



September 16, 2009

**SSAP No. 43 – Revised Loan-Backed and Structured Securities
(SSAP 43R)**

On September 14, 2009, the Statutory Accounting Principles Working Group adopted SSAP 43R, which provides guidance on recording other-than-temporary impairments (OTTI) on loan-backed and structured securities. The new pronouncement will supersede SSAP No. 98 – Treatment of Written downs When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 - Loan-Backed and Structured Securities, as well as, paragraph 13 of SSAP No. 99 - Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment. It will be officially adopted at the NAIC's fall meeting next week and will become effective for September 30, 2009 reporting. This memo outlines the new guidance, with the focus being on securities held by clients of AAM. Since SSAP 43R was based on FSP FAS 115-2 and 124-2: Recognition and Presentation of Other-Than-Temporary-Impairments, it may be helpful to read this memo in conjunction with our April 24, 2009 memo (attached), which covered the newly adopted FSP.

When the holder of a loan-backed or structured security (“security”) with an unrealized loss position either has the intent to sell the security *or* does not have the intent and ability to hold the security for a period of time sufficient to recover the amortized cost basis, the security is OTTI and must be written down to fair value. The write-down shall be recognized in earnings as a realized loss.

When the holder of a security with an unrealized loss position does not intend to sell the security and has the intent and ability to hold the security for a period of time sufficient to recover the amortized cost, the security must be classified into one of three categories:

Category One

Category One includes securities that when purchased, were not of high credit quality (rated below AA) or securities that can be contractually prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its investment (interest only strips). For these securities, the best estimate of future cash flows shall be used along with the current yield being used to accrete the security as the discount rate to determine a present value of the expected cash flows. If this present value is less than the amortized cost of the security, the security must be written down to this present value amount. The write-down shall be recognized in earnings as a realized loss. Using the effective interest rate method, the security shall be prospectively accreted over its remaining life to the undiscounted estimate of principal recovery.

Category Two

Category Two includes securities where the collection of all contractual cash flows are not probable. Category Two excludes securities that can be included in Category One. For these securities, the best estimate of future cash flows shall be used along with the security's effective interest rate (book yield) immediately prior to the recognition of the OTTI as the discount rate to determine a present value of the expected cash flows. If this present value is less than the amortized cost of the security, the security must be written down to this present value amount. The write-down shall be recognized in earnings as a realized loss. Using the effective interest

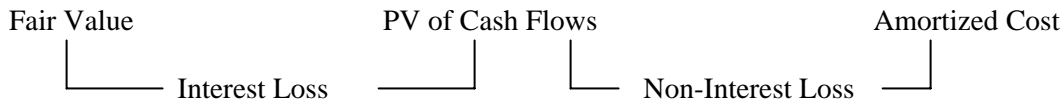
rate method, the security shall be prospectively accreted over its remaining life to the undiscounted estimate of principal recovery.

Category Three

Category Three includes securities where the collection of all contractual cash flows are probable. Category Three excludes securities that can be included in Category One or Two. For these securities, the best estimate of future cash flows shall be used along with the security's effective interest rate at the acquisition of the security (trade yield) as the discount rate to determine a present value of the expected cash flows. If this present value is less than the amortized cost of the security, the security must be written down to this present value amount. The write-down shall be recognized in earnings as a realized loss. Using the effective interest rate method, the security shall be prospectively accreted over its remaining life to the undiscounted estimate of principal recovery.

AVR/IMR Implications

When an OTTI is recorded because there is intent to sell or the holder does not have the intent and ability to hold the security for a period of time sufficient to recover the amortized cost basis, the security is written down to fair value. The total loss recorded shall be bifurcated between the interest related loss and the non-interest related loss.



The interest related portion shall be recorded through the IMR and the non-interest related portion shall be recorded through the AVR.

Transition

A cumulative effect adjustment shall be made to the July 1, 2009 balance of unassigned surplus for impairments recorded prior to July 1, 2009 under SSAP No. 98 or SSAP No. 43. The adjustment shall be calculated by comparing the present value of the cash flows and the amortized cost basis of the security as of July 1, 2009. The discount rate used to calculate the present value of the cash flows shall be the rate in effect before recognizing any OTTI.

Disclosures

Please refer to SSAP 43R for new disclosure requirements.

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