

NAIC's CMBS and RMBS 2022 Interim Updates^[1]: Proforma Modeling Results

^[1]Please note that these interim results are for informational purposes only and cannot be used for investment reporting. The official year-end results will be released in mid-December 2022.





Summary of the Changes

The implementation of the full range of 20 NAIC designation categories in the NAIC's CMBS/RMBS year-end financial modeling will take place this year-end 2022^[2].

- This was done to support the updated risk-based capital factors that were adopted in 2021.
- The price breakpoint calculation for Legacy CMBS/RMBS and NAIC designation category mapping for Non-legacy CMBS/RMBS will reflect the updated RBC factors and accommodate the full 20 NAIC designation categories.
- As part of the implementation, several changes are being made to the macroeconomic scenarios and probability assignments. For more details, refer to [2022 Macroeconomic Assumptions](#).
 - The total number of macroeconomic scenarios increases from 4 to 8; this set of scenarios are through-the-cycle and includes 3 additional scenarios between the existing 4 scenarios along with a tail scenario.
 - Probability weights have been reallocated to accommodate the additional scenarios.

^[2]The year-end 2021 results reflected partial implementation of the expanded, more granular NAIC designation categories; it utilized 7 NAIC designation categories: NAIC 1.A, NAIC 1.D, NAIC 2.B, NAIC 3.B, NAIC 4.B, NAIC 5.B, and NAIC 6, instead of the full 20 NAIC designation categories for modeled Legacy CMBS/RMBS.



Interim Updates^[1]

To assist insurers in their efforts to assess the impact of these changes, the NAIC released an interim update - proforma modeling results – and made them available to insurers, based on each insurer’s year-end 2021 holdings.

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Summary of the Interim Updates

Overall, the impact of the various factors on the NAIC designation was relatively neutral.

- Although moves in NAIC designation categories were observed, the transitions were generally limited to neighboring categories. This trend was much expected given the changes that were earlier discussed - some of which, were by design, made to appropriately disperse the results across the full range of the NAIC designation categories - coupled with the recent changes in the macroeconomic conditions and updated collateral data and information.
- The proforma designation when compared to year-end 2021 results, were generally either unchanged or stayed within one (+/-) NAIC designation, yielding the preponderance of stable designation in both CMBS and RMBS over this 9 – 10 month period.



Interim Proforma Results: Primary Factors Affecting the Modeled Results and Risk-Based Capital

- Updated sets of macroeconomic scenarios.
- Reallocation of probability weights to the scenarios (continues to be bell-shaped over the range of the macroeconomic scenarios).
- Implementation of the full range of NAIC designation categories and corresponding RBC factors.
- Changes in the economy and respective markets.



Interim Proforma Results: Change in Designation and Primary Factors Affecting CMBS

Change in Designation ^[3]	As % of BACV
-5	0.00%
-4	0.05%
-3	0.13%
-2	0.54%
-1	1.09%
0	95.25%
1	2.31%
2	0.57%
3	0.05%
4	0.01%
5	0.00%
Total	100.00%

Over 95% of year-end 2021 CMBS holdings that are subject to NAIC's financial modeling, are projected to be in the same NAIC designation. Nearly 98.7% remained within (+/-)1 designation.

In addition to the primary common factors that have affected the interim proforma results:

- Updated historical National Property Index (additional actual data points)
- Recovery and normalization from the pandemic period as the economy is exiting the pandemic period
- Property type specific developments and conditions
- Updated financials and collateral performance

^[3]Designation and designation mapping used information provided in the year-end 2021 reporting.



Interim Proforma Results: Change in Designation and Primary Factors Affecting RMBS

Change in Designation ^[3]	As % of BACV
-5	0.04%
-4	0.10%
-3	0.44%
-2	1.29%
-1	2.09%
0	94.92%
1	0.63%
2	0.34%
3	0.12%
4	0.04%
5	0.01%
Total	100.00%

Nearly 95% of year-end 2021 RMBS holdings that are subject to NAIC's financial modeling, were projected to be in the same NAIC designation. Over 97.6% remained within (+/-)1 designation.

In addition to the primary common factors that have affected the interim proforma results:

- Updated historical Home Price Index (additional actual data points)
- Updated collateral performance as the economy is exiting the pandemic period
- Impact of recent interest rate environment and housing market conditions including prepayment speed of home mortgages and excess spread

^[3]Designation and designation mapping used information provided in the year-end 2021 reporting.