

Essent Group Ltd.  
Form 10-K  
February 19, 2019

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-36157

ESSENT GROUP LTD.

(Exact name of registrant as specified in its charter)

Bermuda Not Applicable  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

Clarendon House  
2 Church Street  
Hamilton HM11, Bermuda  
(Address of principal executive offices and zip code)

(441) 297-9901  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Shares, \$0.015 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common shares held by non-affiliates of the registrant was approximately \$3,410,866,762 (based upon the last reported sales price on The New York Stock Exchange on such date).

The number of the registrant's common shares outstanding as of February 12, 2019 was 98,287,957.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2019 Annual General Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2018.

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## TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>ITEM 1. BUSINESS</u>	<u>1</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>28</u>
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	<u>49</u>
<u>ITEM 2. PROPERTIES</u>	<u>49</u>
<u>ITEM 3. LEGAL PROCEEDINGS</u>	<u>49</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>49</u>
<u>PART II</u>	
<u>ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>50</u>
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	<u>51</u>
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>53</u>
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>79</u>
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>80</u>
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>120</u>
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	<u>120</u>
<u>ITEM 9B. OTHER INFORMATION</u>	<u>120</u>
<u>PART III</u>	
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>121</u>
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>121</u>
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>121</u>
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>121</u>
<u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>122</u>
<u>PART IV</u>	
<u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	<u>123</u>
<u>SIGNATURES</u>	<u>125</u>

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, includes forward-looking statements pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new products and services, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Annual Report reflect our views as of the date of this Annual Report about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described below, in Part I, Item 1A "Risk Factors," and in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." These factors include, without limitation, the following:

- changes in or to Fannie Mae and Freddie Mac, which we refer to collectively as the GSEs, whether through Federal legislation, restructurings or a shift in business practices;
- failure to continue to meet the mortgage insurer eligibility requirements of the GSEs;
- competition for our customers or the loss of a significant customer;
- lenders or investors seeking alternatives to private mortgage insurance;
- increase in the number of loans insured through Federal government mortgage insurance programs, including those offered by the Federal Housing Administration;
- decline in the volume of low down payment mortgage originations;
- uncertainty of loss reserve estimates;
- decrease in the length of time our insurance policies are in force;
- deteriorating economic conditions;
- recently enacted U.S. Federal tax reform and its impact on us, our shareholders and our operations;
- the definition of "Qualified Mortgage" reducing the size of the mortgage origination market or creating incentives to use government mortgage insurance programs;
- the definition of "Qualified Residential Mortgage" reducing the number of low down payment loans or lenders and investors seeking alternatives to private mortgage insurance;

the implementation of the Basel III Capital Accord, which may discourage the use of private mortgage insurance;

management of risk in our investment portfolio;

fluctuations in interest rates;

inadequacy of the premiums we charge to compensate for our losses incurred;

dependence on management team and qualified personnel;

disturbance to our information technology systems;

ii

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- change in our customers' capital requirements discouraging the use of mortgage insurance;
- declines in the value of borrowers' homes;
- limited availability of capital;
- unanticipated claims arise under and risks associated with our contract underwriting program;
- industry practice that loss reserves are established only upon a loan default;
- disruption in mortgage loan servicing;
- risk of future legal proceedings;
- customers' technological demands;
- our non-U.S. operations becoming subject to U.S. Federal income taxation;
- becoming considered a passive foreign investment company for U.S. Federal income tax purposes; and
- potential restrictions on the ability of our insurance subsidiaries to pay dividends.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this Annual Report are based on information available to us on the date of this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Unless the context otherwise indicates or requires, the terms "we," "our," "us," "Essent," and the "Company," as used in this Annual Report, refer to Essent Group Ltd. and its directly and indirectly owned subsidiaries, including our primary operating subsidiaries, Essent Guaranty, Inc. and Essent Reinsurance Ltd., as a combined entity, except where otherwise stated or where it is clear that the terms mean only Essent Group Ltd. exclusive of its subsidiaries.

## PART I

### ITEM 1. BUSINESS

#### Overview

We are an established and growing private mortgage insurance company. Private mortgage insurance plays a critical role in the U.S. housing finance system. Essent and other private mortgage insurers provide credit protection to lenders and mortgage investors by covering a portion of the unpaid principal balance of a mortgage and certain related expenses in the event of a default. In doing so, we provide private capital to mitigate mortgage credit risk, allowing lenders to make additional mortgage financing available to prospective homeowners.

Private mortgage insurance helps extend affordable home ownership by facilitating the sale of low down payment loans into the secondary market. The GSEs purchase residential mortgages from banks and other lenders and guaranty mortgage-backed securities that are offered to investors in the secondary mortgage market. The GSEs, which are U.S. Federal government-sponsored enterprises, are restricted by their charters from purchasing or guaranteeing low down payment loans, defined as loans with less than a 20% down payment, that are not covered by certain credit protections. Private mortgage insurance satisfies the GSEs' credit protection requirements for low down payment loans, supporting a robust secondary mortgage market in the United States.

Our primary U.S. mortgage insurance subsidiary, Essent Guaranty, Inc., received its certificate of authority from the Pennsylvania Insurance Department in July 2009. We subsequently acquired our mortgage insurance platform from a former private mortgage insurance industry participant and, in 2010, became the first private mortgage insurer to be approved since 1995 by Fannie Mae and Freddie Mac, which we refer to collectively as the GSEs. We are licensed to write coverage in all 50 states and the District of Columbia.

For the years ended December 31, 2018, 2017 and 2016, we generated new insurance written, or NIW, of approximately \$47.5 billion, \$43.9 billion and \$34.9 billion, respectively. As of December 31, 2018, we had approximately \$137.7 billion of insurance in force. Our top ten customers represented approximately 43.5%, 45.8% and 35.1% of our NIW on a flow basis for the years ended December 31, 2018, 2017 and 2016, respectively. The financial strength rating of our primary mortgage insurance subsidiary, Essent Guaranty, Inc., which we refer to as "Essent Guaranty," is Baa1 with a stable outlook by Moody's Investors Service and BBB+ with a stable outlook by S&P Global Ratings. On September 5, 2018, A.M. Best's Financial Strength Rating of A (Excellent) with a stable outlook was assigned to Essent Guaranty.

We also offer mortgage-related insurance and reinsurance through our wholly-owned Bermuda-based subsidiary, Essent Reinsurance Ltd., which we refer to as "Essent Re." As of December 31, 2018, Essent Re provided insurance or reinsurance relating to the GSE risk share and other reinsurance transactions covering approximately \$655.4 million of risk. Essent Re has also reinsured 25% of Essent Guaranty, Inc.'s GSE-eligible mortgage insurance NIW originated since July 1, 2014 under a quota share reinsurance agreement. The insurer financial strength rating of Essent Re is BBB+ with a stable outlook by S&P Global Ratings. On September 5, 2018, A.M. Best's Financial Strength Rating of A (Excellent) with a stable outlook was assigned to Essent Re.



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Our holding company is domiciled in Bermuda and our U.S. insurance business is headquartered in Radnor, Pennsylvania. We operate additional underwriting and service centers in Winston-Salem, North Carolina and Irvine, California. We have a highly experienced, talented team of 385 employees as of December 31, 2018.

### Our Industry

#### U.S. Mortgage Market

The U.S. residential mortgage market is one of the largest in the world, with over \$10.8 trillion of debt outstanding as of September 30, 2018, 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, REITs, mortgage insurers and other financial institutions. Public participants include government agencies such as the Federal

Housing Administration, or FHA, the Veterans Administration, or VA, the U.S. Department of Agriculture Rural Development program and the Government National Mortgage Association, or Ginnie Mae, as well as government-sponsored enterprises such as Fannie Mae and Freddie Mac. The overall U.S. residential mortgage market encompasses both primary and secondary markets. The primary market consists of lenders originating home loans to borrowers, and includes loans made 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 mortgage-backed securities.

## 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 U.S. housing finance system. According to the Federal Reserve, the GSEs held or guaranteed approximately \$4.8 trillion, or 44.2%, of total U.S. residential mortgage debt outstanding as of September 30, 2018. Their charters generally prohibit the GSEs from purchasing a low down payment loan unless that loan is insured by a GSE-approved mortgage 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. Historically, private mortgage insurance has been the preferred method utilized to meet this GSE charter requirement. As a result, 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.

## Mortgage Insurance

Mortgage insurance plays a critical role in the U.S. residential mortgage market by facilitating secondary market sales and by providing lenders and investors a means to diversify their exposures and mitigate mortgage credit risk. Mortgage insurance is provided by both private companies, such as Essent, and government agencies, such as the FHA and the VA. From 1999 through 2018, an average of 24.0% of total annual mortgage origination volume utilized mortgage insurance.

Mortgage insurance industry volumes are influenced by total mortgage originations, and the mix between purchase and refinancing originations. Historically, mortgage insurance utilization has been meaningfully higher in purchase originations compared to refinancing originations. In 2018, total U.S. residential mortgage origination volume was estimated at \$1.64 trillion, comprised of \$1.19 trillion of purchase originations and \$458 billion of refinancing originations. In the years immediately following the 2007 - 2008 financial crisis, historically low interest rates and special refinance programs, such as the Home Affordable Refinance Program, or HARP, caused refinancing volume to significantly outpace purchase originations. Purchase originations, however, have accounted for an increasing percentage of the overall mortgage market in recent years as favorable housing market fundamentals have stimulated growth in home buying activity and a rising interest rate environment has slowed refinancing volume.

The following graph provides detail on trends in total residential mortgage originations and the breakdown of the market between purchase and refinancing volume.

Residential Purchase vs. Refinancing Mortgage Originations (\$ in billions)

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Source: Mortgage Bankers Association

### Financial Crisis and Recovery

The severe economic and housing market dislocation experienced as a result of the 2007-2008 financial crisis had a profound impact on our industry. Incumbent insurers experienced record high claims activity and sustained significant financial losses, resulting in depleted capital positions. Three private mortgage insurers who wrote more than \$125 billion of NIW in 2007, accounting for approximately 36% of total private mortgage insurance market NIW that year, have since exited the market, and several other insurers were forced, in the years following the crisis, to raise capital to repair their balance sheets and remain in operation. Although certain remaining incumbent insurers continue to deal with legacy, pre-crisis, challenges, improved housing market fundamentals and the high credit quality of post-crisis new business have, and we expect will continue to, support improved growth and profitability in the private mortgage insurance sector.

Prior to the financial crisis, private mortgage insurers accounted for the majority of the insured mortgage origination market. In 2007, private mortgage insurance represented 77.3% of insured mortgages and covered 15.5% of the total residential mortgage origination volume. As a result of the 2007 - 2008 financial crisis, government agencies began to insure an increasing percentage of the market as incumbent private insurers came under significant financial stress. By 2009, private mortgage insurance represented only 15.4% of the insured mortgage market and covered 4.1% of the total residential mortgage origination volume.

The private mortgage insurance industry, however, has more than doubled its share of the total insured market since 2009, leading to higher private mortgage insurance penetration of the total mortgage origination market. In 2018, private mortgage insurance increased to an estimated 45% of the total insured market and covered 18% of the total mortgage origination volume. These gains have been driven in part by the improved financial position of incumbent insurers, the influx of private capital into the sector to support post-crisis entrants such as Essent, and aggregate increase since 2010 in the mortgage insurance premium rates and upfront fees charged for FHA insurance.

The charts below detail the relative share of the insured mortgage market covered by public and private participants, and historical NIW trends in the mortgage insurance market and private mortgage insurance penetration rates, which represents private mortgage insurance NIW to total U.S. residential mortgage origination volume.

Relative Share of Private and Public Mortgage Insurance

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Source: Inside Mortgage Finance

Private mortgage insurance NIW (\$ in billions)

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Source: Inside Mortgage Finance, except for total originations for the purpose of calculating private mortgage insurance penetration, which is based on Mortgage Bankers Association. For 2011 through 2018, private mortgage insurance penetration includes private mortgage insurance NIW originated under HARP.

Competition

The private mortgage insurance industry is highly competitive. Private mortgage insurers generally compete on the basis of pricing, customer relationships, underwriting guidelines, terms and conditions, financial strength, reputation, the strength of management and field organizations, the effective use of technology, and innovation in the delivery and servicing of insurance products. The private mortgage insurance industry currently consists of six active private mortgage insurers, including Essent Guaranty and each of Arch Mortgage Insurance Company (which also acquired United Guaranty Corporation in 2016), Genworth Financial, Inc., Mortgage Guaranty Insurance Corporation, National Mortgage Insurance Corporation and Radian Guaranty Inc.

We and other private mortgage insurers compete directly with Federal and state governmental and quasi-governmental agencies that provide mortgage insurance, principally, the FHA and, to a lesser degree, the VA. As discussed above, the FHA's share of the mortgage insurance market increased as a result of the 2007 - 2008 financial crisis, and since 2009 has decreased as the private mortgage insurance industry has recovered and FHA premiums have increased in the aggregate. In addition to competition from the FHA and the VA, we and other private mortgage insurers currently face limited competition from state-sponsored mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expanding the authority of their state governments to insure residential mortgages.

Our industry also competes with products designed to eliminate the need for private mortgage insurance, such as "piggyback loans," which combine a first lien loan with a second lien in order to meet the 80% loan-to-value threshold required for sale to the GSEs without certain credit protections. In addition, we compete with investors willing to hold credit risk on their own balance sheets without credit enhancement and, in some markets, with alternative forms of credit enhancement such as structured finance products and derivatives.

Our Products and Services

Mortgage Insurance

In general, there are two principal types of private mortgage insurance, primary and pool.

Primary Mortgage Insurance

Primary mortgage insurance provides protection on individual loans at specified coverage percentages. Primary mortgage insurance is typically offered to customers on individual loans at the time of origination on a flow (i.e., loan-by-loan) basis, but can also be written in bulk transactions (in which each loan in a portfolio of loans is insured in a single transaction). A substantial majority of our policies are primary mortgage insurance.

Customers that 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 insurance in force, but may vary from policy to policy between 6% and 35% coverage.

We file our premium rates with the insurance departments of the 50 states and the District of Columbia as required. Premium rates cannot be changed after the issuance of coverage and premiums applicable to an individual loan are based on a broad spectrum of risk variables including coverage percentages, loan-to-value, or LTV, loan and property attributes, and borrower risk characteristics. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations—Net Premiums Written and Earned" and "—Key Performance Indicators—Average Net Premium Rate."

Premium payments for primary mortgage insurance coverage are typically made by the borrower. Mortgage insurance paid directly by the borrower is referred to as borrower-paid mortgage insurance, or "BPMI." If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Loans for which premiums are paid by the lender are referred to as lender-paid mortgage insurance, or "LPMI." In either case, the payment of premium to us generally is the legal 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 collected on a monthly basis over the life of the policy;
- in a single payment, where the entire premium is paid upfront at the time the mortgage loan is originated;
- annually, where premiums are paid in advance for the subsequent 12 months; or
- on a "split" basis, where an initial premium is paid upfront along with subsequent monthly payments.

As of December 31, 2018, substantially all of our policies are monthly or single premium policies.

In general, we may not terminate mortgage insurance coverage except in the event there is non-payment of premiums or certain material violations of our mortgage insurance policies. The insured may cancel mortgage insurance coverage at any time at their option or upon mortgage repayment. 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. The Homeowners Protection Act of 1998, or HOPA, also requires the automatic termination of BPMI on most loans when the LTV ratio, based upon the original property value and amortized loan balance, reaches 78%, and provides for cancellation of BPMI upon a borrower's request when the LTV ratio, based on the current value of the property, reaches 80%, upon satisfaction of the conditions set forth in HOPA. See "—Regulation—Federal Mortgage—Related Laws and Regulations—Homeowners Protection Act of 1988" below. In addition, some states impose their own mortgage insurance notice and cancellation requirements on mortgage loan servicers.

The GSEs have implemented certain guidelines that may provide more flexibility to certain borrowers in cancelling mortgage insurance than is required for such loans under HOPA. For example, borrowers may request termination of mortgage insurance based on the current value of the property if certain loan-to-value and seasoning requirements are met and the borrower has an acceptable payment history. For loans seasoned between two and five years, the loan-to-value ratio must be 75% or less, and for loans seasoned more than five years, the loan-to-value ratio must be 80% or less. If the borrower has made substantial improvements to the property, the GSEs allow for cancellation once the loan-to-value ratio reaches 80% or less with no minimum seasoning requirement. In addition, GSE servicing guidelines currently require servicers to cancel BPMI on second homes with a 78% loan-to-value ratio, whereas HOPA applies to principal residences and excludes second homes.

In 2018, the GSEs announced changes to various mortgage insurance termination requirements that are intended to further simplify the process of evaluating borrower-initiated requests for mortgage insurance termination. Among other things, these changes update evidence of value requirements for borrower-requested cancellation based on the original value of the property and the current value of the property, raise Fannie Mae's loan-to-value ratio for cancellation based on substantial improvements from 75% or less to 80% or less, provide clarification regarding what constitutes substantial improvements to the property, allow servicers to respond to either verbal or written requests for mortgage insurance cancellation by a borrower, and provide servicers flexibility in evaluating the payment history of

borrowers that have been impacted by certain disaster events. Fannie Mae's changes in this area must be implemented by March 1, 2019, although certain requirements have been implemented as early as January 1, 2019. Freddie Mac's new requirements became effective on October 1, 2018.

#### Pool Insurance

Pool insurance is typically used to provide additional credit enhancement for certain secondary market and other 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. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible. In another variation, generally referred to as modified pool insurance, policies are structured to include an exposure limit for each individual loan as well as an aggregate loss limit or a deductible for the entire pool.

#### Master Policy

We issue a master policy to each customer approved as a counterparty by our risk department before accepting their applications for insurance. The master policy, along with its related endorsements and certificates, sets forth the general terms and conditions of our mortgage insurance coverage, including loan eligibility requirements, coverage terms, policy administration, premium payment obligations, exclusions or reductions in coverage, conditions precedent to payment of a claim, claim payment requirements, subrogation and other matters attendant to our coverage.

Mortgage insurance master policies generally protect mortgage insurers from the risk of material misrepresentations and fraud in the origination of an insured loan by establishing the right to rescind coverage in such event. Pursuant to the current minimum standards for mortgage insurer master policies, which we refer to as the "Rescission Relief Principles," instituted by the GSEs and the Federal Housing Finance Agency, or FHFA, master policies provide rescission relief for loans that remain current up to 36 months after origination and that have not experienced more than two late payments of 30 days or more and have never been 60 days late, and are permitted to provide rescission relief after 12 payments provided the mortgage insurer can independently validate the representations for which it provides rescission relief. The current Rescission Relief Principles require that the master policies reserve rescission rights with respect to fraud committed by the insured or those under its control and certain patterns of fraud.

The GSEs and the FHFA have adopted revised Rescission Relief Principles which require mortgage insurers to implement conforming master policies in 2019. The revised Rescission Relief Principles add requirements that rescission relief be provided for loans that are current after 60 payments and permit provision of rescission relief concurrent with independent validation of representations, including validation by use of duly approved automated tools. The revised Rescission Relief Principles also require that master policies reserve rescission rights with respect to fraud committed by any party in connection with the origination or closing of a loan or application for mortgage insurance (provided, however, that the exclusion for fraud by borrowers may be sunset after the borrower has made 12 timely payments) and certain patterns of fraud or data inaccuracies and permit the mortgage insurer to offer certain alternatives to rescission. See "Risk Factors—Risks Relating to Our Business—Changes in the business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance or changes in the GSEs' eligibility requirements for mortgage insurers, could reduce our revenues or adversely affect our profitability and returns" elsewhere in this Annual Report and "—Regulation—Direct U.S. Regulation—GSE Qualified Mortgage Insurer Requirements" below.

#### Contract Underwriting

In addition to offering mortgage insurance, we provide contract underwriting services on a limited basis. As a part of these services, we assess whether data provided by the customer relating to a mortgage application complies with the customer's loan underwriting guidelines. These services are provided for loans that require private mortgage insurance, as well as for loans that do not require private mortgage insurance. Under the terms of our contract underwriting agreements with customers and subject to contractual limitations on liability, we agree to indemnify the customer against losses incurred in the event that we make an underwriting error which materially restricts or impairs the saleability of a loan, results in a material reduction in the value of a loan or results in the customer being required to repurchase a loan. The indemnification may be in the form of monetary or other remedies, subject to per loan and annual limitations. See "Risk Factors—Risks Relating to Our Business—We face risks associated with our contract underwriting business."

#### Bermuda-Based Insurance and Reinsurance

We offer mortgage-related insurance and reinsurance through Essent Re, a Class 3A insurance company licensed pursuant to Section 4 of the Bermuda Insurance Act 1978. Essent Re provides insurance or reinsurance relating to the GSE risk share and other reinsurance transactions. Essent Re also reinsures 25% of Essent Guaranty's GSE-eligible mortgage insurance NIW originated since July 1, 2014 under a quota share reinsurance agreement. Essent Re also provides underwriting consulting services to third-party reinsurers through its wholly-owned subsidiary, Essent Agency (Bermuda) Ltd.

6

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**Our Mortgage Insurance Portfolio**

All of our policies in force were written since May 2010. The following data presents information on our primary mortgage insurance portfolio for policies written by Essent Guaranty.

**Insurance in Force by Policy Year**

The following table sets forth our insurance in force, or IIF, as of December 31, 2018, by year of policy origination. IIF refers to the unpaid principal balance of mortgage loans that we insure.

(\$ in thousands)	\$	%
2018	\$45,850,221	33.3 %
2017	37,850,574	27.5
2016	25,252,309	18.3
2015	13,410,795	