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To: Debbie Doggett, Chair of the Blanks (E) Working Group  
From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group  
Re: Collateral Loans Backed by Mortgage Loans  
Date: June 18, 2024

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The purpose of this memo is to notify the Blanks (E) Working Group of instructional changes to the Asset Valuation Reserve (AVR) to allow collateral loans backed by mortgage loans to flow through AVR as an “Other Invested Asset with Underlying Characteristics of Mortgage Loans.” (This would include these specific collateral loans in lines 38-64 of the AVR – Equity and Other Invested Asset Component based on the characteristics of the mortgage loans.) This instruction is an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR.

This provision is provided as some companies have previously captured collateral loans backed by mortgage loans in the “non-registered private fund” category, and that reporting category is being deleted with the bond project revisions. This interim provision allows companies to receive comparable RBC treatment for these items while the discussion on collateral loans, and the extent of look-through to underlying collateral is considered.

The Life Risk-Based Capital (E) Working Group adopted an editorial change on June 18, 2024, to allow a bifurcation of collateral loans in the RBC formula. In accordance with the edit adopted by the Life RBC (E) Working Group, and this interim instruction directed by the Statutory Accounting Principles (E) Working Group on a May 15, 2024 call, reporting entities shall report all collateral loans on the Schedule BA collateral loan reporting line, and then life reporting entities shall bifurcate collateral loans backed by mortgage loans to flow through AVR into the designated reporting lines (lines 38-64 of the AVR – Equity and Other Invested Asset Component). The remaining collateral loan balance shall flow through to the RBC formula on page LR008, line 50, Schedule BA Collateral Loans. A data-captured note disclosure, effective year-end 2024, that details collateral loans by supporting collateral should agree in total to the total amount reported on Schedule BA for collateral loans, and that total, less collateral loans backed by mortgage loans, shall agree to the LR008, line 50, Schedule BA Collateral Loans.

It is recommended that this memo, detailing interim changes to existing reporting instructions for reporting of collateral loans backed by mortgage loans, be posted to the Blanks (E) Working Group website. Further, if timing allows, it is recommended that this interim guidance be incorporated into the annual statement instructions. As noted, this is an interim step for life reporting entities while the reporting and AVR allocation for collateral loans is further discussed. The Statutory Accounting Principles (E) Working Group will advise when this guidance should be replaced with a long-term solution.

Please contact NAIC staff Julie Gann ([jgann@naic.org](mailto:jgann@naic.org)), Jake Stultz ([jstultz@naic.org](mailto:jstultz@naic.org)); Robin Marcotte ([rmarcotte@naic.org](mailto:rmarcotte@naic.org)), Wil Oden ([woden@naic.org](mailto:woden@naic.org)); or Jason Farr ([jfarr@naic.org](mailto:jfarr@naic.org)) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr