MBA®
MORTGAGE BANKERS ASSOCIATION

July 14, 2017

Electronically transmitted to: jgarber@naic.org

Kevin Fry, Chairman
Investment Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: MBA Comments on ACLI Real Estate Proposal for Life Insurers Exposed by the Investment Risk-Based Capital (E) Working Group with Comments due July 14, 2017

Dear Mr. Fry:

The Mortgage Bankers Association[1] (MBA) appreciates the opportunity to provide comments on the American Council of Life Insurers (ACLI) risk-based capital proposal for life insurance company holdings of commercial real estate equity that was exposed by the Investment Risk-Based Capital (E) Working Group with comments due July 14, 2017.

As NAIC has described risk-based capital (RBC), it "is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile."[2] We strongly support proposed changes to better align RBC with actual life insurance company risk profiles, as we describe below.

Direct investment. We support the proposed reduction in the C-1 base factor for direct equity investment in real estate. The current 15.0 percent C-1 base risk factor (based on the relative correlation of equity real estate to common stock) is inconsistent with the actual risk profile of equity real estate. A factor based on historical experience would better tie capital to risk.

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, **life insurance companies** and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

[2] NIAC, *Risk-Based Capital*; Briefs, Letters, MOUs, Testimony & Speeches (June 13, 2016); http://www.naic.org/cipr_topics/topic_risk_based_capital.htm.

Encumbrance factors. We support proposed revisions to RBC factors for encumbrances on equity investments in real estate. Current encumbrance factors are based on the current C-1 factor for direct equity investments in real estate (15 percent), adjusted by the average RBC factor for commercial mortgages under standards that are no longer in effect (3 percent). We agree that RBC treatment encumbrance factors should be harmonized with proposed reductions in the C-1 base factor for investments in real estate and with the current RBC factor for commercial mortgages.

Adjusting for unrealized gains / losses. We support proposed partial recognition of the impact of unrealized gains / losses for RBC purposes. Such an RBC adjustment would appropriately reflect impacts of market values on the ability of a life insurance company to support its overall business operations.

Schedule BA real estate. The current 23.0 risk factor for real estate holdings reported on Schedule BA is 50 percent greater than the C-1 base factor for direct investment. We believe that this higher factor is not justified by the actual risk profile of such holdings relative to the risks of direct equity investment in real estate. As described in the proposal, the risk profile of such holdings is sufficiently similar to the risk of direct investment in real estate as to support a factor based on a look-through approach.

In sum, we believe that the proposed changes would better align capital requirements with actual risk profiles, would allow life companies to more efficiently allocate capital, and would result in a positive diversification effect for life companies' overall investment portfolio. If you have any questions or comments about MBA's support for the proposal, please contact Bruce Oliver at boliver@mba.org or (202) 557-2840.

Sincerely,

David H. Stevens, CMB
President and Chief Executive Officer
Mortgage Bankers Association

cc: Julie Garber, CPA, Senior Manager, Solvency Regulation, NAIC