



The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published [NAIC Capital Markets Bureau Special Reports](#) are available via its webpage and the NAIC archives (for reports published prior to 2016).

Small Increase to U.S. Insurers' Mortgage Loan Exposure at Year-End 2021

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Executive Summary

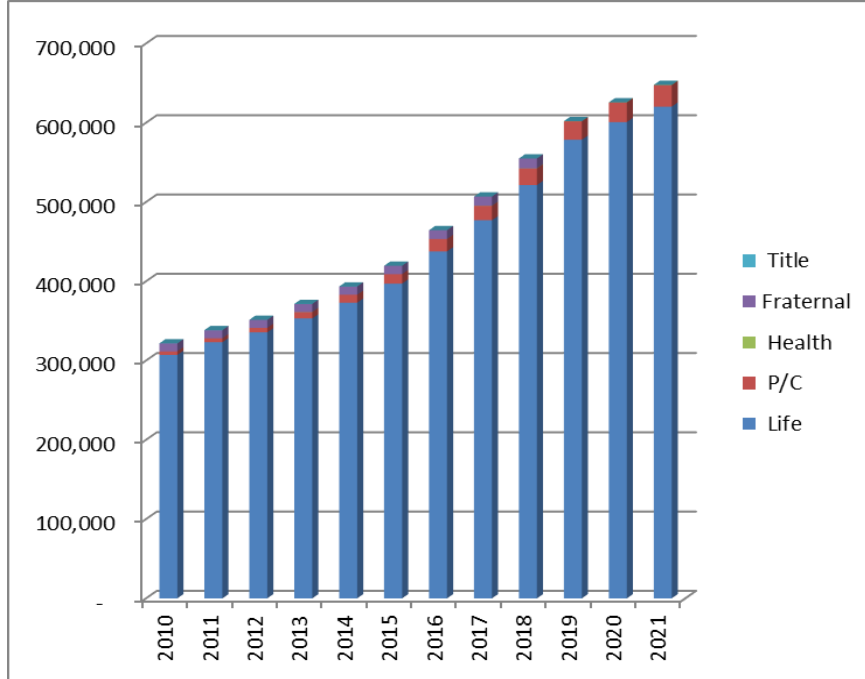
- At year-end 2021, U.S. insurers had \$647.7 billion in book/adjusted carrying value (BACV) of mortgage loans, as reported in Schedule B, which was a 3% increase from \$626.5 billion in BACV at year-end 2020.
- Mortgage loans were about 8% of total cash and invested assets for U.S. insurers at year-end 2021, with life insurance companies accounting for the majority, or 96%, of the industry's total mortgage loans, as they match well with the longer-term nature of their liabilities.
- Almost 90% of U.S. insurers' total mortgage loan exposure, or \$566.7 billion, was in commercial mortgage loans.
- Multifamily/apartment properties continued to represent the largest property type at almost 30% of total mortgage loan exposure; over the last year, multifamily properties have benefited from a boost in rental demand due to high mortgage rates.
- According to the Mortgage Bankers Association (MBA), similar to prior years, life companies accounted for about 15% of the overall market's commercial mortgage loans outstanding at year-end 2021.
- Commercial mortgage loan origination volume achieved a record year in 2021, due in part to a rebound in property values and fundamentals, and this trend continued into 1Q 2022.

As reported in Schedule B, U.S. insurers' exposure to mortgage loans backed by real estate increased by about 3% to \$647.7 billion in BACV at year-end 2021 from \$626.5 billion at year-end 2020. As shown in Chart 1, U.S. insurers' exposure to mortgage loans has been steadily increasing over at least the last 11 years. From 2010 to 2021, exposure doubled. Life companies have historically been lenders in the commercial real estate market, and they accounted for 96% of the industry's total mortgage loan exposure at year-end 2021. Real estate and real estate lending are considered long-term investments



that match well with life companies’ long-term liabilities. Mortgage loans are also considered an alternative asset class and serve as a source of diversification for insurers’ investment portfolios.

Chart 1: U.S. Insurers’ Exposure to Mortgage Loans, 2010–2021 (\$mil. \$BACV)*



*Life and fraternal companies were reported together beginning with year-end 2019 data.

Commercial mortgage loans were almost 90% of U.S. insurers’ total mortgage loan exposure (see Table 1) at \$566.7 billion as of year-end 2021, a small increase from \$557.6 billion at year-end 2020. Exposure to residential mortgage loans increased by about 34% to \$45.1 billion at year-end 2021 from \$33.7 billion at year-end 2020.

Table 1: U.S. Insurers’ Mortgage Loan Exposure by Loan Type, Year-End 2020 and 2021 (\$mil. BACV)

Mortgage Loan Type	\$mil BACV 2021	Pct of Total	\$mil BACV 2020	Pct of Total
Commercial	\$ 566,692.6	87%	\$ 557,556.6	89%
Residential	\$ 45,130.4	7%	\$ 33,684.4	5%
Farm	\$ 25,667.5	4%	\$ 24,903.9	4%
Other	\$ 10,226.7	2%	\$ 10,345.1	2%
Total	\$ 647,717.1	100%	\$ 626,490.0	100%

Multifamily Property Mortgages are the Largest Property Type for U.S. Insurers

At year-end 2021, multifamily/apartment accounted for the largest property type among U.S. insurers’ total mortgage loan exposure at \$188 billion, or 29% of the total (see Table 2). This represents a small increase in BACV from \$163.9 billion at year-end 2020, when multifamily/apartment accounted for 26% of the total. Offsetting this increase was a decrease in office properties—the second largest property type—to \$138.4 billion, or 21% of the total, at year-end 2021, compared to \$146.9 billion at year-end



2020. Home prices have increased by almost 30% since 2019, achieving record highs.¹ As a result, there has been an increase in rental demand for multifamily/apartment properties as home ownership has become less affordable. According to the National Association of Realtors (NAR), multifamily vacancy rates were a record low of 4.5% as of mid-December 2021; however, they have since increased to 5.3% as of May 2022.²

Table 2: U.S. Insurers' Mortgage Loan Exposure by Property Type, Year-End 2020 and 2021 (\$mil. BACV)

Property Type	2021 Total	Pct of Total	2020 Total	Pct of Total
Multifamily/Apartment	\$ 188,048.7	29%	\$ 163,889.2	26%
Office	\$ 138,379.1	21%	\$ 146,865.9	23%
Retail	\$ 99,328.0	15%	\$ 105,467.9	17%
Other	\$ 98,185.3	15%	\$ 88,563.9	14%
Industrial	\$ 87,346.2	13%	\$ 85,201.9	14%
Lodging	\$ 23,244.4	4%	\$ 24,040.9	4%
Mixed Use	\$ 9,804.4	2%	\$ 9,650.3	2%
Healthcare	\$ 3,381.3	1%	\$ 2,809.8	0%
Total	\$ 647,717.5	100%	\$ 626,489.8	100%

Following a significant loss of revenues that occurred as a result of the economic impact of COVID-19 pandemic lockdowns, the retail and lodging sectors have experienced some recovery. As businesses began to reopen, there were improvements in retail and travel activity. The NAR cites that while there was a decrease in mall occupancy for retail, it was countered by an increase in neighborhood and strip centers and single-tenant stores. According to the NAR, the vacancy rate for retail store space was 4.4% for the 12 months ending May 2022, compared to 4.7% in December 2021; retail property market occupancy has been on the rise since Q4 2020. Notwithstanding, longer than expected inflation and a slowdown in the economy have begun to weaken recovery in retail and lodging. While hotel occupancy increased to 57% in December 2021 from 42% in December 2020, it has since declined to 52.5% in April 2022. U.S. insurers' exposure to retail properties decreased year-over-year (YOY) to \$99 billion, or 15% of total mortgage loans, at year-end 2021 from \$105.5 billion at year-end 2020. Lodging properties totaled about \$23 billion at year-end 2021 for U.S. insurers, representing about 4% of the total in both years.

Another notable sector that has been performing well is office properties. They were not immediately affected by COVID-19 because of the long-term nature of leases; however, with more people working from home or in a hybrid capacity, office property vacancies have increased. According to the NAR, office property vacancies were 12.2% for the 12 months ended May 2022, up from 9.7% in Q1 2020.

The industrial sector persevered throughout the pandemic and has outperformed historical trends in 2021 due in part to the sustained demand for warehouses and distribution centers from online shopping and an increase in e-commerce. Among the core property markets, according to the NAR, the industrial sector has the lowest vacancy rate, at 4% for the 12 months ended May 2022. U.S. insurers' exposure to

¹ National Association of Realtors, *The "Double Trouble" of the Housing Market*, February 2022.

² National Association of Realtors, *Commercial Market Insights*, May 2022.



industrial properties was about \$87 billion at year-end 2021, representing a small increase from the previous year.

Given the long-term nature of mortgage loans and their significant size, it is not surprising that over 90% of U.S. insurers' exposure was with large companies—i.e., those with more than \$10 billion in assets under management—at year-end 2021 (see Table 3). This is a continued trend from previous years. The remainder of mortgage loan exposure was mostly with companies that had at least \$1 billion in assets under management.

Table 3: Mortgage Loan Exposure by Total Assets Under Management, Year-End 2021, (\$mil. BACV)

Assets Under Management	\$ mil BACV	Pct of Total
Less Than \$250MM	\$ 391.1	0%
Between \$250MM and \$500MM	\$ 910.3	0%
Between \$500MM and \$1B	\$ 1,471.1	0%
Between \$1B and \$2.5B	\$ 7,245.5	1%
Between \$2.5B and \$5B	\$ 16,238.7	3%
Between \$5B and \$10B	\$ 21,141.1	3%
Greater than \$10B	\$ 600,319.4	93%
Total	\$ 647,717.1	100%

At year-end 2021, approximately 5% of the U.S. insurance industry's mortgage loans, or \$32.8 billion, were pledged as collateral to the Federal Home Loan Banks (FHLBs). As such, the exposure is considered a restricted asset in that it is not under the exclusive control of the reporting entity. In comparison, this represents a small decrease from 6% of the U.S. insurance industry's total mortgage loans, or about \$34 billion, at year-end 2020.

U.S. Insurers' Mortgage Loan Acquisitions and Dispositions Since Year-End 2021

U.S. insurers net acquired \$16 billion in mortgage loans through 2Q 2022, with most of the activity among large insurers. This is more than double the \$7.7 billion net acquired for the first two quarters of 2021. Specifically, since year-end 2021, U.S. insurers acquired approximately \$92.9 billion in mortgages—i.e., reported actual cost—88% of which was acquired by large insurers. Almost a third of total acquired mortgages, or \$28.3 billion, were multifamily properties. Through 2Q 2022, U.S. insurers disposed of about \$76.9 billion in mortgage loans, which includes mortgages sold and those paid down. Almost 90% of the dispositions were by large insurers.

Commercial Mortgage Loan Market Trends

According to the MBA, commercial and multifamily mortgage borrowings achieved a record year in 2021, due in part to a rebound in property values and fundamentals after a 2020 recession. In particular, the YOY increase in dollar volume of loan originations as of December 2021 exceeded 100% for hotel (167%), office (122%), industrial (113%), and retail properties (109%). The increase in originations continued into 1Q 2022, which also achieved record highs for a first quarter; i.e., loan originations

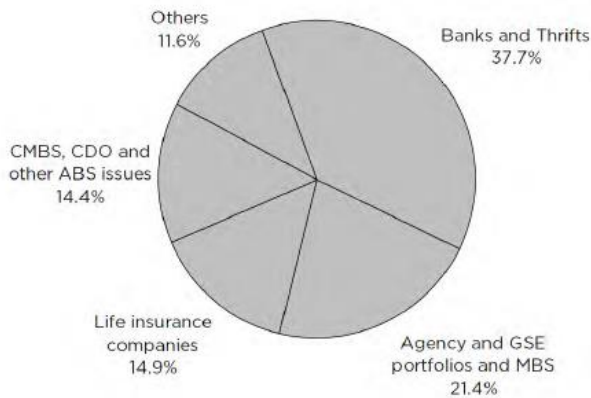


increased by 72% in 1Q 2022 compared to 1Q 2021. Due to seasonality trends, new commercial and multifamily mortgage loan originations were down 39% in 1Q 2022 compared to 4Q 2021.

Commercial and mortgage debt outstanding was \$4.25 trillion at the end of 1Q 2022, representing a 1.8% increase from 4Q 2021.³ Within this total, multifamily mortgage debt alone accounted for about \$1.8 trillion. The MBA estimates that commercial and multifamily mortgages provided by life insurance companies accounted for 15% of commercial and multifamily mortgage debt outstanding as of 1Q 2022 (see Chart 2), which is consistent with their overall market share over the last few years.

Chart 2:

Commercial Multifamily Mortgage Debt Outstanding
By Investor Group, First Quarter 2022



Source: MBA.

Delinquencies for the various property types have improved following the economic impact of the COVID-19 pandemic. Retail and lodging continue to be the most stressed, with 7.6% and 10.5% of retail and lodging loan balances, respectively, being delinquent—i.e., 60 or more days past due—as of Q4 2021. In comparison, retail and lodging loan balances were 9.5% and 20% delinquent, respectively, as of May 2021. In addition, 1.4% of multifamily loan balances were delinquent as of Q4 2021. According to the MBA, mitigating any potential concern over life companies’ investment in mortgage loans was a 0.05% delinquency rate on their exposure as of 1Q 2022; historically, life companies’ mortgage loan investments have had a delinquency rate below 1% since 1998.

For more information on [commercial mortgage loans](#), please see the NAIC Capital Markets primer published in June 2019.

The NAIC Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry’s mortgage loan investments and report as deemed appropriate.

³ MBA, *Quarterly Databook*, Q1 2022.



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