Date: 10/7/20

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Friday, October 9, 2020
1:00 p.m. ET / 12:00 p.m. CT / 11:00 a.m. MT / 10:00 a.m. PT

ROLL CALL

Philip Barlow, Chair	District of Columbia	John Robinson	Minnesota
Steve Ostlund	Alabama	William Leung	Missouri
Perry Kupferman	California	Rhonda Ahrens	Nebraska
Deborah Batista/Eric Unger	Colorado	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	Bill Carmello	New York
Gilbert Moreau	Florida	Andy Schallhorn	Oklahoma
Vincent Tsang	Illinois	Mike Boerner	Texas
		Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

AGENDA

1. Discuss Comments Received on Mortgage Reporting Guidance Document and Instructional Change—*Philip Barlow (DC)*

   - Illinois Department of Insurance — Attachment 1
   - American Council of Life Insurers (ACLI)/Mortgage Bankers Association (MBA) Comment Letter — Attachment 2
   - Mortgage Reporting Guidance Document and Instructional Change — Attachments 3 & 4

2. Receive Memorandum from the Financial Condition (E) Committee on Bond Factors—*Philip Barlow (DC)* — Attachment 5

3. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*

4. Adjournment

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Via email:

Due to the financial hardship caused by the epidemic, I support the ACLI's proposal of using the greater of (a) 2020 NOI and (b) 85% of 2019 NOI in the calculation of the rolling average NOI.

If an insurance entity is using 85% of the 2019 NOI as a replacement of the actual 2020 NOI for a particular mortgage, I believe it would be beneficiary for the regulators to

- Quantify the difference between the 2020 NOI and 85% of the 2019 NOI
- Keep track of the types of mortgages with depressed 2020 NOI
- Evaluate whether the currently assumed 85% is reasonable.

I suggest adding a line (e.g., 16a "Actual 2020NOI") right after line 16 in the LR 004 of the RBC Instructions and the associated RBC spreadsheet where companies can report the mortgages' actual 2020 NOIs.

Thanks,

Vincent Tsang
Illinois Department of Insurance

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ACLI
Financial Security for Life
Paul S. Graham III
SVP, Policy Development

MBa
MORTGAGE BANKERS ASSOCIATION
Mike Flood
SVP, CMF, Policy & Member Engagement

October 6, 2020

Philip A. Barlow, FSA, MAAA;
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Exposure Draft Notice: Life Risk-Based Capital (E) Working Group (ending 10/7/20)

Dear Mr. Barlow:

The Mortgage Bankers Associations (MBA)[1] and the American Council of Life Insurers (ACLI),[2] on behalf of our respective member insurers, submit these comments in support of the exposure drafts "Guidance on Mortgage Reporting for 2020" and "Instructional Changes for 2021" that the Life Risk-Based Capital Working Group of the National Association of Insurance Commissioners (NAIC) released on September 30, 2020.

We support the guidance on Construction Loans; Origination Date, Valuation Date, Property Value, and 90 Days Past Due; and Contemporaneous Property Values, which accurately reflects the guidance the Working Group adopted in its June 30 and July 10, 2020 meetings.

We also support the proposed Net Operating Income (NOI) guidance and instructions on 2020 NOI inputs for 2021, 2022, and 2023 risk-based capital reporting. We appreciate the engagement of Working Group members discussing this proposal over a series of Working Group meetings. In fact, regulator feedback from those discussions led industry to modify its initial NOI proposal (i.e., industry lowered the 2020 NOI floor from 100% of 2019 NOI to 85% of 2019 NOI). Importantly, the proposal will not provide risk-based capital relief to any loan that becomes delinquent as a result of the impacts of COVID-19 or otherwise. We believe the resulting proposed adjustments to 2020 NOI inputs, where applicable, will result in risk-based capital requirements that more reasonably reflect credit risk for loans that continue to perform after the underlying properties experience a drop in NOI in 2020.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Its membership of over 2,300 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, credit unions, thrifts, REITs, Wall Street conduits, 70 life insurance companies engaged in real estate finance, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org

[2] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States. Learn more at www.acli.com

We also support the additional NOI guidance that instructs insurers that apply the adjustment to 2020 NOI inputs to retain actual 2020 NOI information in their workpapers so that the information can be readily available to regulators. While this was not in industry's proposal, we believe it is reasonable additional guidance that would address regulator concerns about the future availability to regulators of 2020 NOI information.

While the NOI guidance is exposed both in the form of guidance and changes to risk-based capital reporting instructions, we would support the alternative of adopting the NOI guidance solely in the form of guidance. We note that the Working Group adopted guidance for a comparable adjustment to the reporting of Contemporary Property Value, which simplified the approval process.

We want to thank the members of the Working Group, and you, for the considerable time and attention devoted to these and other efforts to address risk-based capital reporting in the context of the COVID-19 pandemic. Please feel free to contact Bruce Oliver at boliver@mba.org or 202-557-2840 or Mike Monahan at mikemonahan@acli.com or 202-624-2324 for any additional information.

Sincerely,

Mike Flood

Paul Graham

cc: Dave Fleming, NAIC Senior Insurance Reporting Analyst

Construction Loans

For purposes of Note 4 to the Risk-Based Capital Reporting Instructions, government-mandated construction delays due to COVID-19 that occur at any time during 2020 are not "construction issues." This guidance would apply to all mortgages and not just those mortgages where a COVID-19 modification occurred.

Origination Date, Valuation Date, Property Value, and 90 Days Past Due

For purposes of the Description/explanation of item in the Risk-Based Capital Reporting Instructions for Date of Origination (2), Property Value (20), Year of Valuation (21 and by reference Quarter of Valuation - 22), and 90 Days Past Due? (29), no changes to these values are required for any COVID-19 related modifications that occur during 2020. This guidance is consistent with the Financial Condition (E) Committee *Guidance for Troubled Debt Restructurings for March 31 - September 30 Statutory Financial Statements and Related Interim Risk-Based Capital Filings (where required)* (June 12, 2020) and Question and Answer issued by the NAIC but extended for COVID-19 modifications that occur through the end of 2020.

Contemporaneous Property Values

For purposes of computing the Contemporaneous Property Value (40) for any period ending in 2020, an insurer may use the average of the NCREIF Price Index as of 12/31/2019 and the 2020 NCREIF Price Index for the Price Index current value. This guidance applies to all mortgages and not just those mortgages where a COVID-19 modification occurred , and it applies for the filings for any period ending in 2020 only and not subsequent years.

Net Operating Income

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (36), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

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MORTGAGES
LR004

Basis of Factors

Mortgages in Good Standing
The pre-tax factors for commercial mortgages were developed based on analysis using the Commercial Mortgage Metrics model of Moody's Analytics and documented in a report from the American Council of Life Insurers on March 27, 2013. The factors provide for differing levels of risk, the levels determined by a contemporaneous debt service coverage ratio and the contemporaneous loan-to-value. The 0.14 percent pre-tax factor on insured and guaranteed mortgages represents approximately 30-60 days interest lost due to possible delay in recovery on default. The pre-tax factor of 0.68 percent for residential mortgages reflects a significantly lower risk than commercial mortgages. The pre-tax factors were developed by dividing the post-tax factor by 0.7375 (0.7375 is calculated by taking 1.0 less the result of 0.75 multiplied by 0.35). The pre-tax factors are not changing for 2018 due to tax reform.

Mortgages 90 Days Overdue, Not in Process of Foreclosure
The category pre-tax factor for commercial and farm mortgages of 18 percent is based on data taken from the Society of Actuaries "Commercial Mortgage Credit Risk Study." For insured and guaranteed or residential mortgages, factors are set at twice the level for those "in good standing" to reflect the increased likelihood of default losses.

Mortgages in Process of Foreclosure
Mortgages in process of foreclosure are considered to be as risky as NAIC 5 bonds and are assigned the same category pre-tax factor of 23 percent for commercial and farm mortgages.

Due and Unpaid Taxes on Overdue Mortgages and Mortgages in Foreclosure
The factor for due and unpaid taxes on overdue mortgages and mortgages in foreclosure is 100 percent.

Specific Instructions for Application of the Formula

Column (1)
Insured or guaranteed mortgages should be reported separately from residential and commercial mortgages. Insured or guaranteed loans include only those mortgage loans insured or guaranteed by the Federal Housing Administration, under the National Housing Act (Canada) or by the Veterans Administration (exclusive of any portion insured by FHA). Mortgage loans guaranteed by another company (affiliated or unaffiliated) are not to be included in the insured or guaranteed category.

Except for Lines (1) through (3), (26) and (27), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the mortgage calculation worksheet A (Figure 1) for how the individual mortgage calculations are completed for Other Than In Good Standing mortgages on Lines (16) through (25). Refer to the mortgage calculation worksheet – company developed (Figure 3) for how the individual mortgage calculations are completed for In Good Standing - Commercial mortgages on Lines (4) through (8) and for In Good Standing - Farm mortgages on Lines (10) through (14). Line (28) should equal Page 2, Column 3, Lines 3.1 plus 3.2, plus Schedule B, Part 1 Footnotes 3 and 4, first of the two amounts in the footnotes.

Column (2)
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule B by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in SSAP No. 37 paragraph 16. These reserves are held as an offset for a particular troubled mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)
Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)
Summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the mortgage calculation worksheet (Figure 1). Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

Column (5)
For Lines (4) and (10), the pre-tax factor is equal to 0.0090
For Lines (5) and (11), the pre-tax factor is equal to 0.0175
For Lines (6) and (12), the pre-tax factor is equal to 0.0300
For Lines (7) and (13), the pre-tax factor is equal to 0.0500
For Lines (8) and (14), the pre-tax factor is equal to 0.0750

For Lines (26) and (27), the pre-tax factor is 1.0. For Lines (16) through (25), the average factor column is calculated as Column (6) divided by Column (3).

Column (6)
For Lines (4) through (8), (10) through (14) and (16) through (25), summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the mortgage calculation worksheets (Figure 1) and (Figure 3). For Lines (1) through (3), (26) and (27), the RBC subtotal is multiplied by the factor to calculate Column (6).

(Figure 1)

Mortgage Worksheet A
Other Than In Good Standing

	(1) Name / ID	(2) Book/Adjusted Carrying Value	(3) Involuntary Reserve Adjustment§	(4) RBC Subtotal£	(5) Cumulative Writedowns*	(6) Category Factor	(7) In Good Standing Factor	(7a) In Good Standing Category	(8) Col (6) X [Col (4)+(5)] - Col (5)	(9) Col (4) X Col (7)	(10) RBC Requirement‡
(1)	All Mortgages Without Cumulative Writedowns				XXX	†	†	†			
	All Mortgages With Cumulative Writedowns:										
(2)						†	†	†			
(3)						†	†	†			
(4)						†	†	†			
(5)						†	†	†			
(6)						†	†	†			
(7)						†	†	†			
(8)						†	†	†			
(9)						†	†	†			
(10)						†	†	†			
(11)						†	†	†			
(12)						†	†	†			
(13)						†	†	†			
(14)						†	†	†			
(15)						†	†	†			
	Total Mortgages										

This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 2) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Mortgages (LR004) in the risk-based capital formula. Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. NOTE: This worksheet will be available in the risk-based capital filing software.

† See (Figure 2) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 3) and reported in Column 7a for Commercial or Farm Mortgages.
‡ The RBC Requirement column is calculated as the greater of Column (8) or Column (9), but not less than zero.
§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.
£ Column (4) is calculated as Column (2) less Column (3).
* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 2)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 1 and 3) to calculate the RBC Requirement for each individual mortgage. The factors are used in Columns (6), (7) and (7a) of the mortgage worksheet and are dependent on which of the 25 mortgage categories below the mortgage falls into. The following factors are used for each category of mortgages:

LR004 Line Number	Mortgage Factors	Category Factor†	In Good Standing Factor	MEA Factor
	In Good Standing			
(1)	Residential Mortgages-Insured or Guaranteed	N/A‡	0.0014	N/A
(2)	Residential Mortgages-All Other	N/A‡	0.0068	N/A
(3)	Commercial Mortgages-Insured or Guaranteed	N/A‡	0.0014	N/A
(4)	Commercial Mortgages-All Other – Category CM1	N/A‡	0.0090	N/A‡
(5)	Commercial Mortgages – Category CM2	N/A‡	0.0175	N/A‡
(6)	Commercial Mortgages – Category CM3	N/A‡	0.0300	N/A‡
(7)	Commercial Mortgages – Category CM4	N/A‡	0.0500	N/A‡
(8)	Commercial Mortgages – Category CM5	N/A‡	0.0750	N/A‡
(10)	Farm Mortgages – Category CM1	N/A‡	0.0090	N/A‡
(11)	Farm Mortgages – Category CM2	N/A‡	0.0175	N/A‡
(12)	Farm Mortgages – Category CM3	N/A‡	0.0300	N/A‡
(13)	Farm Mortgages – Category CM4	N/A‡	0.0500	N/A‡
(14)	Farm Mortgages – Category CM5	N/A‡	0.0750	N/A‡
	90 Days Overdue, Not in Process of Foreclosure			
(16)	Farm Mortgages – Category CM6	0.1800	‡	N/A‡
(17)	Residential Mortgages-Insured or Guaranteed	0.0027	0.0014	1.0 N/A
(18)	Residential Mortgages-All Other	0.0140	0.0068	1.0 N/A
(19)	Commercial Mortgages-Insured or Guaranteed	0.0027	0.0014	1.0 N/A
(20)	Commercial Mortgages-All Other – Category CM6	0.1800	‡	N/A‡
	In Process of Foreclosure			
(21)	Farm Mortgages – Category CM7	0.2300	‡	N/A‡
(22)	Residential Mortgages-Insured or Guaranteed	0.0054	0.0014	1.0 N/A
(23)	Residential Mortgages-All Other	0.0270	0.0068	1.0 N/A
(24)	Commercial Mortgages-Insured or Guaranteed	0.0054	0.0014	1.0 N/A
(25)	Commercial Mortgages-All Other – Category CM7	0.2300	‡	N/A‡

† The category factor is a factor used for a particular category of mortgage loans that are not in good standing.

‡ The RBC Requirement for mortgage loans in good standing or restructured are not calculated on Figure (1). These requirements are calculated on Mortgage Worksheet (company developed) (Figure 3) and transferred to LR004 Mortgage Loans Lines (4) through (8) and (10) through (14). In addition, for Commercial and Farm mortgage loans 90 days past due or In Process of Foreclosure, the CM category is determined in Mortgage Worksheet (company developed) and transferred to Worksheet A.

(Figure 3)

Mortgage Worksheet (**c**ompany developed)
In Good Standing – Commercial Mortgages and Farm Mortgages

Price Index current (year-end calculations to be based off of 3rd Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property type (5)	Postal Code (6)	Book / Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt? (24)	Construction Loan? (25)

Construction Loan out of Balance? (26)	Construction Loan Issues? (27)	Land Loan? (28)	90 Days Past Due? (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest a floating rate? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Rolling Average NOI (36)	RBC Debt Service (37)	RBC DCR (38)	Price Index at Valuation (39)	Contemporaneous Property Value (40)	RBC LTV (41)	CM Category (42)

The Company should develop this worksheet on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Annual Statement Schedule B. This worksheet columns (7) and (9) subtotals for each category are to be carried over and entered in Columns (1) and (2) of Mortgages (LR004) in the risk-based capital formula lines (4) – (8) and (10) – (14). Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. Amounts in Columns (7), (9) and (42) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure. NOTE: This worksheet will not be available in the risk-based capital filing software and needs to be developed by the company.

Column			Description / explanation of item
#	Heading		
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing**.**
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other (See Note 8.)
(6)	Postal Code	Input	Enter zip code of property for US. If multiple properties or zip codes, enter multiple codes. If foreign address, use postal code. If not available, N/A**.**
(7)	Book / Adjusted Carrying Value	Input	Enter the value that the loan is carried at on the company ledger.
(8)	Statutory Write-downs	Input	Enter the value of any write-downs taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding including debt that is senior to or pari passu with the company's mortgage (Note 2)
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15)**.** See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16)**.** See Note 1.
(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 3, 4, 5, and 6 below.

(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months
(19)	Original Property Value	Input	Enter the Property Value at the time of origination of the loan. (Note 9)
(20)	Property Value	Input	Property Value is the value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing. (Note 9)
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Debt?	Input	Enter yes if senior position, no if not. (see Note 7.)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4.)
(26)	Construction – not in balance?	Input	Enter 'Yes" if his is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues?	Input	Enter 'Yes" if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the loan interest?	Input	Yes / No
(32)	Is loan interest a floating rate?	Input	Yes / No
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a pre-determined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Rolling Average NOI	Computation	For 2013 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2nd Prior For loans originated or valued within the current year, use 100% NOI. For loans originated 2013 or later and within 2 years, use 65% NOI and 35% NOI Prior

(37)	RBC Debt Service	Computation	This amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(38)	RBC DCR	Computation	This is the ratio of the Net Operating Income (36) divided by the RBC Debt Service (37) rounded down to 2 decimal places. See Note 3 below for special circumstances.
(39)	NCREIF Price Index at Valuation	Computation	The value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(40)	Contemporaneous Property Value	Computation	The Property Value (20) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index at valuation (39).
(41)	RBC LTV	Computation	The Total Loan Value (13) divided by the Contemporaneous Value (40) rounded to the nearest percent.
(42)	CM Category	Computation	The risk category determined by applying the DCR (38) and the LTV (41) to the criteria in Figure (4), Figure (5) or Figure (6). See Notes 2, 3, 4, 5, and 6 below for special circumstances.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements v.5.1. (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance would be a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (36), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

SCHEDULE BA MORTGAGES
LR009

Basis of Factors

For Affiliated Mortgages**,** Line 10999999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet for In Good Standing (Figure 10) and (Figure 8) for Past Due or In Process of Foreclosure.

For Unaffiliated Mortgages, Line 0999999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (2) for mortgages with covenants that are in compliance.
2) Investments that are defeased with government securities will be assigned to CM1.
3) Other investments comprised primarily of senior debt will be assigned to CM2.
4) All other investments in this category will be assigned CM3. This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

<u>Column (1)</u>
Except for Line (1), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheets (Figure 8) and (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Line 0999999 plus Line 1099999.

<u>Column (2)</u>
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

<u>Column (3)</u>
Column (3) is calculated as the net of Column (1) less Column (2).

<u>Column (4)</u>
For Lines (12) through (14) and Lines (16) through (18), summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the Schedule BA mortgage calculation worksheet (Figure 8).

<u>Column (5)</u>
For Line (1), the pre-tax factor is 0.0014.

See Figure 9 for computation of appropriate factors.

Column (6)
For Lines (1) through (10) the RBC subtotal is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Lines (12) through (14) and Lines (16) through (18), summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the Schedule BA mortgage calculation worksheet (Figure 8).

(Figure 8)

Schedule BA Mortgage Worksheet A
Other Than In Good Standing

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(7a)	(8)	(9)	(10)
	Name / ID	Book/Adjusted Carrying Value	Involuntary Reserve Adjustment§	RBC Subtotal £	Cumulative Writedowns *	Category Factor	In Good Standing Factor	In Good Standing Category	Col (6) X [Col (4)+(5)] - Col (5)	Col (4) X Col (7)	RBC Requirement ‡
	90 Days Overdue – Insured or Guaranteed					†	†	†			
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.0027	0.0014	N/A			
(2)	With Cumulative Writedowns:					0.0027	0.0014	N/A			
(3)						0.0027	0.0014	N/A			
	Total										
	90 Days Overdue – Unaffiliated										
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.1800	†	†			
(2)	With Cumulative Writedowns:					0.1800	†	†			
(3)						0.1800	†	†			
	Total										
	90 Days Overdue – Affiliated										
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.1800	†	†			
(2)	With Cumulative Writedowns:					0.1800	†	†			

(3)						0.1800	†	†			
	Total										
	<u>In Process of Foreclosure – Insured or Guaranteed</u>										
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.0054	0.0014	N/A			
(2)	With Cumulative Writedowns:					0.0054	0.0014	N/A			
(3)						0.0054	0.0014	N/A			
	Total										
	<u>In Process of Foreclosure – Unaffiliated</u>										
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.2300	†	†			
(2)	With Cumulative Writedowns:					0.2300	†	†			
(3)						0.2300	†	†			
	Total										
	<u>In Process of Foreclosure – Affiliated</u>										
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.2300	†	†			
(2)	With Cumulative Writedowns:					0.2300	†	†			
(3)						0.2300	†	†			
	Total										
(99)	Total Schedule BA Mortgages										

This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 9) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Schedule BA Mortgages (LR009) Lines (12) through (14) and Lines (16) through (18) in the risk-based capital formula. NOTE: This worksheet will be available in the risk-based capital filing software.

† See (Figure 9) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 10) and reported in Column 7a.

‡ The RBC Requirement column (10) is calculated as the greater of Column (8) or Column (9), but not less than zero.

§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.
£ Column (4) is calculated as Column (2) less Column (3).
* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 8 and 10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure. The factors are used in Columns (6) and (7) of the mortgage worksheet (Figure 8) and are dependent on which of the 14 mortgage categories below the mortgage falls into. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are classified as Category CM1. The following factors are used for each category of mortgages:

	Schedule BA Mortgage Factors		
LR009 Line Number		Category Factor†	In Good Standing Factor
(3)	Unaffiliated – defeased with government securities	N/A‡	0.0090
(4)	Unaffiliated investments comprised primarily of Senior Debt	N/A‡	0.0175
(5)	Unaffiliated – all other unaffiliated mortgages	N/A‡	0.0300
(6)	Affiliated Mortgages – Category CM1	N/A‡	0.0090
(7)	Affiliated Mortgages – Category CM2	N/A‡	0.0175
(8)	Affiliated Mortgages – Category CM3	N/A‡	0.0300
(9)	Affiliated Mortgages – Category CM4	N/A‡	0.0500
(10)	Affiliated Mortgages – Category CM5	N/A‡	0.0750
(12)	90 Days Past Due - Insured or Guaranteed	0.0027	.0014
(13)	90 Days Past Due - Unaffiliated	0.1800	‡
(14)	90 Days Past Due – Affiliated	0.1800	‡
(16)	In Process of Foreclosure - Insured or Guaranteed	0.0054	.0014
(17)	In Process of Foreclosure - Unaffiliated	0.2300	‡
(18)	In Process of Foreclosure – Affiliated	0.2300	‡

† The category factor is a factor used for a particular category of mortgage loans that are not in good standing.
‡ The RBC Requirement for mortgage loans in good standing are not calculated on Figure (8). These requirements are calculated on the company's Schedule BA Mortgage Worksheet and transferred to LR009 Schedule BA Mortgage Loans Lines (12) – (14) and (16) – (18).

(Figure 10)

Mortgage Worksheet (company developed)
In Good Standing - Commercial

Price Index current (year-end calculations to be based off of 3rd Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property Type (5)	Postal Code (6)	Book/Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt (24)	Construction Loan (25)

Construction Loan out of Balance (26)	Construction Loan Issues (27)	Land Loan (28)	90 Days Past Due (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest floating? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Schedule BA mortgage? (36)	Affiliated Mortgage (37)	Covenant – Max LTV (39)	Covenant – Min DCR (40)	Loan Covenants in compliance? (41)	Defeased with government securities? (42)

Primarily Senior positions? (43)	Rolling Average NOI (44)	RBC DCR (45)	Price Index at Valuation (46)	Contemporaneous Property Value (47)	RBC - Loan to Value Ratio (48)	RBC Risk Category (49)

This worksheet is prepared on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Schedule BA. The Column (7) and (9) subtotals for each category are carried over and entered in Columns (1) and (2) of the Mortgages (LR009) in the risk-based capital formula lines (2) – (10). Small mortgages aggregated into one line on Schedule BA can be treated as one mortgage on this worksheet. Amounts in Columns (7), (9) and (49) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure. NOTE: This worksheet will not be available in the risk-based capital filing software and must be developed by the Company.

Column			Description / Explanation of Item
#	Heading		
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing**.**
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	Sub-category – If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other**.** (See Note 8)
(6)	Postal Code	Input	Enter zip code of property for US properties. If multiple properties or zip codes, enter multiple codes. If foreign, enter postal code. If not available, N/A**.**
(7)	Book / Adjusted Carrying Value	Input	Enter the value that the loan is carried at on the company ledger.
(8)	Statutory Writedowns	Input	Enter the value of any writedowns taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding that is senior to or pari passu with the company's mortgage
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15)**.** See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16)**.** See Note 1.

(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 2, 3, 4, 5 and 6 below.
(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months**.**
(19)	Original Property Value	Input	Enter the loan balance at the time of origination of the loan.
(20)	Property Value	Input	The value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing.
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Loan?	Input	Enter 'Yes' if senior position, 'No' if not. (see Note 7)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4)
(26)	Construction – not in balance	Input	Enter 'Yes' if this is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues	Input	Enter 'Yes' if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the Loan Interest?	Input	Yes / No
(32)	Is loan interest a floating rate?	Input	Yes / No
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a predetermined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Schedule BA mortgage?	Input	Yes / No
(37)	Affiliated Mortgage?	Input	Yes / No

(38)	Covenant Max LTV	Input	For mortgage investments with covenants, what is the maximum LTV allowed?
(39)	Covenant Min DCR	Input	For mortgage investments with covenants, what is the minimum DCR allowed?
(40)	Covenants in compliance?	Input	Yes / No – for mortgage investments with covenants, is the investment in compliance with the covenants?
(41)	Defeased with government securities	Input	Yes / No – has the mortgage loan been defeased using government securities?
(42)	Primarily Senior Mortgages	Input	Is the mortgage pool primarily senior mortgage instruments? {If yes, assign to CM2}
(43)	Rolling Average NOI	Computation	For 2012 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2nd Prior For loans originated or valued within the current year**,** use 100% NOI. For loans originated 2012 or later and within 2 years, use 65% NOI and 35% NOI Prior**.**
(44)	RBC Debt Service	Computation	RBC Debt Service Amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(45)	RBC - DCR	Computation	Debt Coverage Ratio is the ratio of the Net Operating Income (43) divided by the RBC Debt Service (44) rounded down to 2 decimal places. See Note 3 below for special circumstances. For loan pools with covenants, this will be the minimum DCR by covenant.
(46)	NCREIF Index at Valuation	Computation	Price index is the value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(47)	Contemporaneous Property Value	Computation	Contemporaneous Value is the Property Value (11) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index (46).
(48)	RBC - LTV	Computation	The Loan to Value ratio is the Loan Value (13) divided by the Contemporaneous Value (47) rounded to the nearest percent. For Loan Pools with covenants, this will be the max LTV by covenant.
(49)	CM Category	Computation	Commercial Mortgage Risk category is the risk category determined by applying the DCR (45) and the LTV (48) to the criteria in Figure (11), Figure (12) or Figure (13). See Notes 2, 3, 4, 5, and 6 below for special circumstances. If (41) = yes, CM1. If (42) = yes, CM2. If no LTV and DCR, and (41) = no and (42) = no, CM3.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements v. 5.1 (www.crefc.org/irp).

These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

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National Association of Insurance Commissioners

The Center for Insurance Policy and Research

MEMORANDUM

TO: Philip Barlow (DC)
Chair of the Life Risk-Based Capital (E) Working Group

FROM: Commissioner Scott A. White (VA) and Superintendent Eric A. Cioppa (ME)
Chair and Vice Chair of the Financial Condition (E) Committee

DATE: Oct. 5, 2020

RE: RBC Bond Factors

The Financial Condition (E) Committee discussed the NAIC's project to update the risk-based capital (RBC) bond factors in February as one of its priorities for 2020 and drew two conclusions:

1) The project should be finalized with 20 new factors put in place for year-end 2021.
2) The 20 factors should consider as input an analysis to be prepared by a consultant of the American Council of Life Insurers (ACLI).

In making these two conclusions, the Committee discussed the significant time, effort and expertise provided by the American Academy of Actuaries (Academy) to the NAIC through this project. The Committee hopes that the Life Risk-Based Capital (E) Working Group can continue to receive support from the Academy for any issues or questions the consultant raises to the Life Risk-Based Capital (E) Working Group but expects the consultant to limit questions to what is not evident from the Academy's public report. Despite the past efforts from the Academy, the Committee was sensitive to the request made by some members that such an analysis be completed and considered before the 20 new factors are finalized in June 2021. To achieve this, formal exposure of the factors to be considered for 2021 year-end is required by the end of April. In order to provide the ability for an impact analysis to be completed by NAIC staff on the 2020 year-end RBC filings using both the Academy factors and any alternative factors put forth as a result of the ACLI's work, that work should be submitted to the Life Risk-Based Capital (E) Working Group by the end of January 2021. That will allow for consideration by the Working Group in an open meeting prior to that analysis being completed.

Prior to the 2020 Spring National Meeting, NAIC staff communicated to the ACLI the Committee's willingness to consider such an analysis, but unfortunately only recently has the ACLI begun this work. Regardless, we ask that you and a few members of your Working Group be involved in drafting the Scope of Work and that the NAIC staff support for the Committee, Dan Daveline, be involved.

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If you have any questions on this matter, please contact either myself, Superintendent Cioppa or NAIC staff support (ddaveline@naic.org).