To: All Insurers  
RE: April 13 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 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.