

To: All Insurers
RE: April 22 Question & Answer on Guidance for Mortgages for March 31-June 30 Statutory Financial Statements and Related Interim Risk-Based Capital Filings

Background Information

On March 27, the Financial Condition (E) Committee issued guidance to encourage insurers to work with borrowers who are unable to, or may become unable to meet their contractual payment obligations because of the effects of COVID-19. Nothing in that guidance supersedes the requirement or authority of any state, particularly any state that has separately issued COVID-19 orders, directives or other guidance the impact of which may lead to debt becoming troubled and/or needing to be restructured.

April 22 Question

Q1-Is the March 27 guidance also intended to apply to insurers that are not required to report risk-based capital calculations to their domestic regulator or the NAIC for March 31 and June 30?

A1-Yes. The guidance applies to all U.S. insurers filing and is not specific only to insurers that are required to report quarterly risk-based capital calculations. The reference to risk-based capital calculations prepared by insurers for March 31 and June 30 is intended to provide guidance for periodic internal reporting and reporting to policyholders, the public, and rating agencies that is not otherwise a prohibited announcement under state law.

Q2-Is this guidance intended to apply to all COVID-19 loan modifications that occur through June 30, 2020, so that an insurer that modifies a loan in accordance with the parameters of the guidance within that period is not required to adjust the origination date, valued date, or property value as of the modification date (as required under current RBC rules for loan restructures) for current or future RBC reporting periods?

A2-Yes. The intent of the guidance is to encourage insurers to make prudent loan modifications for borrowers who are temporarily unable to meet their contractual payment obligations because of the effects of COVID-19 and is not intended to have long-term negative impacts under current RBC rules. Consistent with this intent, if an insurer modifies a loan in accordance with the parameters of the guidance, the insurer is not required to adjust the origination date, valued date, or property value for current or future RBC reporting periods. In addition, an insurer is not required to reclassify to a different RBC category (such as within CM categories (e.g., CM1 to CM2) or within standing categories (e.g., In Good Standing, Overdue, Not in Process, In Process of Foreclosure)) for March 31 and June 30. The expectation is that further, more deliberative discussion is expected to occur in the future, likely through the Life Risk-Based Capital (E) Working Group, regarding these loans for future reporting periods.

Q3-Some construction projects are not allowed to operate because of government imposed stay-at-home orders. Current RBC rules specify that a loan with “construction loan issues” (e.g., abandoned) is required to have a CM5 rating. Is the guidance that loans are not required to be reclassified to a different RBC category as a result of government-mandated delays in any required principal and interest payments in the first and second quarters of 2020 also intended not to require reclassification of construction loans in cases of government-mandated delays in construction?

A3-Yes. No RBC category change is required to be changed for March 31 and June 30 as a result of government-mandated construction delays in the first and second quarters of 2020. The expectation is that further, more deliberative discussion is expected to occur in the future, likely through the Life Risk-Based Capital (E) Working Group, regarding these loans for future reporting periods.

Q4-Many properties for which borrowers are not requesting relief may be impacted by valuation and NOI changes resulting from the COVID-19 pandemic. What will be the risk-based capital treatment of these loans?

A4-The expectation is that further, more deliberative discussion on valuation, NOI impacts and other impacts COVID-19 may cause will occur in the future, likely through the Life Risk-Based Capital (E) Working Group.

April 13 Questions

Q1-The guidance indicates support for loan modifications as a result of COVID-19 but seems to restrict to only those loans that are troubled debt restructures, was this intentional?

A1-No, the guidance was intending to apply to all loan modifications made as a result of COVID-19 before June 30 even if they would otherwise be categorized a troubled debt restructure; setting forth a safe harbor for all such changes made as a result of COVID-19 during that time period with the intent of the Life RBC Working Group developing more explicit and detailed RBC guidance for both 3Q and 4Q and beyond, as well as how loan modifications made subsequent to the June 30 date would be treated. While such a safe harbor was intending to encourage loan modifications that are prudent so that there was no long-term impact on policyholders asset values, the view was that guidance on things such as operating income or other considerations within the RBC formula that attempt to measure the future risk of loans would be better addressed by the Life RBC Working Group. (Modifications of loan terms do not automatically result in TDRs. According to U.S. GAAP, a restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Working with borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered TDRs.)

March 30 Questions

Q1-Is the guidance expected to be updated in the future for 3Q and 4Q financial statements and if so how?

A1-The March 27 guidance developed was intended issued to provide immediate guidance and the expectation is that further, more deliberative discussion is expected to occur in the future, likely through the Life Risk-Based Capital (E) Working Group.

Q2-The guidance indicates that delays in any required principal and interest payments in accordance with the defined parameters are not required to be reclassified to a different RBC category, does this include reclassification either within CM categories (e.g. CM1 to CM2) or within other categories (e.g. In Good Standing, Overdue, Not in Process, In Process of Foreclosure, or both)?

A2-The guidance is meant to apply to both situations, the CM categories and the standing categories.