Draft date: 7/20/26

2026 Summer National Meeting
Columbus, Ohio

INVESTED ASSETS (E) TASK FORCE
Thursday, August 13, 2026
12:30 – 1:30 p.m.
Hilton Tower 401—Bellows Ballroom A-D—Lower Level

ROLL CALL

NAIC Member	Representative	State/Territory
Doug Ommen, Chair	Carrie Mears	Iowa
Scott A. White, Vice Chair	Doug Stolte	Virgina
Peter M. Fuimaono	Elizabeth Perri	American Samoa
Ricardo Lara	Laura Clements	California
Joshua Hershman	Ken Cotrone	Connecticut
Michael Yaworsky	Anoush Brangaccio	Florida
Dean L. Cameron	Eric Fletcher	Idaho
Vicki Schmidt	Tish Becker	Kansas
Angela L. Nelson	Danielle Smith	Missouri
Eric Dunning	Tadd Wegner	Nebraska
Susan Ochs	Susan Ochs	New Jersey
Kaitlin Asrow	Avani Shah/Bob Kasinow	New York
Jon Godfread	Colton Schulz	North Dakota
Judith L. French	Cameron Piatt	Ohio
Glen Mulready	Ryan Rowe	Oklahoma
TK Keen	Paul Throckmorton	Oregon
Michael Humphreys	Diana L. Sherman	Pennsylvania
Elizabeth Kelleher Dwyer	Liz Ammerman	Rhode Island
Michael Wise	Ryan Basnett	South Carolina
Carter Lawrence	Trey Hancock	Tennessee
Amanda Crawford	Amy Garcia	Texas
Patty Kuderer	Steve Drutz	Washington
Nathan Houdek	Amy Malm	Wisconsin

NAIC Committee Support: Jim Pinegar/Jennifer Vento/Michele Wong

AGENDA

1. Consider Adoption of its Spring National Meeting Minutes —*Carrie Mears (IA)* — Attachment One

2. Consider Adoption of the Reports of its Working Groups—*Carrie Mears (IA)*
   A. Investment Designation Analysis (E) Working Group—*Ken Cotrone (CT)* — Attachment Two
   B. Credit Rating Provider (E) Working Group—*Jake Garn (UT)* — Attachment Three

3. Receive a Report from the Investment Analysis (E) Working Group —*Carrie Mears (IA)* — Attachment Four, Attachment Five, Attachment Six

4. Hear a Presentation on Private Credit and Auditing Fair Value Estimations for Certain Investments (Specifically Assets with a Fair Value Hierarchy of Level 3)—*Dave Osborn (Ernst & Young—EY), Olga Roberts (KPMG), Jim Garner (Forvis Mazars), and Josh Martin (Deloitte)*

5. Discuss Any Other Matters Brought Before the Task Force —*Carrie Mears (IA)*

6. Adjournment

Draft Pending Adoption

Draft: 3/31/26

Invested Assets (E) Task Force
San Diego, California
March 24, 2026

The Invested Assets (E) Task Force met in San Diego, CA, March 24, 2026. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Scott A. White, Vice Chair, represented by Doug Stolte (VA); Ricardo Lara represented by Laura Clements (CA); Joshua Hershman represented by Ken Cotrone (CT); Michael Yaworsky represented by Carolyn Morgan (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Angela L. Nelson represented by Danielle Smith (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Ryan Rowe (OK); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Amanda Crawford represented by Amy Garcia and Jamie Walker (TX); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating were: Philip Barlow (DC); Gilbert Mendoza (MD); and Jake Garn (UT).

1. <u>Adopted the Report of the Investment Designation Analysis (E) Working Group</u>

Cotrone said the Investment Designation Analysis (E) Working Group met March 5 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals), paragraph 6 (consultations with NAIC staff related to NAIC technical guidance), and paragraph 9 (subjects required to be kept confidential) of the NAIC Policy Statement on Open Meetings. During this meeting, NAIC staff presented the technical guidance captured in the Spring National Meeting agenda.

Additionally, Cotrone said the Investment Designation Analysis (E) Working Group met March 24. During this meeting, the Working Group took the following action: 1) adopted the 2025 Fall National Meeting minutes of the Valuation of Securities (E) Task Force, which was reorganized into the Investment Designation Analysis (E) Working Group, effective Jan. 1, 2026; 2) exposed two amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to update the list of approved credit rating providers (CRPs) and to require the NAIC Securities Valuation Office (SVO) to perform analysis of certain parent-subsidiary situations; 3) proposed annual statement updates to include security identifiers (IDs) and approve related referrals to the Blanks (E) Working Group, Capital Adequacy (E) Task Force, and Statutory Accounting Principles (E) Working Group; and 4) received a report on 2025 carry-over filings indicating that several filings increased substantially compared to 2024, which has led to a significant growth in carry-over filings, negatively affecting processing times and placing additional strain on available resources.

Stolte made a motion, seconded by Malm, to adopt the report of the Investment Designation Analysis (E) Working Group (Attachment One). The motion passed unanimously.

2. <u>Received the Report of the Credit Rating Provider (E) Working Group</u>

Garn said the Credit Rating Provider (E) Working Group met March 10 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group received a presentation from PricewaterhouseCoopers (PwC) on its CRP due diligence framework proposal. It is anticipated that a draft proposal will be released for public comment sometime in late April.

Draft Pending Adoption

3. Received the Report of the Investment Analysis (E) Working Group

Mears said the Investment Analysis (E) Working Group met March 3 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group took the following action: 1) discussed an initial six-to nine-month plan, which has been released for public notification (Attachment Two); and 2) submitted a Blanks (E) Working Group proposal (available on the Blanks (E) Working Group web page as exposure draft 2026-05BWG) to require explicit identification of the fair value hierarchy used to obtain reported values, including clear designation of instances where net asset value (NAV) is utilized, and to improve the completeness and consistency of reporting.

4. Heard a Presentation from Neuberger Berman on Insurance Companies Increasing Investments in Residential Mortgage Loans

Mears said the Task Force's primary effort is to be an educational forum for state insurance regulators, especially in terms of increasing exposures to certain or new asset classes. This information will then be used to determine whether further guidance or referrals should be made to other NAIC task forces or working groups in public sessions to address any concerns noted. Additionally, information found may also result in recommended updates to the *Financial Analysis Handbook* or other similarly related items.

Stephen Smith (Neuberger Berman), Stephen Zacny (Neuberger Berman), and Dmitry Gasinsky (Neuberger Berman) presented on the topic of residential mortgage loans, specifically on insurance companies' recent and ongoing significant growth of this asset class. Gasinsky said that Neuberger Berman's view is that while this asset class continues to grow, it remains an underinvested asset class, particularly since the global financial crisis (GFC), especially as residential mortgages have consistently offered and delivered highly attractive risk-adjusted returns through cycles, and perhaps more attractive when compared to similarly rated corporate or commercial real estate exposures. Additionally, residential loans provide material yield benefits, something that has come into focus in light of recent market volatility. The typical loan is anywhere from $250,000 to $1 million. However, the typical loan portfolio contains hundreds, if not thousands, of individual exposures diversified across loan types, borrowers, individual credit exposures, and geographies. Insurer investments in this asset class are likely to continue, especially as there is a meaningful shortage of quality housing supply versus demand, which implies underlying support and resiliency in these types of investments.

Zacny noted that in evaluating risk for residential mortgage loans, it is important to consider performance through a full credit cycle, including the experience observed during the 2007–2009 financial crisis. Zacny stated that borrower defaults are highly correlated with unemployment levels and that loss severity is closely tied to underlying property values. Over the past decade, residential mortgage performance has benefited from strong employment conditions and generally increasing home prices, although more recent data indicate some slowing in price appreciation.

Zacny explained that performance data from the financial crisis continues to be used by market participants and nationally recognized statistical rating organizations (NRSROs) to calibrate credit models, as it represents the most significant period of consumer-related credit stress in the modern residential mortgage market. Zacny noted that, in reviewing historical performance, prime mortgage loans are commonly defined as those with borrower credit scores around 720 FICO or higher, and that these loans demonstrated relatively limited losses even under stressed conditions when compared to lower-credit-quality originations. Zacny stated that, in analyzing performance through the financial crisis, his review focused on mortgage loan vintages originated between 2001 and 2005, excluding the 2006–2007 period due to the prevalence of weaker underwriting practices at that time, including limited documentation, teaser-rate structures, and negative amortization features that are no longer permitted in today's market. Zacny stated that loans originated between 2001 and 2005 and carried through the GFC experienced relatively modest principal losses (60 basis points [bps]), even under stressed conditions, and that these results are often used as a benchmark for modeling the expected performance of higher-quality residential mortgage loans. Zacny said, however, that following enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the "ability-to-repay" requirement significantly strengthened underwriting standards by requiring lenders to verify a borrower's capacity to repay the loan, resulting in improved credit performance in more recent loan vintages. Zacny stated that current underwriting practices generally require verification of income and assets and rely heavily on borrower credit scores, loan-to-value ratios, and debt-to-income measures in evaluating expected loss performance, resulting in significantly stronger underwriting practices and producing lower probabilities of defaults.

Zacny provided an overview of the primary categories of residential mortgage loans held by insurers, noting that the discussion focused on first-lien residential mortgage loans and excluded insured government-backed mortgages, farm mortgages, and commercial mortgage loans. The categories discussed included agency-eligible mortgages; prime jumbo mortgages; non-agency owner-occupied mortgages; stabilized rental property loans; small-balance multifamily loans; and short-term development, bridge, and construction loans. Zacny explained that agency-eligible mortgages generally reflect traditional fully documented consumer loans, often involving down payments of approximately 20% and borrower credit scores in the 700 range or higher, and that these loans are frequently securitized through government-sponsored enterprises, although insurers may also hold them directly. Zacny stated that prime jumbo mortgages are similar in underwriting quality but exceed government-sponsored enterprise loan size limits and, therefore, remain outside agency securitization programs, typically involving larger properties and higher-income borrowers.

Zacny said that recent growth in insurer investment activity has been concentrated in non-agency and investor-oriented products rather than traditional agency-eligible loans. Zacny noted that non-agency owner-occupied loans often involve alternative income verification methods, such as the use of bank statements instead of W-2 documentation, while still maintaining strong credit characteristics, including high borrower credit scores, conservative loan-to-value ratios, and moderate debt-to-income levels. Zacny stated that stabilized rental property loans generally involve one-to-four-unit properties leased to tenants and are typically underwritten based on rental income generated by the property, often with personal recourse to the borrower, and that these loans have shown strong historical performance.

Zacny further explained that small-balance multifamily loans typically involve properties with approximately five to 50 units, with average property sizes often closer to single-digit or low-teen unit counts, and that insurers have shown significant interest in this product. Zacny noted that some interpret these loans as commercial mortgage exposures for reporting and risk-based capital purposes, which has created uncertainty regarding their classification, even though the underlying properties may be relatively small in scale compared to traditional commercial mortgage loans. Zacny stated that the final category, short-term development, bridge, and construction loans, generally involve transitional properties, including rehabilitation, lease-up, or ground-up construction, and are typically written with lower loan-to-value ratios to provide additional protection during the transition period. Zacny stated that, across these categories, insurers have increasingly focused on products with conservative underwriting, strong borrower credit profiles, and meaningful borrower equity, which has contributed to favorable historical loss experience.

Zacny described key underwriting characteristics associated with these products, including borrower credit scores, loan-to-value ratios, debt-to-income ratios, and property cash-flow coverage. Zacny noted that non-agency owner-occupied loans often involve alternative income verification methods, such as bank statement analysis, while stabilized rental loans are generally underwritten based on rental income and frequently include personal recourse to the borrower. Zacny indicated that historical loss experience for these products has been low, with modeled losses remaining modest even under stressed assumptions, and that loan-to-value ratios are typically conservative, providing additional protection in the event of default.

Zacny also discussed performance metrics commonly monitored by investors, including prepayment speeds and delinquency rates. Zacny noted that investor-property loans often include prepayment penalties, which can reduce prepayment risk and provide more stable cash flows for insurers. Delinquency rates across the products discussed were described as low, with limited realized losses in recent years based on both internal portfolio experience and publicly available securitization data.

In discussing risk measurement, Zacny stated that under current statutory accounting and risk-based capital (RBC) requirements, most residential mortgage loans receive the same RBC treatment, generally categorized under the "residential mortgage-other" classification, despite substantial differences in underwriting quality, property type, loan structure, and borrower characteristics. Zacny indicated that this uniform RBC approach may not fully reflect the observed variation in credit risk across different mortgage loan categories, including agency-eligible, non-agency owner-occupied, stabilized rental, and small-balance multifamily loans.

Zacny explained that internal risk models used by insurers often rely heavily on borrower credit score (e.g., FICO score) and loan-to-value ratio as primary drivers of default probability and loss severity, noting that these two factors together account for the majority of predictive power in estimating expected losses. Zacny further described that while other factors, such as debt-to-income ratio, property cash flow coverage, and loan seasoning, are incorporated into internal modeling frameworks, FICO score and loan-to-value ratio (LTV) remain the most significant determinants of risk differentiation.

In response to a query from Mears, Zacny stated that for Neuberger Berman, valuations are typically updated on a quarterly basis using automated valuation models (AVMs). He noted that these tools have improved significantly in recent years and are generally used in place of physical property inspections due to the size of mortgage portfolios and the limited ability to access occupied properties.

In response to a query from Mears, Zacny said that the borrower types and loan sizing for development, bridge, and construction loans can be significantly larger than individual residential mortgages. Zacny explained that borrowers in this segment are generally professional developers rather than individual "fix-and-flip" borrowers. These borrowers often hold dozens of properties and specialize in either rehabilitation or ground-up construction as a primary business activity.

Zacny stated that there is a sliding scale of borrower types within this segment. Some borrowers focus on light-to-moderate rehabilitation projects, typically supported by nine to 12-month loans and generally carrying balances in the range of $200,000 to $500,000, sometimes up to $750,000. Other borrowers focus on ground-up construction, including small- to medium-sized homebuilders who construct 25 to 50 homes per year within their local geography. Zacny noted that these borrowers were previously supported largely by regional banks, but many banks have stepped away from lending in home construction due to stress in the commercial real estate sector in 2022–2023, leaving these borrowers in need of financing. Zacny indicated that a limited number of platforms, including his own, continue to provide loans in this segment. He noted that loan sizes for these projects generally range from $5 million to $20 million and may support projects such as a row of townhomes or a small condominium building. He emphasized that these loans are generally underwritten with lower loan-to-value ratios, often 50%–60%, consistent with historical regional bank lending practices.

Zacny explained that FICO scores remain a primary factor in underwriting, even when the borrower is an LLC guaranteed by a human. While other factors, such as borrower experience, loan attachment point, and intensity of the rehabilitation, are important, the personal creditworthiness of the guarantor strongly correlates with the probability of project completion, timely delivery, and minimal need for additional capital. Zacny noted that most

loans in this segment carry full recourse, with some limited recourse exceptions, and that FICO scores are generally required as part of completion guarantees. Zacny added that FICO scores should generally be known and available for residential mortgage loans reported on insurers' balance sheets.
In response to an inquiry, Zacny said that loan-to-value ratios are determined at origination, and both the borrower's initial equity contribution and subsequent changes in property value are predictive of default. He provided an example in which a loan originated at 80% LTV could experience materially higher default probability if local housing prices decline, resulting in a current LTV approaching 95%. Zacny stated that while the attachment point is always established at origination, both original and evolving LTV ratios are monitored.

Further, Zacny explained that while these loans are generally structured as 30-year mortgages, actual durations are shorter due to prepayment probabilities. Prepayment penalties, which may apply in the first two to five years, are more common in stabilized rental and small-balance multifamily loans, leading to longer effective durations in those categories.

Responding to an inquiry regarding whether FICO scores are assumed to remain static over the life of the loan, or whether variability is incorporated into models to anticipate potential losses, Zacny explained that original FICO scores are obtained through a hard pull at loan origination. However, Zacny noted that these scores pulled later are generally less predictive of default due to short-term fluctuations and other noise, and that the original FICO score remains the most reliable indicator of borrower creditworthiness in evaluating expected loss performance.

Responding to an inquiry about securitization, Zacny explained that his firm does securitize loans on behalf of certain managed accounts. He noted that some insurance clients, particularly those with offshore vehicles, have required structures that allow them to securitize pools of mortgage loans while holding all securities within the weighted-average RBC required by their offshore regulator, which was ultimately advantageous for those clients. Zacny further stated that securitization is also employed on a more opportunistic basis, particularly for development, bridge, and transitional loans. He noted that certain opportunistic funds actively securitize their loans.

Zacny also discussed considerations for insurance companies when deciding between public mortgage investments and private whole loans. He explained that public investments are relatively straightforward to execute, often relying on standard operations platforms such as Bloomberg, but generally offer lower yields depending on the targeted tranche and volume. Despite significant issuance in non-agency and stabilized rental segments, including a relatively active 2025, public issuance alone does not fully satisfy insurers' desired exposure to residential mortgages. Accordingly, Zacny noted that insurers often utilize separately managed accounts to access whole loans, thereby increasing investment size in the asset class.

Stephen Smith added that RBC charges differ materially between life and non-life insurers in the U.S., making it relatively uncommon for non-life insurers to hold whole loans in large volumes, as the higher RBC charges can affect investment decisions.

5. Received the Project Reports of the Statutory Accounting Principles (E) Working Group and Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Julie Gann (NAIC) said the Statutory Accounting Principles (E) Working Group met March 23 and adopted and exposed several items. This report highlights several investment-related items, and the Working Group's web page contains the complete listing of agenda items.

Gann reported that the Working Group adopted a change to historical guidance for long-term repurchase agreements, allowing agreements with terms exceeding one year (365 days) to be admitted, whereas historically they had been non-admitted. She noted that non-admittance requirements remain in place for reverse repurchase agreements, with the revisions clarifying how those should be accounted for.

Gann also highlighted guidance clarifying that book value separate accounts should follow the same admittance provisions as general accounts. Changes were incorporated into the separate account blanks to ensure that non-admitted assets are properly identified on the balance sheet and corresponding schedules. Additionally, the Working Group implemented a small change to expand the restricted asset codes on investment schedules. Gann explained that feedback during exposure indicated uncertainty regarding the use of these codes, as they may apply only to a portion of an investment, potentially leading to misinterpretation if assumed to apply to the full investment. The Working Group re-exposed this item to solicit feedback from regulators and may propose deletion of the column if it is not actively used.

Gann further reported that, following a referral from the Macroprudential (E) Working Group, the Statutory Accounting Principles (E) Working Group exposed detailed disclosures to identify funding agreement-backed notes (FABNs) and other similar structures.

Regarding the security ID initiative noted by the Investment Designation Analysis (E) Working Group, Gann noted that revisions were exposed to update references from Committee on Uniform Securities Identification Procedures (CUSIP) to security IDs.

Gann summarized exposures related to asset liability management derivatives, which included proposed guidance allowing an amortized cost measurement method and deferral of gains and losses with subsequent amortization into income over time.

Gann also noted two Working Group initiatives: 1) a review of *Statement of Statutory Accounting Principles (SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies* to clarify accounting and reporting guidance; and 2) work with industry to ensure proper disclosure of commitments and contingencies.

Mears said the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met March 23 and March 2 and heard updates from the American Academy of Actuaries (Academy) on its collateralized loan obligation (CLO) RBC project. The March 2 presentation was exposed for a 45-day public comment period ending April 16. During this meeting, the Academy indicated that credit ratings contain substantial information regarding tail risk and, with appropriate adjustments for horizon and tranche thickness, may serve as a comparable attribute for risk differentiation. The Working Group continued discussion during the Spring National Meeting and provided direction to further develop proposal 2025-22-IRE (CLO RBC Structure). In addition, during the Spring National Meeting, the Working Group heard further updates from the Academy on portfolio adjustment factors and a potential modeling update for residual tranches.

Barlow provided an update on the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's efforts to address the RBC charge for CLOs. He noted that on March 2, the Working Group heard a presentation from the Academy outlining proposed factors for all CLO tranches except residual tranches.

Barlow reported that the Academy provided updated information at the meeting to address questions from the initial exposure. The Working Group also exposed a new structural proposal incorporating the Academy's methodology, including an aggregate adjustment for residual tranche thickness. Several items remain unresolved, including residual and portfolio adjustments, and the absence of a rating for NAIC Class 6, for which the highest factor from the Academy's proposal was used as a placeholder. Asset concentration and AVR impact are expected to be addressed in 2027. The structural proposal has been exposed for a 25-day public comment period ending April 17.

Draft Pending Adoption

Having no further business, the Invested Assets (E) Task Force adjourned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/iatf/2026/march (spring nm)/summary and minutes/iatf 2026 spring minutes-final.docx

This attachment is pending.

This attachment is pending.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group
Ben Slutsker, Chair of the Life Risk-Based Capital (E) Working Group
Philip Barlow, Vice Chair of the Life Risk-Based Capital (E) Working Group

From: Carrie Mears, Chair of the Investment Analysis (E) Working Group
Matt Cheung, Vice Chair of the Investment Analysis (E) Working Group

Re: Residential Mortgage Loans: Definition, Disclosure and Risk-Based Capital Charges

Date: May 26, 2026

On March 24, 2026, the Invested Assets (E) Task Force heard a presentation from Neuberger Berman about the growing exposure to residential mortgage loans within insurance portfolios, including variants of mortgage loans and potential ways to consider the various risks. Subsequently, and in accordance with its 2026 agenda, the Investment Analysis (E) Working Group reviewed current residential mortgage loan exposure among insurers, noting the following:

(1) Residential mortgage loan exposure has grown consistently and rapidly since 2021, particularly among life insurers, averaging 36.3% annual growth in that time period (37.1% for just Life companies).

(2) Exposure growth as a percentage of invested assets has become material as well, with several insurers having over 10% of their portfolio invested in residential mortgage loans.

(3) Some insurers hold individual high balance* residential mortgage loans, with 129 individual loans with balances over $50 million. These high balance loans constitute approximately 15% of all residential mortgage loans.

(4) Many list the location as “various” or “multiple”, which limits the ability to assess the geographical exposure of the loans or evaluate loans on an individual loan basis.

(5) Current reporting requirements lack granularity to highlight potential key characteristics of residential mortgage loans, including identification of non-first lien loans, whether the residencies are owner occupied or investment properties, or loan-to-value (LTV) metrics, among others.

(6) Despite possessing varying characteristics, residential mortgage loans are assigned a 68-basis points capital charge for Life insurers, without risk sensitivity to underlying factors. Additionally, this factor was established using pre-CM framework commercial mortgage loan factors as an anchor point without any calibration to RML-specific data.

*Subsequent to the Investment Analysis (E) Working Group discussion, it has been determined that some of the large balances may be due to aggregation in reporting, driven by reporting limitations within Schedule B—Mortgage Loans. Currently, Schedule B has a limit of 99,995 rows, thus requiring consolidated reporting in instances where an insurer holds additional individual mortgage loans.

While these observations are illustrative and not intended to identify specific reporting entities, they highlight areas where additional clarity may be beneficial.

The lack of a clearly defined boundary between traditional residential and other loan types currently classified as residential mortgage loans, that may exhibit significantly different risk characteristics, introduces potential inconsistency in reporting and may result in classification outcomes that do not fully align with the underlying economic risk of the exposure. Certain large multi-unit or development-type properties, while potentially meeting informal or structural interpretations of residential, may exhibit risk characteristics more consistent with commercial real estate lending, including higher vacancy risk, reliance on projected cash flows, and sensitivity to market conditions.

These classification considerations have implications for risk-based capital (RBC), because residential mortgage loans are subject to materially lower RBC factors than commercial mortgage loans. Accordingly, classification as residential may result in lower capital requirements for exposures that may present elevated or differing risk profiles. This dynamic may introduce opportunities for inconsistent treatment or unintended capital outcomes if not addressed through refined guidance.

For loans that are clearly residential in nature, the current investing spectrum could introduce specific risks that may warrant additional disclosure and RBC considerations, including varying LTV levels, varying borrower credit quality (FICO scores), whether owner occupied or for investment purposes, non first-lien loans, construction loans, HELOCs, bridge loans, among others.

Additionally, broader considerations related to concentration risk may warrant attention. Insurers with significant allocations to residential mortgage loans, particularly where such exposures include large or non-traditional assets, may face heightened exposure to credit, liquidity, valuation, and interest rate risks. While these considerations extend beyond accounting classification alone, consistent and transparent reporting is foundational to effective regulatory assessment.

SSAP No. 37—Mortgage Loans establishes the statutory accounting framework for mortgage loans but provides limited explicit guidance distinguishing residential mortgage loans from other mortgage loan types. Industry practice has generally relied on interpretations informed by other NAIC models and guidance, often centering on one to four family residential properties, but these interpretations are not explicitly codified within SSAP No. 37. As a result, variability in classification may exist, particularly for larger multi-unit, development-oriented, or non-traditional residential exposures.

Given these considerations, this referral requests that the Statutory Accounting Principles (E) Working Group consider whether additional clarification or refinement within SSAP No. 37 is warranted to better define residential mortgage loans and improve consistency in application. Potential areas for consideration may include:

- Clarification of the characteristics that distinguish residential mortgage loans from commercial-like or other mortgage loan types, including consideration of property type, scale, and risk attributes.
- Consideration of whether certain large multi-unit, development-stage, or transitional properties should be subject to different classification or disclosure considerations.
- Evaluation of whether enhancements to reporting guidance or disclosures to identify more granular individual loan characteristics within Schedule B may improve transparency, comparability across reporting entities, and individual loan risk-assessment usability by state insurance regulators and users of statutory financial statements.
- Evaluation of whether aggregation of individual loans could be appropriate for reporting purposes, including guidance on which loans can be aggregated to retain benefits of disclosure of key risk characteristics

In coordination with, or following the above considerations, this referral also requests that the Life Risk-Based Capital (E) Working Group:

- Provide input on the potential RBC implications of mortgage loan exposures that, while currently classified as residential, may exhibit characteristics more consistent with commercial or development-type lending.
- Consider whether additional guidance or clarification may be warranted regarding the application of residential RBC factors, including additional reporting items required to differentiate variations in risk, including due to underlying borrower creditworthiness.
- Evaluate whether certain exposures, such as large multi-unit, development-stage, or transitional properties, may warrant alternative RBC treatment or additional risk stratification to better align capital requirements with underlying economic risk.

These considerations are intended to support consistent statutory accounting guidance and RBC application, enhance transparency in financial reporting, and better align classification outcomes with the underlying economic risk of mortgage loan exposures.

The Investment Analysis (E) Working Group support staff are available to provide additional background, data, or analysis as needed to assist with the Statutory Accounting Principles (E) Working Group or the Life Risk-Based Capital (E) Working Group's evaluation of this matter. Please contact NAIC staff, Jim Pinegar (jpinegar@naic.org), if you have any questions.

Cc: Jim Pinegar, Dimitris Karapiperis, Topher Hughes, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr, Maggie Chang, Kazeem Okosun.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group

From: Carrie Mears, Chair of the Investment Analysis (E) Working Group
Matt Cheung, Vice Chair of the Investment Analysis (E) Working Group

Re: Note 20C Fair Value Hierarchy Disclosures – Consistency, Granularity, and Usability Enhancements

Date: July 27, 2026

In accordance with its nine-month plan, the Investment Analysis (E) Working Group is reviewing certain assets that, pursuant to *SSAP No. 100—Fair Value*, are categorized within the Level 3 classification of the fair value hierarchy. Level 3 assets, in short, are those for which unobservable inputs are used to measure fair value. When observable inputs do exist, the fair value measurement objective remains the same, that is fair value shall represent an exit price from the perspective of a market participant. Therefore, unobservable inputs, or use of model-based estimates and other non-market observable data, shall reflect the entity's own beliefs about the assumptions market participants would use in pricing the asset or liability. The definition is clear that reporting entities shall not ignore information about market participant assumptions that are reasonably available without undue cost and effort.

While book-adjusted carrying value (BACV) represents the primary measurement basis for assets reported in statutory financial statements, fair value disclosures are required for most investments on an instrument-by-instrument basis, providing regulators with relevant information regarding market valuation. Comparisons between BACV and fair value are also frequently utilized under Statements of Statutory Accounting Principles (SSAPs) in assessing other-than-temporary impairments (OTTI), with realized impairments often resulting in valuation adjustments to then-current fair value.

Level 3 assets are of particular interest to state insurance regulators due to their reliance on significant unobservable inputs, limited market activity, and increased use of model-based valuation techniques. These characteristics can result in reduced transparency into valuation methodologies, including the assumptions, inputs, and approaches used by reporting entities to determine fair value. Additionally, because the underlying valuation inputs are less observable, the assessment of changes in economic value and the identification of potential impairment indicators may require greater judgment and complexity. This may create a risk that impairments are not identified or recognized on a timely basis, potentially resulting in more significant valuation adjustments when impairments are ultimately recognized (as they were perhaps not recognized incrementally over time). In contrast, Level 1 and Level 2 assets generally benefit from more observable market inputs or pricing information, which may facilitate earlier identification of changes in value and timely recognition of impairments. Coupled with the continued growth of Level 3 holdings across certain sectors of the insurance industry, these factors heighten regulatory focus on valuation consistency, comparability, and the ability to assess underlying economic risk, particularly in less liquid or more complex asset classes.

These valuation characteristics underscore the importance of consistent and comparable disclosure of fair value measurements across reporting entities. They are directly relevant to the broader fair value disclosure framework, including Note 20C reporting requirements, which serve as a mechanism for conveying valuation hierarchy classification in aggregate by financial instrument classifications. While these disclosures are intended to enhance transparency regarding fair value measurement and classification, current reporting practice has revealed significant variability in structure, granularity, and usability across reporting entities.

In particular, the Working Group notes the following observations:

1. Note 20C is a free-form disclosure that does not require alignment to other investment schedules or standardized reporting structures. As a result, reporting entities are permitted to aggregate investments into different financial instrument classifications, which results in information in significantly different formats, limiting comparability across insurers. Disclosures may range from highly granular, security-by-security listings of issuer credit obligations to broad aggregations at the issuer, investment category, or asset-backed security (ABS) level, reducing consistency in presentation and interpretability. Current reporting observations indicate that some insurers may include several dozen pages of detailed listings, while others provide highly summarized tables, creating significant variation in both volume and format of disclosure. For the 2025 reporting period, certain reporting entities have disclosed in excess of 2,500 individual entries within Note 20C, highlighting the potential for this disclosure to become excessively voluminous and operationally burdensome without enhancing comparability. Thus, in its current form for some reporting entities, Note 20C may be functionally comparable in size and complexity to primary investment schedules, without providing equivalent analytical clarity or standardized drill-down capability across reporting entities.

2. The current structure introduces risks of data quality inconsistency, including typographical variation in security descriptions, inconsistent naming conventions across reporting periods, and limited ability to reliably track changes in classification year-over-year.

3. The absence of a standardized mapping framework to underlying investment schedules limits the ability to efficiently trace Note 20C disclosures to existing statutory reporting lines, including *Schedule BA—Other Long-Term Invested Assets* and *Schedule D—Bonds and Stocks*, and may reduce the usefulness of the disclosure for regulatory analysis.

Taken together, these limitations may reduce the effectiveness of Note 20C as a comparative regulatory tool, particularly in its ability to support consistent cross-entity analysis of fair value hierarchy classifications and underlying investment exposures. The current variability in structure and granularity may also cause additional supervisory and reporting burden, as regulators may be required to perform entity-specific reconciliation efforts to achieve a consistent analytical view across reporting entities. These observations highlight potential concerns related to usability, traceability, and comparability of Note 20C disclosures across the industry.
Accordingly, the Working Group notes that enhancements to structure and standardization may improve regulatory utility and consistency. Consideration could be given to whether more prescriptive linkage to existing statutory investment schedules may improve usability and reduce reporting variability.

Potential areas for consideration include:

- Development of standardized mapping requirements between Note 20C disclosures and existing investment schedules, including clear alignment to Schedule BA, Schedule D, and other relevant investment reporting schedules, as applicable.

- Evaluation of whether disclosures should require categorization that aligns each reported fair value measurement to a specific statutory statement and reporting line. This would allow for traceability from Note 20C to the reporting schedule and unique reporting lines.

These considerations are intended to enhance the practical utility of fair value disclosures for state insurance regulators, improve consistency across reporting entities, and support more effective analytical use of statutory financial reporting without materially increasing reporting burden.

The Investment Analysis (E) Working Group support staff are available to provide additional background, data, or analysis as needed to assist with the Statutory Accounting Principles (E) Working Group's evaluation of this matter. Please contact NAIC staff, Jim Pinegar (jpinegar@naic.org), if you have any questions. Cc: Jim Pinegar, Dimitris Karapiperis, Topher Hughes, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, and Jason Farr

The Investment Analysis (E) Working Group anticipates dedicating time over the coming months to a series of educational and analytical discussions to enhance regulatory understanding of emerging investment trends and evolving risk characteristics across insurer portfolios. These discussions are intended to support consistent supervisory oversight and shared understanding across jurisdictions.

This updated tentative work plan is intended to enhance transparency regarding potential areas of discussion by the Investment Analysis (E) Working Group and is not intended to be exhaustive or limiting.

By providing advance visibility into anticipated topics, the Working Group seeks to support informed dialogue and strengthen regulatory awareness across the insurance industry while retaining flexibility to adjust priorities as market conditions evolve and emerging risks warrant attention.

The topics outlined below reflect updated areas of current focus based on observed industry activity, regulatory experience, and ongoing analytical work.

Anticipated Areas of Discussion

Mortgage Loan Investment Trends

The Working Group completed referrals to Statutory Accounting Principles (E) Working Group and Life Risk-Based Capital (E) Working Group subsequent to its review of activity within residential mortgage loans. We will continue to review trends, particularly at a time when updated reporting metrics may become available.

Industry Trends in Less-Observable Investments

The Working Group expects to continue to review industry-level trends in investments that rely more heavily on unobservable inputs and internal valuation methodologies, often referred to as Level 3 assets. Discussions may include longer-term growth patterns, concentration considerations, and observed impairment activity, with the goal of improving awareness of valuation uncertainty and risk-monitoring practices.

The Working Group may examine additional illustrative examples of insurer approaches used to identify and evaluate other-than-temporary (OTTI) impairments within Level 3 assets. Discussions may highlight how qualitative judgment and quantitative indicators are incorporated into impairment assessments, as well as the role of governance and documentation.

Subsequent to its initial review, the Working Group also completed a referral to the Statutory Accounting Principles (E) Working Group for possible enhancements to Note 20.

Fund Finance and Structured Finance

The Working Group plans to commence reviews of emerging asset classes such as fund finance and certain forms of structured finance. While these asset classes are not necessarily new, various attributes of the investment types and evolution of underlying collateral have necessitated a broader scope review. Key areas of discussion will include reporting considerations, particularly for more complex / less transparent investments, understanding potential impacts of multiple types of collateral within one structure, and potential for interconnectedness across structures.

Bond Issuer and Structured Securities Reporting

The Working Group anticipates reviewing aggregated industry data related to newer bond reporting definitions and structured security classifications. Discussions may highlight emerging reporting attributes, such as payment-in-kind features, leverage characteristics, and other structural elements relevant to risk assessment.

Capital Markets Research and Analytical Outputs

The Working Group expects to receive an overview of planned Capital Markets research initiatives and analytical products intended to support regulatory analysis and public transparency, including opportunities for regulator feedback to help inform future research priorities.

