MORTGAGE BANKERS ASSOCIATION

July 14, 2023

S&P Global Ratings
Via Electronic Submission

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

To Whom it May Concern:

The Mortgage Bankers Association[1] respectfully submits our comments below in response to S&P Global's request for comment on its proposed revisions to Insurer Risk-Based Capital (RBC) Adequacy – Methodology and Assumptions (the "Proposal").

MBA is the national association representing the real estate finance industry. Its membership of more than 3,300 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field.

We look at the Proposal through the lens of its impact on MBA's insurance company members and mortgage finance generally. In addition, consistent with our diverse membership, MBA has long advocated for the prevention of avoidable market disruptions.

The area of the Proposal that our comments are focused on is the superseding of the Methodology for Assessing Capital Charges for Commercial Mortgage Loans Held by U.S. Insurance Companies (May 31, 2012) which would result in a dramatic increase in capital charges for commercial mortgages. We urge S&P to reconsider the increases in capital charges for commercial mortgage loans as they are excessive and not supported by current default and loss data.

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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 390,000 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 more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

The increased capital charges for commercial mortgages in the Proposal are excessive and overly conservative. The proposed charges significantly exceed the current regulatory capital standards for U.S. life insurers set by the National Association of Insurance Commissioners (NAIC). For example, NAIC sets a capital charge of .90% for a CM1 commercial mortgage (1.75% for a CM2) in good standing and the Proposal requires a capital charge as high as 20.7% for a commercial construction loan in good standing (in a moderate stress scenario).

Furthermore, the data S&P uses to develop the new capital charges in the Proposal is from over 30+ years ago and not reflective of today's underwriting, diversity in portfolios and loan performance[2]. The principal stress loss factor was based on loss data from the early 1990s and the probability of foreclosure was based on data going back as far as 1965.[3] Based in part on the learnings of that period, commercial mortgage loan performance has been extremely strong in recent decades. Among life insurance companies, delinquency rates as measured by the American Council of Life Insurers ("ACLI") and other sources have remained low even in times of stress.[4] As another sign of this strength, among banks, commercial and multifamily mortgages experienced the lowest charge-off rates of any major loan type during the Great Financial Crisis.

While conservatism is appreciated as part of the overall rating process, disparate treatment *within* the rating process can increase risk by incenting insurers to push allocations to assets that are under-stressed relative to others (within the methodology) and decrease allocations to assets that are over-stressed. The punitive capital charges on commercial mortgages used within the Proposal could direct insurers away from an asset class that is well-known, has performed well-within its loss expectations and is an important staple of life companies' asset allocation – increasing risk among carriers.

The MBA is also concerned that the Proposal, if adopted, would disrupt both insurance companies and the mortgage financing industry by increasing the capital charge for commercial mortgages. Specifically, the Proposal, if adopted as written, could significantly decrease or eliminate life insurance company commercial lending activity at a time when other lending sources have pulled out of the market. While the first quarter is typically the quietest period of the year, borrowing and lending backed by commercial and multifamily properties declined in the first quarter to the slowest pace since the first quarter of 2014. Uncertainty and volatility with regard to interest rates and property values, and supply and demand imbalances for some property types, has led to a logjam in commercial real estate sales and financing markets. Commercial and multifamily mortgage loan originations were 56 percent lower in the first quarter of 2023 compared to a year ago and decreased 42 percent from the fourth quarter of 2022. Life Insurance companies are a critical source of commercial lending, holding approximately 15 percent or $~680 billion in outstanding commercial mortgage debt. The Proposal risks handicapping an important source of

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[2] See Methodology for Assessing Capital Charges for Commercial Mortgage Loans Held by U.S. Insurance Companies, dated May 31, 2012. Found at [S&P Global Ratings (spglobal.com)](spglobal.com)
[3] See id.
[4] See https://content.naic.org/sites/default/files/naic_archive/The_54.pdf

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commercial real estate capital at a time when such a pullback is not only uncalled for but also most harmful.

We urge S&P to reconsider the Proposal to eliminate or substantially mitigate the disruptive impacts that it would have on insurance companies and the mortgage finance industry.
MBA appreciates your consideration of its comments. Should you have any questions or wish to discuss any aspects of these comments, please contact Stephanie Milner (smilner@mba.org).

Sincerely,

Mike Flood
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Commercial/Multifamily Policy and Member Engagement
Mortgage Bankers Association