October 22, 2018

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: Request for separate procedural path for consideration of ACLI proposal on Life Insurer C-1 Asset Risk-Based Capital Requirement – Real Estate

Dear Mr. Fry:

On behalf of our life company members, the Mortgage Bankers Association’s¹ (MBA) requests that the Investment Risk-Based Capital (E) Working Group consider the ACLI proposal: Risk-Based Capital for Real Estate Assets² on a separate procedural path, one that could proceed in parallel with the process of considering changes to Risk-Based Capital C-1 Factors for Corporate Bonds. We share our members’ concern that this proposal could otherwise fail to receive the necessary consideration within a reasonable time.

Briefly, the proposal here is to modify the life insurer risk-based capital treatment of real estate investments as follows:

- **Schedule A real estate assets.** The current C-1 factor of 15% is based on 60% of the common stock factor, adjusted for taxes. The proposal is based on historical experience as to real estate assets and would reduce the C-1 factor to a lower level, e.g., 10%.

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 to 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 2,300 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.mba.org](http://www.mba.org).

• **Schedule BA real estate assets.** The current C-1 factor of 23% is based on the C-1 factor for Schedule A real estate assets, multiplied by 150%. The proposal would reduce that multiplier to 100% (and would incorporate proposed changes to the C-1 factor for Schedule A real estate assets).

• **Encumbrances.** The current methodology for encumbrances incorporates risk-based capital treatments for (1) real estate assets and (2) commercial mortgages. The proposal would not change the methodology, but would update its application to reflect the proposed changes to the C-1 factor for Schedule A real estate assets, and the risk-based capital treatment of commercial mortgages adopted in 2013.

• **Market-value adjustment.** Currently, no amount of unrealized gains is recognized for risk-based capital purposes. The proposal would recognize some proportion (2/3) of unrealized gains to reflect the impacts of market value vs. book value on the ability to absorb loss.

While the specifics as to each element of the proposal remain to be determined, there seems to be general agreement on key points, e.g., that a lower capital charge for equity real estate is appropriate; that a methodology based on historical experience is an improvement over one based on common stock; and that a market value adjustment can be justified from a risk perspective. In light of this general agreement, we believe that the Working Group can expeditiously address and resolve each element in a separate and parallel process.

In making this request, we recognize the important work the Working Group has on its plate, and the considerable impact it has on insurance organizations and other stakeholders across the country. We hope this modest procedural change can facilitate completion of one aspect of that important work. Please do not hesitate to contact me at 202-557-2840 or boliver@mba.org with any questions about this request.

Sincerely,

Bruce S. Oliver  
Associate Vice President, Commercial Real Estate Finance Policy  
Mortgage Bankers Association

cc: Steve Clayburn, ACLI  
    Julie Garber, NAIC

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3 See, e.g., comment letters of the American Academy of Actuaries (July 24, 2017 and Sept. 29, 2015).