MORTGAGE BANKERS ASSOCIATION

April 29, 2022

S&P Global Ratings
1700 North Moore St., 11th Floor, Suite 1110
Arlington, Virginia 22209

Re: Request for Comment: Insurer Risk-Based Capital Adequacy--Methodology and Assumptions

The Mortgage Bankers Association (MBA) respectfully submits these comments in response to S&P Global's request for comment on its proposed revisions to proposed methodology and assumptions for analyzing the risk-based capital (RBC) adequacy of insurers and reinsurers. We hope you find them helpful.

MBA is the national association representing the real estate finance industry. Our members include all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, credit rating agencies, and others in the mortgage lending field.

As a result, we look broadly at the potential impact of the proposed changes on insurance companies and on mortgage finance generally, also recognizing the important roles of credit reporting agencies and their capital adequacy models. From that perspective, the area of the proposal that is most concerning is the proposed treatment of structured finance securities, including commercial mortgage-backed securities (CMBS), under which:

- If the bond is rated by both Moody's and Fitch, S&P will reduce the lower of the two ratings by two notches.
- If the bond is rated by Moody's or Fitch, S&P will reduce the rating by three notches,
- If the bond is not rated by either Moody's or Fitch, the bond would be subject to a capital charge commensurate with a CCC rating.

MBA is concerned that this element of the proposal could disrupt insurance companies and the mortgage financing industry by dramatically increasing the effective capital charge for CMBS that are not rated by S&P. Specifically, the asset class of CMBS could suffer a disproportionate increase in insurance company capital charges under the proposed methodology because S&P's market share for rating CMBS is relatively lower than its market share for rating other asset classes.

This increase in capital charge matters because companies respond to incentives created by credit rating agency standards such as S&P Global's capital adequacy model. The resulting increase in capital charges could be disruptive to insurance companies that hold CMBS, effectively reducing the tools they have available to manage their balance sheets. The incentives also could make CMBS less desirable to insurance companies, which would decrease the liquidity of CMBS and reduce the availability of an important source of debt capital for financing commercial real estate. As a result, the proposal could disrupt the commercial mortgage finance industry and the industries they support through debt financing.

As S&P continues this effort to improve its insurer risk-based capital adequacy model, we urge S&P to reconsider and revise its proposed treatment of structured finance securities not rated by S&P, in a manner that would eliminate or substantially mitigate the disruptive impacts described above. We appreciate the opportunity to comment on this proposal.

Sincerely,

Bruce Oliver

Bruce Oliver
Vice President, Commercial and Multifamily Policy
Mortgage Bankers Association