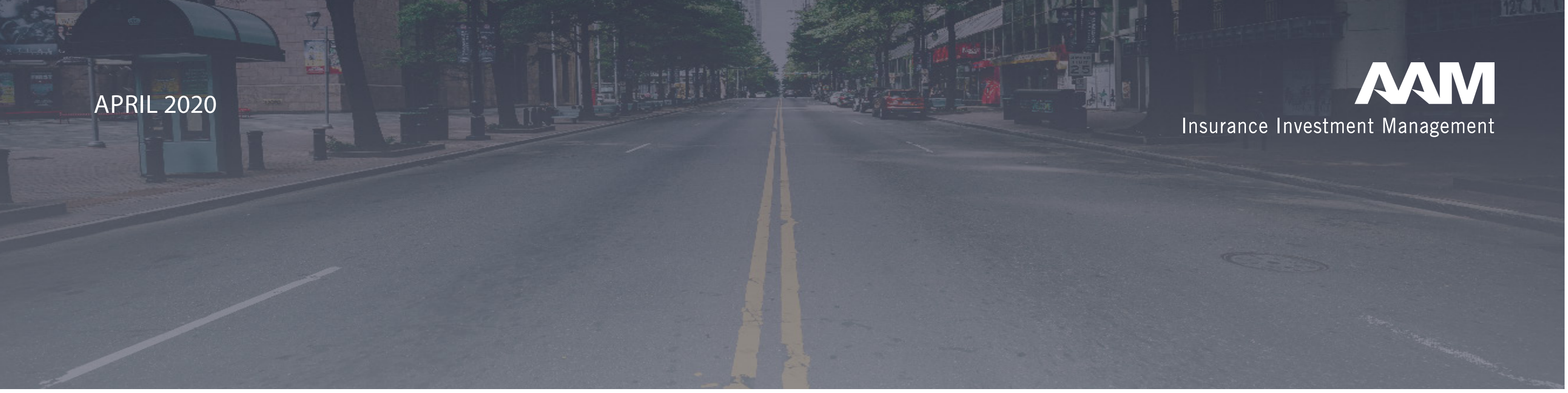

APRIL 2020

AAM Insurance Investment Management

Guidance for Troubled Debt Restructurings and Interim Risk Based Capital Filings in Response to COVID-19

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Coronavirus Disease 2019 (COVID-19) is a global pandemic that is affecting insurers, individuals and the economy as a whole. With the increasing amount of cases that are resulting in "Stay at home orders," the closing of non-essential businesses, and an increase in unemployment, some borrowers are having trouble making payments on loans. In response to COVID-19, the Financial Condition (E)Committee issued guidance on March 27, 2020 to encourage insurers to work with borrowers who are unable to make contractual payment obligations because of the effects of COVID-19.

The committee supports the use of prudent loan modifications that can mitigate the impact of COVID-19 on the economy. The committee adopted **INT 20-03: Troubled Restructuring Due to COVID-19** and **INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19** that are discussed below.

INT 20-03: Troubled Restructuring Due to COVID-19

This interpretation adopts the provisions detailed in the March 22, 2020 "Interagency Statement on Loan Modifications and Reporting for Financial Institutions working with customers affected by the Coronavirus." This interpretation addresses SSAP No. 36-Troubled Debt Restructuring and determines that a short term modification made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered troubled debt restructurings (TDR). Any modification or deferral programs mandated by the federal or state will not be considered TDR. Institutions are reminded that loans that have been restructured as described under this statement will continue to be eligible as collateral at the FRB's discount window based on the usual criteria. This interpretation is effective for the specific purpose to address loan modifications in response to COVID-19 and will be considered nullified when no longer available.

INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19

This interpretation was adopted to address the impact of mortgage loan forbearance or prudent modifications on the statutory accounting and reporting requirements for mortgage loans, as well as investments with underlying mortgage loans in response to COVID-19, that were current as of December 31, 2019. Investments in the scope of this interpretation include:

a. ***SSAP No. 37—Mortgage Loans:*** All mortgage loans in scope of SSAP No. 37.

b. ***SSAP No. 30—Common Stock:*** SEC registered investments with underlying mortgage loans (e.g., mortgage-backed mutual funds).

c. ***SSAP No. 43R—Loan-backed and Structured Securities:*** Securities in scope of SSAP No. 43R with underlying mortgage loans. This includes residential and commercial mortgage backed securities (RMBS & CMBS), and credit risk transfers (CRTs) issued through government sponsored enterprises (GSEs). Other investments in scope of SSAP No. 43R are also captured within this interpretation if the underlying investments predominantly reflect mortgage loan products.

d. ***SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies:*** Investments in scope of SSAP No. 48 that have underlying characteristics of mortgage loans. These investments could include private equity mortgage loan funds.

For modification programs designed to provide temporary relief for borrowers due to COVID-19, current as of December 31, 2019, the reporting entities may presume that borrowers are current on payments and are not experiencing financial difficulties at the time of the modification for purposes of determining impairment status and thus no further impairment analysis is required for each loan modification in the program. The exceptions granted in this interpretation are detailed as follows:

a. ***SSAP No. 37—Mortgage Loans:*** Provide a limited-time exception for assessing impairment under SSAP No. 37, paragraph 16, for mortgage loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a mortgage loan is OTTI. RBC categories for mortgage loans will stay the same as classified for 12.31.2019 even if there is a deferment of payments from the effects of COVID-19.

b. ***SSAP No. 30—Common Stock:*** Provide a limited-time exception for assessing OTTI under SSAP No. 30, paragraph 10, and INT 06-07 due to fair value declines for SEC registered funds that have underlying mortgage loans that have been deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, recognition of the OTTI shall continue to be required. As these investments are reported at fair value, declines in fair value would continue to be reported as unrealized losses.

c. ***SSAP No. 43R—Loan-backed and Structured Securities:*** Provide a limited-time exception for assessing OTTI under SSAP No. 43R, paragraphs 30-36, due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, then recognition of an OTTI shall continue to be required. For RMBS/CMBS securities that are financially modeled as of December 31, 2019, will keep the same NAIC designation and will not change even if there is a deferment of principal and interest from the effects of COVID-19.

d. SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies: Provide a limited-time exception for assessing OTTI under SSAP No. 48 due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the entity intends to sell the security. Additionally, an OTTI shall be assessed if factors other than the mortgage loan forbearance or modification have resulted with a decline that is considered other than temporary, or the reporting entity does not believe it is probable they will collect the carrying amount of the investment. RBC categories for Schedule BA mortgages will stay the same as classified for December 31, 2019, even if there is a deferment of payments from the effects of COVID-19.

The exceptions granted in this interpretation are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements, this interpretation will automatically expire as of September 29, 2020.

Sources: "Statutory Accounting Principles (E) Working Group, INT 20-03 –Troubled Debt Restructuring Due to COVID-19" "Statutory Accounting Principles (E) Working Group, INT 20-04 –Mortgage Loan Impairment Assessment Due to COVID-19" "Financial Condition (E) Committee Memo on COVID-19"

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