China Oceanwide not close, preparing for a potential initial public offering of our business, subject to market conditions.

AXA Settlement

Our Parent has been involved in a legal action with AXA since December 2017 under a case titled *AXA S.A. v. Genworth Financial International Holdings, LLC et al.* The case relates to losses incurred by AXA associated with mis-selling complaints on policies sold from 1970 through 2004. The damages hearing took place from June 15, 2020 through June 23, 2020. On July 20, 2020, our Parent entered into a settlement agreement with AXA pursuant to which the parties agreed, pending satisfaction of certain conditions, not to enforce, appeal or set aside the liability judgment of December 6, 2019 and the subsequently issued damages judgment of July 27, 2020. Prior to the settlement agreement, our Parent made a $134 million interim payment to AXA in January 2020.

As part of the settlement agreement, our Parent agreed to make payments for certain payment protection insurance mis-selling claims, along with a significant portion of future claims that are still being processed. On July 21, 2020, under the settlement agreement, our Parent paid an initial amount of £100 million ($125 million) to AXA. In addition, a secured promissory note was issued to AXA, under which our Parent agreed to make deferred cash payments totaling approximately £317 million in two payments in June 2022 and September 2022, subject to certain prepayment obligations. Future claims that are still being processed, which are currently estimated to be approximately £107 million, will be added to the promissory note as part of the September 2022 payment. To secure its obligation under the promissory note, our Parent pledged as collateral to AXA, a 19.9% security interest in the Company's outstanding common stock and a 19.9% security interest in the outstanding common shares of Genworth Mortgage Insurance Australia Limited. AXA does not have the right to sell or repledge the collateral, and the security interest does not entitle AXA to voting rights. The collateral will be released back fully to our Parent upon full repayment of the promissory note. Accordingly, the collateral arrangement (assuming that there is no foreclosure on the collateral) has no impact on our consolidated financial statements.

The promissory note is also subject to certain mandatory prepayments, and contains certain negative and affirmative covenants, representations and warranties and customary events of default.

See “Risk Factors—Risks Relating to Our Parent’s Ownership of Us—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions.”

PMIERs and GSE Conditions

In connection with the offering, we have engaged in discussions with the GSEs and FHFA to address certain GSE objectives of improving our Parent’s leverage and coverage ratios materially or for the Issuer and GMICO to achieve greater independence from our Parent with regard to capital access, capital flows and financial strength ratings. As part of these discussions, we have committed in principle to retain initially $300 million of the net proceeds from the offering to pay interest on the notes and to be available, if needed, to provide capital support to GMICO. In addition, we currently expect that GMICO will agree to maintain, effective as of the closing of the offering, PMIERs capital at a level of 115% of the current requirements. See “Regulation—Agency Qualification Requirements.” We, our Parent and GMICO have also committed to submit a plan to the GSEs to achieve the GSE objectives described above. Following the submission of this plan and as a result of our ongoing discussions (the outcome of which we cannot predict at this time), the GSEs may include additional or different conditions to those described above, which individually or in the aggregate may be material.

To the extent that any portion of the $300 million of the net proceeds from the offering that will be retained initially by the Issuer is used to provide capital support to GMICO, the GSEs and the NCDOI may seek to prevent GMICO from returning that capital to the Issuer in the form of a dividend, distribution or intercompany loan. See “Risk Factors—Risks Relating to the Offering and the Notes—We are a holding company and our only material assets are our equity interests in our subsidiaries. As a consequence, our ability to satisfy our obligations under the notes will depend on the ability of our subsidiaries to pay dividends and distributions to us, which is restricted by law or PMIERs for some subsidiaries.” Additionally, if GMICO does not require capital support, we ultimately expect to pay a dividend to our stockholder GHI of the $300 million of net proceeds initially retained from the offering, less an amount equal to the first four interest payments on the principal amount of the notes issued on the Issue Date (as defined herein).

See “Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs’ interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.”

Other Operating Data ($ amounts in millions)	Six months ended June 30, 2020	Six months ended June 30, 2019	Years ended December 31, 2019	Years ended December 31, 2018
New Insurance Written (for the period ended) (1)	$ 46,304	$ 25,426	$ 62,431	$ 39,961
Insurance In-Force (as of) (2)	$206,595	$177,545	$191,284	$165,658
Risk In Force (as of) (3)	$ 49,868	$ 42,936	$ 46,246	$ 40,136
Adjusted Operating Income (for the period ended) (4)	$ 141	$ 269	$ 562	$ 484
PMIERs sufficiency (as of) (5)	$ 1,275	$ 673	$ 1,057	$ 786
PMIERs sufficiency (as of) (6)	143%	123%	138%	129%
Persistency Rate (for the period ended) (7)	67%	84%	78%	84%
GMICO RTC ratio (as of) (8)	12.2	12.1	12.5	12.5
Book Value (Total equity ex. AOCI) (as of) (9)	$ 3,879	$ 3,608	$ 3,734	$ 3,300
Dividends to Parent (for the period ended)	—	—	$ 250	$ 50
Policies in force (count) (as of) (10)	896,232	808,428	851,070	772,470
Delinquent loans (count) (as of) (11)	53,587	15,227	16,392	16,860
Delinquency Rate (as of) (12)	5.98%	1.88%	1.93%	2.18%

(1) Presents the aggregate loan balance on new policies written during a given period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

(2) Presents the aggregated estimated unpaid principal balance of the mortgages we insure at a given date. IIF represents the remaining sum total of NIW from all prior periods less policy cancellations (including for prepayment, nonpayment of premiums and claims payment) and rescissions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

(3) Presents the aggregate amount of coverage we provide on all policies in force as of a given date. RIF is calculated as the sum total of coverage percentage of each individual policy in our portfolio applied to the estimated unpaid principal balance of such insured mortgage. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

(4) Adjusted operating income is a Non-GAAP measure. We present adjusted operating income as a supplemental measure of our performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics— Use of Non-GAAP Measures” for its definition and a reconciliation to net income and “Basis of Presentation and Non-GAAP Measures—Non-GAAP Measures.”

(5) Calculated as total available assets less net required assets, based on the PMIERs then in effect. See “—Recent Developments—PMIERs and GSE Conditions.”

(6) Calculated as total available assets divided by net required assets, based on the PMIERs then in effect. See “—Recent Developments—PMIERs and GSE Conditions.”

(7) Presents the annualized percentage of IIF for prior periods (quarter or year) that remains as of a given date. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

(8) Our primary operating subsidiary, GMICO’s RTC ratio, calculated by dividing GMICO’s statutory RTC RIF by its statutory capital (insurer’s policyholders’ surplus plus the statutory contingency reserves).

(9) Presents total consolidated equity excluding accumulated other comprehensive income (loss) (“AOCI”). AOCI is comprised of changes in the fair value of available-for-sale fixed maturity securities, net of deferred income taxes, reflected as unrealized gains or losses.

(10) Presents the number of policies we insure as of the dates indicated.

(11) Presents the total delinquent loans reported to us as of the dates indicated. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

(12) Presents the total reported delinquent loans divided by the total policies in force. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics.”

RISK FACTORS

The occurrence of any of the following risks or additional risks and uncertainties that are currently immaterial or unknown could have a material adverse effect on our business, results of operations and financial condition. The following risk factors are not necessarily presented in order of relative importance and should not be considered to represent a complete set of all potential risks that could affect us. This document also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below. See "Industry and Market Data" and "Forward-Looking Statements."

Risks Relating to Our Business

The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic is having, and will continue to have, an impact across our entire risk landscape. COVID-19 has disrupted the global economy and financial markets, business operations, and consumer behavior and confidence. Large scale disruption in the U.S. economy has caused several industries to be largely non-operational for significant periods of time through state and federal mandated shutdowns in an effort to contain the spread of COVID-19. While all states have been impacted by COVID-19, certain geographic regions have been disproportionately impacted either through the spread of the virus or the severity of the mitigation steps taken to control its spread. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and other requirements in most states and communities in the United States. Although certain states and the District of Columbia had begun the process of easing their respective restrictions on individuals and businesses, there is material variation in the requirements to lift and reimpose restrictions and the pace at which those restrictions are being lifted and reimposed by state and between jurisdictions within a state. In some jurisdictions, increases in new cases of COVID-19 have led to reinstatement of restrictions on individuals and businesses. Given the economic dislocation, since February 2020 over 52 million Americans have applied for unemployment benefits for the first time. Approximately 17 million Americans were receiving ongoing unemployment benefits as of late July 2020, compared to 2 million in early March. As a result, our business has experienced increases in delinquent loans and PMIERs required assets. In addition, mortgage interest rates have been declining, leading to high levels of refinance volume and declines in persistency rates.

We are currently unable to estimate the magnitude of the impact that the pandemic will ultimately have on our business, results of operations and financial condition. While the impact of the developing COVID-19 pandemic is difficult to predict, the related outcomes and impact on our business will depend on the spread and length of the pandemic, including whether there is a further resurgence of COVID-19, regulatory and government actions to support housing and the economy, social distancing, the need to reimpose restrictions and other spread mitigating actions, and the shape of the economic recovery. We are continuing to monitor COVID-19 developments, regulatory and government actions including the impact of the CARES Act and programs announced by the GSEs, and the potential financial impacts on our business. To date, we have aligned our business with the temporary origination and servicing guidelines announced by the GSEs and activated our business continuity program by transitioning to a work-from-home virtual workforce, which we expect to maintain until at least January 2021.

We expect that COVID-19 and measures taken to reduce its spread will pervasively impact our business, subjecting us to the following risks:

- The pandemic has resulted in a material increase in new defaults as borrowers fail to make timely payments on their mortgages, primarily as a result of unemployment and mortgage forbearance programs that allow borrowers to defer mortgage payments. This may impact our business' ability to remain compliant with the PMIERs financial requirements. We experienced primary new delinquencies of 56,487 during the first six months of 2020 of which 48,373 occurred in the second quarter of 2020. The primary delinquency rate, which includes both new and existing delinquencies, was 5.98% as of June 30, 2020 compared to 1.88% as of June 30, 2019. Approximately 87% of our primary new delinquencies in the second quarter of 2020 and 76% in July 2020 were subject to a forbearance plan. We experienced additional primary new delinquencies of 6,823 during July 2020 with a primary delinquency rate of 5.81% as of July 31, 2020. Of the total number of loans in forbearance, 39% of the borrowers were still making payments, while 61% were reported as delinquent as of July 31, 2020.
- The pandemic could place a significant strain on the operations and financial condition of mortgage servicers, which could disrupt the servicing or servicing transfers of mortgage loans covered by our insurance policies or result in servicers failing to timely remit premiums and appropriately report the status of loans, including whether the loans are subject to a COVID-19-related forbearance program.
- We could receive fewer mortgage insurance premiums as a result of loans going into default or be unable to cancel insurance coverage for nonpayment of premiums due to state moratoriums that temporarily suspend such actions by insurers.
- As a result of COVID-19-related relief programs, we anticipate that defaults related to the pandemic, if not cured, could remain in our defaulted loan inventory for a protracted period of time, potentially resulting in an increased number of claims and higher levels of claim severity for loans that ultimately result in a claim. Historically, forbearance plans such as those put in place as a result of COVID-19 have reduced the incidence of our losses on affected loans. However, given the uncertainty around the long-term impact of COVID-19, it is difficult to predict whether a loan's delinquency will cure when its forbearance plan ends. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time.
- The extended duration of the COVID-19 pandemic, the resurgence of cases of the disease and the reimposition of restrictions designed to curb its speed could lead to pressure on home prices in addition to elevated unemployment, which could cause additional new delinquencies, as well as potentially result in increased claims and higher levels of claim severity.
- The GSEs' business practices and policies have changed in response to COVID-19, with a shift in their primary objectives to supporting borrowers impacted by the pandemic and protecting the ongoing functioning of the housing finance system. As the situation continues to evolve, the actions of the FHFA and the GSEs in response to COVID-19 are likely to continue to significantly impact the housing finance system. These actions may include additional PMIERs capital requirements or other material restrictions on us. Because private mortgage insurance is an important component of this system, these actions (as well as other governmental actions in response to the pandemic) have had, and may continue to have, an adverse impact on our mortgage insurance operations and performance.

- The number of home purchases or mortgage refinancings may be materially affected by the impact of the pandemic on general economic conditions, including the unemployment rate, and the availability of credit for mortgage loans. In addition, public and private sector initiatives to reduce the transmission of COVID-19, such as the imposition of restrictions on business activities, may affect the number of new mortgages available for us to insure as real estate markets confront challenges in the mortgage origination and home sale process created by social distancing and other measures. In addition, while originations remained elevated through the first and second quarters of 2020 and are expected to remain strong in the second half of 2020, higher unemployment could reduce the volume of mortgage originations, the need for mortgage insurance and have an adverse effect on home prices, all of which would result in a significant adverse impact to our business, results of operations and financial condition. Social distancing and other measures may also lower home sales and new home constructions, which could result in a significant adverse impact on our business, results of operations and financial condition. Any significant adverse impact to our business, results of operations and financial condition could lead to lower credit ratings and impaired capital, both of which could hinder our business from offering their products, preclude them from returning capital to our Parent and our holding company, and thereby harm our liquidity.

- The models, assumptions and estimates we use to establish loss reserves and claim rates may not be accurate, especially in the event of an extended economic downturn or a period of extreme market volatility and uncertainty such as we are currently experiencing due to COVID-19. For example, the ultimate cure rate for loan defaults resulting from the pandemic may be lower than we have previously experienced in the context of other FEMA declared emergencies and lower than our expectations. Consequently, the ultimate claim rate may be higher than our expectations.

- Adverse impacts on capital, credit and reinsurance market conditions, which may limit our ability to issue MILNs, purchase reinsurance or access traditional financing methods. Such adverse impacts may increase our cost of capital and affect our ability to meet liquidity needs.

- The rating agencies continually review the financial strength ratings assigned to us, our primary operating subsidiary, GMICO and our Parent and each of their respective mortgage insurance subsidiaries, and the ratings are subject to change. COVID-19 and its impact on our financial condition and results of operations, could cause one or more of the rating agencies to downgrade the ratings assigned to one or more of us, GMICO, and our Parent and each of their respective mortgage insurance subsidiaries.

Ultimately, the impact of COVID-19 on our business will depend on, among other things: the extent and duration of the pandemic, the severity of the disease and the number of people infected with the virus and whether effective anti-viral treatments or vaccines are developed; the resurgence of cases of the disease and the reimposition of restrictions designed to curb its spread; the effects on the economy of the pandemic and of the measures taken by governmental authorities and other third parties restricting day-to-day life and the length of time that such measures remain in place; governmental and private party programs implemented to assist new and existing borrowers, including programs and policies instituted by the GSEs to assist borrowers experiencing a COVID-19-related hardship such as forbearance plans and suspensions of foreclosure and evictions; and the impact on the mortgage origination market. The level of disruption, the economic downturn, the potential global recession, and the far-reaching effects of COVID-19 could negatively affect our investment portfolio and cause the harms to our business to persist for long periods of time. COVID-19 could also disrupt medical and financial services and has resulted in us practicing social distancing with our employees through office closures, all of which could disrupt our normal business operations. Due to the unprecedented and rapidly changing social and economic impacts associated with COVID-19 on the U.S. and global economies generally, and in particular on the U.S. housing, real estate and housing finance markets, there is significant uncertainty regarding the ultimate impact on our business, business prospects, results of operations and financial condition and our estimates or predictions regarding such impact may be materially wrong.

If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.

In furtherance of Fannie Mae and Freddie Mac's respective charter requirements, each GSE adopted PMIERs effective December 31, 2015. On September 27, 2018, the GSEs issued a newly revised version of the PMIERs, which became effective March 31, 2019. On June 29, 2020, the GSEs issued guidance amending PMIERs further, in light of COVID-19, effective June 30, 2020 (the "PMIERs Amendment").

The PMIERs include financial requirements for mortgage insurers under which a mortgage insurer's "Available Assets" (which are generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's RIF and are calculated from tables of factors with several risk dimensions and are subject to a floor amount) and otherwise generally establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the respective GSE for acquisition of Low-Down Payment Loans. The amount of capital that may be required in the future to maintain the "Minimum Required Assets," as defined in PMIERs, and operate our business is dependent upon, among other things: (i) the way PMIERs are applied and interpreted by the GSEs and the FHFA as and after they are implemented; (ii) the future performance of the global economy, including the housing market and unexpected economic conditions that arise from pandemics, such as COVID-19; (iii) our generation of earnings in our business, "Available Assets" and "Minimum Required Assets," reducing RIF and reducing delinquencies as anticipated, and writing anticipated amounts and types of new mortgage insurance business; and (iv) our overall financial performance, capital and liquidity levels. Depending on our actual experience, the amount of capital required under PMIERs may be higher than currently anticipated. In the absence of a premium increase for new business, if we hold more capital relative to insured loans, our returns will be lower. We may be unable to increase premium rates for various reasons, principally due to competition. Our inability, on the other hand, to increase the capital as required in the anticipated timeframes and on the anticipated terms, and to realize the anticipated benefits, could have a material adverse impact on our business, results of operations and financial condition. More particularly, our ability to continue to meet the PMIERs financial requirements and maintain a prudent amount of capital in excess of those requirements, given the dynamic nature of asset valuations and requirement changes over time, is dependent upon, among other things: (i) our ability to complete CRT transactions on our anticipated terms and timetable, which, as applicable, are subject to market conditions, third-party approvals and other actions (including approval by regulators and the GSEs), and other factors that are outside of our control and (ii) our ability to contribute holding company cash or other sources of capital to satisfy the portion of the financial requirements that are not satisfied through these transactions. See "—CRT transactions may not be available, affordable or adequate to protect us against losses." The GSEs may amend or waive PMIERs at their discretion, and also have broad discretion to interpret PMIERs, which could impact the calculation of our "Available Assets" and/or "Minimum Required Assets."

The PMIERs Amendment implemented both permanent and temporary revisions to PMIERs. With respect to loans that became non-performing due to a COVID-19 hardship, PMIERs was temporarily amended with respect to each non-performing loan that (i) has an initial missed payment occurring on or after March 1, 2020 and prior to January 1, 2021, or (ii) is subject to a forbearance plan granted in response to a COVID-19 hardship, the terms of which are materially consistent with terms of forbearance plans offered by the GSEs. The risk-based required asset amount factor for the non-performing loan will be the greater of (a) the applicable risk-based required asset amount factor for a performing loan were it not delinquent, and (b) the product of a 0.30 multiplier and the applicable risk-based required asset amount factor for a non-performing loan. In the case of (i), the 0.30 multiplier will be applicable for up to four calendar months from the date of the initial missed payment absent a forbearance plan described in (ii) above. The PMIERs Amendment also imposes temporary capital preservation provisions through March 31, 2021, that require an approved insurer to obtain prior written GSE approval before paying any dividends, pledging or transferring assets to an affiliate or entering into any new, or altering any existing, arrangements under tax sharing and intercompany expense-sharing agreements, even if such insurer has a surplus of available assets. Therefore, the PMIERs Amendment may restrict or prevent our subsidiaries from paying us dividends. See "—Risks Relating to the Offering and the Notes—We are a holding company and our only material assets are our equity interests in our subsidiaries. As a consequence, our ability to satisfy our obligations under the notes will depend on the ability of our subsidiaries to pay dividends and distributions to us, which is restricted by law or PMIERs for some subsidiaries," "Regulation—Agency Qualification Requirements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Conditions." It is unclear what, if any, further actions the GSEs may take in the event COVID-19 hardships continue through 2020 and into 2021 due to a second wave of virus transmission and economic lockdowns. If the temporary provisions of the PMIERs Amendment are not extended to include new delinquencies occurring on or after January 1, 2021, or borrower forbearance plans are not extended beyond twelve months, it could have a material effect on our business, results of operations and financial condition.

The PMIERs Amendment additionally imposes permanent revisions to the risk-based required asset amount factor for non-performing loans for properties located in future FEMA Declared Major Disaster Areas eligible for Individual Assistance. See "—If the models used in our business are inaccurate or there are differences and/or variability in loss development compared to our model estimates and actuarial assumptions, it could have a material adverse effect on our business, results of operations and financial condition."

Our assessment of PMIERs compliance is based on a number of factors, including our understanding of the GSEs' interpretation of the PMIERs financial requirements. Although we believe we have sufficient capital as required under PMIERs and we remain an approved insurer, there can be no assurance these conditions will continue. In addition, there can be no assurance we will continue to meet the conditions contained in the GSE letters approving credit for reinsurance against PMIERs financial requirements, the GSEs require our U.S. mortgage insurance subsidiary to maintain a maximum statutory risk-to-capital ratio of 18:1 or they reserve the right to reevaluate the amount of PMIERs credit indicated in their approval letters. Freddie Mac has also imposed additional requirements on our option to commute these reinsurance agreements. Both GSEs reserved the right to periodically review the reinsurance transactions for treatment under PMIERs. If we are unable to continue to meet PMIERs requirements as interpreted or amended by the GSEs, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.

Additionally, compliance with PMIERs requires us to seek the GSEs' prior approval before taking many actions, including implementing certain new products or services, entering into inter-company agreements among others and, in response to COVID-19, at least through March 31, 2021, paying any dividends, pledging or transferring assets to an affiliate. PMIERs' prior approval requirements could prohibit, materially modify or delay us in our intended course of action. For example, in connection with the AXA Settlement, our Parent has pledged 19.9% of our common stock held by GHI to secure the Promissory Note. If our Parent defaulted on its commitments under the Promissory Note, in addition to NCDOI approval for the transfer, we would need to obtain GSE approval prior to GHI transferring any shares under the Promissory Note, and any delay in connection with obtaining such approval could potentially have material and unintended effects on our and our Parent's business, financial condition and results of operations. See "Summary—Recent Developments—AXA Settlement," "Risks Relating to Our Parent's Ownership of Us—Our Parent's indebtedness and liquidity may negatively affect us." and "Risks Relating to Our Parent's Ownership of Us—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions."

Further, the GSEs may modify or change their interpretation of terms they require us to include in our mortgage insurance coverage for loans purchased by them, requiring us to modify our terms of coverage or operational procedures to remain an approved insurer, and such changes could have a material adverse impact on our business, results of operations and financial condition. It is possible the GSEs could, in their own discretion, require additional limitations and/or conditions on certain of our activities and practices that are not currently in the PMIERs for us to remain an approved insurer.

In connection with the offering, we have engaged in discussions with the GSEs and FHFA to address certain GSE objectives of improving our Parent's leverage and coverage ratios materially or for the Issuer and GMICO to achieve greater independence from our Parent with regard to capital access, capital flows and financial strength ratings. As part of these discussions, we have committed in principle to retain initially $300 million of the net proceeds from the offering to pay interest on the notes and to be available, if needed, to provide capital support to GMICO. In addition, we currently expect that GMICO will agree to maintain, effective as of the closing of the offering, PMIERs capital at a level of 115% of the current requirements. See "Regulation—Agency Qualification Requirements." We, our Parent and GMICO have also committed to submit a plan to the GSEs to achieve the GSE objectives described above. Following the submission of this plan and as a result of our ongoing discussions (the outcome of which we cannot predict at this time), the GSEs may include additional or different conditions to those described above, which individually or in the aggregate may be material.

Additional requirements or conditions imposed by the GSEs could limit our operating flexibility and the areas in which we may write new business and may adversely impact our competitive position and our business, the ability of our subsidiaries to pay dividends and our ability to pay down debts. See "Regulation—Agency Qualification Requirements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Conditions."

A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience.

Losses in our mortgage insurance business generally result from events, such as a borrower's reduction of income, unemployment, underemployment, divorce, illness, inability to manage credit, or a change in interest rate levels or home values, that reduce a borrower's willingness or ability to continue to make mortgage payments. Rising unemployment rates and deteriorations in economic conditions for extended periods of time, including as a result of COVID-19, across the United States or in specific regional economies, generally increase the likelihood of borrower defaults. See "—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic." An increase in interest rates typically leads to higher monthly payments for borrowers with existing ARMs and could materially impact the cost and availability of refinance options for borrowers. See "—Interest rates and changes in rates could materially adversely affect our business, results of operations and financial condition." A decline in home values typically makes it more difficult for borrowers to sell or refinance their homes, generally increasing the likelihood of a default followed by a claim if borrowers experience job losses or other life events that reduce their incomes or increase their expenses. In addition, declines in home values may also decrease the willingness of borrowers with sufficient resources to make mortgage payments when their mortgage balances exceed the values of their homes. Declines in home values typically increase the severity of any claims we may pay. Any of these events may have a material adverse effect on our business, results of operations and financial condition.

Independent of any deterioration in broad economic conditions, housing values could also decline due to specific trends that would affect the housing and mortgage markets, such as decreased demand for homes, including as a result of social distancing and other measures put in place as a result of COVID-19, changes in homebuyers' expectations for potential future home value appreciation, increased restrictions or costs for obtaining mortgage credit due to tightened underwriting standards, tax policy, regulatory developments, higher interest rates and customers' liquidity issues. Declining housing values may impact the effectiveness of our loss management programs, eroding the value of mortgage collateral and reducing the likelihood that properties with defaulted mortgages can be sold for an amount sufficient to offset unpaid principal and interest losses.

The amount of the loss we suffer, if any, depends in part on whether the home of a borrower who defaults on a mortgage can be sold for an amount that will cover the unpaid principal balance, interest and the expenses of the sale. In previous economic slowdowns in the United States, we experienced a pronounced weakness in the housing market, as well as declines in home prices. These economic slowdowns and the resulting impact on the housing market drove historic levels of delinquencies. Any delays in foreclosure processes, including foreclosure moratoriums imposed by state and local governments due to COVID-19, could cause our losses to increase as expenses accrue for longer periods or if the value of foreclosed homes further decline during such delays. If we experience an increase in the number or the cost of delinquencies that are higher than expected, our business, results of operations and financial condition could be adversely affected.

We establish loss reserves when we are notified that an insured loan is in default, based on management's estimate of claim rates and claim sizes, which are subject to uncertainties and are based on assumptions about certain estimation parameters that may be volatile. As a result, the actual claim payments we make may materially differ from the amount of our corresponding loss reserves.

Our practice, consistent with industry practice and statutory accounting principles ("SAP") applicable to insurance companies, is to establish loss reserves in our consolidated GAAP financial statements based on claim rates and severity for loans that servicers have reported to us as being in default, which is typically after the second missed payment. We also establish incurred but not reported ("IBNR") reserves for estimated losses incurred on loans in default that have not yet been reported to us by the servicers.

The establishment of loss and IBNR reserves is subject to inherent uncertainty and requires significant judgment and numerous assumptions by management, thus our loss estimates may vary widely from quarter to quarter. We estimate IBNR reserves by analyzing historical lags in default reporting to determine a specific number of IBNR claims in each reporting period, and we establish loss reserves using our best estimates of claim rates and severity to estimate the ultimate losses on loans reported to us as being in default as of the end of each reporting period. The sources of uncertainty affecting the estimates include both internal and external factors. Internal factors include, but are not limited to, changes in the mix of exposures, loss mitigation activities and claim settlement practices. Significant external factors include changes in general economic conditions, including home prices, unemployment/underemployment and interest rates, government housing policies, government and GSE loss mitigation and mortgage forbearance programs, state foreclosure timelines, GSE and state foreclosure moratoriums and types of mortgage products. Because these factors are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. Even in a stable economic environment, the actual claim payments we make may be substantially different and even materially exceed the amount of our corresponding loss and IBNR reserves for such claims.

In addition, sudden and/or unexpected deterioration of economic conditions, including as a result of COVID-19, may cause our estimates of loss reserves to be materially understated. Our results of operations, financial condition and liquidity could be adversely impacted if, and to the extent, our actual losses are greater than our loss and IBNR reserves.

As of June 30, 2020, we had established case reserves and reported losses incurred for 53,587 primary loans in our delinquency inventory. We expect that delinquencies will increase from that level as a result of COVID-19, including as a result of the increase in unemployment associated with changes in consumer behavior and initiatives intended to reduce the transmission of COVID-19. As a result, we expect our losses incurred and loss reserves to increase in future periods. The impact of COVID-19 on the number of delinquencies, our losses incurred and loss reserves will be influenced by various factors, including those discussed in our risk factor titled "—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic."

Further, consistent with industry practice, our reserving method does not take account of losses that could occur from insured loans that are not in default. Thus, future potential losses that may develop from loans not currently in default are not reflected in our financial statements, except in the case where we are required to establish a premium deficiency reserve. As a result, future losses on loans that are not currently in default may have a material impact on our results of operations, financial condition and liquidity if, and when, such losses emerge.

We regularly review our reserves and associated assumptions as part of our ongoing assessment of our business performance and risks. If we conclude that our reserves are insufficient to cover actual or expected claim payments as a result of changes in experience, assumptions or otherwise, we would be required to increase our reserves and incur charges in the period in which we make the determination. The amounts of such increases may be significant and this could materially adversely affect our results of operations, financial condition and liquidity. For additional information on reserves, including the financial impact of some of these risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—New Accounting Standards."

If the models used in our business are inaccurate or there are differences and/or variability in loss development compared to our model estimates and actuarial assumptions, it could have a material adverse effect on our business, results of operations and financial condition.

We employ models to, among other uses, price our mortgage insurance products, calculate reserves, value assets and generate projections used to estimate future pre-tax income, as well as to evaluate risk, determine internal capital requirements and perform stress testing. These models rely on estimates and projections that are inherently uncertain, may use data and/or assumptions that do not adequately reflect recent experience and relevant industry data, and may not operate as intended. The models require accurate data, including financial statements, credit reports or other financial information, and reliance on such data could result in unexpected losses, reputational damage or other effects that could have a material adverse effect on our business, results of operations and financial condition. In addition, if any of our models contain programming or other errors, are ineffective, use data provided by third parties that is incorrect, or if we are unable to obtain relevant data from third parties, our processes could be negatively affected. The models may prove to be less predictive than we expect for a variety of reasons, including economic conditions that develop differently than we forecast, unexpected economic and unemployment conditions that arise from pandemics such as COVID-19, changes in the law or in the PMIERs, issues arising in the construction, implementation, interpretation or use of the models or other programs, the use of inaccurate assumptions or use of short-term financial metrics that do not reveal long-term trends. The global nature of the COVID-19 pandemic, which resulted in FEMA declared emergencies in all 50 states and the District of Columbia, is unprecedented and results in a lack of comparable data inputs for our models. As a result, our expectations based on our models may vary from our experiences in the context of other historical FEMA declared emergencies that have been more localized. For example, the ultimate cure rate for loan defaults resulting from the pandemic may be lower than we have previously experienced in the context of other FEMA declared emergencies and lower than our expectations. See "—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic." The limitations of our models may be material and could lead us to make wrong or sub-optimal decisions in aspects of our business, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, from time to time we seek to improve our actuarial and financial models, and the conversion process may result in material changes to assumptions and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. The associated input data, assumptions and calculations, and the controls we have in place to mitigate these risks may not be effective in all cases. The risks related to our models often increase when we change assumptions and/or methodologies, add or change modeling platforms, or implement model changes under time constraints. These risks are exacerbated when the process for assumption changes strains our overall governance and timing around our financial reporting. We intend to continue developing our modeling capabilities. During or after the implementation of these enhancements, we may discover errors or other deficiencies in existing models, assumptions and/or methodologies. For example, in the future we may either use additional, more granular information we expect to receive through enhancements in our reserving model or we may employ more simplified reserving approaches, and either approach may cause us to refine or otherwise change existing assumptions and/or methodologies and thus associated product pricing and reserve levels, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Competition within the mortgage insurance industry could result in the loss of market share, loss of customers, lower premiums, wider credit guidelines and other changes that could have a material adverse effect on our business, results of operations and financial condition.

The United States private mortgage insurance industry is highly competitive. We believe the principal competitive factors in the sale of our products are price, reputation, customer relationships, financial strength ratings and service.

There are currently six active mortgage insurers in the United States, including us. Competition on price remains highly competitive. We monitor various competitive, risk and economic factors while seeking to balance both profitability and market share considerations in developing our pricing strategies. We have at times and may again in the future reduce certain of our rates, which will reduce and has reduced our premium yield (net premiums earned divided by the average IIF) over time as older mortgage insurance coverage with higher premium rates run off and new mortgage insurance coverage with lower premium rates are written. In addition, as a result of the current macroeconomic environment and the COVID-19 pandemic, we have implemented pricing changes that we believe align our risk and return profile. See "—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic."

By mid-2019, the use of proprietary risk-based pricing plans became widespread. As opposed to traditional rate card pricing, mortgage insurance premium rates in these risk-based plans are visible only to customers and cannot be seen by competitors. Mortgage insurance companies may view this lack of transparency as a means to gain market share by lowering price. Lack of pricing transparency could cause other mortgage insurance companies to respond aggressively and cause further lowering of premiums. However, risk-based plans also allow mortgage insurers to price risk more effectively and provide the ability to manage the credit risk and geographic makeup of their NIW.

In addition, not all of our mortgage insurance products have the same return on capital profile. To the extent that some of our competitors are willing to set lower pricing and accept lower returns than we find acceptable, we may lose business opportunities, and this may affect our overall business relationship with certain customers. If we match lower pricing on these products, we will experience a similar reduction in returns on capital. Depending upon the degree to which we undertake or match such pricing practices, there may be a material adverse impact on our business, results of operations and financial condition.

One or more of our competitors may seek to capture increased market share by reducing pricing, offering alternative coverage and product options, loosening their underwriting guidelines or relaxing risk management policies, any of which could improve their competitive positions in the industry and negatively impact our ability to achieve our business goals. Specifically, such competitive moves could result in a loss of customers, require us to lower premiums or adopt riskier credit guidelines in order to remain competitive, or implement other changes that could lower our revenues, increase the risk of the loans we insure or increase our expenses. If we are unable to compete effectively against our competitors and attract and retain our target customers, our revenue may be adversely impacted, which could adversely impact our financial condition, results of operations and ability to grow our business.

Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition.

The requirements and practices of the GSEs impact the operating results and financial performance of GSE-approved insurers, including us. Changes in the charters or business practices of either Fannie Mae or Freddie Mac could materially reduce the number of mortgages they purchase that are insured by us and consequently diminish our business valuation. The GSEs could be directed to make such changes by the FHFA, which was appointed as their conservator in September 2008 and has the authority to control and direct the operations of the GSEs.

With the GSEs in a prolonged conservatorship, there has been ongoing debate over the future role and purpose of the GSEs in the United States housing market. Congress may legislate, or the administration may implement through administrative reform, structural and other changes to the GSEs and the functioning of the secondary mortgage market. In addition, the upcoming election in November

2020 could result in a change in policy direction if there is a change in administration. Since 2011, there have been numerous legislative proposals intended to incrementally scale back the GSEs (such as a statutory mandate for the GSEs to transfer mortgage credit risk to the private sector) or to completely reform the housing finance system. Congress, however, has not enacted any legislation to date. The proposals vary as to the government's role in the housing market, and more specifically, with regard to the existence of an explicit or implicit government guarantee.

Recently there has been increased focus on and discussion of administrative reform independent of legislative action. Between FHFA and the Treasury Department, they possess significant capacity to effect administrative GSE reforms. On September 5, 2019, the Treasury Department released its Housing Reform Plan that included a compilation of legislative and administrative recommendations for reforms to achieve the goals of (i) ending the conservatorships of the GSEs, (ii) advancing competition in the housing finance market, (iii) setting regulations for the GSEs that provide for their safety and soundness and limit their risk to the financial stability of the United States, and (iv) providing proper compensation to the United States government for any explicit or implicit support it provides to the GSEs. Additionally, the Director of the FHFA publicly stated his priority for exiting the GSEs from conservatorship. In conjunction with preparing to release the GSEs from conservatorship, the FHFA has also indicated the possibility of amending the Preferred Stock Purchase Agreements ("PSPAs") that the GSEs have with the Department of Treasury or pursuing consent orders, to place continuing restrictions on the GSEs post conservatorship. If the PSPAs or FHFA consent orders include restrictions on the loans purchased by the GSEs, our mortgage insurance business could decline. In May 2020, the FHFA also issued a notice of proposed rulemaking to increase the capital requirements applicable to the GSEs ("Proposal on GSE Capital Requirements") as part of the process to potentially end their conservatorships. Additionally, the Supreme Court of the United States will hear challenges in the fall 2020 term to the FHFA's single director structure and the GSE quarterly dividend and profit sweeps, with decisions not likely until the spring 2021 term, which could impact the federal government's efforts to reform the federal housing system, including exiting the GSEs from conservatorship.

If any GSE reform is adopted, whether through legislation or administrative action, it could impact the current role of private mortgage insurance as credit enhancement, including its reduction or elimination, which would have an adverse effect on our business, revenue, results of operations and financial condition. At present, it is uncertain what role private capital, including mortgage insurance, will play in the United States residential housing finance system in the future or the impact any changes to that system could have on our business. Any changes to the charters or statutory authorities of the GSEs would require congressional action to implement. Passage and timing of any comprehensive GSE reform or incremental change (legislative or administrative) is uncertain, making the actual impact on us and our industry difficult to predict. Any such changes that come to pass could have a material adverse impact on our business, results of operations and financial condition.

In recent years, the FHFA has set goals for the GSEs to transfer significant portions of the GSEs' mortgage credit risk to the private sector. This mandate builds upon the goals set in each of the last five years for the GSEs to increase the role of private capital by experimenting with different forms of transactions and structures. We have participated in these CRT programs developed by Fannie Mae and Freddie Mac on a limited basis. In 2018, Fannie Mae and Freddie Mac announced the launch of limited pilot programs, Integrated Mortgage Insurance ("IMAGIN") and Enterprise Paid Mortgage Insurance ("EPMI"), respectively, as alternative ways for lenders to sell to the GSEs loans with LTV ratios greater than 80%. These investor-paid mortgage insurance programs, in which insurance is acquired directly by each GSE, have many of the same features and represent an alternative to traditional private mortgage insurance products that are provided to individual lenders. Participants in IMAGIN and EPMI are not subject to compliance with the current PMIERs, a disparity that may create a competitive disadvantage for private mortgage insurers if these pilot programs are expanded. To the extent these credit risk products evolve in a manner that displaces primary mortgage insurance coverage, the amount of insurance we write may be reduced. It is difficult to predict the impact of alternative CRT products, if any, that are developed to meet the goals established by the FHFA. In addition, the FHFA's Proposal on GSE Capital Requirements may impact the CRT programs developed by Fannie Mae and Freddie Mac and/or the role of private mortgage insurance as credit enhancement.

Fannie Mae and Freddie Mac also possess substantial market power, which enables them to influence our business and the mortgage insurance industry in general. Although we actively monitor and develop our relationships with Fannie Mae and Freddie Mac, a deterioration in any of these relationships, or the loss of business or opportunities for new business, could have a material adverse effect on our business, results of operations and financial condition.

The amount of mortgage insurance we write could decline significantly if alternatives to private mortgage insurance are used or lower coverage levels of mortgage insurance are selected.

There are a variety of alternatives to private mortgage insurance that may reduce the amount of mortgage insurance we write. These alternatives include:

- originating mortgages that consist of two simultaneous loans, known as "simultaneous seconds" comprising a first mortgage with a LTV ratio of 80% and a simultaneous second mortgage for the excess portion of the loan, instead of a single mortgage with a LTV ratio of more than 80%;
- using government mortgage insurance programs;
- holding mortgages in the lenders' own loan portfolios and self-insuring;
- using programs, such as those offered by Fannie Mae and Freddie Mac, requiring lower mortgage insurance coverage levels;
- originating and securitizing loans in MBS whose underlying mortgages are not insured with private mortgage insurance or which are structured so that the risk of default lies with the investor; and
- using risk-sharing insurance programs, credit default swaps or similar instruments to transfer credit risk on mortgages.

The degree to which lenders or borrowers may select these alternatives now, or in the future, is difficult to predict. The performance and resiliency of the private mortgage insurance industry through COVID-19 could impact the perception of the industry and private mortgage insurance execution as the primary choice of first-loss credit protection, which could influence the popularity of alternative forms of mortgage insurance in the future. As one or more of the alternatives described above, or new alternatives that enter the market, are chosen over private mortgage insurance, our revenues could be adversely impacted. The loss of business in general or the specific loss of more profitable business could have a material adverse effect on our business, results of operations and financial condition.

Our reliance on customer relationships could cause us to lose significant sales if one or more of those relationships terminate or are reduced.

Our business depends on our relationships with our customers, including relationships with large lending customers. Our largest customer accounted for 16% of our total NIW during 2019 and our top five customers generated 32% of our NIW during 2019. If we are unable to maintain our relationship with one or more of these customers, our business, results of operations and financial condition could be adversely impacted. See "—Changes in the composition of our business or undue concentration by customer, geographic region or product type may adversely affect us by increasing our exposure to adverse performance of a small segment of our overall business." Our customers place insurance with us directly on loans they originate and indirectly through purchases of loans that already have our mortgage insurance coverage. Our relationships with our customers may influence both the amount of business they do with us directly and their willingness to continue to approve us as a mortgage insurance provider for loans that they purchase. Maintaining our business relationships and business volumes with our largest lending customers remains critical to the success of our business.

We cannot be certain that any loss of business from significant customers, or any single customer, would be replaced by other customers, existing or new. As a result of market conditions or changed regulatory requirements, our lending customers may decide to write business only with a limited number of mortgage insurers or only with certain mortgage insurers, based on their views with respect to an insurer's pricing, service levels, underwriting guidelines, loss mitigation practices, financial strength, ratings, mechanisms of credit enhancements or other factors, including our customers' perceptions of the strength of our Parent and its other subsidiaries. See "—Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially and adversely affect our business, financial condition, liquidity and prospects."

Changes in the composition of our business or undue concentration by customer, geographic region or product type may adversely affect us by increasing our exposure to adverse performance of a small segment of our overall business.

Our largest customer accounted for 16% of our total NIW during 2019. No other customer exceeded 10% of our NIW during 2019 and only one customer accounted for more than 10% of our NIW, 10.08%, during 2018. Additionally, no customer had earned premiums that accounted for more than 10% of our total revenues for the years ended December 31, 2019 and 2018. Changes in our ability to attract and retain a diverse customer base, and avoid undue concentration by geographic region, customer or product type may adversely affect our business, results of operations and financial condition.

In the past, regional housing markets have experienced changes in home prices and unemployment at different rates and to different extents. In addition, certain geographic regions have experienced local recessions, falling home prices and rising unemployment based on economic conditions that did not impact, or impacted to a lesser degree, other geographic regions or the overall United States economy. See "—A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience." Geographic concentration in our mortgage portfolio therefore increases our exposure to losses due to localized economic conditions. This risk may be exacerbated by a disproportionate impact of COVID-19 in certain regions of the country. We seek to diversify our insured loan portfolio geographically; however, customer concentration might lead to concentrations in specific regions in the United States. If we do not adequately maintain the geographic diversity of our portfolio, we could be exposed to greater losses. Also, customer concentration may adversely affect our financial condition if a significant customer chooses to increase its use of other mortgage insurers, merges with a competitor or exits the mortgage finance business, chooses alternatives to mortgage insurance, or experiences a decrease in their business. For a more detailed discussion regarding the risk of customer concentration, see "—Our reliance on customer relationships could cause us to lose significant sales if one or more of those relationships terminate or are reduced."

Prior to COVID-19, traditional measures of credit quality, such as credit score and whether a loan had a prior delinquency were most predictive of new delinquencies. Because the COVID-19 pandemic has affected a broad portion of the population, attribution analysis of second quarter of 2020 new delinquencies revealed that additional factors rose in significance, such as a higher debt to income ratio, geographies more affected by the virus or with a higher concentration of affected industries, loan size, and servicer process differences. Although we attempt to incorporate these higher expected claim rates into our models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses under our current underwriting requirements.

Our risk management programs may not be effective in identifying or adequate in controlling or mitigating the risks we face.

We have developed risk management programs that include risk appetite, limits, identification, quantification, governance, policies and procedures and seek to appropriately identify, monitor, measure, control, mitigate and report the types of risks to which we are subject. We regularly review our risk management programs and work to update them on an ongoing basis to be consistent with then current best market practices. However, our risk management programs may not fully control or mitigate all the risks we face or anticipate all potential material negative events.

Many of our methods for managing certain financial risks (e.g., credit, market and insurance risks) are based on observed historical market behaviors and/or historical, statistically-based models. Historical measures may not accurately predict future exposures, which could be significantly greater than historical measures have indicated. We have also established internal risk limits based upon these historical, statistically-based models and we monitor compliance with these limits. Our internal risk limits may be insufficient and our monitoring may not detect all violations (inadvertent or otherwise) of these limits. Other risk management methods are based on our evaluation of information regarding markets, customers and customer behavior, macroeconomic and environmental conditions, pandemics such as COVID-19, catastrophic occurrences and potential changing paradigms that are publicly available or otherwise accessible to us. See "Business—Risk Management." This collective information may not always be accurate, complete, up to date or properly considered, interpreted or evaluated in our analyses. Moreover, the models and other parts of our risk management programs we rely on in managing various aspects of our business may prove to be less predictive than we expect. See "—If the models used in our business are inaccurate or there are differences and/or variability in loss development compared to our model estimates and actuarial assumptions, it could have a material adverse effect on our business, results of operations and financial condition." The limitations of our models and other parts of our risk management programs may be material, and could lead us to make wrong or sub-optimal decisions in managing our risk and other aspects of our business, either of which could have a material adverse effect on our business, results of operations, and financial condition.

Management of operational, legal, franchise and regulatory risks requires, among other things, methods to appropriately identify all such key risks, systems to record incidents and policies and procedures designed to mitigate, detect, record and address all such risks and occurrences. Management of technology risks requires methods to ensure our systems, processes and people are maintaining the confidentiality, availability and integrity of our information, ensuring technology is enabling our overall strategy, and our ability to comply with applicable laws and regulations. If our risk management framework does not effectively identify, measure and control our risks, we could suffer unexpected losses or be adversely affected, which could have a material adverse effect on our business, results of operations and financial condition.

We employ various strategies, including CRT transactions, which include traditional reinsurance and the issuance of MILNs, to mitigate financial risks inherent in our business and operations. Such transactions may not always be available to us, but when they are they subject us to counterparty credit risk. The execution of these strategies also introduces operational risks and considerations. Developing effective strategies for dealing with these risks is a complex process, and no strategy can fully insulate us from those financial risks. See "—CRT transactions may not be available, affordable or adequate to protect us against losses" and "—Defaults by counterparties to our CRT transactions or defaults by us on agreements we have with these counterparties, may expose us to risks we sought to mitigate, which could have a material adverse effect on our business, results of operations and financial condition."

We may choose to retain certain levels of financial and/or non-financial risk, even when it is possible to mitigate these risks. The decision to retain certain levels of financial risk is predicated on our belief that the expected future returns that we will realize from retaining the risk, in relation to the level of risk retained, is favorable, but it may turn out that our expectations are incorrect and we incur material losses or suffer other adverse consequences that arise from the retained risk.

Our performance is highly dependent on our ability to manage risks that arise from day-to-day business activities, including underwriting, claims processing, administration and servicing, execution of our investment strategy, actuarial estimates and calculations, financial and tax reporting and other activities, many of which are very complex. We seek to monitor and control our exposure to risks arising out of or related to these activities through a variety of internal controls, management review processes and other mechanisms. However, the occurrence of unforeseen events, such as COVID-19, or the occurrence of events of a greater magnitude than expected, including those arising from inadequate or ineffective controls, a failure in processes, procedures or systems implemented by us or a failure on the part of employees upon which we rely, may have a material adverse effect on our business, results of operations and financial condition.

Past or future misconduct by our employees or employees of our vendors or suppliers could result in violations of laws by us, regulatory sanctions against us and/or serious reputational, legal or financial harm to our business, and the precautions we employ to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor the business decisions and activities of these individuals to prevent us from engaging in inappropriate activities, excessive risk taking, fraud or security breaches, these individuals may undertake these activities or risks regardless of our controls and procedures and such controls and procedures may fail to detect all such decisions and activities. Our compensation policies and procedures are reviewed by us as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If these individuals take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

We cannot be sure of the extent of benefits we will realize from loss mitigation actions or programs in the future.

As part of our loss mitigation efforts, we periodically investigate insured loans and evaluate the related servicing to ensure compliance with applicable guidelines and to detect possible fraud or misrepresentation. As a result, we have rescinded, and may in the future rescind, coverage on loans that do not meet our guidelines. In the past, we recognized significant benefits from taking action on these investigations and evaluations under our master policies. However, the PMIERs rescission relief principles, which have been incorporated into our mortgage insurance policies since 2014, limit our rescission rights for underwriting defects, misrepresentation, and in other circumstances, such as in cases where the borrower makes a certain number of timely mortgage payments. Therefore, we may not recognize the same level of future benefits from rescission actions as we have in years prior to 2014, potentially resulting in higher losses than under our older master policies. In addition, our rescission rights have temporarily become more limited due to accommodations we have made in connection with COVID-19. On April 17, 2020, we announced that we will not make loans ineligible for rescission relief in certain circumstances where the failure to make payments was associated with a COVID-19-related forbearance.

The mortgage finance industry (with government support) has adopted various programs to modify delinquent loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. Our master policies contain covenants that require cooperation and loss mitigation by the insured. The effect on us of a loan modification depends on re-default rates, which can be affected by factors such as changes in home values and unemployment. Our estimates of the number of loans qualifying for modification programs is based on management's judgment as informed by past experience and current market conditions but are inherently uncertain. We cannot predict what the actual volume of loan modifications will be or the ultimate re-default rate, and therefore, we cannot be certain whether these efforts will provide material benefits to us.

Interest rates and changes in rates could materially adversely affect our business, results of operations and financial condition.

Declining interest rates historically have increased the rate at which borrowers refinance their existing mortgages, thereby resulting in cancellations of the mortgage insurance covering existing loans. Declining interest rates historically have also contributed to home price appreciation, which may provide borrowers with the option of cancelling mortgage insurance coverage earlier than we anticipated when we priced that coverage. These cancellations could have a material adverse effect on our business, results of operations and financial condition. In addition, as a result of declining interest rates resulting from COVID-19, our business has begun to experience declines in persistency rates. For example, our persistency rate was 67% as of June 30, 2020, compared to 78% as of December 31, 2019. Lower persistency rates result in reduced IIF and premiums from monthly policies, which could have a significant impact on our results of operations. The impact of COVID-19 on our business is difficult to predict and will depend on a variety of factors, such as the duration of the pandemic and the shape of economic recovery among other mitigation actions; however, it is possible that the effects of COVID-19 could have a material adverse effect on our business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Conditions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Key Metrics—Key Metrics."

Rising interest rates generally reduce the volume of new mortgage originations and refinances. A decline in the volume of new or refinance mortgage originations would have an adverse effect on our NIW. Rising interest rates also can increase the monthly mortgage payments for insured homeowners with ARMs that could have the effect of increasing default rates on ARM loans, thereby increasing our exposure on our mortgage insurance coverage. Higher interest rates can lead to an increase in defaults as borrowers at risk of default will find it harder to qualify for a replacement loan.

In addition, interest rate fluctuations could also have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower-credit investment grade instruments to maintain comparable returns. Issuers of fixed-income securities may also decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we have to invest the cash proceeds of these securities in lower-yielding or lower-credit investment grade instruments. During periods of increasing interest rates, market values of lower-yielding instruments will decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk" for additional information about interest rate risk.

We may be unable to maintain or increase the capital needed in our business in a timely manner, on anticipated terms or at all, including through improved business performance, CRT transactions, securities offerings or otherwise, in each case as and when required.

We may require incremental capital to support our growth and to meet regulatory or GSE capital requirements, to comply with rating agency criteria to maintain ratings, to repay our debt and to operate and meet unexpected cash flow obligations. If we need additional capital in the future, we may not be able to fund or raise the required capital as and when required and the amount of capital required may be higher than anticipated. Additionally, as a result of the AXA Settlement, we may need to receive consent from AXA to retain any funds required to be raised to meet our capital needs. See "Recent Developments—AXA Settlement." Our inability to fund or raise the capital required in the anticipated timeframes and on the anticipated terms, could have a material adverse impact on our business, results of operations and financial condition, including causing us to reduce our business levels or be subject to a variety of regulatory actions.

As of June 30, 2020, we met the PMIERs financial and operational requirements, based in part on our entry into a series of traditional reinsurance transactions together with our inaugural MILN transaction in 2019, and currently hold a reasonable amount in excess of the PMIERs financial requirements then in effect. In addition, pursuant to existing PMIERs requirements and industry application, our PMIERs sufficiency ratio and excess available assets above PMIERs requirements for the first and second quarters of 2020 both benefitted from the application of a 0.30 multiplied to the risk-based required asset amount factor for certain non-performing loans. The GSEs released an amendment to PMIERs, effective June 30, 2020, providing relief to non-performing loans experiencing hardship as a result of COVID-19. See "Regulation—Agency Qualification Requirements." In order to continue to provide a prudent level of financial flexibility in connection with the current PMIERs capital requirements, and given the dynamic nature of asset and liability valuations and requirement changes over time, we expect that we will need to execute future transactions, including additional CRT transactions and other transactions with third parties to provide additional capital.

However, the implementation of any further CRT transactions or other transactions with third parties to provide additional capital depends on a number of factors, including but not limited to: market conditions, necessary third-party approvals (including approval by regulators and the GSEs) and other factors that are outside of our control. Therefore, we cannot be sure we will be able to implement successfully these actions on the timetable and terms acceptable to us or at all or achieve the anticipated benefits. We also cannot be sure we will be able to meet any additional capital requirements imposed by regulators or the GSEs. See "—CRT transactions may not be available, affordable or adequate to protect us against losses." and "—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

CRT transactions may not be available, affordable or adequate to protect us against losses.

As part of our overall risk and capital management strategy, we use CRT transactions. These transactions enable our mortgage insurance business to transfer risks in exchange for some of the associated economic benefits and, as a result, improve our PMIERs and other regulatory RTC measurements and manage risk to within our anticipated tolerance level. See "Business—Credit Risk Transfer."

The availability and cost of CRT transactions may be impacted by conditions beyond our control, such as market conditions that result in higher rates of unemployment or a significant negative impact on the United States housing market, including those caused by COVID-19. For example, CRT transactions have become more difficult and costly to obtain or enter into following the economic downturn caused by COVID-19. In particular, the market volatility caused by COVID-19 has caused a disruption of uncertain duration in the market for new MILN transactions, limiting our ability to issue MILNs and resulting in higher prices for our XOL reinsurance transactions. Accordingly, we have incurred additional expenses for CRT transactions and may not be able to obtain new transactions on acceptable terms, or at all, either of which could increase our risk and adversely affect our ability to write future business or obtain PMIERs or statutory credit for new transactions or could require us to make capital contributions to maintain regulatory capital requirements. See "—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

Defaults by counterparties to our CRT transactions or defaults by us on agreements we have with these counterparties, may expose us to risks we sought to mitigate, which could have a material adverse effect on our business, results of operations and financial condition.

Many of the CRT transactions we execute expose us to credit risk in the event of default of our counterparties or a change in collateral value. For instance, traditional reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. We cannot be sure that our reinsurers will pay amounts owed to us now or in the future or that they will pay these amounts on a timely basis. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have a material adverse effect on our business, results of operations and financial condition. Collateral is often posted by the counterparty to offset this risk; however, we bear the risk that the collateral declines in value or otherwise is inadequate to fully compensate us in the event of a default.

Adverse rating agency actions have resulted in a loss of business and adversely affected our business, results of operations and financial condition, and future adverse rating agency actions could have a further and more significant adverse impact on us.

Financial strength ratings, which various rating agencies publish as measures of an insurance company's ability to meet obligations, are important to maintaining public confidence in our mortgage insurance coverage and our competitive position. In assigning financial strength ratings, we believe the rating agencies consider several factors, including but not limited to, the adequacy of the mortgage insurer's capital to withstand high claim scenarios, a mortgage insurer's historical and projected operating performance, a mortgage insurer's enterprise risk management framework, parent company financial strength, business outlook, competitive position, management, and corporate strategy. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

Under PMIERs, the GSEs require maintenance of at least one rating with a rating agency acceptable to the respective GSEs. Ratings downgrades that result in our inability to insure new mortgage loans sold to the GSEs, or the transfer by the GSEs of our existing policies to an alternative mortgage insurer, would have a material adverse effect on our business, results of operations and financial condition. In addition, the current PMIERs do not include a specific ratings requirement with respect to eligibility, but if this were to change in the future, we may become subject to a ratings requirement in order to retain our eligibility status under the PMIERs.

Currently, we have financial strength ratings below our competitors. Moreover, on May 15, 2020, Standard & Poor's Global Ratings changed the outlook for our principal insurance subsidiary, GMICO, from Creditwatch Developing to Creditwatch Negative. Continued financial strength ratings below our peers or a further downgrade in our financial strength ratings, or the announcement of a potential downgrade, including such downgrades or potential downgrades of GMICO's credit rating as a result of the offering, could have a material adverse impact on our business, results of operations and financial condition in many ways, including: (i) increasing scrutiny of us and our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our NIW or, in the most severe case, the cessation of writing new business altogether, or limiting the business opportunities we are presented with and (ii) requiring us to reduce the premiums that we charge for mortgage insurance or introduce new products and services in order to remain competitive. Further, our relationships with our customers may be adversely affected by the ratings assigned to our Parent or its other operating subsidiaries, which may be impacted by factors such as our Parent's failure to consummate the transaction with China Oceanwide or any risk or perceived risk regarding our Parent's liquidity and its (or its affiliates) ability to meet obligations as they become due, which could have a material adverse effect on our business, results of operations and financial condition. See "—Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially and adversely affect our business, financial condition, liquidity and prospects" and "—Our Parent's proposed transaction with China Oceanwide may not completed or may not be completed within the timeframe, terms or in the manner currently anticipated, which could have a material adverse effect on us."

The amount of statutory capital that our insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength ratings and meet other requirements can vary significantly from time to time due to a number of factors outside of our control.

The financial strength ratings of our insurance subsidiaries are significantly influenced by their statutory surplus amounts, statutory contingency reserve amounts, and capital adequacy ratios. The statutory capital adequacy ratio is known as the RTC ratio, of which the numerator consists of RIF and the denominator consists of the sum of (i) statutory surplus and (ii) the statutory contingency reserve. In any particular year, statutory surplus amounts, statutory contingency reserve amounts, and the RTC ratio may increase or decrease depending on a variety of factors, most of which are outside of our control, including, but not limited to, the following:

- the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions);
- the amount of insurance we onboard;
- the amount of additional capital our insurance subsidiaries must hold to support business growth;
- changes in statutory accounting or reserve requirements applicable to our insurance subsidiaries;
- our ability to access capital markets to provide reserve and surplus relief;
- changes in equity market levels;
- the value of certain fixed-income and equity securities in our investment portfolio;
- changes in the credit ratings of investments held in our portfolio;
- the value of certain derivative instruments;
- changes in interest rates;
- credit market volatility; and
- changes to the maximum permissible RTC ratio.

Rating agencies may also implement changes to their internal models, which differ from the RTC model and could result in our insurance subsidiaries increasing or decreasing the amount of statutory capital they must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in our portfolio, which could result in a reduction of our surplus and contingency reserve, thus increasing our RTC ratio. To the extent that an insurance subsidiary's RTC ratio is deemed to be excessive, we may take actions either to increase the capitalization of the insurer or to seek regulatory forbearance of the RTC requirements. If we are unable to take such actions, the rating agencies may view this as a reason for a ratings downgrade.

The failure of any of our insurance subsidiaries to meet its applicable RTC requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. An increase in the required RTC levels also may limit the ability of an insurance subsidiary to make dividends or distributions to us and could be a factor in causing rating agencies to downgrade the insurer's financial strength ratings, which could have a material adverse effect on our business, results of operations and financial condition.

We compete with government-owned enterprises and GSEs, and this may put us at a competitive disadvantage on pricing and other terms and conditions.

We compete with the FHA and the VA, as well as certain local-and state-level housing finance agencies. Separately, the GSEs compete with us through certain of their risk-sharing insurance programs. Those competitors may establish pricing terms and business practices that may be influenced by motives such as advancing social housing policy or stabilizing the mortgage lending industry. Those motives may not be consistent with maximizing return on capital or other profitability measures. In addition, those governmental enterprises typically do not have the same capital requirements or costs of capital that we and other mortgage insurance companies have and therefore may have financial flexibility in their pricing and capacity that could put us at a competitive disadvantage. In the event that a government-owned enterprise or GSE in one of our markets determines to change prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit or risk management motive, we may be unable to compete in that market effectively, which could have a material adverse effect on our business, results of operations and financial condition. See "—Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition."

Our success depends, in part, on our ability to manage risks in our investment portfolio. Our valuation of fixed maturity, equity and trading securities uses methodologies, estimations and assumptions that are subject to change and differing interpretations that could result in changes to investment valuations that may materially adversely affect our business, results of operations and financial condition.

Income from our investment portfolio is a source of cash to support our operations and make claims payments. If we or our investment managers improperly structure our investments to meet those future liabilities or we have unexpected losses, including losses resulting from the forced liquidation of investments before their maturity, we may be unable to meet those obligations. Our investments and investment policies are subject to state insurance laws, which results in our portfolio being predominantly limited to highly rated fixed income securities. If interest rates rise, the market value of our investment portfolio would decrease, which may adversely affect our business, results of operations, financial condition and liquidity. See "—Interest rates and changes in rates could materially adversely affect our business, results of operations and financial condition."

We report fixed maturity, equity and trading securities at fair value on our consolidated balance sheets. These securities represent the majority of our total cash, cash equivalents, restricted cash and invested assets. Our portfolio of fixed maturity securities consists primarily of investment grade securities. Valuations use inputs and assumptions that are not always observable or may require estimation; valuation methods may be complex and may also require estimation, thereby resulting in values that are less certain and may vary significantly from the value at which the investments may be ultimately sold. The methodologies, estimates and assumptions we use in valuing our investment securities evolve over time and are subject to different interpretation (including based on developments in relevant accounting literature), all of which can lead to changes in the value of our investment securities. Rapidly changing and unanticipated interest rate movements, as well as external macroeconomic, credit and equity market conditions, could materially impact the valuation of investment securities as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our business, results of operations and financial condition.

We may be forced to change our investments or investment policies depending upon regulatory, economic and market conditions, and our existing or anticipated financial condition and operating requirements, including the tax position, of our business. As a result, our investment objectives may not be achieved, which could have a material adverse effect on our business, results of operations and financial condition.

The implementation of the Basel III may discourage the use of mortgage insurance.

In 1988, the Basel Committee on Banking Supervision (the "Basel Committee"), developed the Basel Capital Accord ("Basel I"), which sets out international benchmarks for assessing banks' capital adequacy requirements. In 2005, the Basel Committee issued an update to Basel I ("Basel II"), which, among other things, sets forth capital treatment of mortgage insurance purchased and held on balance sheet by banks in respect of their origination and securitization activities. Following the financial crisis of 2008, the Basel Committee made further revisions to improve the quality and quantity of capital banking organizations hold through Basel III. The U.S. Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Federal Banking Agencies") implemented Basel III through the adoption of revisions to their regulatory capital rules (the "Basel III Rules"), which establish minimum risk-based capital ("RBC") and leverage capital requirements for most United States banking organizations (although banking organizations with less than $10 billion in total assets may now choose to comply with an alternative community bank leverage ratio framework established by the Federal Banking Agencies in 2019).

If further revisions to the Basel III Rules increase the capital requirements of banking organizations with respect to the residential mortgages we insure or do not provide sufficiently favorable treatment for the use of mortgage insurance purchased in respect of a bank's origination and securitization activities it could adversely affect the demand for mortgage insurance. In December 2017, the Basel Committee published final revisions to the Basel III capital framework (the "2017 Basel III Revisions") that were generally targeted for implementation by each participating country by January 1, 2022. In March 2020, the Basel Committee revised the target date for implementation to January 1, 2023. Under these revisions to the international framework, banks using the standardized approach to determine their credit risk will determine the risk-weight for residential mortgages based on the LTV ratio at loan origination, without consideration of mortgage insurance. Under the standardized approach, after the appropriate risk-weight is determined, the existence of mortgage insurance could be considered, but only if the company issuing the insurance has a lower risk-weight than the underlying exposure. Mortgage insurance issued by private companies would not meet this test. Therefore, under the 2017 Basel III Revisions, mortgage insurance could not mitigate credit and lower the capital charge under the standardized approach. It is possible that the Federal Banking Agencies could determine that their current capital rules are at least as stringent as the 2017 Basel III Revisions, in which case no change would be mandated. However, if the Federal Banking Agencies decide to implement the 2017 Basel III Revisions as specifically drafted by the Basel Committee, mortgage insurance would not lower the LTV ratio of residential loans for capital purposes, and therefore may decrease the demand for mortgage insurance.

Further, it is possible (but not mandated by the 2017 Basel III Revisions) that the banking agencies and the GSEs might likewise discontinue taking mortgage insurance into account when determining a mortgage's LTV ratio for prudential (non-capital) purposes.

Our business, results of operations and financial condition could be adversely impacted if, and to the extent that, the CFPB's final rule defining a QM reduces the size of the origination market or creates incentives to use government mortgage insurance programs.

The Dodd-Frank Act established the CFPB to regulate the offering and provision of consumer financial products and services under federal law, including residential mortgages, and generally requires creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling prior to effecting such transaction (the "ATR Requirement"). A subset of mortgages within the ATR Requirement are known as QMs, which generally are defined as loans without certain risky features. The CFPB is authorized to issue the regulations governing a good faith determination; the Dodd-Frank Act, however, provides a statutory presumption of eligibility of loans that satisfy the QM definition. The CFPB's final rule defining what constitutes a QM (the "QM Rule") provides that a QM loan exists if, among other factors:

- the term of the loan is less than or equal to 30 years;
- there are no negative amortization, interest only or balloon features;
- the lender properly documents the loan in accordance with the requirements;
- the total "points and fees" do not exceed certain thresholds (generally 3% of the total loan amount); and
- the total debt-to-income ratio of the borrower does not exceed 43%.

The QM Rule provides a "safe harbor" for QM loans with annual percentage rates ("APRs") below the threshold of 150 basis points over the Average Prime Offer Rate ("APO Rate") and a "rebuttable presumption" for QM loans with an APR above that threshold.

The Dodd-Frank Act separately granted statutory authority to the HUD (for FHA-insured loans), the VA (for VA-guaranteed loans) and certain other government agency insurance programs to develop their own definitions of a QM in consultation with CFPB. Under both the FHA's and the VA's QM standards, certain loans that would not qualify as QM loans in the conventional market would still be deemed to be QM loans if insured or guaranteed by the FHA and the VA. As a result, lenders may favor the use of FHA-or VA-insurance to achieve the legal protections of making a QM loan through these agencies, even if the same loan could be made at the same or lower cost to the borrower using private mortgage insurance, which could adversely impact our business, results of operations and financial condition. To the extent that the other government agencies adopt their own definitions of a QM loan that are more favorable to lenders and mortgage holders than those applicable to the market in which we operate, our business, results of operations and financial condition may be adversely affected.

The QM Rule also provides for a second temporary category with more flexible requirements if the loan is eligible to be (i) purchased or guaranteed by the GSEs while they are in conservatorship, which represents the overwhelming majority of our business, or (ii) insured by the FHA, the VA, the Department of Agriculture (the “USDA”) or the Rural Housing Service (“RHS”). The second temporary category still requires that loans satisfy certain criteria, including the requirement that the loans are fully amortizing, have terms of 30 years or less and have points and fees representing 3% or less of the total loan amount. This temporary QM category is known as the “QM Patch,” and it is scheduled to expire on January 10, 2021.

On June 22, 2020, the CFPB issued two Notices of Proposed Rulemaking seeking comments on proposed amendments to the QM Rule. The first proposed amendment extends the expiration of the QM Patch until the effective date of the revised QM Rule (which is not expected to be prior to April 1, 2021) or the GSEs exit conservatorship, whichever occurs first. The second proposed amendment moves away from the QM loan definition’s 43% debt-to-income threshold (the “DTI Ratio”) and replaces it with an alternative pricing threshold, which generally requires that the annual percentage rate for a QM loan exceed the average prime offer rate for a comparable transaction by less than two percentage points as of the date the interest rate is set. This amendment also requires that creditors (i) consider a consumer’s income, debt, and DTI Ratio or residual income and (ii) verify the consumer’s income, assets, debt obligations, alimony, and child support for QM loans. Additionally, this proposed rule maintains the CFPB’s ATR Requirement, which went into effect in January 2014. A failure to comply with the ATR Requirement exposes a lender to substantial potential liability. This has resulted in changes to the lending standards and origination practices of our customers. Under the QM Rule, mortgage insurance premiums that are payable by the consumer at or prior to consummation of the loan may be included in the calculation of points and fees. To the extent the use of private mortgage insurance causes a loan not to meet the definition of a QM loan, the volume of loans originated with mortgage insurance may decline or cause a change in the mix of premium plans and therefore affect our profitability.

It is expected that the CFPB will issue an additional Notice of Proposed Rulemaking adding a “seasoning” approach to the QM Rule “safe harbor” at a later date. See “—Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition.”

The amount of insurance we write could be adversely affected by the implementation of the Dodd-Frank Act’s risk retention requirements and the definition of a qualified residential mortgage.

The Dodd-Frank Act requires an originator or Issuer to retain a specified percentage of the credit risk exposure on securitized mortgages that do not meet the definition of a qualified residential mortgage (“QRM”). As required by the Dodd-Frank Act, in 2015 the Federal Banking Agencies, the FHFA, the SEC and the HUD adopted a joint final rule implementing the QRM rules that aligns the definition of a QRM loan with that of a QM loan. In December 2019, the Federal Banking Agencies initiated a review of certain provisions of the risk retention rule, including the QRM definition. Among other things, the review allows the Federal Banking Agencies to consider the QRM definition in light of any changes to the QM definition adopted by the CFPB. If the QRM definition is changed (or if the QM definition is amended, including pursuant to the Notices of Proposed Rulemaking issued by the CFPB on June 22, 2020) in a manner that is unfavorable to us, such as to give no consideration to mortgage insurance in computing LTV ratios or to require a large down payment for a loan to qualify as a QRM, the attractiveness of originating and securitizing loans with lower down payments may be reduced, which may adversely affect the future demand for mortgage insurance. See “—Our business, results of operations and financial condition could be adversely impacted if, and to the extent that, the CFPB’s final rule defining a QM reduces the size of the origination market or creates incentives to use government mortgage insurance programs" and "Regulation—Other Federal Regulation—Regulation of Mortgage Origination—QRM Rule."

Changes in accounting and reporting standards issued by the FASB or other standard-setting bodies and insurance regulators could materially adversely affect our business, results of operations and financial condition.

Our financial statements are subject to the application of GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. It is possible that future accounting and reporting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements, including impacting the calculation of net earnings, stockholders' equity and other relevant financial statement line items. The impact of changes in accounting and reporting standards, particularly those that apply to insurance companies, cannot be predicted, but such changes could have a material adverse effect on our business, results of operations and financial condition. Such changes may also cause additional volatility in reported earnings, decrease the understandability of our financial results and affect the comparability of our reported results with the results of others. In addition, the required adoption of future accounting and reporting standards could require us to make significant changes to systems and use additional resources, which may result in significant costs to implement.

If we are unable to on-board, retain, attract and motivate qualified employees or senior management, our business, results of operations and financial condition may be adversely impacted.

Our success is largely dependent on our ability to on-board, retain, attract and motivate qualified employees and senior management. We face intense competition in our industry and local job market for key employees with demonstrated ability, including actuarial, finance, legal, investment, risk, compliance, information technology and other professionals. We also face natural or man-made disasters or pandemics that could at times impact our ability to on-board new hires. See "—The occurrence of natural or man-made disasters or a pandemic, such as COVID-19, could materially adversely affect our business, results of operations and financial condition." We cannot be sure we will be able to on-board, attract, retain and motivate the desired workforce, and our failure to do so could have a material adverse effect on business, results of operations and financial condition. In addition, we may not be able to meet regulatory requirements relating to required expertise in various professional positions.

Managing key employee succession and retention is also critical to our success. We would be adversely affected if we fail to plan adequately for the succession of our senior management and other key employees. While we have succession plans and long-term compensation plans, including retention programs, designed to retain our employees, our succession plans may not operate effectively and our compensation plans cannot guarantee that the services of these employees will continue to be available to us.

If servicers fail to adhere to appropriate servicing standards or experience disruptions to their businesses, our losses could increase.

We depend on reliable, consistent third-party servicing of the loans that we insure. Among other things, our mortgage insurance policies require insureds and their servicers to timely submit premium and monthly IIF and delinquency reports and to use commercially reasonable efforts to limit and mitigate loss when a loan is delinquent. If a servicer was to experience adverse effects to its business, such servicer could experience delays in its reporting and premium payment requirements. Without reliable, consistent third-party servicing, we may be unable to receive and process payments on insured loans and/or properly recognize and establish reserves on loans when a delinquency exists or occurs but is not reported to us. In addition, if these servicers fail to limit and mitigate losses when appropriate, our losses may unexpectedly increase. The number of borrowers seeking mortgage relief from the COVID-19 pandemic may place a significant strain on the operations of mortgage servicers, which could disrupt the servicing of mortgage loans covered by our insurance policies. This may result in servicers failing to appropriately report the delinquency status of loans, including whether the loans are subject to a COVID-19-related forbearance program, or failing to properly implement GSE forbearance or other loss mitigation programs. COVID-19 may also significantly impair the financial condition and liquidity of mortgage servicers who are required to advance principal, interest and tax payments to mortgage investors during borrower mortgage forbearance periods.

In recent years, the number of non-bank mortgage loan servicers has increased as the mortgage lending and mortgage loan servicing industries have come under increasing regulation and scrutiny. Significant, sustained failures by large servicers or other disruptions in the servicing of mortgage loans may damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny and could have a material adverse effect on our business, results of operations and financial condition.

Inadequate staffing levels could lead to disruptions in the servicing of mortgage loans, which in turn may contribute to a rise in delinquencies and could have a material adverse effect on our business, results of operations and financial condition. High delinquency rates could also strain the resources of servicers, reducing their ability to undertake mitigation efforts that would help limit losses.

Furthermore, we have delegated to the GSEs, which have in turn delegated to most of their servicers, the authority to accept modifications, short sales and deeds-in-lieu of foreclosure on loans we insure. Servicers are required to operate under protocols established by the GSEs in accepting these loss mitigation alternatives. We are dependent upon servicers in making these decisions and mitigating our exposure to losses. In some cases, loss mitigation decisions favorable to the GSEs may not be favorable to us and may increase the incidence of paid claims. Inappropriate delegation protocols or failure of servicers to service in accordance with the protocols may increase the magnitude of our losses and have an adverse effect on our business, results of operations and financial condition. Our delegation of loss mitigation decisions to the GSEs is subject to cancellation, but exercise of our cancellation rights may have an adverse effect on our relationship with the GSEs and customers.

Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims.

We enter into agreements with our customers that commit us to insure loans made by them using our pre-established guidelines for delegated underwriting. Delegated underwriting represented 63% and 54% of our total NIW by loan count for the years ended December 31, 2019 and 2018, respectively. Once we accept a customer into our delegated underwriting program, we generally insure a loan originated by that customer without validating the accuracy of the data submitted by the customer, investigating the loan file for fraud, or confirming that the customer followed our pre-established guidelines for delegated underwriting. See “Business—Underwriting.” Under this program, a customer could commit us to insure a material number of loans that would fail our pre-established guidelines for delegated underwriting but pass our model and certain gating criteria before we discover the problem and terminate that customer’s delegated underwriting authority. Although coverage on such loans may be rescindable or otherwise limited under the terms of our master policies, the burden of establishing the right to rescind or deny coverage lies with the insurer. To the extent that our customers exceed their delegated underwriting authorities, our business, results of operations and financial condition could be materially adversely affected.

Potential liabilities in connection with our contract underwriting services could have a material adverse effect on our business, results of operations and financial condition.

We offer contract underwriting services to certain of our customers, pursuant to which our employees and contractors work directly with the customer to determine whether the data relating to a borrower and a proposed loan contained in a mortgage loan application file complies with the customer's loan underwriting guidelines or the investor's loan purchase requirements. In connection with that service, we also compile the application data and submit it to the automated underwriting systems of Fannie Mae and Freddie Mac, which independently analyze the data to determine if the proposed loan complies with their investor requirements.

Under the terms of our contract underwriting agreements, we agree to indemnify the customer against losses incurred if we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability. As a result, we assume credit and processing risk in connection with our contract underwriting services. If our reserves for potential claims in connection with our contract underwriting services are inadequate as a result of differences from our estimates and assumptions or other reasons, we may be required to increase our underlying reserves, which could materially adversely affect our business, results of operations and financial condition.

The premiums we agree to charge for our mortgage insurance coverage may not adequately compensate us for the risks and costs associated with the coverage we provide.

We establish premium rates for the duration of a mortgage insurance certificate upon issuance, and we cannot cancel the coverage or adjust the premiums after a certificate is issued. As a result, we cannot offset the impact of unanticipated claims with premium increases on coverage in-force. Our premium rates vary with the perceived risk of a claim and prepayment on the insured loan and are developed using models based on our long term historical experience, which takes into account a number of factors including, but not limited to, the LTV ratio, whether the mortgage provides for fixed payments or variable payments, the term of the mortgage, the borrower's credit history, the borrower's income and assets, and home price appreciation. See "—If the models used in our business are inaccurate or there are differences and/or variability in loss development compared to our model estimates and actuarial assumptions, it could have a material adverse effect on our business, results of operations and financial condition." In the event the premiums we charge for our mortgage insurance coverage may not adequately compensate us for the risks and costs associated with the coverage, it may have a material adverse effect on our business, results of operation and financial condition.

A decrease in the volume of Low-Down Payment Loan originations or an increase in the volume of mortgage insurance cancellations could result in a decline in our revenue.

We provide mortgage insurance primarily for Low-Down Payment Loans. Factors that could lead to a decrease in the volume of Low-Down Payment Loan originations include, but are not limited to:

- an increase in home mortgage interest rates and further limitations on the deductibility of local property taxes for federal income tax purposes;
- implementation of more rigorous mortgage lending regulation, such as under the Dodd-Frank Act;
- a decline in economic conditions generally, or in conditions in regional and local economies;
- events outside of our control, including natural and man-made disasters and pandemics such as COVID-19, adversely affecting housing markets and home buying;
- the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;

- an increase in the price of homes relative to income levels;
- a lack of housing supply at lower home prices;
- adverse population trends, including lower homeownership rates;
- high rates of home price appreciation, which for refinancings affect whether refinanced loans have LTV ratios that require mortgage insurance; and
- changes in government housing policy encouraging loans to FTHBs.

A decline in the volume of Low-Down Payment Loan originations would reduce the demand for mortgage insurance and, therefore, could have a material adverse effect on our business, results of operations and financial condition. See "—A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience."

In addition, a significant percentage of the premiums we earn each year are renewal premiums from mortgage insurance coverage written in previous years. We estimate that approximately 88% of our gross premiums earned in each of the years ended December 31, 2019, 2018 and 2017, respectively, were renewal premiums. As a result, the length of time insurance remains in-force is an important determinant of our mortgage insurance revenues. Fannie Mae, Freddie Mac and many other mortgage investors generally permit a borrower to ask the loan servicer to cancel the borrower's obligation to pay for mortgage insurance when the principal amount of the mortgage falls below 80% of the home's value. Furthermore, HOPA provides a right for a borrower, so long as the borrower meets other criteria, to request cancellation of private mortgage insurance from their lender either on the date that the LTV ratio of the mortgage is first scheduled to reach 80% of its original value or the date on which the LTV ratio of the mortgage reaches 80% of the original value based on actual payments. Likewise, under HOPA there is an obligation for lenders to automatically terminate a borrower's obligation to pay for mortgage insurance coverage once the LTV ratio reaches 78% of the original value. Factors that tend to reduce the length of time our mortgage insurance remains in-force include:

- declining interest rates, which may result in the refinancing of the mortgages underlying our mortgage insurance coverage with new mortgage loans that may not require mortgage insurance or that we do not insure;
- Customer concentration levels with certain customers that actively market refinancing opportunities to their existing borrowers;
- significant appreciation in the value of homes, which causes the unpaid balance of the mortgage to decrease below 80% of the value of the home and enables the borrower to request cancellation of the mortgage insurance; and
- changes in mortgage insurance cancellation requirements of the GSEs or under applicable law.

Our policy primary persistency rates were 67%, 78% and 84% for six months ended June 30, 2020 and each of the years ended December 31, 2019 and 2018, respectively. A decrease in persistency generally would reduce the amount of our IIF and could have a material adverse effect on our business, results of operations and financial condition. However, higher persistency on certain legacy products, especially A minus, Alt-A, ARMs and certain 100% LTV loans, could have a material adverse effect if claims generated by such products remain elevated or increase.

Our computer systems may fail or be compromised, and unanticipated problems could materially adversely impact our disaster recovery systems and business continuity plans, which could damage our reputation, impair our ability to conduct business effectively and materially adversely affect our business, results of operations and financial conditions.

Our business is highly dependent upon the effective operation of our computer systems. We also have arrangements in place with our partners and other third-party service providers through which we share and receive information, including the submission of new mortgage insurance applications. We also rely on these systems throughout our business for a variety of functions, including processing claims, providing information to customers, performing actuarial analyses and maintaining financial records. Despite the implementation of security and back-up measures, our computer systems and those of our partners and third-party service providers have been and may be vulnerable to system failures, physical or electronic intrusions, computer viruses or other attacks, programming errors and similar disruptive problems. The failure of these systems for any reason could cause significant interruptions to our operations, which could result in a material adverse effect on our business, results of operations and financial condition.

Technology continues to expand and plays an ever-increasing role in our business. While it is our goal to safeguard information assets from physical theft and cybersecurity threats, there can be no assurance that our information security will detect and protect information assets from these ever-increasing risks. Information assets include both information itself in the form of computer data, written materials, knowledge and supporting processes, and the information technology systems, networks, other electronic devices and storage media used to store, process, retrieve and transmit that information. As more information is used and shared by our employees, customers and suppliers, both within and outside our company, cybersecurity threats become expansive in nature. Confidentiality, integrity and availability of information are essential to maintaining our reputation, legal position and ability to conduct our operations. Although we have implemented controls and continue to train our employees, a cybersecurity event could still occur that would cause damage to our reputation with our customers and other stakeholders and could have a material adverse effect on our business, results of operations and financial condition. See "—We collect, process, store, share, disclose and use consumer information and other data, and an actual or perceived failure to protect such information and data or respect users' privacy could damage our reputation and brand and adversely affect our business, results of operations and financial condition."

We rely on technologies to provide services to our customers. Customers require us to provide and service our mortgage insurance products in a secure manner, either electronically through our internet website or through direct electronic data transmissions. Accordingly, we invest resources in establishing and maintaining electronic connectivity with customers and, more generally, in technological advancements. In addition, if our information technology systems are inferior to our competitors', existing and potential customers may choose our competitors' products over ours. Our business would be negatively impacted if we are unable to enhance our platform when necessary to support our primary business functions, including to match or exceed the technological capabilities of our competitors. We cannot predict with certainty the cost of maintaining and improving our platform, but failure to make necessary improvements and any significant shortfall in any technology enhancements or negative variance in the timeline in which system enhancements are delivered could have an adverse effect on our business, results of operations and financial condition.

In addition, a natural or man-made disaster or a pandemic could disrupt public and private infrastructure, including our information technology systems. See "—The occurrence of natural or man-made disasters or a pandemic, such as COVID-19, could materially adversely affect our business, results of operations and financial condition." Unanticipated problems with, or failures of, our disaster recovery systems and business continuity plans could have a material adverse impact on our ability to conduct business and on our results of operations and financial condition. In addition, if a significant number of our employees were unavailable in the event of a disaster or pandemic, our ability to effectively conduct business could be severely compromised. The failure of our disaster recovery systems and business continuity plans could adversely impact our profitability and our business.

We collect, process, store, share, disclose and use consumer information and other data, and an actual or perceived failure to protect such information and data or respect users' privacy could damage our reputation and brand and adversely affect our business, results of operations and financial condition.

We retain confidential customer information in our computer systems, and we rely on commercial technologies to maintain the security of those systems, including computers or mobile devices. Anyone who can circumvent our security measures and penetrate our computer systems or misuse authorized access could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable information, and proprietary business information. Our employees and vendors use portable computers or mobile devices that may contain similar information to that in our computer systems, and these devices have been and can be lost, stolen or damaged, and therefore subject to the same risks as our other computer systems. In addition, an increasing number of states require that affected parties be notified or other actions be taken (which could involve significant costs to us) if a security breach results in the inappropriate disclosure of personally identifiable information. We have experienced occasional, actual or attempted breaches of our cybersecurity, although to date none of these breaches has had a material effect on our business, operations or reputation. Any compromise of the security of our computer systems or those of our customers and third-party service providers that results in inappropriate disclosure of personally identifiable customer information could damage our reputation in the marketplace, deter lenders from purchasing our mortgage insurance, subject us to significant civil and criminal liability and require us to incur significant technical, legal and other expenses.

Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to consumers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information, which could include personally identifiable information or other user data, may result in governmental investigations, enforcement actions, regulatory fines, litigation and public statements against us by consumer advocacy groups or others, and could cause our customers to lose trust in us, all of which could be costly and have an adverse effect on our business, results of operations and financial condition. Regulatory agencies or business partners may institute more stringent data protection requirements or certifications than those that we are currently subject to and, if we cannot comply with those standards in a timely manner, we may lose the ability to sell our products or process transactions containing payment information. Moreover, if third parties that we work with violate applicable laws or our policies, such violations also may put consumer information at risk and could in turn harm our reputation, our business, results of operations and financial condition.

The occurrence of natural or man-made disasters or a pandemic, such as COVID-19, could materially adversely affect our business, results of operations and financial condition.

We are exposed to various risks arising out of natural disasters, large-scale public health emergencies and man-made disasters, including earthquakes, hurricanes, floods and tornadoes, acts of terrorism, military actions and pandemics, including the recent outbreak of respiratory illness caused by a novel coronavirus known as COVID-19. For example, while mortgage insurance does not cover property damage, a natural or man-made disaster or a pandemic could disrupt our computer systems and our ability to conduct or process business (including as a result of widespread absences of our employees due to exposure to the virus) as well as lead to higher delinquency rates as borrowers who are affected by the disaster may be unable to meet their contractual obligations, such as mortgage payments on loans insured under our mortgage insurance coverage. A natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. In particular, while it is uncertain the extent to which such events may impact our business, the consequences of these events and actions taken by governmental authorities, the GSEs, our customers or others in connection therewith could lead to disruption of the economy, which may erode consumer and investor confidence levels or lead to increased volatility in the financial markets. Spread of COVID-19 within the United States could exacerbate these effects on us. These consequences could, among other things, result in an adverse effect on home prices in those areas or higher unemployment, which could result in increased loss experience. See "—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic" and "—A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience." A disaster or a pandemic also could disrupt public and private infrastructure, including communications and financial services, any of which could disrupt our normal business operations, and could adversely affect the value of the assets in our investment portfolio if it affects companies' ability to pay principal or interest on their securities or the value of the underlying collateral of structured securities.

Natural or man-made disasters could also disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us, which could lead to increased reinsurance rates, less favorable terms and conditions and reduced availability of reinsurance. This may cause us to retain more risk than we otherwise would retain and could negatively affect our compliance with the financial requirements of the PMIERs. The PMIERs require us to maintain significantly more "Minimum Required Assets" for delinquent loans than for performing loans; however, the increase in Minimum Required Assets is not as great for certain delinquent loans in areas that FEMA has declared major disaster areas. In addition, in response to COVID-19, the GSEs made temporary revisions to PMIERs in the PMIERs Amendment, providing relief on the risk-based required asset amount factor for certain non-performing loans impacted by a COVID-19 hardship. See "Regulation—Agency Qualification Requirements" and "—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition." An increase in delinquency notices resulting from a natural disaster may result in an increase in "Minimum Required Assets" and a decrease in the level of our excess "Available Assets" that is discussed in our risk factor titled "—Risks Relating to Regulatory Matters—An adverse change in our regulatory requirements could have a material adverse impact on our business, results of operations and financial condition."

We may suffer losses in connection with future litigation and regulatory proceedings or other actions.

From time to time, we may become subject to various legal and regulatory proceedings related to our business. Litigation and regulatory proceedings may result in financial losses and harm our reputation. We face the risk of litigation and regulatory proceedings or other actions in the ordinary course of operating our business, including class action lawsuits. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot determine with certainty the ultimate outcome of any such litigation or proceedings. A substantial legal liability or injunction or a significant regulatory action against us could have a material adverse effect on our financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory proceeding or other action, we could suffer significant reputational harm and incur significant legal expenses and such litigation may divert management's attention and resources, which could have a material adverse effect on our business, financial condition or results of operations.

Changes in tax laws could have a material adverse effect on our business, cash flows, results of operations or financial condition.

Various tax regulations require the preparation of complex computations, significant judgments and estimates in interpreting their respective provisions. These aspects are inherently difficult to interpret and apply, and the United States Treasury Department ("Treasury Department"), the Internal Revenue Service ("IRS") and other standard-setting bodies could interpret these aspects differently than us. In addition, these departments could issue guidance on how provisions of tax regulations should be applied or administered that could be different from our interpretation. Therefore, even though we believe we have applied tax laws and regulations appropriately in our financial statements it is possible that we have interpreted the rules differently and therefore applied the impacts to our financial results in a way that differs from those of these authoritative bodies. Likewise, changes in tax laws or regulations may be proposed or enacted that could adversely affect our overall tax liability and results of operations or financial condition. Changes in tax laws and regulations that impact our customers and counterparties or the economy may also impact our results of operations and financial condition. There can be no assurance that changes in tax laws or regulations will not materially and/or adversely affect our effective tax rate, tax payments, results of operations and financial condition.

We are subject to regular review and audit by tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. The ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income (loss), cash flows or operations.

Risks Relating to Regulatory Matters

Our business is extensively regulated and changes in regulation may reduce our profitability and limit our growth.

Our insurance operations are subject to a wide variety of laws and regulations and are extensively regulated. State insurance laws regulate most aspects of our business, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. Failure to comply with applicable regulations or to obtain or maintain appropriate authorizations or exemptions under any applicable laws could result in restrictions on our ability to conduct business or engage in activities regulated in one or more jurisdictions in which we operate and could subject us to fines, injunctions and other sanctions that could have a material adverse effect on our business, results of operations and financial condition. In addition, the nature and extent of regulation could materially change, which may result in additional costs associated with compliance with any such changes, or changes to our operations that may be necessary to comply, any of which may have a material adverse effect on our business. See "—An adverse change in our regulatory requirements could have a material adverse impact on our business, results of operations and financial condition" and "—Risks Relating to Our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

State insurance regulatory authorities have broad administrative powers, which at times are coordinated and communicated across regulatory bodies. These administrative powers include, but are not limited to:

- licensing companies and agents to transact business;
- regulating certain premium rates;
- reviewing and approving policy forms;

- regulating discrimination in pricing, coverage terms and unfair trade and claims practices, including payment of inducements;
- establishing and revising statutory capital and reserve requirements and solvency standards;
- evaluating enterprise risk to an insurance company;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates;
- regulating the types, amounts and valuation of investments; and
- restricting, pursuant to state monoline restrictions, the types of insurance products that may be offered.

State insurance regulators and the National Association of Insurance Commissioners (the "NAIC") regularly re-examine existing laws and regulations, which may lead to modifications to SAP, interpretations of existing laws and the development of new laws and regulations applicable to insurance companies and their products.

Litigation and regulatory investigations or other actions are common in the insurance business and may result in financial losses, injunctions and harm to our reputation. We face the risk of litigation and regulatory investigations or other actions in the ordinary course of operating our business.

Mortgage insurers have been involved in litigation alleging violations of Section 8 of the Real Estate Settlement and Procedures Act of 1974 ("RESPA") or related state anti-inducement laws and the notice provisions of the Fair Credit Reporting Act ("FCRA"). Among other things, Section 8 of RESPA generally precludes mortgage insurers from paying referral fees to mortgage lenders for the referral of mortgage insurance business. This limitation also can prohibit providing services or products to mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that mortgage lenders provide that are higher than their reasonable or fair market value, in exchange for the referral of mortgage insurance business. Various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring actions seeking various forms of relief in connection with alleged violations of the referral fee limitations of RESPA, as well as by private litigants in class actions. The insurance law provisions of many states also prohibit or restrict paying for the referral of insurance business and provide various mechanisms to enforce this prohibition.

In the past, a number of lawsuits have challenged the actions of mortgage insurance companies, including certain of our mortgage insurance subsidiaries, under RESPA, alleging that the insurers have violated the referral fee prohibition of Section 8 of RESPA by entering into captive reinsurance arrangements or providing products or services to mortgage lenders at improperly reduced prices in return for the referral of mortgage insurance. In addition to these private lawsuits, we and other mortgage insurance companies have in the past received civil investigative demands from the CFPB and state insurance regulators as part of their respective investigations to determine whether mortgage lenders and mortgage insurance providers engaged in acts or practices in connection with their captive mortgage insurance arrangements in violation of RESPA and state insurance laws. In 2013, the CFPB entered into consent orders with us and three other mortgage insurance companies settling the CFPB's allegations related to mortgage insurance company captive arrangements, and those consent orders remain in effect for a period of ten years. One CFPB enforcement action against a mortgage originator for alleged kickbacks received from mortgage insurers, in which the CFPB ordered the mortgage originator to pay approximately $109 million in disgorgement, was decided by the United States Court of Appeals for the D.C. Circuit. On January 31, 2018, the en banc panel reinstated the original three-judge panel's decision to overturn the CFPB's order on certain statutory grounds, including finding fault with the CFPB's interpretation of Section 8 of RESPA. The court's ruling in this case may have an impact on future enforcement activity. Federal and state regulatory enforcement of Section 8 of RESPA presents risk for many providers of "settlement services," including mortgage insurers.

A substantial legal liability or a significant regulatory action against us could have a material adverse effect on our business, results of operations and financial condition. It is possible that we could become subject to future investigations, regulatory actions, lawsuits, or enforcement actions, which could cause us to incur legal costs and, if we were found to have violated any laws or regulations, requires us to pay fines and damages, result in injunctions and incur other sanctions, perhaps in material amounts. Increased regulatory scrutiny and any resulting investigations or legal proceedings could result in new legal precedents and industry-wide regulations or practices that could have a material adverse effect on our business, results of operations and financial condition. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm and incur significant legal expenses, which could have a material adverse effect on our business, results of operations and financial condition. We cannot predict the ultimate outcomes of any future investigations, regulatory actions or legal proceedings.

An adverse change in our regulatory requirements could have a material adverse impact on our business, results of operations and financial condition.

We are required by certain states and other regulators to maintain certain RTC ratios. In addition, PMIERs include financial requirements for mortgage insurers under which a mortgage insurer's "Available Assets" (which are generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's RIF and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). The failure of our insurance subsidiaries to meet their regulatory requirements, and additionally the current PMIERs financial requirements, could limit our ability to write new business. For further discussion of the importance of the current PMIERs financial requirements to our insurance subsidiaries, see "—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition" and "—We are subject to minimum statutory capital requirements that, if not met or waived, would result in restrictions or prohibitions on our doing business and could have a material adverse impact on our business, results of operations and financial condition."

An adverse change in our RTC ratio or other minimum regulatory requirements could cause rating agencies to downgrade our financial strength ratings, which would have an adverse impact on our ability to write and retain business, and could cause regulators to take regulatory or supervisory actions with respect to our business, all of which could have a material adverse effect on our results of operations, financial condition and business. For further discussion on the importance of ratings, see "—Risks Relating to Our Business—Adverse rating agency actions have resulted in a loss of business and adversely affected our business, results of operations and financial condition, and future adverse rating agency actions could have a further and more significant adverse impact on us."

These regulations are principally designed for the protection of policyholders rather than for the benefit of investors. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements. Further, because laws and regulations can be complex and sometimes inexact, there is also a risk that any particular regulator's or enforcement authority's interpretation of a legal, accounting or reserving issue may change over time to our detriment, or expose us to different or additional regulatory risks. The application of these regulations and guidelines by insurers involves interpretations and judgments that may differ from those of state insurance departments. We cannot provide assurance that such differences of opinion will not result in regulatory, tax or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase levels of statutory capital and reserves or incur higher operating costs and/or have implications on certain tax positions.

We are subject to minimum statutory capital requirements that, if not met or waived, would result in restrictions or prohibitions on our doing business and could have a material adverse impact on our business, results of operations and financial condition.

Certain states have insurance laws or regulations that require a mortgage insurer to maintain a minimum amount of statutory capital relative to its level of RIF. While formulations of minimum capital vary in certain states, the most common measure applied allows for a maximum permitted RTC ratio of 25:1. If we fail to maintain the required minimum capital level in a state where we write business, we would generally be required to immediately stop writing new business in the state until we re-establish the required level of capital or receive a waiver of the requirement from the state's insurance regulator, or until we have established an alternative source of underwriting capacity acceptable to the regulator. As of June 30, 2020 and December 31, 2019, our combined RTC ratio was approximately 12.0:1 and 12.2:1, respectively. While it is our expectation that our business will continue to meet its regulatory capital requirements, should we in the future exceed required RTC levels, we would seek required regulatory and GSE forbearance and approvals or seek approval for the utilization of alternative insurance vehicles. However, there can be no assurance if, and on what terms, such forbearance and approvals may be obtained.

The NAIC established the Mortgage Guaranty Insurance Working Group (the "MGIWG") to determine and make recommendations to the NAIC's Financial Condition Committee as to what, if any, changes to make to the solvency and other regulations relating to mortgage guaranty insurers. The MGIWG continues to work on revisions to the Mortgage Guaranty Insurance Model Act (the "MGI Model"). The proposed amendments of the MGI Model relate to, among other things: (i) capital and reserve standards, including increased minimum capital and surplus requirements, mortgage guaranty-specific RBC standards, dividend restrictions and contingency and premium deficiency reserves; (ii) limitations on the geographic concentration of mortgage guaranty risk, including state-based limitations; (iii) restrictions on mortgage insurers' investments in notes secured by mortgages; (iv) prudent underwriting standards and formal underwriting guidelines to be approved by the insurer's board; (v) the establishment of formal, internal "Mortgage Guaranty Quality Control Programs" with respect to in-force business; (vi) prohibitions on captive reinsurance arrangements; and (vii) incorporation of an NAIC "Mortgage Guaranty Insurance Standards Manual." The MGIWG is working on the development of the mortgage guaranty insurance capital model, which is needed to determine the RBC and loan-level capital standards for the amended MGI Model. We cannot predict the outcome of this process, whether any state will adopt the amended MGI Model or any of its specific provisions, the effect changes, if any, will have on the mortgage guaranty insurance market generally, or on our business specifically, the additional costs associated with compliance with any such changes, or any changes to our operations that may be necessary to comply, any of which could have a material adverse effect on our business, results of operations and financial condition. We also cannot predict whether other regulatory initiatives will be adopted or what impact, if any, such initiatives, if adopted as laws, may have on our business, results of operations and financial condition.

Changes in regulations that adversely affect the mortgage insurance markets in which we operate could affect our operations significantly and could reduce the demand for mortgage insurance.

In addition to the general regulatory risks that are described under "—Our business is extensively regulated and changes in regulation may reduce our profitability and limit our growth," we are also affected by various additional regulations relating particularly to our mortgage insurance operations.

Federal and state regulations affect the scope of our competitors' operations, which influences the size of the mortgage insurance market and the intensity of the competition. This competition includes not only other private mortgage insurers, but also federal and state governmental and quasi-governmental agencies, principally the FHA and the VA, which are governed by federal regulations. Increases in the maximum loan amount that the FHA can insure, and reductions in the mortgage insurance premiums the FHA charges, can reduce the demand for private mortgage insurance. Decreases in the maximum loan amounts the GSEs will purchase or guarantee, increases in GSE fees or decreases in the maximum LTV ratio for loans the GSEs will purchase can also reduce demand for private mortgage insurance. See "—Risks Relating to Our Business—Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition." Legislative, regulatory and administrative changes could cause demand for private mortgage insurance to decrease.

Additionally, on May 20, 2020, FHFA re-proposed the Enterprise Regulatory Capital Framework ("Framework") for the GSEs. The comment period expires on August 31, 2020, although certain interested parties have requested an extension of the comment period. As proposed, the Framework would significantly increase regulatory capital requirements for the GSEs over current requirements. If the Framework is finalized in its current form, higher GSE capital requirements could ultimately lead to increased costs to borrowers for GSE loans, which in turn could shift the market away from the GSEs to FHA or lender portfolios. Such a shift could result in a smaller market for private mortgage insurance. In addition, if the final Framework grants more favorable capital relief to alternatives to mortgage insurance, the GSEs could be incented to favor such alternatives when they have the option to do so. If these developments should occur, they would adversely affect the demand for mortgage insurance, which would adversely affect our mortgage insurance operations. We cannot predict what form the final Framework will take.

In addition, if international banking regulations set forth by the Basel Committee are implemented in the United States, in their proposed form, the rules could discourage the use of mortgage insurance in the United States. See "—Risks Relating to Our Business—The implementation of the Basel III may discourage the use of mortgage insurance."

As a credit enhancement provider in the residential mortgage lending industry, we are also subject to compliance with or otherwise impacted by various federal and state consumer protection and insurance laws, including RESPA, the Fair Housing Act, HOPA, the FCRA and others. Among other things, these laws: (i) prohibit payments for referrals of settlement service business, providing services to lenders for no or reduced fees or payments for services not actually performed; (ii) require cancellation of insurance and refund of unearned premiums under certain circumstances; and (iii) govern the circumstances under which companies may obtain and use consumer credit information. Changes in these laws or regulations, changes in the appropriate regulator's interpretation of these laws or regulations or heightened enforcement activity could materially adversely affect our business, results of operations and financial condition.

Risks Relating to Our Parent's Ownership of Us

Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially and adversely affect our business, financial condition, liquidity and prospects.

We are a part of our Parent's family of businesses and operate under the "Genworth" name. Therefore, our customers, third-party service providers, credit providers and other persons may associate us with our Parent's brand, reputation and services, as well as its capital base and financial strength. Our Parent has substantial leverage and depends on us as a source of liquidity. See "Risk Factor—Risks Relating to Our Parent's Ownership of Us—Our Parent's indebtedness and liquidity may negatively affect us."

Our Parent continues to pursue its overall strategy with a focus on improving business performance, addressing financial leverage and increasing financial and strategic flexibility across the organization. Our Parent's strategy includes maximizing its opportunities in its mortgage insurance businesses and stabilizing its U.S life insurance businesses. However, our Parent cannot be sure it will be able to successfully execute on any of its strategic plans to effectively address its current business challenges (including with respect to stabilizing its U.S. life insurance businesses, debt obligations, cost savings, ratings and capital), including as a result of:

- a failure to complete the China Oceanwide transaction or the inability to pursue alternative strategic plans pending the transaction;
- an inability to attract buyers for any businesses or other assets our Parent may seek to sell, or securities it may seek to issue, in each case, in a timely manner and on anticipated terms;
- an inability to increase the capital needed in our Parent's businesses in a timely manner and on anticipated terms, including through improved business performance, reinsurance or similar transactions, asset sales, securities offerings or otherwise, in each case as and when required;
- a failure to obtain any required regulatory, stockholder, noteholder approvals and/or other third-party approvals or consents for such alternative strategic plans;
- our Parent's challenges changing or being more costly or difficult to successfully address than currently anticipated or the benefits achieved being less than anticipated;
- an inability to achieve anticipated cost-savings in a timely manner; and
- adverse tax or accounting charges.

See "—Our Parent's proposed transaction with China Oceanwide may not be completed or may not be completed within the timeframe, terms or in the manner currently anticipated, which could have a material adverse effect on us."

We also rely on our Parent and/or certain of its subsidiaries to provide certain investment management, information technology services and administrative services (such as finance, human resource, employee benefit administration and legal). If our Parent is unable or unwilling to provide such services in the future, we may be unable to provide such services ourselves or we may have to incur additional expenditures to obtain such services from another provider. Additionally, we may be subject to reputational harm if our Parent or any of its affiliates, previously, or in the future, among other things, becomes subject to litigation or otherwise damages its reputation or business prospects. Any of these events might in turn could adversely affect our business, results of operations and financial condition.

Our Parent's challenges in its long-term care insurance business, or other financial or operational difficulties, may also be attributed to us by investors and may have an adverse effect on the perception of our business. Additionally, any downgrade or negative outlook of our Parent's ratings may negatively impact our ratings by certain ratings agencies whose rating protocols and group rating methodologies require adverse ratings actions in cases of parent or sister company rating downgrades or adverse rating actions. A downgrade in our ratings may adversely affect our relationship with current and potential customers as well as our ability to write new business and access capital on favorable terms. See "—Risks Relating to Our Business—Adverse rating agency actions have resulted in a loss of business and adversely affected our business, results of operations and financial condition, and future adverse rating agency actions could have a further and more significant adverse impact on us."

We are an indirect wholly owned subsidiary of our Parent and its interests as an equity holder may conflict with those of our noteholders.

We are an indirect wholly owned subsidiary of our Parent. Accordingly, our Parent can control our policies and operations. Our Parent will not have any liability for any obligations under the notes and the interests of our Parent could conflict with your interests as noteholders. For example, if we or our Parent encounter financial difficulties or are unable to pay our or its debts as they mature, the interests of our Parent as an equity holder might conflict with your interests as a noteholder. Subject to compliance with the terms of the indenture governing the notes, our Parent may also have an interest in our pursuing intercompany loans, acquisitions, divestitures, financings, dividends or other transactions that could, in its judgment, enhance its equity investments or further its own interests, although such transactions might involve further risks to you as a noteholder. See "Recent Developments—AXA Settlement," "Certain Relationships and Related Party Transactions," Note 8 to our unaudited financial statements and "Summary—Organizational Chart."

Our Parent's proposed transaction with China Oceanwide may not be completed or may not be completed within the timeframe, terms or in the manner currently anticipated, which could have a material adverse effect on us.

On October 21, 2016, our Parent entered into a definitive agreement with China Oceanwide, under which China Oceanwide agreed to acquire all of our Parent's outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. As part of the transaction, China Oceanwide and/or its affiliates, additionally committed to contribute an aggregate of $1.5 billion to our Parent over time following consummation of the Merger. The Merger and this contribution are subject to the closing of the Merger and the receipt of required regulatory re-approvals and clearances. In addition, the Merger is conditioned on GMICO maintaining a financial strength rating of "BB (negative outlook)," or higher, by Standard & Poor's, with limited exceptions.

There are numerous risks related to the Merger, including: the ability to obtain or maintain the required regulatory approvals, clearances and extensions, the parties' willingness to close the transaction as a result of continued delays, conditions required for regulatory approvals or inability to satisfy any other closing condition, the willingness of either or both parties to waive their termination rights beyond September 30, 2020, the impact of the proposed transaction on our Parent's current plans and operations and certain restrictions that may impact our Parent's ability to pursue certain business opportunities or strategic transactions, the ability of China Oceanwide to produce satisfactory evidence that it has obtained the aggregate $2.0 billion of funds or funding commitments required by August 31, 2020 as a condition to the Waiver Agreement the continued availability of capital and financing to our Parent before, or in the absence of the consummation of the transaction, further ratings agency actions and downgrades in our Parent's or our credit and financial strength ratings, changes in applicable laws and regulations, our Parent's and our ability to recognize the anticipated benefits of the transaction, the amount of costs, fees, expenses and other charges related to the transaction, risks related to diverting our Parent's management's attention from our ongoing business operations and the impact of disruptions and uncertainty relating to the transaction, whether or not it is completed, which may harm our Parent's and our relationships with our employees, customers, distributors, vendors or other business partners, and may result in a negative impact on our business.

There is no assurance that the conditions to the transaction will be satisfied in a timely manner, on the terms set forth in our Parent's existing agreement with China Oceanwide or at all. If the transaction is not completed, we may suffer a number of consequences that could adversely affect our business, results of operations and financial condition, including:

- increased pressure on and potential further downgrades of our credit and financial strength ratings, which could have an adverse impact on us and could result in reduced dividends from us to our holding company or to us from our subsidiaries;
- a negative impact on our and our holding company's liquidity and ability to reduce, service and/or refinance our and our holding company's debt; and
- that our Parent would likely pursue strategic alternatives that would materially impact our business, including transactions with respect to us and/or our Parent's mortgage insurance business in Australia.

Potential consequences of these risks would likely include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on our Parent's consolidated financial condition, results of operations, credit ratings or liquidity, which could adversely impact our business, results of operations and financial condition. See "Summary—Recent Developments—China Oceanwide Transaction."

If the Merger is consummated, our Parent will be majority owned and controlled by China Oceanwide, and their interests as equity holders of our Parent may conflict with those of our noteholders.

We are an indirect wholly owned subsidiary of our Parent, which if the Merger is consummated will be a wholly owned subsidiary of China Oceanwide. Accordingly China Oceanwide will have the ability to control our policies and operations, subject to certain limitations set forth, in part, in the agreements between our Parent and China Oceanwide. China Oceanwide will not have any liability for any obligations under the notes and the interests of China Oceanwide could conflict with your interests as noteholders. For example, if we, our Parent or China Oceanwide encounter financial difficulties or are unable to pay our or its debts as they mature, the interests of China Oceanwide equity holders may conflict with your interests as a noteholder. Subject to compliance with the terms of the indenture governing the notes and other agreements governing the relationship between our Parent and China Oceanwide following the Merger, China Oceanwide may also have an interest in our pursuing acquisitions, divestitures, financings, dividends or other transactions that could, in their judgment, enhance their equity investments or further their own interest, although such transactions might involve further risks to you as a noteholder. The China Oceanwide transaction would not constitute a change of control under the notes offered hereby.

Our Parent's indebtedness and liquidity may negatively affect us.

Our Parent as of June 30, 2020 had outstanding holding company indebtedness of $2.7 billion, including approximately $1.0 billion maturing in 2021. On July 20, 2020, our Parent entered into a settlement agreement with AXA pursuant to which the parties agreed, pending satisfaction of certain conditions, not to enforce, appeal or set aside the liability judgment of December 6, 2019 and the subsequently issued damages judgment of July 27, 2020. Prior to the settlement agreement, our Parent made a $134 million interim payment to AXA in January 2020.

As part of the settlement agreement, our Parent agreed to make payments for certain payment protection insurance mis-selling claims, along with a significant portion of future claims that are still being processed. On July 21, 2020, under the settlement agreement, our Parent paid an initial amount of £100 million ($125 million) to AXA. In addition, a secured promissory note was issued to AXA, under which our Parent agreed to make deferred cash payments totaling approximately £317 million in two payments in June 2022 and September 2022, subject to certain mandatory prepayment obligations. Future claims that are still being processed, which are currently estimated to be approximately £107 million, will be added to the promissory note as part of the September 2022 payment. To secure its obligation under the promissory note, our Parent pledged as collateral to AXA a 19.9% security interest in the Company's outstanding common stock and a 19.9% security interest in the outstanding common shares of Genworth Mortgage Insurance Austrialia Limtied. AXA does not have the right to sell or repledge the collateral, and the security interest does not entitle AXA to voting rights. The collateral will be released back fully to our Parent upon full repayment of the promissory note. Accordingly, the collateral arrangement has no impact on our consolidated financial statements. See "Summary—Recent Developments—AXA Settlement," "—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions" and "—Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially and adversely affect our business, financial condition, liquidity and prospects."

In connection with its most recent quarterly financial reporting, our Parent disclosed that certain conditions and events occurring and expected to occur raise doubt about its ability to meet its financial obligations for the succeeding year. Our Parent obligations during the succeeding year include a partial settlement payment and interest relating to the AXA Settlement, $356 million amount of public notes due in February 2021 and interest payments on its outstanding public notes. As of June 30, 2020, our Parent disclosed it had unrestricted cash and cash equivalents balance of $494 million, and indicated that it did not expect to receive dividends from subsidiaries as a source of liquidity during the year. However, our Parent stated its belief that management's plans alleviated this doubt. Such plans include the offering and a potential initial public offering of an interest in our common stock. In addition to the contractual obligations due within one year described above, our Parent also has, among other obligations, debt maturing in September 2021 of approximately $660 million and payments due to AXA under the secured promissory note described elsewhere herein. Because (a) we are not responsible for our Parent's indebtedness, (b) no event of default of Parent's indebtedness will constitute an event of default under the indenture governing the notes, (c) the notes offered hereby will be structurally senior to our Parent's indebtedness with respect to our assets, and (d) we are currently predominately capitalized and funded independently of our Parent, if our Parent is unable to raise sufficient proceeds to satisfy its obligations as they become due, or our Parent were to default on its outstanding indebtedness, or were to default on the Promissory Note and result in AXA seeking to foreclose on the pledged shares of our common stock held by our Parent through GHI, or our Parent were to become subject to insolvency or other similar proceedings, we would not expect such events to result directly in an event of default or an insolvency event for us. However, any such event or the risk (or perceived risk) that any such proceedings could involve us, could negatively affect our ratings, our reputation, our business, our liquidity and results of operations, and could therefore have a negative effect on the market value of the notes offered hereby and our ability to repay our own indebtedness, including under the notes, or otherwise could have a material adverse effect on our business, results of operations, financial condition, liquidity and prospects. See "Risk Factors—Risks Relating to Our Parent's Ownership of Us—Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially and adversely affect our business, financial condition, liquidity and prospects."

The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions.

In connection with the AXA Settlement, our Parent entered into the Promissory Note with an aggregate principal amount of approximately $400 million, which is secured, among other things, by a

19.9% interest in our common stock held by our Parent through GHI. The final payment on the Promissory Note is due on September 30, 2022, with an interim payment due on June 30, 2022, and is subject to various mandatory prepayment provisions including, with certain exceptions (including the notes offered hereby), for future debt and equity financings and certain types of asset sales and other strategic transactions. While the Promissory Note is outstanding, these prepayment provisions, as well as other covenants and restrictions imposed on us, may make it practically difficult for us to finance our operations and the operations of our subsidiaries with future debt or equity offerings, certain types of asset sales or other strategic transactions that may be potential sources of funding. To the extent we need funding to finance our operations or the operations of our subsidiaries or to satisfy other liquidity needs, there can be no assurance that we will be able to generate additional funding on favorable terms or at all. Such inability to finance our business could have a material adverse effect on our business, results of operations, financial condition, liquidity and prospects. See "Summary—Recent Developments—AXA Settlement" and "—Our Parent's indebtedness and liquidity may negatively affect us."

BUSINESS

Overview

We are a leading private mortgage insurance company, serving the United States housing finance market since 1981. We operate in all 50 states and the District of Columbia and have a leading platform based on long-tenured customer relationships with mortgage lenders, underwriting excellence and prudent risk and capital management practices. We plan to continue to invest in our operating and technological capabilities to ensure a superior customer experience and drive new business volume at appropriate risk-adjusted returns. For the full year ended December 31, 2019 and the six months ended June 30, 2020 and June 30, 2019, we generated NIW of $62.4 billion, $46.3 billion and $25.4 billion, respectively. Our market share for the six months ended June 30, 2020 was approximately 19%. For the full year ended December 31, 2019, we achieved adjusted operating income of $562 million. For the six months ended June 30, 2020, we achieved adjusted operating income $141 million as compared to $269 million for the six months ended June 30, 2019.

As a private mortgage insurer, we play a critical role in the United States housing finance system by providing credit protection to mortgage lenders, covering a portion of the unpaid principal balance of Low-Down Payment Loans in the event of a default. By providing credit enhancement, we facilitate the sale of mortgages to the secondary market, including to Fannie Mae, Freddie Mac and private investors, and protect the balance sheets of mortgage lenders that retain mortgages in their portfolios. Credit protection and liquidity through secondary market sales allow mortgage lenders to increase their lending capacity, manage risk and expand financing access to prospective homeowners, many of whom are FTHBs.

We have a large and diverse customer base. Our long-standing presence in the industry has enabled us to build enduring relationships across the mortgage origination market, including with national banks, non-bank mortgage lenders, local mortgage bankers, community banks and credit unions. In 2019, we provided new insurance coverage to approximately 1,700 customers, including 18 of the top 20 mortgage lenders as measured by total 2019 mortgage originations (according to *Inside Mortgage Finance*). Approximately 94% of our 2019 NIW was from customers who have submitted loans to us every year since 2015.

We believe we have a strong balance sheet that is well capitalized to manage through macroeconomic uncertainty and maintain PMIERs and state regulatory standards compliance. We have enhanced our balance sheet in recent years as we have transformed our business model from a “buy and hold” strategy to an “acquire, distribute and manage” approach through our CRT program. We utilize our CRT program for capital management and mitigation of future loss volatility by distributing risk to highly rated counterparties or collateralized structures. Our CRT program is a material component of our strategy and we believe it helps to protect future business performance and stockholder capital under stress scenarios. As of June 30, 2020, we had a PMIERs capital ratio of 143%, representing $1,275 million of available assets above the PMIERs requirement. See “Summary—Recent Developments—PMIERs and GSE Conditions.”

Market Opportunities

The United States mortgage market had total mortgage originations of approximately $2.4 trillion in 2019, according to *Inside Mortgage Finance*. Demand for mortgage insurance is driven by the origination of Low-Down Payment Loans. In 2019, Low-Down Payment Loans represented approximately 36% of the overall United States mortgage originations market, or approximately $860 billion, based on *Inside Mortgage Finance*. Mortgage insurance is offered by private companies and three government agencies. In 2019, private mortgage insurance was the most frequently used

Low-Down Payment Loan solution, comprising a 44.7% share of the Low-Down Payment Loan market in the United States, which has steadily grown from 36.1% in 2016, according to *Inside Mortgage Finance*.

Evolving macroeconomic and housing environment.

The mortgage insurance market, like the mortgage origination market, is highly dependent on the prevailing macroeconomic environment. Conditions have changed significantly as a result of the COVID-19 pandemic, with elevated unemployment levels primarily driven by the temporary shutdowns of economies across the country. However, with interest rates at or near historic lows, the housing market has shown significant resiliency. The purchase origination market is currently showing signs of a rebound compared to its suppressed state in early April 2020, and FTHBs, which are a significant source of demand for private mortgage insurance, remain active in the market. While credit availability has tightened as a result of the COVID-19 pandemic, the private mortgage insurance market has not experienced material disruptions seen elsewhere in the mortgage market and may see an increase in market share due to a higher proportion of origination backed by the GSEs. The refinance market has historically benefited from lower interest rates during periods of economic uncertainty and has expanded as a result of the COVID-19 pandemic.

- **Macroeconomic**
  - The condition of the job market has deteriorated significantly and rapidly since February 2020 due to the COVID-19 pandemic, with the unemployment rate rising from a 50-year low of 3.5% to 14.7% in April 2020. However, the job market may be in the early stages of recovery with the unemployment rate falling to 10.1% in July 2020, while non-farm payroll employment rose by 9.3 million between April 2020 and July 2020.
  - United States GDP has been growing modestly at an average rate of 2.3% between 2009 and 2019. In the first and second quarters of 2020, GDP decreased at a seasonally adjusted annual rate of 5.0% and 32.9%, respectively.
- **Housing**
  - Single-family home sales have grown by approximately 30% since 2011 from 4.1 million to 5.4 million units in 2019, as reported by the Census Bureau and the National Association of Realtors. As a result of the COVID-19 pandemic, single-family home sales decreased by 28% between February 2020 and May 2020.
  - However, a leading indicator in the housing market suggests a recovery in home sales between mid-April and end-of-July 2020, with the purchase applications index published by the Mortgage Bankers Association recovering 60%. From the second half of May 2020 to the end of July 2020, the purchase applications index has exceeded its year-ago levels every week.
  - Rates for 30-year mortgages fell by 100 basis points between the end of 2018 and the second quarter of 2020, helping to create the best environment for housing affordability since 2017, as reported by Freddie Mac. In the first quarter of 2020, rates for 30-year mortgages averaged 3.51%. As a result of the COVID-19 pandemic, average rates fell to 3.23% in the second quarter of 2020, reaching a record low of 2.98% in July 2020.
  - Between 2014 and 2019, the FTHB market grew by 40%. In 2019, FTHBs purchased 2.1 million homes, well above the 1.8 million historical five-year average, according to our research. In the first quarter of 2020, FTHBs purchased a seasonally adjusted annual rate of 2.24 million single-family homes, which is an increase of 11.7% from a year ago.
  - Approximately 80% of FTHBs rely on Low-Down Payment Loans and approximately 720,000 of them used private mortgage insurance in 2019, according to our research.

    - As a result of the COVID-19 pandemic, Congress enacted the CARES Act, which affords homeowners the ability to enter into forbearance to temporarily pause mortgage payments. According to Black Knight industry forbearance rates on GSE loans were lower in late July 2020 compared to May 2020, estimated to be 5.70% and 7.10% respectively.

- **Sustained strong credit quality within the United States housing system.** The high-quality nature of underlying mortgages in recent years has come from improved risk analytics, stronger loan manufacturing quality controls, and the regulatory implementation of the QM provisions. Additionally, private mortgage insurers and the GSEs have maintained strong credit standards over the past decade, with the average FICO scores of borrowers for NIW persisting at levels significantly above historical averages. As a result, we believe the industry is insuring loans from borrowers who should be better positioned to meet their mortgage obligations.

- **Strong private mortgage insurance penetration in the insured purchase mortgage market.** The increase in penetration of the private mortgage insurance product can be attributed to both the implementation of new GSE products designed to serve Low-Down Payment borrowers and more competitive pricing by the private mortgage insurers relative to the FHA. Private mortgage insurance helped to finance more FTHBs in 2018 and 2019 than the FHA. We believe there may be additional opportunities for private mortgage insurers to increase market share as the United States government considers further actions to reduce taxpayer's risk to the housing markets, and, in the private market, by providing risk and capital relief for lender portfolios and loans supporting private MBS.

- **The increasing utilization of risk transfer alternatives is improving the industry's risk profile.** Beginning in 2015, private mortgage insurers started to use CRT alternatives as a mechanism to reinsure with, or transfer risk to, third parties. The industry's use of CRT was driven by a combination of factors, including the increase in required capital and credit for reinsurance under the then-pending PMIERs framework, as well as attractive terms from third-party participants. Private mortgage insurers utilized both QS and XOL reinsurance CRT programs, both of which were more flexible sources of capital than traditional debt and equity markets. Private mortgage insurers also began to access the capital markets via MILNs to diversify their CRT programs. The MILN market has grown rapidly, with new investors driving scale and diversifying CRT options for private mortgage insurers at an attractive cost of capital. Since 2015, private mortgage insurers have transferred approximately $26 billion of risk to traditional reinsurers via QS and XOL transactions and transferred an additional $10.5 billion of risk to the capital markets via MILN transactions.

  Private mortgage insurers have generally transitioned from using CRT primarily as a capital management tool to leveraging it as a programmatic approach to mitigate future loss volatility, and have transformed from a "buy and hold" strategy to an "acquire, distribute and manage" approach. We believe that the introduction of these practices in the industry is a significant source of risk transfer and should reduce the capital and loss volatility that historically impacted the sector during economic downturns.

- **Significant barriers to entry.** Our industry has significant barriers to entry, including: (i) GSE requirements to become an approved private mortgage insurer; (ii) the current dominant competitive position of private mortgage insurance providers with established customer relationships; and (iii) the significant investment required by large mortgage lenders to connect to a new mortgage insurance platform.

Our Strengths

We believe that the following competitive strengths have supported our success to-date and provide a strong foundation for our future financial performance:

- **Strong operating performance, driven by favorable underwriting results**. We have demonstrated an ability to produce strong profitability, driven by our favorable mix of growing in-force premiums and prudent risk management, leading to favorable underwriting results and growing adjusted operating income.
  - Our strong relationship with lenders has enabled us to grow premiums while maintaining rigorous underwriting standards. As of December 31, 2019, we earned $857 million of premiums, representing year-over-year growth of 15%. This growth has historically been driven by a combination of large new books of business combined with healthy persistency rates on existing books of business.
  - Our risk management expertise has facilitated favorable underwriting performance, with loss ratios of 5% in 2018 and 6% in 2019. Our loss ratio for the six months ended June 30, 2020 was 53%, which was primarily due to an increase in delinquencies related to COVID-19 and an increase in reserves on existing delinquencies.
  - Our robust expense management program and the benefits of efficiency of scale led to declining fixed costs, facilitating adjusted operating income of $562 million in 2019, which was a record high, and $141 million for the six months ended June 30, 2020.
- **Strong capitalization driven by prudently managed balance sheet.** We are a strongly capitalized counterparty with strong financial performance, which we believe positions us well to be able to return capital to stockholders in the future.
  - As of June 30, 2020, we had total GAAP stockholders' equity of $4.0 billion and a PMIERs capital ratio of 143%, representing $1,275 million of available assets above the PMIERs requirements.
  - Our mortgage insurance subsidiaries had total statutory capital and surplus of $3.8 billion as of June 30, 2020. Our combined statutory RTC ratio at the same date was 12.0:1, well below the NCDOI regulatory maximum of 25:1.
  - As of June 30, 2020, the fair value of the fixed maturity assets of our investment portfolio was approximately $4.4 billion, of which 97% was rated as investment grade. We also had an additional $418.6 million of cash and cash equivalents as of June 30, 2020.
  - We paid a $250 million dividend to our Parent in 2019.
- **Large in-force book of business that is expected to drive top line results.** We believe our $207.6 billion IIF portfolio as of June 30, 2020 has significant embedded value and creates a foundation to deliver strong future financial performance, supported by the following key metrics:
  - Large portion of IIF and RIF book seeing meaningful annual growth of 12% each in 2017 through 2019, with RIF of $50.0 billion as of June 30, 2020;
  - Resilient market share between 16% and 19% during the past six quarters despite increased competition;
  - Strong NIW compounded annual growth of 26.7% from 2017 to 2019 given favorable housing market backdrop and stronger credit quality; and
  - Unearned premium reserves of $340.0 million as of June 30, 2020.
- **Strong underlying credit quality on mortgage insurance portfolio**. Our highest priority is ensuring that the underlying credit quality of our insured mortgage portfolio meets our risk

framework. We believe a robust risk management program is critical to our success and reinforces the strength of our balance sheet. We utilize a proprietary risk analytics model, 1AF to target loans within our risk appetite. 1AF leverages our unique data set, which contains over two decades of mortgage performance across various market conditions to develop quantitative assessments of the probability of default, severity of loss and expected volatility on each insured loan. We believe the rigorous approach we utilize has enhanced our risk profile, with our overall portfolio's credit quality materially improved since the global financial crisis in 2007 to 2009, illustrated by the composition of our IIF as of June 30, 2020:

- 93% of our primary IIF was originated in favorable underwriting years post 2008; and
- The median FICO score of borrowers on our underlying insured mortgages is in excess of 742, and only 9% is below 680.

In addition, since the global financial crisis we have significantly reduced the number of higher-risk loans (those with greater than 95% LTV and FICO scores of less than 680) that have additional high Risk Layers. As of June 30, 2020, we had no loans in our portfolio having three or more Risk Layers, 0.3% of the loans having two and 1.2% of the loans having one added Risk Layer. For our NIW for the six months ended June 30, 2020, no loans had one or more of these added Risk Layers. We have been able to achieve a high-quality insured portfolio while maintaining outstanding underwriting service. In a blind survey of mortgage lenders conducted by KS&R, we were rated as "best-in-class" for mortgage insurance underwriting for each of the years 2016, 2017 and 2018.

- **Comprehensive risk management philosophy utilizing advanced tools to protect the strength of our balance sheet.** Beyond our approach for underwriting and onboarding a portfolio that aligns with our risk appetite**,** we also conduct quarterly stress testing on the portfolio to determine the impact of various stress events on our performance. The result of those tests and our desire to reduce loss volatility and protect our capitalization informs our CRT strategy.
  - Our CRT strategy is designed to distribute risk to highly rated counterparties, or through highly collateralized transactions, such that our in-force portfolio experiences reduced volatility during stress scenarios. We select the type and structure of our CRT transactions based on a variety of factors including, but not limited to, capacity, cost, flexibility, sustainability and diversification. Since 2015, we have executed over $2.1 billion of CRT transactions across both traditional reinsurance arrangements and MILN transactions. As of June 30, 2020, over 90% of our RIF insurance is covered under our current CRT program, and we expect to begin transferring losses at an approximate 30% lifetime book year loss ratio and extend up to an approximate 70% lifetime book year loss ratio for our 2016 to 2020 books, depending on our co-participation level within the reinsurance tier for any book year.
  - We have executed $1,807 million of XOL reinsurance coverage with highly rated reinsurers covering the 2009 to 2020 book years. In 2019, we initiated our inaugural MILN transaction, providing $303 million of fully collateralized excess of loss protection. During 2020, we executed an XOL treaty covering policies originated January 1, 2020 through December 31, 2020 that will provide up to $168 million of reinsurance coverage and we executed a $300 million XOL treaty with reinsurance coverage on 2009 to 2019 book years. As of June 30, 2020, we maintain $1,181 million of reinsurance protection outstanding on our 2009 to 2020 book years, providing $1,043 million of PMIERs capital support. We plan to continue to utilize CRT transactions to effectively manage our risk profile.
- **Dynamic leadership team with through-the-cycle experience and a proven track record of delivering results.** Our executive leadership team has significant experience in mortgage

insurance and housing finance, with a proven track record of risk management and financial success through-the-cycle.

- Our executive management team has an average of 27 years of relevant industry experience, and an average tenure in the mortgage insurance industry of 14 years.
- Our team has executed through-the-cycle while facing multiple headwinds, including macroeconomic conditions, changing capital regimes, ratings disparity and challenges faced by our Parent.
- We believe our executive management team has the right combination of client-facing, underwriting, risk management and capital management skills necessary to drive our long-term success.

Our Strategy

Our objective is to leverage our competitive strengths to maximize the value of our business by driving market share, maintaining our strong capital levels and earnings profile and delivering attractive risk-adjusted returns:

- **Maintain robust underwriting standards and appropriately price new business given the inherent risk profile of the underlying insured**. We use 1AF to evaluate returns and volatility, applying both an external regulatory lens and an economic capital framework that is sensitive to current housing market cycles relative to historical trends. The results of these analyses inform our risk appetite, credit policy and targeted risk selection strategies, which we primarily implement through our proprietary pricing engine, GenRATE. Additionally, as a result of the current macroeconomic environment and COVID-19 pandemic, we have implemented pricing changes that we believe align our risk and return profile.
- **Maintain a strong balance sheet by maintaining strong capital levels and prudently managing risk.** We understand the importance of our balance sheet strength to our customers and intend to continue to serve as a high-quality counterparty. We work to protect future business performance and stockholder capital under stress scenarios with a programmatic CRT program, including traditional XOL reinsurance and MILNs. We believe the comprehensive rigor of our underwriting and risk management policies and procedures serve to protect our ongoing business performance, the strength of our balance sheet and competitive position. Our CRT program has helped transform our business model from a “buy and hold” strategy to an “acquire, distribute and manage” approach.
- **Leverage existing relationships and develop new relationships by driving differentiated value and experience.** We offer our customers a unique value proposition and an experience tailored to their needs, with expedited, quality underwriting and fair and transparent claims handling practices. Our dynamic sales model serves customers from all segments, including high-touch national accounts, regional accounts where a localized presence is necessary and a telesales model to efficiently reach our full suite of customers. We intend to leverage our strengths in these areas to continue serving our existing customer base while also establishing new relationships.
- **Strategically invest in technologies and capabilities to drive operational excellence across our business.** Our investments in underwriting, risk management, data analytics and customer technology have both optimized our business and improved our customers’ experience. We plan to continue identifying investments that keep us at the forefront of technological advancements, fostering efficiency and helping to secure new customers.
- **Prudent capital management to maximize value to our key stakeholders.** Our capital management approach is to maximize value to our key stakeholders by prioritizing the use of

our capital in three primary ways: (i) support our existing policyholders; (ii) grow our mortgage insurance business; and (iii) distribute capital from our insurance operating subsidiaries to us.

- **Continue to remain engaged with the regulatory landscape and promote the importance of the private mortgage insurance industry.** We believe the private mortgage insurance industry plays a critical role in the success of the United States housing market. We have a government and industry affairs team who monitor the landscape and stay apprised of new and potential developments that could impact the industry. We have strong relationships with the GSEs, the key federal government agencies and various other regulatory bodies and industry associations who are important to the housing ecosystem. We also maintain consistent dialogue with state insurance regulators. We intend to continue to support the role of a stable and competitive private mortgage insurance industry and a well-functioning United States housing finance system.

Our Industry

United States Mortgage Market

The MBS market, of which the United States 1-4 family residential mortgage market forms a significant portion, is one of the largest in the world with over $11 trillion of mortgage debt outstanding as of the third quarter of 2019 and includes a range of private and government sponsored participants. Private industry participants include mortgage banks, mortgage brokers, commercial, regional and investment banks, savings institutions, credit unions, real estate investment trusts, mortgage insurers and GSEs such as Fannie Mae and Freddie Mac. The overall United States residential mortgage market encompasses both primary and secondary markets. The primary market consists of lenders originating home loans to borrowers to support home purchases, which are referred to as purchase originations, and loans made to refinance existing mortgages, which are referred to as refinancing originations. The secondary market includes institutions buying and selling mortgages in the form of whole loans or securitized assets, such as MBS. For a description of certain impacts of COVID-19 on the mortgage market, see "Recent Developments—COVID-19" and "Risk Factors—Risks Relating to Our Business—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic."

GSEs

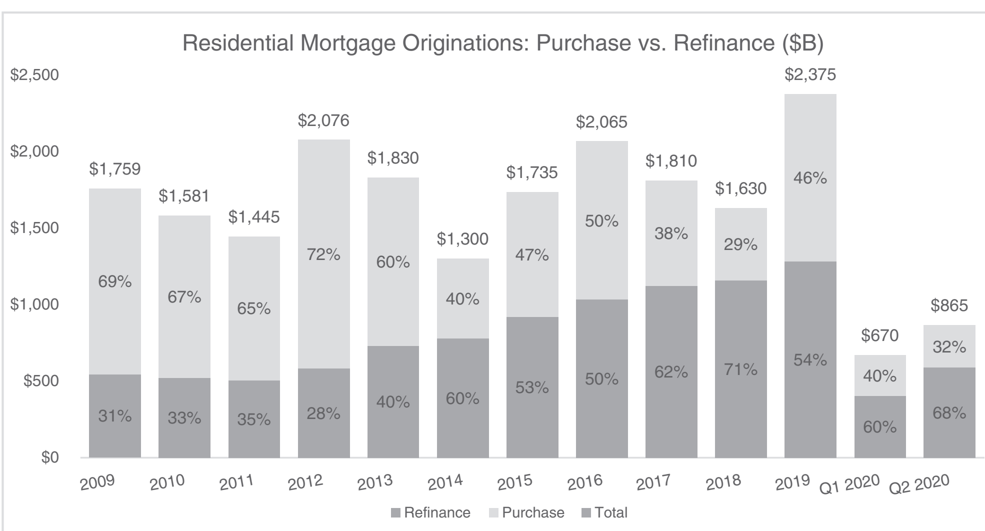
The GSEs are the largest participants in the secondary mortgage market, buying residential mortgages from banks and other primary lenders as part of their government mandate to provide liquidity and stability in the United States housing finance system. According to the U.S. Federal Reserve, the GSEs held or guaranteed approximately $4.9 trillion, or 44.5%, of total United States 1-4 family residential mortgage debt as of December 31, 2019. The GSE charters generally require credit enhancement for Low-Down Payment Loans to be eligible for purchase by the GSEs. Such credit enhancement can be satisfied if a loan is insured by a GSE-qualified insurer, the mortgage seller retains at least a 10% participation in the loan or the seller agrees to repurchase or replace the loan in the event of a default. Private mortgage insurance satisfies the GSEs' credit enhancement requirement and, historically, has been the preferred method lenders have utilized to meet this GSE charter requirement. As a result, the nature of the private mortgage insurance industry in the United States is driven in large part by the business practices and mortgage insurance requirements of the GSEs. In furtherance of their respective charter requirements, each GSE maintains PMIERs, to establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the GSEs for their portfolio. For more information about the financial and other requirements of the GSEs, see "Regulation—

Agency Qualification Requirements" and "Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

Private Mortgage Insurance

Private mortgage insurance plays a critical role in the United States residential mortgage market by facilitating secondary market sales, particularly for Low-Down Payment Loans. This credit protection and the resulting liquidity it provides through secondary market sales allows mortgage lenders to increase their lending capacity, manage risk and expand prospective homeowners' access to financing, many of whom are FTHBs. Mortgage insurance also provides lenders and investors a means to diversify their exposures, mitigate mortgage credit risk, and may offer certain financial institutions that portfolio Low-Down Payment Loans credit against their regulatory capital requirements. Today, mortgage insurance products are primarily geared towards GSE secondary market sales. The increase in penetration of private mortgage insurance in the mortgage market can be attributed to both the implementation of new GSE products designed to serve Low-Down Payment Loan borrowers and more competitive pricing by private mortgage insurers relative to the FHA. In addition, there are potential opportunities for the demand for and use of mortgage insurance to the extent that the private label securitization market expands in the future.

The overall new business opportunity in the private mortgage insurance market is also reflective of the mix between purchase and refinancing originations. Historically, due to the higher prevalence of Low-Down Payment Loans in purchase originations, mortgage insurance utilization has been meaningfully higher for purchase originations than for refinances. In 2019, according to *Inside Mortgage Finance*, the United States mortgage market had total mortgage originations of approximately $2.4 trillion, comprised of approximately $1.3 trillion purchase originations and approximately $1.1 trillion refinancing originations. The following graph provides the historical split of the mortgage market between purchase and refinance origination volumes, based on data from *Inside Mortgage Finance*.



Competition

Our principal sources of competition are government (both federal and state and local) agencies, such as the FHA and VA, and other private mortgage insurers. We also compete with the GSEs, portfolio lenders who self-insure, reinsurers, and other capital markets participants who may utilize financial instruments designed to mitigate risk.

Federal, State, and Local Government Agencies.

Private mortgage insurers, including us, compete for mortgage insurance business directly with federal government agencies, principally the FHA and the VA, and, to a lesser extent, state and local housing finance agencies. According to *Inside Mortgage Finance,* for 2019, the FHA had a 28% share, and the VA a 25% share, of the mortgage insurance market. Our competition with government agencies is principally on the basis of price and underwriting guidelines. In contrast to private mortgage insurers, government agencies generally have less restrictive guidelines and apply a flat pricing structure regardless of an individual borrower's credit profile. As a result, we believe borrowers with lower FICO credit scores are more likely to secure mortgage loans with coverage by public agencies and borrowers with higher FICO credit scores are more likely to secure mortgage loans with coverage by private mortgage insurers. Mortgage insurance policies from government agencies are also generally non-cancellable, meaning that borrowers are obligated to pay for coverage through the life of their loan, whereas policies from private mortgage insurers are cancellable in certain circumstances as provided by HOPA, and under GSE guidelines when the LTV ratio of an underlying mortgage falls below 80%. Private mortgage insurers also face limited competition from certain local and state housing finance agencies.

Private Mortgage Insurers.

The United States private mortgage insurance industry is highly competitive. We compete on pricing, underwriting guidelines, customer relationships, service levels, policy terms, loss mitigation practices, perceived financial strength (including comparative credit ratings), reputation, strength of management, product features, and effective use and ease of technology. There are currently six active mortgage insurers, including us. Private mortgage insurance competitors include Arch Capital Group Ltd., Essent Group Ltd., MGIC Investment Corporation, NMI Holdings, Inc. and Radian Group Inc. (public holding companies of competitors listed). Since 2012, we have maintained between a 12.0% and 19.2% per quarter share of the mortgage insurance market by per annum NIW, reaching a high of 19.2% market share in the second quarter of 2020, based on data from *Inside Mortgage Finance*.

GSEs, Portfolio Lenders, Reinsurers and Other Capital Markets Participants.

We have also experienced competition in recent years from various participants in the mortgage finance industry including the GSEs, portfolio lenders, reinsurers and other participants in the capital markets. We compete with these participants primarily based on pricing, policy terms and perceived financial strength. The GSEs enter into risk sharing transactions with financial institutions designed to reduce the risk of their mortgage portfolios. Competition also comes from portfolio lenders that are willing to hold credit risk on their balance sheets without credit enhancement. In addition, investors can make use of risk-sharing structures designed to mitigate the impact of mortgage defaults in place of private mortgage insurance. Finally, although their presence is a fraction of what it was in the past, there are products designed to eliminate the need for private mortgage insurance, such as "piggyback loans," which combine a first lien loan with a second lien loan in order to meet the 80% LTV threshold required for sale to the GSEs without certain credit protections.

Our Products and Services

In general, there are two types of private mortgage insurance: primary and pool.

Primary Mortgage Insurance

Substantially all of our policies are primary mortgage insurance, which provides protection on individual loans at specified coverage percentages. Primary mortgage insurance is placed on individual loans at the time of origination and most typically delivered to us on a loan by loan basis. Primary mortgage insurance can also be delivered to us on an aggregated basis, whereby each mortgage in a given loan portfolio is insured in a single transaction after the point of origination.

Customers who purchase our primary mortgage insurance select a specific coverage level for each insured loan. To be eligible for purchase by a GSE, a Low-Down Payment Loan must comply with the coverage percentages established by that GSE. For loans not sold to the GSEs, the customer determines its desired coverage percentage. Generally, our risk across all policies written is approximately 25% of the underlying primary IIF, but may vary from policy to policy, typically between 6% and 35% coverage.

We file our premium rates, as required, with state insurance departments and the District of Columbia. Premium rates cannot be changed after the issuance of coverage. Premium payments for primary mortgage insurance coverage are typically made by the borrower and are referred to as borrower-paid mortgage insurance ("BPMI"). Loans for which premiums are paid by the lender are referred to as lender-paid mortgage insurance. In either case, the payment of premium to us is generally the responsibility of the insured.

Premiums are generally calculated as a percentage of the original principal balance and may be paid as follows:

- Monthly, where premiums are paid on a monthly basis over the life of the policy;
- Single, where the entire premium is paid upfront at the time the mortgage loan is originated;
- Annually, where premiums are paid annually in advance for the subsequent 12 months; or
- Split, where an initial lump sum premium is paid upfront at the time the mortgage is originated along with subsequent monthly payments.

In general, we may not terminate mortgage insurance coverage except in the event of non-payment of premiums or certain material violations of our mortgage insurance policies. The insured may technically cancel mortgage insurance coverage at any time at their option or upon mortgage repayment, which is accelerated in the event of a refinancing. However, in the case of loans sold to the GSEs, lender cancellation of a policy not eligible for cancellation under the GSE rules may be in violation of the GSEs' respective charters. GSE guidelines generally provide that a borrower meeting certain conditions may require the mortgage servicer to cancel mortgage insurance coverage upon the borrower's request when the principal balance of the loan is 80% or less of the property's current value. In addition to the GSE guidelines, HOPA provides an obligation for lenders to automatically terminate a borrower's obligation to pay for mortgage insurance once the LTV reaches 78%, and also provides for cancellation of BPMI upon a borrower's request when the LTV ratio, based on the current value of the property, reaches 80%. In addition, some states impose their own MI notice and cancellation requirements on mortgage loan servicers.

Pool Mortgage Insurance

Pool mortgage insurance transactions provide coverage on a finite set of individual loans identified by the pool policy. Pool policies contain coverage percentages and provisions limiting the insurer's obligation to pay claims until a threshold amount is reached (known as a "deductible") or capping the insurer's potential aggregate liability for claims payments (known as a "stop loss") or a combination of both provisions. Pool mortgage insurance is typically used to provide additional credit enhancement for certain secondary market mortgage transactions. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan that exceeds the claim payment under the primary coverage, if such loan has primary coverage, as well as the total loss on a defaulted mortgage loan that did not have primary coverage. In another variation, generally referred to as modified pool insurance, policies are structured to include both an exposure limit for each individual loan, as well as an aggregate loss limit or a deductible for the entire pool. Currently, we have an immaterial amount of pool IIF.

Contract Underwriting Services

We also perform fee-based contract underwriting services for our customers. Contract underwriting provides our customers outsourced scalable capacity to underwrite mortgage loans. Our underwriters can underwrite the loan on behalf of our customers for both investor compliance and mortgage insurance, thus reducing duplicative activities and increasing our ability to write mortgage insurance for these loans. Under the terms of our contract underwriting agreements, we indemnify our customer against losses incurred in the event we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability.

Our Mortgage Insurance Portfolio

We believe that our portfolio is of significant scale and aligns with our appetite for risk and return. The majority of our in-force exposures and all of our NIW is considered primary insurance, meaning we insure the loss on each loan up to the coverage amount without any stop loss or deductible for that loss. Our remaining structured exposures are significantly seasoned and represent a modest 1% of IIF and gross RIF.

As of June 30, 2020, our exposures from legacy books originated prior to 2009 continue to resolve in an orderly fashion and represented 7% of our IIF and 7% of our RIF as of June 30, 2020. These books continue to represent a larger portion of our delinquencies and reserves driven by the continued aging of those delinquencies.

We measure the credit characteristics of our portfolio as represented in the original commitment for insurance. We support a growing FTHB segment that generally has little down payment saved for their first home. As of June 30, 2020, eighteen percent of our IIF (18% of RIF) is to borrowers with a down payment of less than 5% of the loan at the time of origination. This loan product represented 11% of NIW in the six months ended June 30, 2020, down from 15% in the twelve months ended December 31, 2019 and 20% in the twelve months ended December 31, 2018.

The credit profile of our portfolio continues to improve over time. Fifty-five percent of our IIF and RIF has an original FICO score greater than or equal to 740. Loans with FICO scores greater than or equal to 740 represented 57% of NIW for the first six months of 2020. Only 9% of our IIF (9% of RIF) has an original FICO score less than 680, down slightly from 10% in 2019 and 11% in 2018. Loans in this FICO score category represented 6% NIW for the first six months of 2020.

Our portfolio is diverse and representative of the United States origination market. As of June 30, 2020, the state with our largest concentration of RIF was California, which represented approximately 11% of RIF. Our largest MSA/MD is the Chicago-Naperville area, which represents 3% of RIF. For more information on our portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Investment Portfolio."

Customers

Our long-standing industry presence has enabled us to build active customer relationships with approximately 1,700 mortgage lenders across the United States. Our customers are broadly diversified by size, type and geography and include large money center banks, non-bank lenders, national and local mortgage bankers, community banks and credit unions.

We have established relationships with loyal customers. For example, 94% have submitted loans to us each year since 2015. For the year ended December 31, 2019, our largest customer accounted for 16% of our total NIW. No other customer exceeded 10% of our NIW during 2019, only one customer accounted for more than 10% of our NIW, 10.08%, during 2018 and no single customer exceeded 10% of our NIW in 2017. Additionally, no single customer has earned premiums that accounted for more than 10% of our total revenues for the years ended December 31, 2019, 2018 and 2017.

We generally classify our customers as strategic accounts or regional accounts. Strategic accounts consist of national customers or other customers with a large geographic lending footprint that make decisions about the placement of private mortgage insurance at a centralized, corporate level, or those with complex mortgage operations who make such decisions at a more decentralized level by production personnel on a loan-by-loan basis. Regional accounts tend be less complex and generally make private mortgage insurance decisions on a decentralized basis. We divide our regional accounts into four regions across the country, which are further divided into sales territories. Field sales representatives are responsible for developing relationships and driving growth within a territory of regional accounts.

We believe that our success in establishing strong, sustained relationships and our ability to capture new customers is attributable to our comprehensive value proposition. We offer customers a competitive price along with differentiated offerings and services. Additionally, by maintaining an ongoing dialogue with our customers, we are able to develop an understanding of their needs, offer customized solutions for their challenges, advise them on portfolio composition and trends, share market perspectives and industry best practices, and provide product development support and training as necessary.

Sales and Marketing

Our sales and marketing efforts are designed to help us establish and maintain in-depth, quality customer relationships. We distribute our mortgage insurance products through a dedicated field sales force located throughout the United States, our home-based in-house sales representatives, and a digital marketing program designed to expand our reach beyond our sales force. Our sales force strives to build strong relationships across all areas of our customers' operations to include loan origination, loan processing, underwriting, product development, secondary marketing, risk management, compliance, information technology, and C-suite executives. With a vast database of established individual contacts, the breadth and depth of relationships not only serves as a differentiator for our mortgage insurance platform but also enables us to form strategic partnerships with other mortgage service providers seeking to expand their distribution reach.

Approximately 19% of our sales professionals focus on strategic accounts and are responsible for serving the more complex needs of the larger customers. The remaining 81% of our sales professionals are positioned across the country and are responsible for a territory of regional accounts. Sales efforts for both strategic and regional accounts are augmented by our well-established in-house sales representatives. This team is primarily responsible for reaching, via telephone or other virtual means, geographically isolated customers that cannot be serviced easily in person, as well as covering the expanding population of remote-based loan officers, processors, and underwriters, via telephone or other virtual means. Our flexible sales structure allows us to target in-person visits where beneficial and leverage our internal sales team when more appropriate. Each customer account has a primary point of contact providing tailored customer service. In addition to our sales force, we provide cross-functional customer service teams to offer support in loan submission, underwriting, policy administration, loss management, risk management, and technology.

We support our sales force and improve their effectiveness in acquiring new customers by raising our brand awareness through advertising and marketing campaigns, website enhancements, digital communication strategies, and sponsorship of industry and educational events. Our digital marketing capabilities position us to serve our decentralized market with targeted, personalized messages that help drive a preference for our offering. Additionally, our marketing efforts include differentiators targeted to the needs of customers, in order to increase our brand affinity. Our proprietary underwriting products, Quick Queue and Rush Lane, provide our customers with response times tailored to their specific needs. Home-Suite-Home is another unique program that customers can utilize with their borrowers when choosing us for private mortgage insurance. The program, which has no cost to borrowers or customers, provides borrowers with their choice of an appliance home warranty, a homeowners insurance deductible reimbursement, or identity theft and restoration consulting services. Finally, our consulting services provide customers with strategy and process consulting to help improve quality, reduce costs and grow their business.

In 2019, we launched a separate entity to insure pool transactions as well as primary policies that are not intended for sale to the GSEs. This entity allows for capital and master policy flexibility with customers who have portfolio loans and provides us strategic optionality if the private label MBS market increases.

Technology that supports connectivity with our customers is critical. As an established private mortgage insurance provider, we have long-standing relationships with our customers' technology organizations, as well as with the key pricing and loan origination/servicing platform providers. In addition, we have an experienced technology integration team that allows us to quickly customize loan delivery solutions for our customers. By providing customers an easy way to quote and order our mortgage insurance products, either through our award-winning ordering and rate quote website or directly within customers' systems, we believe we make the transaction easy, allowing us to drive repeat volume.

Risk Management

Strong risk management is a critical part of our business. We have a risk management framework that is designed to reduce volatility in our business performance and protect our balance sheet. We believe this framework encompasses all the major risks, including insurance, operational, regulatory compliance, strategic and investment risks. Emerging and top risks are identified and frequently reported to both senior management and our Chief Risk Officer along with the risk committee of our Parent's board of directors.

Our risk management philosophy is designed to ensure all relevant risks are routinely identified, assessed, managed, monitored and addressed. We rely upon a strong organizational risk culture and governance process, ensuring that the risks we take are transparent and quantifiable, and that we can monitor the changing nature of those risks over time. We proactively work towards mitigating exposures outside of the risk appetite, limits, and tolerances that we set and review annually.

In response to the COVID-19 pandemic and the efforts to contain it, we have taken the following risk mitigating actions focused on four core strategies.

- Scenario Planning: Given the uncertainty of the ultimate impact on our business as a result of the COVID-19 pandemic, we developed estimates of potential losses and PMIERs capital sufficiency using experience from past localized economic dislocations. This provided a wide range of potential outcomes from which we developed mitigation strategies focused on both the in-force portfolio and new business.

- Pricing and Guidelines: To mitigate potential losses on new business, we responded quickly with pricing changes and clarified our policies for rescission relief. We developed analytics for assessing the relative health of local housing markets and the potential for the COVID-19 pandemic to affect these markets differently and incorporated those views into GenRATE.
- Capital Management and Regulatory Response: To mitigate potential strain on PMIERs sufficiency and future losses due to high notices of default, we pursued additional reinsurance on our in-force portfolio. In addition, we worked with U.S. Mortgage Insurers trade association and the GSEs to clarify PMIERs policies related to the treatment of delinquencies caused by a natural disaster, such as the COVID-19 pandemic.
- Operational Readiness: With the onset of higher delinquencies, the servicing portion of our business increased staffing in our homeowner's assistance and investigation teams. We aligned our policies with those of the GSE's to ensure streamlined processes to help homeowners through forbearance so that they can retain their home and cure their delinquency.

Due to the unprecedented nature of the COVID-19 pandemic, its impacts and related dislocations, it is unclear how effective these actions will be either in the immediate or long term. See "Risk Factors—Risks Relating to Our Business—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic." and "Risk Factors—Risks Relating to Our Business—Our risk management programs may not be effective in identifying or adequate in controlling or mitigating the risks we face."

Modeling and Analytics

We use 1AF to evaluate returns and volatility through both an external regulatory lens and an economic capital framework that is sensitive to the economic cycle and current housing market conditions. This risk model utilizes over 20 predictive variables and leverages our unique data set, which contains experience of over two decades of mortgage performance across all market conditions, to develop quantitative assessments of default probability, severity of loss, prepayment and expected volatility on each insured loan. Our model is used to assess the performance of new business and our in-force portfolio under expected and stress scenarios. The results of these analyses inform our risk appetite, credit policy, pricing, and targeted risk selection strategies. In addition, the results of these stress tests and our desire to reduce loss volatility informs our CRT strategy, including traditional reinsurance and MILNs. Our CRT program is designed to provide several benefits, including: (i) protecting against adverse losses in stress scenarios; (ii) mitigating our portfolio risk and volatility through housing and economic cycles; (iii) providing capital relief under PMIERs and state insurance RTC requirements; and (iv) providing diversified, additional sources of capital to support our business.

Customer Qualification

Customers applying for a new master policy undergo a process that reviews their business and financial profile, licensing, management experience and track record of originating quality mortgages. Customers applying for delegated underwriting authority receive training and are reviewed on initial and ongoing submissions for compliance to our guidelines.

Policy Acquisition

Loans delivered to us for insurance must meet our underwriting and eligibility guidelines. Our underwriting principles require borrowers to have a verified capacity and willingness to support the obligation and a well-supported valuation of the collateral. Loans are underwritten on either a delegated or non-delegated basis, but all loans pass through our eligibility rules engine to screen out those outside of our guidelines. We regularly monitor national and local market conditions, the performance of our products, and the performance of our customers against our expectations for mix and profitability. We adjust our underwriting, pricing, and risk selection strategies on a regular basis to ensure that our products remain competitive and consistent with our risk and profitability objectives.

Quality Assurance

We have an independent quality assurance function that conducts pre- and post-closing underwriting reviews. We review statistically significant samples of loan files from individual customers and across our delegated and non-delegated underwriting channels to identify adverse trends and provide our underwriters and customers with timely feedback and training that fosters high quality loan production. Within our delegated channel, the frequency of our lender specific reviews is directly related to an account's activity, that is larger accounts will receive more frequent reviews. The results of these reviews also allow for adjustments to underwriting processes and credit policy. Finally, our quality assurance team conducts independent reviews on key operational processes and critically important vendor activities.

Portfolio Management

We regularly monitor the characteristics and performance of our overall mortgage insurance portfolio. We monitor concentrations across a range of metrics including lender, geography, and policy year. Through stress testing, we evaluate the performance of the portfolio and identify risks to our strategic plan caused by its makeup in adverse economic scenarios. We also monitor performance against expected loss development from time of origination. Variations identified by product, performance, geography or otherwise inform adjustments to our guidelines and pricing strategies.

Business Continuity

We have a robust business continuity program to prepare for and manage through business interruptions. Maintenance and execution of our plan is led by a crisis management leader reporting to our Chief Risk Officer. We update our plan no less than annually to accommodate changes in business processes and third-party providers and test the plan regularly through tabletop exercises. In the fourth quarter of 2019, we tested our plan against a pandemic scenario. We implemented a business continuity plan in response to COVID-19 and employees have been successfully working from home since March 2020 and will continue to work from home until at least January 1, 2021. See "Risk Factors—Risks Relating to Our Business—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic," for a discussion on the COVID-19 virus. We have used a decentralized team of underwriters and other key functional employees for many years and all employees are capable and equipped to work remotely so that we can continue providing service to our customers through prolonged absences from the office.

Underwriting

We establish and maintain underwriting guidelines based on our risk appetite. We require borrowers to have a verified capacity and willingness to support their obligation and a well-supported valuation of the collateral. Our underwriting guidelines incorporate credit eligibility requirements that, among other things, limit our coverage to mortgages that meet our thresholds with respect to borrower FICO scores, maximum LTVs, documentation requirements and maximum debt-to-income ratios.

At present, our underwriting guidelines are largely consistent with those of the GSEs. Many of our customers use the GSEs' automated loan underwriting systems, Desktop Underwriter and Loan Product Advisor, for making credit determinations. We generally accept the underwriting decisions and documentation requirements made by GSEs' underwriting systems, subject to our review as well as certain limitations and requirements.

Over the past few years, more customers have requested expedited underwriting services. To meet customer demand, we invested in technologies, automation, data science and analytics to develop our proprietary mortgage insurance underwriting system. Our mortgage insurance underwriting system enables the capability to meet customer demand in a timely manner without sacrificing the accuracy of our underwriting decisions. Specifically, it has contributed to a substantial increase in our underwriters' productivity, more than doubling the number of loans our underwriters have processed on a daily basis since 2015, while remaining within our quality control tolerances. We believe our mortgage insurance underwriting system also differentiates us from the competition by allowing us to efficiently provide customized turn times from submission of a loan package to an underwriting decision for our customers and perform fee-based contract underwriting services. Our underwriting service was recognized "best-in-class" in each of 2016, 2017 and 2018 pursuant to a blind survey each year of 400 mortgage lenders, including a variety of lending institutions and professionals at those institutions.

Our policies are issued through one of two underwriting programs:

Non-Delegated Underwriting

For non-delegated underwriting, customers submit loan files to us and we individually underwrite each application to determine whether we will insure the loan. We use our mortgage insurance underwriting system to perform our non-delegated underwriting evaluations. Our underwriting staff is dispersed throughout the United States and we believe this allows us to make prompt, geographically-based underwriting determinations across different time zones in a timely manner to best serve our diverse customer base. In addition to our employees, we use domestically based, contract underwriters, as needed, to assist with underwriting capacity and drive efficiency.

Delegated Underwriting

We delegate to eligible lender customers the ability to underwrite mortgage insurance based on our delegated underwriting guidelines. To perform delegated underwriting, customers must be approved by our risk management group. Some customers prefer to assume underwriting responsibility because it is more efficient within their loan origination process and they are comfortable attesting that the data submitted is true and correct when making our insurance decision. We regularly perform quality assurance reviews on a statistically significant sample of delegated loans to assess compliance with our guidelines.

We also offer a post-closing underwriting review when requested by customers for both non-delegated and delegated loans. Upon satisfactory completion of this review, we agree to waive our right to rescind coverage under certain circumstances. In 2019, approximately 63% of our NIW by loan count went through one of our non-delegated underwriting services or quality assurance reviews, compared to 54% of our NIW by loan count in 2018.

Pricing

Pricing is highly competitive in the mortgage insurance industry, with industry participants competing for market share, customer relationships and overall value. Recent pricing trends have introduced an increasing number of loan, borrower, lender and property attributes, resulting in expanded granularity in pricing regimes and a shift from traditional published rate cards to dynamic pricing engines that better align price and risk. Our risk-based pricing engine, GenRATE, was developed using 1AF, which evaluates returns and volatility under both the PMIERs capital framework and our internal economic capital framework, which is sensitive to economic cycles and current housing market conditions. The model assesses the performance of new business under expected and stress scenarios on an individualized loan basis, which is used to determine pricing and inform our risk selection strategy that optimizes economic value by balancing return and volatility. Additionally, as a result of the current macroeconomic environment and COVID-19 pandemic, we have implemented pricing changes that we believe align our risk and return profile.

Our policy has been to set and charge premium rates commensurate with the underlying risk of each loan we insure. GenRATE, however, provides us with a more flexible, granular and analytical approach to selecting and pricing risk. Using GenRATE, we can quickly change price to modify our risk selection levels, respond to industry pricing trends or adjust to changing economic conditions.

Credit Risk Transfer

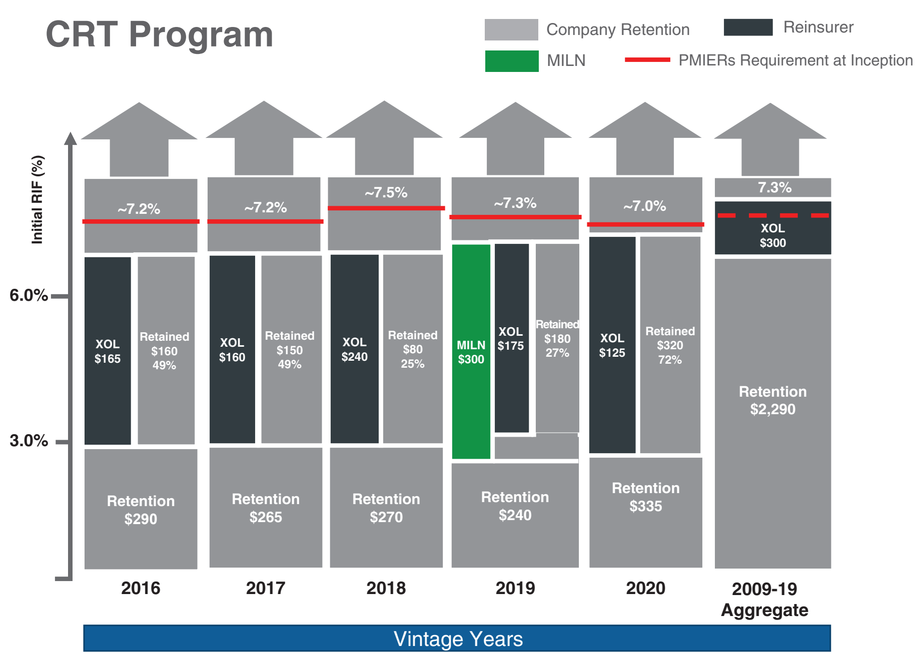
We use CRT structures to transfer a portion of our risk to highly rated counterparties through both traditional reinsurance arrangements and the issuance of MILN. Our CRT program reduces the volatility of our in-force portfolio and provides capital relief under PMIERs. Given the volatility protection, and capital relief at attractive terms, CRT has helped transform our business model from a “buy and hold” strategy to an “acquire, distribute and manage” approach. We believe our CRT program is a material component of our strategy and helps to protect future business performance and stockholder capital under stress scenarios.

Our CRT program distributes risk to both highly rated counterparties through our traditional reinsurance program, as well as to MILN investors via fully collateralized special purpose reinsurance vehicles. To-date, these transactions have been structured as XOL coverage where both the attachment and detachment points of the ceded risk tier are within the PMIERs capital requirements at inception, providing both loss volatility protection and PMIERs capital credit. Each reinsurance treaty has a term of ten years and provides a unilateral right to commute prior to the full term, subject to certain performance triggers. We select the type and structure of our CRT transactions based on a variety of factors including, but not limited to, capacity, cost, flexibility, sustainability and diversification. Since 2015, we have executed over $2.1 billion of CRT transactions across both traditional reinsurance arrangements and MILN transactions. As of June 30, 2020, over 90% of our RIF insurance is covered under our current CRT program, and we expect to begin transferring losses at an approximate 30% lifetime book year loss ratio and extend up to an approximate 70% lifetime book year loss ratio for our 2016 to 2020 books, depending on our co-participation level within the reinsurance tier for any book year.

Through our traditional reinsurance program, we have executed $1,807 million of XOL reinsurance coverage with highly rated reinsurers covering the 2009 to 2020 book years. We also recently completed a XOL reinsurance transaction covering a portion of the loss tier on subject loans written between the 2009 and 2019 book years, which provides additional capital flexibility of $300 million additional PMIERs capital credit and loss volatility protection in response to expected higher delinquency rates from COVID-19. The Company's traditional reinsurance coverage is provided by a panel of reinsurance partners each currently rated "A-" or better by Standard & Poor's or A.M. Best Company, Inc. These reinsurers are contractually required to collateralize a portion (typically 20 to 30%) of the reinsurance exposures consistent with PMIERs.

In 2019, we initiated our inaugural MILN transaction with Triangle Re 2019-1 Ltd. ("Triangle Re"), providing $303 million of fully collateralized XOL protection. This transaction provides coverage on a portfolio of existing mortgage insurance policies written from January 2019 through September 2019. The XOL reinsurance coverage is fully collateralized through a reinsurance trust agreement, which provides that the trust assets may only be invested in (i) money market funds; (ii) Treasury Department securities; and (iii) uninvested cash. Triangle Re financed the reinsurance coverage by issuing MILNs in an aggregate amount of $303 million to unaffiliated investors. The notes are non-recourse to us and our affiliates. See Note 6 to our audited consolidated financial statements and our unaudited condensed consolidated financial statements for further information. CRT transactions, including the transaction with Triangle Re discussed above, provided an aggregate of approximately $1,043 million of PMIERs capital credit as of June 30, 2020. Going forward, we plan to continue our "acquire, distribute and manage" programmatic approach to capital and risk management utilizing a combination of traditional reinsurance and MILNs, dependent upon market and other factors.

As depicted in the graphic below, our traditional reinsurance agreements and MILN transaction have been structured as XOL transactions where the Company retains the first loss position, the reinsurer or reinsurance trust account, as applicable, takes the second loss position, and the Company retains the remaining exposure above the reinsured tier. Within the reinsured tier, the Company co-participates in any losses under the terms of the traditional reinsurance agreement or MILN offering, as applicable.



(1) 2019 First loss retention based on MILN attachment.
(2) 2020 XOL covers full year 2020 production. Figures shown as of June 30, 2020.
(3) Dollars in millions, unless stated otherwise.

Delinquencies, Loss Management, and Claims

The delinquency and claim cycle generally begins with our receipt of a delinquency notice on an insured loan from the related servicer. We consider a loan to be delinquent when it is two or more mortgage payments past due. The incidence of delinquency is affected by a variety of factors, including housing price appreciation or depreciation, unemployment, the level of borrower income, divorce, illness, interest rate levels, general borrower creditworthiness and macroeconomic conditions, including the impact of pandemics such as COVID-19. See "Risk Factors—Risks Relating to Our Business—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic" and "—A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience." Delinquencies that are not cured result in a claim. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for a table setting forth the number of loans insured, the number of delinquent loans and the delinquency rate for business as of June 30, 2020.

Loans insured and originated since 2009 have experienced lower delinquency rates due to home price appreciation, low unemployment, the CFPB ATR Requirement and the QM Rule. The table below sets forth delinquency rates for each of our legacy books and newer books from 2009 through the present. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Delinquent loans and claims" for tables setting forth more details about our delinquency rates as of the dates indicated.

	As of June 30 2020		As of June 30, 2019		As of December 31, 2019		As of December 31, 2018	
	# of Defaults	Delinquency Rate	# of Defaults	Delinquency Rate	# of Defaults	Delinquency Rate	# of Defaults	Delinquency Rate
2008 and prior	12,017	13.67%	9,317	8.42%	8,848	9.01%	11,098	9.11%
2009-2019	41,570	5.14%	5,910	0.85%	7,544	1.00%	5,762	0.89%
Total	53,587	5.98%	15,227	1.88%	16,392	1.93%	16,860	2.18%

Our loss mitigation and claims area is led by seasoned personnel who are supported by default tracking and claims processing capabilities within our integrated platform. Our loss mitigation staff is also actively engaged with the GSEs and servicers regarding appropriate servicing and loss mitigation practices. We have granted loss mitigation delegation to the GSEs and servicers, whereby they perform certain loss mitigation efforts on our behalf. Moreover, the CFPB servicing rule obligates servicers to engage in early intervention and loss mitigation efforts with a borrower prior to foreclosure. These efforts have traditionally involved loan modifications intended to enable qualified borrowers to make restructured loan payments or efforts to sell the property, thereby potentially reducing claim amounts.

Our goal is to keep borrowers in their homes. If a loan becomes delinquent, we work closely with customers, investors and servicers to attempt to cure the delinquency and allow the homeowner to retain ownership of their property.

Claims result from delinquencies that are not cured, or from losses on short sales, other third-party sales or deeds-in-lieu of foreclosure that we approve. Various factors affect the frequency and severity of claims, including LTV at the time of foreclosure, size and coverage percentage of a loan, property values, employment levels and interest rates.

Under the terms of our primary insurance master policy, customers are required to file claims within 60 days of the earliest of (i) the date they have acquired title to the underlying property (typically through foreclosure), (ii) the date of an approved short sale or other third party sale of the underlying property, or (iii) the date a request is made by us to file a claim.

Upon review and determination that a claim is valid, we generally have the following three settlement options:

- Percentage option—determined by multiplying the claim amount by the applicable coverage percentage, with the customer retaining title to the property. The claim amount generally consists of the unpaid loan principal as of the date of default, plus delinquent interest and certain expenses associated with the default;
- Third-party sale option—pay the amount of the claim required to make the customer whole, commonly referred to as the "actual loss amount", following an approved sale; or
- Acquisition option—pay the full claim amount and acquire title to the property.

In 2019 and the first half of 2020, we settled approximately half our claims through the third-party sale or acquisition options due to continued home price appreciation and low unemployment.

Claim activity is not evenly spread across the coverage period of loans we insure. The frequency of delinquencies may not correlate directly with the number of claims received because the rate at which delinquencies are cured is influenced by borrowers' financial resources and circumstances, as well as regional economic differences. For those loans that fail to cure, whether delinquency leads to a claim principally depends upon the borrower's equity at the time of delinquency and the borrower's or the insured's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage loan. See "Regulation—Other Federal Regulation—Mortgage Servicing Rules."

When claim notices are received, we review loan and servicing files to determine the appropriateness of a claim amount. Failure to deliver required documentation or our review of such documentation may result in rescission, cancellation or claims denial. Our insurance policies provide that we can reduce or deny claims if the servicer does not materially comply with its obligations under our policies, including the requirement to pursue reasonable loss mitigation actions. We also periodically receive claim notices that request coverage for costs and expenses associated with items not covered under our policies, such as losses resulting from property damage to a covered home. We actively review claim notices to ensure we pay only for covered expenses. We deem a reduction in the claim amount paid relative to the amount requested in the claim notice to be a curtailment.

When reviewing loan and servicing files in connection with the delinquency or claims process, we may also decide to rescind coverage of the underlying mortgages or deny payment of claims. Our ability to rescind coverage is limited by the terms of our master policies. We may rescind coverage in situations where, among other things, (i) fraudulent misrepresentations were made or materially inaccurate information was provided regarding a borrower's income, debts, intention to occupy a property or property value or (ii) a loan was originated in material violation of our underwriting guidelines.

We will consider an insured's appeal of our decision and, if we agree with the appeal, we take the necessary steps to reinstate our insurance coverage and reactivate the loan certificate or otherwise address the issues raised in the appeal. If the parties are unable to agree on the outcome of the appeal, the insured may choose to pursue arbitration or litigation under the terms of the applicable master policy and challenge the results. Subject to applicable limitations in our policies and State law, legal challenges to our actions may be brought several years after we dispose of a claim.

From time to time, we enter into agreements with policyholders to accelerate claims and negotiate an agreed-upon payment amount for claims on an identified group of delinquent loans. In exchange for our accelerated claim payment, mortgage insurance is canceled, and we are discharged from any further liability on the identified loans.

Information Technology

We develop and invest in technology in order to drive operational excellence, ensure a superior customer experience and support our overall business objectives. Our business heavily relies upon information technology and a number of critical aspects are highly automated. We accept insurance applications, issue approvals, process claims and reconcile premium remittance through electronic submission. In order to facilitate these processes, we have established direct connections to the origination and servicing systems of many of our customers and servicers so that our customers can select our mortgage insurance products and communicate with us directly from within their own system architecture. We also provide our customers secure access to our web-based portals to facilitate transactions and provide customers with access to their account information.

We have made a number of strategic investments in our technology infrastructure, including our:

- Proprietary underwriting platform, GENie;
- Lender and servicer integration capabilities;
- Proprietary risk modeling platform, 1AF;
- Business rules engine that automatically enforces our eligibility guidelines and pricing rules;
- Management and portfolio reporting capabilities; and
- Award-winning rate quote and ordering website.

We are regularly upgrading and enhancing our systems and technology, with an eye towards expanding our capabilities, improving productivity and enhancing our customer experience, including:

- Policy administration, billing, delinquency, and claims processes and systems;
- Enhancing the speed and efficiency of our pricing and auto-decisioning capabilities;
- Ensuring optimal integration capabilities to our customers' loan origination and mortgage insurance ordering processes; and
- Artificial intelligence and machine learning in the areas of risk and portfolio management.

We have also implemented an overarching technology strategy that utilizes Cloud, Software as a Service, commercial software, and in some cases proprietary technology to provide scalability, flexibility and an enhanced security posture. Technology costs are managed by the continued automation of key business processes, reducing our application portfolio and using contract employees to scale resource capacity as needed.

We employ a multi-layered approach to data security and data privacy. This approach begins with our robust information security program, which is based on National Institute of Standards and Technology, 800-53. Our program prescribes policies and standards that delineate requirements for the implementation and on-going maintenance of our information systems as well as security responsibilities for all personnel. We review these policies and standards annually and update as needed. We take steps to ensure that all information security policies are maintained and enforced and that all personnel are educated on their responsibilities. We maintain a "defense-in-depth" model, which employs multiple layers of protection for the entire company. Among other things, we perform external and internal risk assessments, penetration testing, vulnerability scanning, secure code development, and monthly security awareness training (including phishing awareness tests) for all personnel. The chief information officer and chief information security officer, together with our compliance organization, among others, ensure the requirements of our information security program satisfy applicable legal and regulatory requirements.

Investment Portfolio

Oversight and management of our investment portfolio and compliance with our investment policy are delegated by our board of directors to our Parent's investment committee and chief investment officer. In addition, for certain asset classes, we utilize external asset management. In the future, we may choose to more broadly engage external asset managers. Our senior management team along with our board of directors review investment performance and strategy on a periodic basis. As of June 30, 2020, the fair value of our investment portfolio was approximately $4.4 billion of fixed maturity assets, of which 97% was rated as investment grade. We had an additional $418.6 million of cash and cash equivalents as of June 30, 2020. The primary objectives of managing the investment portfolio are to preserve capital, generate investment income and maintain sufficient liquidity to cover our operating expenses and pay future insurance claims. Investment strategies are implemented emphasizing fixed income, low volatility, highly liquid assets to meet expected and unexpected financial obligations while enhancing risk adjusted, after-tax yields. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Investment Portfolio."

Our board approved investment policy utilizes defined investment guidelines such as, but not limited to, asset sector, single issuer concentration and credit ratings to ensure compliance with risk management limits, regulatory requirements, and applicable laws. Further, the policy seeks to restrict assets correlated with the residential mortgage market. Asset class mix and risks are regularly evaluated in the context of current and future capital market conditions, liability profiles, and return objectives. The investment portfolio is regularly stress tested to evaluate its ability to meet unexpected liquidity needs due to elevated liabilities. Our investment policies and strategies are subject to change depending on regulatory, economic and market conditions, as well as our prevailing operating objectives; however, we have made no changes to our investment strategies as a result of COVID-19.

Properties

We are currently leasing our home office in Raleigh, North Carolina, which consists of approximately 130,000 square feet. The lease is set to expire on December 31, 2027. Additionally, we lease a second office in Washington, D.C. consisting of approximately 2,022 square feet. That lease is set to expire on November 12, 2022. We believe our current facilities are adequate for our current needs and that suitable additional or alternative space will be available as and when needed.

Employees

As of December 31, 2019, we had approximately 525 full-time employees, all of whom work in the United States. Of those employees, 57% are located in our Raleigh, North Carolina office and the remaining 43% are in the field, predominantly working in sales and underwriting. We supplement our workforce, as needed, with independent contractors. Our employees and contractors are equipped to work on a remote basis. None of our employees are represented by a union or subject to a collective servicing agreement and management believes that our relationship with our employees is good.

Legal Proceedings

We are not subject to any pending material legal proceedings.

REGULATION

General

Our insurance operations are generally subject to extensive oversight and a wide variety of laws and regulations. State insurance laws and regulations govern most aspects of our insurance business and are enforced by the insurance departments of each jurisdiction in which our insurers are licensed, with the NCDOI being the lead regulator for our North Carolina domiciled insurers. Our insurance products and business also are affected by federal, state and local laws, including tax laws.

The primary purpose of the state insurance laws and regulations regulating our insurance business is to protect our insureds, not our creditors. These laws and regulations are regularly re-examined by state regulators and any changes to these laws or new laws may be more restrictive or otherwise adversely affect our operations.

Insurance and other regulatory authorities (including state law enforcement agencies and attorneys general) may make inquiries regarding compliance with insurance, securities and other laws and regulations, and we cooperate with such inquiries and take corrective action when warranted.

United States Insurance Regulation

Our insurance subsidiaries are licensed and regulated in all jurisdictions in which they conduct insurance business. The extent of this regulation varies, but state insurance laws and regulations generally grant both broad and specific regulatory powers to agencies or officials to examine the affairs of our insurance subsidiaries and to enforce statutes and administrative rules or exercise discretion affecting almost every aspect of their businesses. For example, state insurance laws and regulations typically govern the financial condition of insurers, including standards for solvency, types and concentrations of permissible investments, establishment and maintenance of reserves, credit for reinsurance, requirements for capital adequacy, and the business conduct of insurers, including marketing, sales practices, and claims handling. State insurance laws and regulations also usually require the licensing of insurers and agents, and the approval of policy forms and rates. In addition, states may require actuarial justification of rates on the basis of the insurer's loss experience, expenses and future projections.

Mortgage guaranty insurance premium rates and policy forms are subject to regulation in every jurisdiction in which our insurance subsidiaries are licensed to transact business in order to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates. In most jurisdictions, premium rates and policy forms must be filed prior to their use. In some states, such rates and forms must also be approved prior to use. Changes in premium rates are often subject to justification, generally on the basis of loss experience, expenses and future trend analysis. In addition, jurisdictions may consider general default experience in the mortgage insurance industry in assessing the premium rates charged by mortgage guaranty insurers. The state insurance laws and regulations of general applicability, along with certain additional state insurance laws and regulations that are applicable specifically to mortgage guaranty insurers, are described below.

Insurance Holding Company Regulation

Certain of our insurance subsidiaries are subject to the holding company act in North Carolina and are required to furnish various information concerning the operations of, and the interrelationships and transactions among, companies within our holding company system that may affect the operations, management or financial condition of the insurers within such holding company system. Under state insurance laws and regulations, our insurance subsidiaries must file reports, including detailed annual and quarterly financial statements, with the insurance regulator in North Carolina and the NAIC, and our operations and accounts are subject to periodic or target examination by any insurance regulator of a jurisdiction in which we conduct business. Mortgage guaranty insurers generally are limited by state insurance laws and regulations to directly writing only mortgage guaranty insurance business to the exclusion of other types of insurance.

State insurance laws and regulations also regulate transactions between insurers and their affiliates, sometimes mandating prior notice to the regulator and/or regulatory approval. Generally, state insurance laws and regulations require that all transactions between an insurer and an affiliate be fair and reasonable, and that the insurer's statutory surplus following such transaction be reasonable in relation to its outstanding liabilities and adequate to its financial needs. Certain transactions may not be entered into unless the applicable regulator is given 30 days' prior notification and does not disapprove the transaction during such 30-day period.

State insurance laws and regulations also require that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an "enterprise risk report" that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Finally, most jurisdictions have adopted insurance laws or regulations setting forth detailed requirements for cost sharing and management agreements between an insurer and its affiliates.

State insurance laws and regulations require that a person obtain the approval of the insurance commissioner of an insurer's domiciliary jurisdiction prior to acquiring control of such insurer. Control of an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the insurer or any parent entity; although such presumption may be rebutted. In considering an application to acquire control of an insurer, the insurance commissioner generally considers factors such as the experience, competence and financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquirer's plans for the management and operation of the insurer, and any anti-competitive results that may arise from the acquisition. Most jurisdictions also now require a person seeking to acquire control of an insurer licensed but not domiciled in that jurisdiction to make a filing prior to completing an acquisition if the acquirer and its affiliates and the target insurer and its affiliates have specified market shares in the same lines of insurance in that jurisdiction. These provisions may not require acquisition approval but can lead to imposition of conditions on an acquisition that could delay or prevent its consummation. In certain situations, state insurance laws and regulations also require that a controlling person of an insurer submit prior notice to the insurer's domiciliary insurance regulator of a divestiture of control. Similarly, with respect to our contract underwriting entity, Genworth Financial Services, Inc., prior approval from state banking commissioners is required in some jurisdictions prior to acquiring control of our contract underwriting entity, which is licensed or has an approved license exemption in most states.

Our insurance subsidiaries' payment of dividends or other distributions to our holding company is regulated by the state insurance laws and regulations of their respective domiciliary states. Our insurance subsidiaries may pay dividends only from unassigned surplus; payments made from sources other than unassigned surplus are categorized as distributions. An ordinary or "extraordinary" dividend may not be paid until 30 days after the Commissioner has received notice of the declaration thereof and (i) has not within that period disapproved the payment or (ii) has approved the payment within the 30-day period. Any distribution, regardless of amount, requires that same 30-day notice to the Commissioner but also requires the Commissioner's affirmative approval before being paid.

An "extraordinary" dividend or distribution is defined as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater of: (i)

10% of the insurer's statutory surplus as of the immediately prior year end; or (ii) the statutory net income (loss) during the prior calendar year.

In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurers (such as a payment under a tax sharing agreement or for employment or other services) if they determine that such payment could be adverse to our policyholders or would not be fair and reasonable to the insurer.

NAIC

The NAIC is an organization, the mandate of which is to benefit state insurance regulatory authorities and consumers by promulgating model insurance laws and regulations for adoption by the states. The NAIC also provides standardized insurance industry accounting and reporting guidance through the NAIC Accounting Manual. However, model insurance laws and regulations are only effective when adopted by the states, and SAP and reporting principles continue to be established by individual state laws, regulations and permitted practices. Changes to the NAIC Accounting Manual or modifications by the various state insurance departments may affect the statutory capital and surplus of our insurance subsidiaries.

The NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the "ORSA Model Act"). The ORSA Model Act requires an insurance holding company system's chief risk officer to submit annually to its lead state insurance regulator an Own Risk and Solvency Assessment Summary Report (the "ORSA Report"). The ORSA Report is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. Most states, including North Carolina have adopted the ORSA Model Act. Under the ORSA Model Act, our insurance subsidiaries are required to:

- regularly, no less than annually, conduct an ORSA Report to assess the adequacy of our insurance subsidiaries' risk management framework, and current and estimated projected future solvency position;
- internally document the process and results of the assessment; and
- provide a confidential high-level ORSA Report annually to the lead state commissioner if the insurer is a member of an insurance group and make such report available, upon request, to other domiciliary state regulators within the holding company group.

The NAIC has adopted several model laws and regulations as part of its now completed Solvency Modernization Initiative. For example, the NAIC adopted the Corporate Governance Annual Disclosure Model Act and the Corporate Governance Annual Disclosure Model Regulation (the "Corporate Governance Model Act and Regulation"), that would require insurers to disclose detailed information regarding their governance practices. The Corporate Governance Annual Disclosure Model Act (as opposed to the corresponding regulation) has been adopted in North Carolina. In addition, the NAIC adopted amendments to the insurance holding company model act and regulations (the "NAIC Holding Company Amendments") that would authorize United States regulators to, among other items, lead or participate in the group-wide supervision of certain international insurance groups. North Carolina has adopted a version of the NAIC Holding Company Amendments.

Examinations

State insurance laws and regulations govern the marketplace for insurers, affecting the form and content of disclosure to insureds, advertising, sales and underwriting practices and complaint and claims handling, and these provisions are generally enforced through periodic or target market conduct examinations. State insurance departments may conduct periodic or target detailed examinations of the books, records, accounts and business practices of insurers licensed in their states. These examinations are sometimes conducted in cooperation with insurance departments of multiple other states or jurisdictions representing each of the NAIC zones, under guidelines promulgated by the NAIC.

Past regulatory examinations and inquiries have not resulted, and are not expected to result, in a material adverse effect on us or our insurance subsidiaries' financial position or results of operations. The most recent financial examination report of GMICO completed by the NCDOI was issued in January 2018 covering the period of January 2, 2012 through December 31, 2016 and any material transactions and events subsequent to the examination date and noted during the course of the exam. The examination report is available to the public.

Accounting Principles

State insurance regulators developed SAP as a basis of accounting used to monitor and regulate the solvency of insurers. Since insurance regulators are primarily concerned with ensuring an insurer's ability to pay its current and future obligations to policyholders, statutory accounting conservatively values the assets and liabilities of insurers, generally in accordance with standards specified by such insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and are generally adopted by regulators in the various state jurisdictions. Due to differences in methodology between SAP and GAAP, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP are often materially different from those reflected in financial statements prepared under SAP.

Market Conduct

State insurance laws and regulations govern the marketplace activities of insurers, affecting the form and content of disclosure to consumers, advertising, product replacement, sales and underwriting practices, and complaint and claims handling, and these provisions are generally enforced through periodic market conduct examinations. Our insurance subsidiaries are not currently undergoing market conduct reviews in any states.

Investments

State insurance laws and regulations require diversification of our insurance subsidiaries' investment portfolio and limit the proportion of, or in some cases totally prohibit, investments our insurance subsidiaries may hold in different asset categories. Assets invested contrary to such regulatory limitations must be treated as non-admitted assets for assessing an insurer's solvency unless a waiver is given by the insurer's domestic insurance regulator, and, in some instances, regulations require divestiture of such non-complying investments. We believe our insurance subsidiaries' investments are in compliance with these state insurance laws and regulations or are subject to any applicable waivers.

Capital and Surplus Requirements

Insurance regulators have the discretionary authority, in connection with maintaining the licensing of our insurance subsidiaries, to limit or restrict insurers from issuing new policies, or to take other actions, if, in the regulators' judgment, the insurer is not maintaining a sufficient amount of surplus or reserves, or is in a hazardous financial condition. We seek to maintain new business and capital management strategies to support meeting related regulatory requirements.

Mortgage Guaranty Insurance Capital and Surplus Requirements. Mortgage guaranty insurers are not subject to the NAIC's RBC requirements but certain states impose other forms of capital requirements on mortgage guaranty insurers, requiring maintenance of a RTC ratio not to exceed 25:1. Policyholder position is defined as surplus as regards policyholders plus contingency reserves, less ceded reinsurance. In this document, we show policyholder position as statutory capital. We had a combined RTC ratio of approximately 12.0:1 and 12.2:1 as of June 30, 2020 and December 31, 2019, respectively. The current regulatory framework of the NCDOI used to calculate our RTC ratio differs from the capital requirements of the GSEs. See "—Agency Qualification Requirements."

The NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and considering changes to the MGI Model. In December 2019, a working group of state regulators released exposure drafts of the revised MGI Model, including new proposed mortgage guaranty insurance capital requirements for mortgage insurers. The process for developing this framework is ongoing, and the outcome of this process remains uncertain. At this time, we cannot predict (i) the outcome of this process; (ii) which states, if any, may adopt the MGI Model; (iii) the effect changes, if any, will have on the mortgage guaranty insurance market generally, or on our business specifically; (iv) the additional costs associated with compliance with any such changes; or (v) any changes to our operations that may be necessary to comply, any of which could have a material adverse effect on our business, results of operations and financial condition. We also cannot predict whether other regulatory initiatives will be adopted and what impact, if any, such initiatives, if adopted as laws, may have on our business, results of operations and financial condition.

Group Capital Requirements. The NAIC and international insurance regulators, including the International Association of Insurance Supervisors ("IAIS"), are continuing to develop group capital standards. Likewise, United States state insurance regulators have expressed a need for the development of a group capital calculation as an additional solvency evaluation. See "Risk Factors—Risks Relating to Regulatory Matters—We are subject to minimum statutory capital requirements that, if not met or waived, would result in restrictions or prohibitions on our doing business and could have a material adverse impact on our business, results of operations and financial condition."

The IAIS has been developing a risk-based global insurance capital standard ("ICS") based upon 10 key principles, which will apply to internationally active insurance groups. While we currently only write in the United States, we are part of the broader group of insurance companies of our Parent. The IAIS adopted a revised version of the ICS in 2019 and will begin a five-year monitoring period in 2020 prior to final implementation. It is unclear how the development of group capital measures by the NAIC and IAIS will interact with existing capital requirements for insurance companies in the United States and with international capital standards. It is possible that the broader Genworth group may be required to hold additional capital as a result of these developments.

Reserves

State insurance laws and regulations require our insurance subsidiaries to establish a special statutory contingency reserve reflected in their statutory financial statements to provide for payable claims and other expenses and purposes in the event of significant economic declines. Annual additions to the statutory contingency reserve must equal 50% of net earned premiums as defined by state insurance laws and regulations. These contingency reserves generally are held until the earlier of (i) 10 years after which such amounts can be released into surplus or (ii) when loss ratios exceed 35% in which case, the amount above 35% can be released under certain circumstances, although regulators have granted discretionary releases from time to time. However, approval by the NCDOI is required for contingency reserve releases when loss ratios exceed 35%. The establishment of the statutory contingency reserve is funded by premiums that would otherwise generate net earnings that would be reflected in policyholder surplus. This deferral of premiums into the contingency reserve limits our insurance subsidiaries' ability to pay dividends to stockholders until those contingency reserves are released back into surplus. Our insurance subsidiaries' statutory contingency reserve was approximately $2,277 million and $2,032 million as of June 30, 2020 and December 31, 2019, respectively.

Dodd-Frank Act and Other Federal Initiatives

Although the federal government generally does not directly regulate the insurance business, federal initiatives often have an impact on the business in a variety of ways. From time to time, federal measures are proposed that may significantly affect the insurance business. These areas include financial services regulation, securities regulation, derivatives regulation, pension regulation, money laundering, privacy regulation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed in recent years.

The Dodd-Frank Act made extensive changes to the laws regulating financial services firms and required various federal agencies to adopt a broad range of new implementing rules and regulations, many of which have taken effect.

The Dodd-Frank Act prohibits a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan. In addition, the Dodd-Frank Act created the CFPB, which regulates certain aspects of the offering and provision of consumer financial products or services but not the business of insurance. Certain rules established by the CFPB require mortgage lenders to demonstrate that they have effectively considered the consumer's ability to repay a mortgage loan, establish when a mortgage may be classified as a QM and determine when a lender is eligible for a safe harbor or rebuttable presumption that the lender has complied with the ability-to-repay requirements.

The Dodd-Frank Act also established a Financial Stability Oversight Council ("FSOC"), which is authorized to subject non-bank financial companies, which may include insurance companies, deemed systemically significant to stricter prudential standards and other requirements and to subject such companies to a special orderly liquidation process outside the federal Bankruptcy Code, administered by the FDIC. We have not been, nor do we believe we will be, designated as systemically significant by FSOC. FSOC's potential recommendation of measures to address systemic financial risk could affect our insurance operations. A future determination that we are systemically significant could impose significant burdens on us, impact the way we conduct our business, increase compliance costs, duplicate state regulation and result in a competitive disadvantage.

The Dodd-Frank Act established a Federal Insurance Office ("FIO") within the Treasury Department. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("Reform Act") was signed into law. Instead of repealing the Dodd-Frank Act, the Reform Act focused largely on providing relief for smaller banking institutions with total assets below $10 billion and re-defining asset thresholds for a systemically important financial institution. The Reform Act also directs the Director of FIO and the Board of Governors of the U.S. Federal Reserve to support increased transparency at global insurance or international standard-setting regulatory or supervisory forums, and to achieve consensus positions with the states through the NAIC prior to taking a position on any insurance proposal by a global insurance regulatory or supervisory forum. We cannot predict the requirements of all of the regulations adopted under the Dodd-Frank Act or the Reform Act, the effect such legislation or regulations will have on financial markets generally, or on our business specifically, the additional costs associated with compliance with such regulations or legislation, or any changes to our operations that may be necessary to comply with the Dodd-Frank Act and the regulations thereunder, any of which could have a material adverse effect on our business, results of operations, cash flows or financial condition. We also cannot predict whether other federal initiatives will be adopted or what impact, if any, such initiatives, if adopted as laws, may have on our business, financial condition or results of operations.

Agency Qualification Requirements

As the largest purchasers of conventional mortgage loans, and therefore, the main beneficiaries of private mortgage insurance, the GSEs impose eligibility requirements that private mortgage insurers must satisfy in order to be approved to insure loans purchased by the GSEs. The PMIERs originally became effective on December 31, 2015. On September 27, 2018, the GSEs issued revisions to the PMIERs, which became effective March 31, 2019. The PMIERs aim to ensure that approved insurers will possess the financial and operational capacity to serve as strong counterparties to the GSEs throughout various market conditions. The PMIERs are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer of GSE loans, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer and the approved insurer's financial condition. The PMIERs contain extensive requirements related to the conduct and operations of our mortgage insurance business, including operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others. In addition, the PMIERs prohibit private mortgage insurers from engaging in certain activities such as insuring loans originated or serviced by an affiliate (except under certain circumstances) and require private mortgage insurers to obtain the prior consent of the GSEs before taking certain actions, which may include entering into various intercompany agreements and commuting or reinsuring risk, among others. As of December 31, 2019 and 2018, we met the PMIERs financial and operational requirements, based in part on our entry into a series of reinsurance transactions, and currently hold a reasonable amount in excess of the financial requirements.

The PMIERs include financial requirements for mortgage insurers under which a mortgage insurer's "Available Assets" (which are generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's RIF and are calculated from tables of factors with several risk dimensions and are subject to a floor amount) and otherwise generally establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the respective GSE for acquisition of Low-Down Payment Loans. The GSEs may amend or waive PMIERs and have broad discretion to interpret PMIERs.

The operational PMIERs requirements include standards that govern the relationship between the GSEs and approved insurers and are designed to ensure that approved insurers operate under uniform guidelines, such as claim processing timelines. They include quality control requirements that are designed to ensure that approved insurers have a strong internal risk management infrastructure and senior management oversight.

On June 29, 2020, the GSEs issued both temporary and permanent amendments to PMIERs, which became effective on June 30, 2020. With respect to loans that became non-performing due to a COVID-19 hardship, PMIERs was temporarily amended with respect to each non-performing loan that (i) has an initial missed payment occurring on or after March 1, 2020 and prior to January 1, 2021, or (ii) is subject to a forbearance plan granted in response to a COVID-19 hardship, the terms of which are materially consistent with terms of forbearance plans offered by the GSEs. The risk-based required asset amount factor for the non-performing loan will be the greater of (a) the applicable risk-based required asset amount factor for a performing loan were it not delinquent, and (b) the product of a 0.30 multiplier and the applicable risk-based required asset amount factor for a non-performing loan. In the case of (i), the 0.30 multiplier will be applicable for up to four calendar months from the date of the initial missed payment absent a forbearance plan described in (ii) above. The PMIERs amendments also impose temporary capital preservation provisions through March 31, 2021, that require an approved insurer to obtain prior written GSE approval before paying any dividends, pledging or transferring assets to an affiliate or entering into any new, or altering any existing, arrangements under tax sharing and intercompany expense-sharing agreements, even if such insurer has a surplus of available assets. Lastly, the amendments impose permanent revisions to the risk-based required asset amount factor for non-performing loans for properties located in future FEMA Declared Major Disaster Areas eligible for Individual Assistance.

Under PMIERs, we are subject to these operational and financial requirements. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERs. As of June 30, 2020, we had available assets of $4,218 million against $2,943 million net required assets under PMIERs compared to available assets of $3,811 million against $2,754 million net required assets as of December 31, 2019. The sufficiency as of June 30, 2020 was $1,275 million or 143% above the PMIERs requirements, compared to $1,057 million, or 138% above the PMIERs requirements as of December 31, 2019. See "Summary—Recent Developments—PMIERs and GSE Conditions."

In their respective letters approving credit for reinsurance against PMIERs financial requirements, the GSEs require our U.S. mortgage insurance subsidiary to maintain a maximum statutory RTC ratio of 18:1 or they reserve the right to reevaluate the amount of PMIERs credit indicated in their approval letters. Freddie Mac has also imposed additional requirements on our option to commute these reinsurance agreements. Both GSEs reserved the right to periodically review the reinsurance transactions for treatment under PMIERs.

In connection with the offering, we have engaged in discussions with the GSEs and FHFA to address certain GSE objectives of improving our Parent's leverage and coverage ratios materially or for the Issuer and GMICO to achieve greater independence from our Parent with regard to capital access, capital flows and financial strength ratings. As part of these discussions, we have committed in principle to retain initially $300 million of the net proceeds from the offering to pay interest on the notes and to be available, if needed, to provide capital support to GMICO. In addition, we currently expect that GMICO will agree to maintain, effective as of the closing of the offering, PMIERs capital at a level of 115% of the current requirements. See "Regulation—Agency Qualification Requirements." We, our Parent and GMICO also have committed to submit a plan to the GSEs to achieve the GSE objectives described above. Following the submission of this plan and as a result of our ongoing discussions (the outcome of which we cannot predict at this time), the GSEs may include additional or different conditions to those described above, which individually or in the aggregate may be material. See "Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition."

Although we expect we will continue to retain our eligibility status with the GSEs, there can be no assurance these conditions will continue. See "Risk Factors—Risks Relating to Regulatory Matters—If we are unable to continue to meet the requirements mandated by PMIERs because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Conditions."

China Oceanwide Transaction

The GSEs' approval of our Parent's proposed merger with China Oceanwide includes certain conditions. These conditions include the requirement for GMICO to hold PMIERs available assets in excess of 115% of PMIERs requirements for a minimum of six quarters following the closing date of the merger. Given the passage of time since their approval, the GSEs are currently reviewing updated information from both China Oceanwide and us, and they may impose additional or different conditions in connection with their approval of our Parent's proposed merger. We cannot predict whether the GSEs will impose new or different conditions, but they may materially increase our capital requirements or impose material restrictions.

Furthermore, we expect to reach agreement with the GSEs regarding additional PMIERs capital requirements and other restrictions in connection with the offering, and the GSEs may impose additional or different requirements in the future in connection with any subsequent debt or equity actions taken by us or our Parent, depending on our or our Parent's satisfaction of certain financial conditions and regardless of whether the China Oceanwide transaction occurs. We cannot predict what future actions the GSEs may take or what restrictions they may impose on us, but they may materially increase our capital requirements or impose material restrictions. See "Summary—Recent Developments—PMIERs and GSE Conditions."

Other Federal Regulation

We and other private mortgage insurers are impacted by federal regulation of residential mortgage transactions with respect to mortgage originators and lenders, purchasers of mortgage loans such as Fannie Mae and Freddie Mac, and governmental insurers such as the FHA and the VA. Mortgage origination and servicing transactions are subject to compliance with various state and federal laws, including RESPA, HOPA, FCRA, the Fair Housing Act, the Truth In Lending Act, the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), the Dodd-Frank Act and others, including those discussed in this section. Among other things, these laws and their implementing regulations prohibit payments for referrals of settlement service business, require fairness and non-discrimination in granting or facilitating the granting of insurance, govern the circumstances under which companies may obtain and use consumer credit information, and provide for other consumer protections. Additionally, changes in federal housing legislation and other laws and regulations that affect the demand for private mortgage insurance may have a material effect on private mortgage insurers. Legislation or regulation that increases the number of people eligible for FHA or VA mortgages could have a materially adverse effect on our ability to compete with the FHA or the VA.

Federal Laws

RESPA applies to most residential mortgages insured by private mortgage insurers. Mortgage insurance is considered a "settlement service" for purposes of loans subject to RESPA. Subject to limited exceptions, RESPA precludes us from providing services to mortgage lenders or other settlement service providers free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that others provide that are higher than their reasonable or fair market value. In addition, RESPA prohibits persons from giving or accepting any portion or percentage of a charge for a real estate settlement service, other than for services actually performed. Although many states prohibit mortgage insurers from giving rebates, RESPA has been interpreted to cover many non-fee services as well. Mortgage insurers and their customers are subject to the possible sanctions of this law, which may be enforced by the CFPB, state insurance departments, state attorneys general and other enforcement authorities.

HOPA provides for the automatic termination, or cancellation upon a borrower's request, of the borrower's obligation to pay for private mortgage insurance upon satisfaction of certain conditions. HOPA applies to owner-occupied residential mortgage loans regardless of lien priority and to BPMI closed after July 29, 1999. HOPA requires lenders to automatically terminate a borrower's obligation to pay for mortgage insurance once the LTV reaches 78%. A borrower generally may also request cancellation of mortgage insurance from their lender once the actual payments reduce the loan balance to 80% of the home's original value. For borrower-initiated cancellation of mortgage insurance, the borrower must have a "good payment history" as defined by HOPA.

FCRA imposes restrictions on the permissible use of credit report information and requires mortgage insurance companies to provide "adverse action" notices to consumers in the event an application for mortgage insurance is declined or offered at less than the best available rate for the loan program applied for due to information contained in a consumer's credit report. There has been past class action litigation over these FCRA adverse action notices involving the mortgage insurance industry, including court-approved settlements.

The Fair Housing Act generally prohibits discrimination in the terms, conditions or privileges in residential real estate-related transactions on the basis of race, color, religion, sex, familial status or national origin. Numerous courts have held that the Fair Housing Act prohibits discriminatory insurance practices. In addition, both the Department of Justice ("DOJ") and the CFPB have pursued claims under the Fair Housing Act on a disparate impact theory as well. There has been litigation over the Fair Housing Act involving other mortgage insurers, resulting in some cases in court-approved settlements.

Mortgage Servicing Rules

The CFPB Servicing Rule established servicer requirements for handling loans that are in default, handling escrow accounts, responding to borrower assertions of error, and loss mitigation in the event that a borrower defaults. A provision of the required loss mitigation procedures prohibits a loan holder or servicer from commencing foreclosure until 120 days after the borrower's delinquency. Since 2014, the CFPB has clarified those rules through subsequent rulemakings and provided guidance on how servicers must apply them in certain circumstances, including recent clarifications as a result of COVID-19.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act, referred to as the CARES Act, was signed into law. On April 3, 2020, the CFPB and the federal and state banking regulators issued a joint statement to clarify existing flexibility in the mortgage servicing rules that servicers can use to help consumers during the COVID-19 emergency, including those applicable to mortgage forbearance options under the CARES Act. The joint statement addresses flexibility around required notices from servicers and the existing requirements related to continuity of contact and reasonable diligence steps required when the forbearance ends. These rules could reduce claims and mitigate losses, but may also contribute to delays in foreclosure and have an adverse impact on resolution of claims with respect to the servicing of mortgage loans covered by our insurance policies.

The CARES Act provides financial assistance for businesses and individuals and targeted regulatory relief for financial institutions. Among many other things, for up to 120 days after the termination date of the national emergency concerning COVID-19 declared by the President of the United States on March 13, 2020 under the National Emergencies Act, the CARES Act requires mortgage servicers to provide up to 180 days of forbearance for borrowers with a federally backed mortgage loan who assert they have experienced a financial hardship related to COVID-19. Forbearance may be extended for an additional 180 days up to a year in total or shortened at the request of the borrower. Federally backed mortgages include FHA and VA backed loans and those purchased by Fannie Mae and Freddie Mac. The CARES Act also prohibited foreclosures on all federally backed mortgage loans, except for vacant and abandoned properties, for a 60-day period that began on March 18, 2020. Since the introduction of the CARES Act, the GSEs as well as most servicers of non-federally backed mortgage loans have announced that they will be extending similar relief to their respective portfolios of loans. The FHFA extended the foreclosure moratorium until August 31, 2020 for mortgages that are purchased by Fannie Mae and Freddie Mac. At the conclusion of the forbearance term, a borrower may either bring their loan current, defer any missed payments until the end of their loan, or the loan can be modified through a repayment plan or extension of the mortgage term. In addition, the CARES Act provides that furnishers of credit reporting information, including servicers, should continue to report a loan as current to credit reporting agencies if the loan is subject to a payment accommodation, such as forbearance, so long as the borrower abides by the terms of the accommodation. Servicers are working on updating their reporting to private mortgage insurers to include whether a loan is covered by forbearance.

Any delays in foreclosure, including foreclosure moratoriums imposed by state and local governments and the GSEs due to COVID-19, could cause our losses to increase as expenses accrue for longer periods or if the value of foreclosed homes further decline during such foreclosure delays. If we experience an increase in claim severity resulting in claim amounts that are higher than expected, our business, results of operations and financial condition could be adversely affected. See "Risk Factors—Risks Relating to Our Business—The COVID-19 pandemic has adversely impacted our business, and its ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the further resurgence of cases of the disease, the reimposition of restrictions designed to curb its spread and other actions taken by governmental authorities in response to the pandemic."

Regulation of Mortgage Origination

Private mortgage insurers are also indirectly impacted by federal law and regulation affecting mortgage originators and lenders, purchasers of mortgage loans, and governmental insurers. Among the most significant of these laws and regulations are the Dodd-Frank Act QM and the ATR Requirement and the QRM securitization risk retention provisions.

ATR and QM Rules. The Dodd-Frank Act ATR Requirement prohibits a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination based on verified and documented information that, at the time the loan is consummated, the borrower has a reasonable ability to repay the loan. The Dodd-Frank Act provides that a creditor may presume that a borrower will be able to repay a loan if the loan has certain low-risk characteristics that meet the definition of a QM.

Pursuant to its authority under the Dodd-Frank Act, the CFPB issued regulations that became effective on January 10, 2014, establishing underwriting and product feature requirements for mortgages to be deemed QMs. The regulations provide that mortgages that meet the GSE underwriting and product guidelines are deemed to be QMs until the earlier of the end of the FHFA conservatorship of Fannie Mae and Freddie Mac or January 10, 2021. On June 22, 2020, the CFPB issued two Notices of Proposed Rulemaking seeking comments on proposed amendments to the QM Rule, extending the above QM requirements until the earlier of the effective date of the revised QM Rule (not expected to occur prior to April 1, 2021) or the end of the GSEs conservatorship. See "Risk Factors—Risks Relating to Our Business—Our business, results of operations and financial condition could be adversely impacted if, and to the extent that, the CFPB's final rule defining a QM reduces the size of the origination market or creates incentives to use government mortgage insurance programs."

The Dodd-Frank Act separately granted statutory authority to HUD (for FHA-insured loans), the VA (for VA-guaranteed loans), the USDA and RHS to develop their own definitions of a QM in consultation with the CFPB. In December 2013, HUD adopted a separate definition of a QM for loans insured by the FHA. HUD's QM definition is less restrictive than the CFPB QM Rule in certain respects. To the extent that other government agencies guaranteeing residential mortgage loans may adopt definitions of a QM that are more favorable to lenders and mortgage holders than the CFPB QM Rule, our mortgage insurance business could also be negatively impacted.

QRM Rule. The Dodd-Frank Act requires an originator or issuer to retain a specified percentage of the credit risk exposure on securitized mortgages that do not meet the definition of a QRM. As required by the Dodd-Frank Act, the Federal Banking Agencies, the FHFA, the SEC and HUD adopted, in 2015, a joint final rule implementing the QRM rules that aligns the definition of a QRM loan with that of a QM loan. In December 2019, the Federal Banking Agencies initiated a review of certain provisions of the risk retention rule, including the QRM definition. Among other things, the review allows the Federal Banking Agencies to consider the QRM definition in light of any changes to the QM definition adopted by the CFPB. If the QRM definition is changed (or if the QM definition is amended, including pursuant to the Notices of Proposed Rulemaking issued by the CFPB on June 22, 2020) in a manner that is unfavorable to us, such as to require a large down payment for a loan to qualify as a QRM, without giving consideration to mortgage insurance in computing LTV ratios, the attractiveness of originating and securitizing loans with lower down payments may be reduced, which may adversely affect the future demand for mortgage insurance. See "Risk Factors—Risks Relating to Our Business—Our business, results of operations and financial condition could be adversely impacted if, and to the extent that, the CFPB's final rule defining a QM reduces the size of the origination market or creates incentives to use government mortgage insurance programs."

Basel III

In 1988, the Basel Committee developed Basel I which set out international benchmarks for assessing banks' capital adequacy requirements. In 2005, the Basel Committee issued Basel II, which, among other things, sets forth capital treatment of mortgage insurance purchased and held on balance sheet by banks in respect of their origination and securitization activities. Following the financial crisis of 2008, the Basel Committee issued Basel III that established RBC and leverage capital requirements for most United States banking organizations (although banking organizations with less than $10 billion in total assets may now choose to comply with an alternative community bank leverage ratio framework established by the Federal Banking Agencies in 2019).

In December 2017, the Basel Committee published the 2017 Basel III Revisions that were generally targeted for implementation by each participating country by January 1, 2022. In March 2020, the Basel Committee revised the target date for implementation to January 1, 2023. Under these revisions to the international framework, banks using the standardized approach to determine their credit risk will determine the risk-weight for residential mortgages based on the LTV ratio at loan origination, without consideration of mortgage insurance. Under the standardized approach, after the appropriate risk-weight is determined, the existence of mortgage insurance could be considered, but only if the company issuing the insurance has a lower risk-weight than the underlying exposure. Mortgage insurance issued by private companies would not meet this test. Therefore, under the 2017 Basel III Revisions, mortgage insurance could not mitigate credit and lower the capital charge under the standardized approach. If the 2017 Basel III Revisions are implemented in the United States in this form, mortgage insurance would not lower the LTV ratio of residential loans for capital purposes, and therefore may decrease the demand for this product. It is possible that the Federal Banking Agencies could determine that their current capital rules are at least as stringent as the 2017 Basel III Revisions, in which case no change would be mandated. However, if the Federal Banking Agencies decide to implement the 2017 Basel III Revisions as specifically drafted by the Basel Committee, mortgage insurance would not lower the LTV ratio of residential loans for capital purposes, and therefore may decrease the demand for this product. It remains unclear whether new guidelines will be proposed or finalized in the United States in response to the most recent 2017 Basel III Revisions.

Other Laws and Regulations

Privacy of Consumer Information and Cybersecurity

Federal and state laws and regulations require financial institutions, including insurance companies, to protect, among other things, the security and confidentiality of consumer financial information and to notify consumers about policies and practices relating to the collection and disclosure of consumer information and policies relating to protecting the security and confidentiality of that information, and to notify regulators and consumers in the event of certain data breaches affecting personal information.

Federal and state lawmakers and regulatory bodies may consider additional or more detailed regulations regarding these subjects and the privacy and security of nonpublic personal information, confidential business information, information security systems, and vendors and other third parties that may have access to sensitive data or systems. Furthermore, the issues surrounding data security and the safeguarding of consumers' protected information are under increasing regulatory scrutiny by state and federal regulators, particularly in light of the number and severity of recent United States companies' data breaches. The Federal Trade Commission, the DOJ, the New York State Department of Financial Services ("NYDFS"), the SEC and the NAIC have undertaken various studies, reports and actions regarding privacy and data security for entities under their respective supervision. Some states have recently enacted new privacy and information security requirements and new insurance laws that require certain regulated entities to implement and maintain comprehensive information security programs to safeguard the personal information of insureds and enrollees.

The GLB Act and the FCRA impose privacy and information security requirements on financial institutions, including obligations to protect and safeguard consumers' nonpublic personal information and creditworthiness information, respectively, and limitations on the use and sharing of such information. The GLB Act requires administrative, technical, and physical safeguards to ensure the security, confidentiality, integrity, and the proper disposal of nonpublic personal information, and the FCRA imposes similar information security requirements regarding the protection of creditworthiness information. The FCRA limits an entity's ability to disclose creditworthiness information to affiliates and nonaffiliates unless certain notice requirements are met and the consumer does not elect to prevent or "opt out" of the disclosure, and it limits an entity's ability to use creditworthiness information except for certain authorized purposes. The GLB Act limits a financial institution's disclosure of nonpublic personal information to unaffiliated third parties unless certain notice requirements are met and the consumer does not elect to prevent or "opt out" of the disclosure. The GLB Act requires that financial institutions provide privacy notices to their customers. With respect to our business, the GLB Act is enforced by the CFPB and state insurance regulators, and the FCRA is enforced by the CFPB. CFPB regulations implement certain sections of the GLB Act regarding privacy and information security, and state insurance regulations also implement certain sections of the GLB Act regarding privacy and information security, including requirements to notify individuals regarding certain data security incidents that affect their nonpublic personal information. Certain states have implemented certain requirements of the GLB Act, including North Carolina through the Consumer and Customer Information Privacy Act.

Many states have enacted privacy and data security laws that impose compliance obligations beyond those imposed by the GLB Act, including obligations to protect sensitive personal information. On July 25, 2019, New York enacted the Stop Hacks and Improve Electronic Data Security Act to increase information security requirements regarding New York residents' personal information. This law became effective March 21, 2020. All fifty states also require entities to provide notification to affected state residents and, in certain instances, state regulators, such as state attorneys general or state insurance commissions, in the event of certain security breaches affecting personal information, though some of these laws include exemptions for entities regulated by the GLB Act.

The NYDFS published a cybersecurity regulation, which became effective on March 1, 2017, and requires all banks, insurance companies, and other financial services institutions and licensees regulated by the NYDFS, including several of our subsidiaries, to establish a cybersecurity program. The NYDFS cybersecurity regulation includes specific technical safeguards as well as requirements regarding governance, incident planning, training, data management, system testing and regulator notification in the event of certain cybersecurity events. We actively take steps to ensure that we remain in compliance with the NYDFS cybersecurity regulation.

In October 2017, the NAIC adopted a new Insurance Data Security Model Law, which establishes model standards for states to adopt regarding data security and notification of data breaches applicable to insurance licensees in states adopting such law, with provisions that are generally consistent with the NYDFS cybersecurity regulation discussed above. As with all NAIC model laws, this Insurance Data Security Model Law must be adopted by a state before becoming law in such state. The Insurance Data Security Model Law has not been adopted by a majority of the states. North Carolina has not adopted a version of the Insurance Data Security Model Law. We anticipate that more states will begin adopting the Insurance Data Security Model Law, sometimes with state-specific modifications, in the near term. The NAIC has also adopted a guidance document that sets forth twelve principles for effective insurance regulation of cybersecurity risks based on similar regulatory guidance adopted by the Securities Industry and Financial Markets Association and the "Roadmap for Cybersecurity Consumer Protections," which describes the protections to which the NAIC believes consumers should be entitled from their insurance companies, agents and other businesses concerning the collection and maintenance of consumers' personal information, as well as what consumers should expect when such information has been involved in a data breach. We expect cybersecurity risk management, prioritization and reporting to continue to be an area of significant regulatory focus by such regulatory bodies and self-regulatory organizations.

The California Consumer Privacy Act of 2018 (the "CCPA"), effective as of January 1, 2020 affords California residents expanded privacy protections and control over the collection, use and sharing of their personal information. The CCPA has been amended, and it is possible it will be amended again by other pending legislative initiatives or by popular referendum. The CCPA requires certain companies doing business in California to disclose to California consumers information regarding the companies' privacy practices and the privacy rights that businesses must offer to California residents to access and delete their personal information. The CCPA's definition of "personal information" is more expansive than those found in other privacy laws in the United States applicable to GMICO. Failure to comply with the CCPA risks regulatory fines, and the CCPA grants a private right of action for an unauthorized access and exfiltration, theft, or disclosure of personal information resulting from the company's violation of a duty to maintain reasonable security procedures and practices. The CCPA also provides authority to the California Attorney General to seek civil penalties for intentional violations of the CCPA. On June 1, 2020, the California Attorney General filed proposed final regulations for review and approval by California's Office of Administrative Law ("OAL"), which if approved, will be finalized and enforceable by the California Attorney General, subject to any legal challenges. Although it is not yet known when California's OAL will complete its review of the CCPA regulations, the California Attorney General began enforcement of the CCPA on July 1, 2020. The CCPA includes a number of limited exceptions, including an exception for data that is collected, processed, sold, or disclosed pursuant to the GLB Act. This exception, however, does not apply to the private cause of action afforded to individuals for information security incidents. It is possible that the CCPA will be amended by popular referendum due to new ballot initiative, the California Privacy Rights Act ("CPRA"), which will be included on the November 2020 ballot in California. If voted into law by California residents, the majority of CPRA provisions would go into effect in January 2023. In the interim, the CPRA would require additional investment in compliance programs and potential modifications to business processes. In particular, if passed, the CPRA would create a California data protection agency to enforce the statute and would impose new requirements relating to additional consumer rights, data minimization and other obligations.

As noted above, state governments, Congress and agencies may consider and enact additional legislation or promulgate regulations governing privacy, cybersecurity, and data breach reporting requirements. We cannot predict whether such legislation will be enacted, or what impact, if any, such legislation may have on our business practices, results of operations or financial condition.

MANAGEMENT

Below is a list of the names and ages, as of June 30, 2020, of our directors and key executive officers and a description of the business experience of each of them.

Name	Age	Position
Rohit Gupta	45	Director, Chairperson, President and Chief Executive Officer
Dean Mitchell	50	Director, Senior Vice President, Chief Financial Officer and Treasurer
Michael Derstine	50	Director, Senior Vice President and Chief Risk Officer
Evan Stolove	51	Director, Senior Vice President, General Counsel and Secretary
Brian Gould	48	Senior Vice President-Operations
Kevin F. McMahon	46	Director
Kevin D. Schneider	58	Director

Key Executive Officers and Directors

The business experience and certain other background information regarding our key executive officers and directors is set forth below.

Rohit Gupta is our Chairperson, President and Chief Executive Officer and has served in these roles since July 2020. Prior to that time, Mr. Gupta was our President and Chief Executive Officer and served in those roles since March 2013. Mr. Gupta is also a Director on our Board, a position he has held since March 2013. Since joining GMICO in 2003 and prior to serving as our Chief Executive Officer, Mr. Gupta took on increasing levels of responsibility, including serving as GMICO's Chief Commercial Officer and Senior Vice President of Products, Intelligence and Strategy, as well as Vice President – Commercial Operations. Prior to that, Mr. Gupta held both Marketing Director and Senior Product Manager roles with GE Capital from 2000-2003. Mr. Gupta began his career with FedEx Corporation ("FedEx") in Strategic Marketing in 1998 where he was responsible for competitive intelligence and market analysis supporting FedEx senior management. Mr. Gupta serves on the boards of the Mortgage Bankers Association Residential Board of Governors and the Housing Policy Executive Council. He also served as Chairman and remains a board member of the U.S. Mortgage Insurers trade association and served on the board of Genworth Canada from June 2016 to December 2019. Mr. Gupta holds a Master of Business Administration in Finance from University of Illinois at Urbana Champaign and an undergraduate degree in Computer Science & Technology from Indian Institute of Technology.

Dean Mitchell is our Senior Vice President, Chief Financial Officer and Treasurer and has served in these roles since March 2013. Mr. Mitchell is also a Director on our Board, a position he has held since March 2013. Prior to that, he was Vice President, Capital Management for GMICO. Mr. Mitchell joined GMICO in June 2004 as a member of the global Capital Management group. Prior to joining GMICO, Mr. Mitchell was Treasurer of Reichhold, Inc., a global chemical manufacturer and held the Director of Treasury role at Business Telecom, Inc., a privately held telecommunications provider. Mr. Mitchell holds a Bachelor of Science degree in Business from Wake Forest University and a Master of Business Administration from the University of North Carolina – Wilmington.

Mike Derstine is our Senior Vice President and Chief Risk Officer and has served in these roles since June 2014. Mr. Derstine is also a Director on our Board, a position he has held since June 2014. He has also served as Chief Risk Officer for GMICO since January 2013. Prior to joining GMICO, Mr. Derstine held various positions in Risk Management, Quality Assurance, and Pricing at Republic Mortgage Insurance Company ("RMIC") since 2002. His previous positions at RMIC include Mortgage

Valuation Manager, Pricing Group Manager and Vice President of Risk Management, Quality Assurance and Analytics. Mr. Derstine began his career with TE Connectivity, a global technology firm, in 1992, where he was a Product Development Design Engineer. Mr. Derstine holds a Bachelor of Science degree in Mechanical Engineering from Messiah College and a Master of Business Administration from Wake Forest University's Babcock Graduate School of Management.

Evan Stolove is our Senior Vice President, General Counsel and Secretary, responsible for legal, compliance, privacy, state government affairs, and GSE relations functions, and has served in these roles since July 2017. Mr. Stolove also serves as a Director on our Board, a position he has held since July 2017. He has also served as Senior Vice President, General Counsel and Secretary for GMICO since August 2016. Prior to joining GMICO, Mr. Stolove worked at Fannie Mae, where he served from July 2011 to July 2016 as Vice President and Deputy General Counsel, and Associate General Counsel from September 2004 to June 2011. From September 1996 to August 2004, Mr. Stolove was in private practice with the law firm of Arent Fox PLLC in its commercial litigation practice. Prior to that, he clerked for judges at the U.S. District Court for the District of Maryland and the Maryland Court of Appeals. Mr. Stolove earned his Juris Doctorate with honors from the University of Maryland School of Law and his undergraduate degree in Religious Studies and Psychology from the University of Michigan. He is a member of the Maryland Bar and District of Columbia Bar.

Brian Gould is Senior Vice President-Operations and has served in this role since July 2020. He has also served as Senior Vice President—Operations for GMICO since November 2018, where he is responsible for claims, underwriting and analytics. Prior to joining GMICO in November 2018, Mr. Gould served as a consultant for Freddie Mac beginning in January 2018 after spending 18 years with United Guaranty Corporation. Mr. Gould held roles of increasing responsibility at United Guaranty Corporation including Pool Operations Manager, Vice President of Corporate Development and Chief Operating Officer. He began his career at State Farm Insurance Company in 1994 as a Claims Specialist. Mr. Gould received a Bachelor of Science degree in Economics from the University of North Carolina – Chapel Hill and a Master of Business Administration from University of North Carolina – Greensboro. He also holds designations as an Associate in Claims and Chartered Property Casualty Underwriter.

Kevin McMahon is a Director on our Board, a position he has held since June 2018. He also serves as the Senior Vice President—Customer Solutions of GMICO, a role he has held since June 2018, where he oversees marketing, product development, customer technology integrations, and account development, among other functions. Prior to leading our Customer Solutions team, Mr. McMahon was Senior Vice President of Strategy and Business Development from September 2014 to June 2018, where he was responsible for developing and evolving the strategic direction for GMICO. Since joining GMICO in 2004, Mr. McMahon has served in various other roles including Vice President, Operations where he led our underwriting, loss mitigation, and analytics efforts. Mr. McMahon began his career in 1997 as a consultant at Accenture plc, a global management consulting firm. He holds a Master of Business Administration degree from Duke University and a Bachelor of Science degree in Business Management from North Carolina State University.

Kevin D. Schneider is a Director on our Board, a position he has held since March 2013. He also holds the position of Executive Vice President and Chief Operating Officer of our Parent since January 2016 and is responsible for the daily operations and operating performance of our Parent's businesses. Prior to that, he was Executive Vice President—Global Mortgage Insurance of our Parent from May 2015 to January 2016 and Executive Vice President of our Parent from May 2012 to May 2015, responsible for our Parent's global mortgage insurance businesses. From July 2008 until May 2012, Mr. Schneider was Senior Vice President of our Parent with continuing responsibility for the U.S. mortgage insurance business. Prior to that, Mr. Schneider served as President and Chief Executive Officer for GMICO following the completion of our Parent's initial public offering in May 2004 (the "GFI

IPO”). Prior to the GFI IPO, he was a Senior Vice President and Chief Commercial Officer of General Electric Mortgage Insurance Corporation since April 2003. From January 2003 to April 2003, Mr. Schneider was the Chief Quality Officer for GE Commercial Finance—Americas and from September 2001 to December 2002, he was a Quality Leader for GE Capital Corporate. From April 1998 to September 2001, Mr. Schneider was an Executive Vice President with GE Capital Rail Services. Prior thereto, he had been with GATX Corp. where he was a Vice President—Sales from November 1994 to April 1998 and a Regional Manager from October 1992 to November 1994. From July 1984 to October 1992, Mr. Schneider was with Ryder System where he held various positions. Mr. Schneider received a Bachelor of Science degree in Industrial Labor Relations from Cornell University and a Master of Business Administration from the Kellogg Business School.

PRINCIPAL STOCKHOLDER OF THE ISSUER

We are an indirect wholly owned subsidiary of our Parent, a diversified insurance holding company listed on the NYSE. In addition to us, our Parent has ownership interests in other international private mortgage insurance businesses located in Australia and Mexico that are separate from our business. Our Parent also owns other insurance subsidiaries that provide long-term care and life insurance in the United States. See "Summary—Recent Developments—AXA Settlement" for a discussion of a pledge of 19.9% of our equity pursuant to our Parent's AXA Settlement. See also "Risk Factors—Risks Relating to Our Parent's Ownership of Us—Our brand, reputation and ratings could be affected by issues affecting our Parent in a way that could materially adversely affect our business, financial condition, liquidity and prospects," "Risk Factors—Risks Relating to Our Parent's Ownership of Us—We are an indirect wholly owned subsidiary of our Parent and its interests as an equity holder may conflict with those of our noteholders," "Risk Factors—Risks Relating to Our Parent's Ownership of Us— Our Parent's proposed transaction with China Oceanwide may not be completed or may not be completed within the timeframe, terms or in the manner currently anticipated, which could have a material adverse effect on us," "Risk Factors—Risks Relating to Our Parent's Ownership of Us— If the Merger is consummated, our Parent will be majority owned and controlled by China Oceanwide, and their interests as equity holders of our Parent may conflict with those of our noteholders," "Risk Factors—Risks Relating to Our Parent's Ownership of Us—Our Parent's indebtedness and liquidity may negatively affect us" and "Risk Factors—Risks Relating to Our Parent's Ownership of Us—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions."

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

See Note 10 to our audited consolidated financial statements and Note 8 to our unaudited financial statements for information regarding our related party transactions.