# MORTGAGE EXPERIENCE ADJUSTMENT
LR003

**Under the new RBC and AVR methodology for Commercial and Farm Mortgages this value will no longer be used and its determination is not necessary.**

*Basis of Factors*

Mortgages in Good Standing

The pre-tax factor**s for commercial mortgages were developed based on analysis using the Commercial Mortgage Metrics model of Moody's Analytics and documented in a report from the American Council of Life Insurers on March 27, 2013. The factors provide for differing levels of risk, the levels determined by a contemporaneous debt service coverage ratio and the contemporaneous loan-to-value.** The 0.14 percent pre-tax factor on insured and guaranteed mortgages represents approximately 30-60 days interest lost due to possible delay in recovery on default. The pre-tax factor of 0.68 percent for residential mortgages reflects a significantly lower risk than commercial mortgages. The pre-tax factors were developed by dividing the post-tax factor by 0.7375 (0.7375 is calculated by taking 1.0 less the result of 0.75 multiplied by 0.35).

Mortgages 90 Days Overdue, Not in Process of Foreclosure

The category pre-tax factor for commercial and farm mortgages of 18 percent is based on data taken from the Society of Actuaries "Commercial Mortgage Credit Risk Study." For insured and guaranteed or residential mortgages, factors are set at twice the level for those "in good standing" to reflect the increased likelihood of default losses.

Mortgages in Process of Foreclosure

Mortgages in process of foreclosure are considered to be as risky as **NAIC** 5 bonds and are assigned the same category pre-tax factor of 23 percent for commercial and farm mortgages.

Due and Unpaid Taxes on Overdue Mortgages and Mortgages in Foreclosure

The factor for due and unpaid taxes on overdue mortgages and mortgages in foreclosure is 100 percent.

*Specific Instructions for Application of the Formula*

Column (1)

Insured or guaranteed mortgages should be reported separately from residential and commercial mortgages. Insured or guaranteed loans include only those mortgage loans insured or guaranteed by the Federal Housing Administration, under the National Housing Act (Canada) or by the Veterans Administration (exclusive of any portion insured by FHA). Mortgage loans guaranteed by another company (affiliated or unaffiliated) are not to be included in the insured or guaranteed category.

Except for Lines (1) through (**3**), (**26**) and (**27**), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the mortgage calculation worksheet **A** (Figure 1) for how the individual mortgage calculations are completed **for Other Than In Good Standing mortgages on Lines (16) through (25). Refer to the mortgage calculation worksheet – company developed (Figure 3) for how the individual mortgage calculations are completed for In Good Standing - Commercial mortgages on Lines (4) through (8) and for In Good Standing - Farm mortgages on Lines (10) through (14)**. Line (**28**) should equal Page 2, Column 3, Lines 3.1 plus 3.2, plus Schedule B, Part 1 Footnotes 3 and 4, first of the two amounts in the footnotes.

<u>Column (2)</u>
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule B by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in SSAP No. 37 paragraph 16. These reserves are held as an offset for a particular troubled mortgage loan that would be required to be written down if the impairment was permanent.

<u>Column (3)</u>
Column (3) is calculated as the net of Column (1) less Column (2).

<u>Column (4)</u>
Summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the mortgage calculation worksheet (Figure 1). Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

<u>Column (5)</u>

**For Lines (4) and (10), the pre-tax factor is equal to 0.0090**
**For Lines (5) and (11), the pre-tax factor is equal to 0.0175**
**For Lines (6) and (12), the pre-tax factor is equal to 0.0300**
**For Lines (7) and (13), the pre-tax factor is equal to 0.0500**
**For Lines (8) and (14), the pre-tax factor is equal to 0.0750**

For Lines (**26**) and (**27**), the pre-tax factor is 1.0. For Lines (**16**) through (**25**), the average factor column is calculated as Column (6) divided by Column (3).

<u>Column (6)</u>
For Lines (**4**) through (**8**),  **(10) through (14) and (16) through (25),** summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the mortgage calculation worksheet**s** (Figure 1) **and (Figure 3)**. For Lines (1) through (**3**), (**26**) and (**27**), the RBC subtotal is multiplied by the factor to calculate Column (6).

(Figure 1)

Mortgage Worksheet
**Other Than In Good Standing**

| | (1) Name / ID | (2) Book/Adjusted Carrying Value | (3) Involuntary Reserve Adjustment§ | (4) RBC Subtotal£ | (5) Cumulative Writedowns* | (6) Category Factor | (7) In Good Standing Factor | (**7a**) **In Good Standing Category** | (**8**) Col (6) X [Col (4)+(5)] - Col (5) | (**9**) Col (4) X Col (7) | (**10**) RBC Requirement‡ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | All Mortgages Without Cumulative Writedowns | | | | XXX | † | † | † | | | |
| | All Mortgages With Cumulative Writedowns: | | | | | | | | | | |
| (2) | | | | | | † | † | † | | | |
| (3) | | | | | | † | † | † | | | |
| (4) | | | | | | † | † | † | | | |
| (5) | | | | | | † | † | † | | | |
| (6) | | | | | | † | † | † | | | |
| (7) | | | | | | † | † | † | | | |
| (8) | | | | | | † | † | † | | | |
| (9) | | | | | | † | † | † | | | |
| (10) | | | | | | † | † | † | | | |
| (11) | | | | | | † | † | † | | | |
| (12) | | | | | | † | † | † | | | |
| (13) | | | | | | † | † | † | | | |
| (14) | | | | | | † | † | † | | | |
| (15) | | | | | | † | † | † | | | |
| | Total Mortgages | | | | | | | | | | |

This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 2) that are applicable. The Column (2), (3), (5) and (**10**) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Mortgages (LR004) in the risk-based capital formula. Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. NOTE: This worksheet will be available in the risk-based capital filing software.

† See (Figure 2) for factors to use in the calculation. **The In Good Standing Factor will be based on the CM category developed in the company's Worksheet and reported in Column 7a for Commercial or Farm Mortgages.**

‡ The RBC Requirement column is calculated as the greater of Column (**8**) or Column (**9**), but not less than zero.

§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.

£ Column (4) is calculated as Column (2) less Column (3).

* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 2)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 1 **and 3**) to calculate the RBC Requirement for each individual mortgage. The factors are used in Columns (6), (7) and (**7a**) of the mortgage worksheet and are dependent on which of the **25** mortgage categories below the mortgage falls into. The following factors are used for each category of mortgages:

Mortgage Factors

| LR004 Line Number | | Category Factor† | In Good Standing Factor | MEA Factor |
|---|---|---|---|---|
| | In Good Standing | | | |
| (1) | Residential Mortgages-Insured or Guaranteed | N/A‡ | **0.0014** | N/A |
| (2) | Residential Mortgages-All Other | N/A‡ | **0.0068** | N/A |
| (3) | Commercial Mortgages-Insured or Guaranteed | N/A‡ | **0.0014** | N/A |
| (4) | Commercial Mortgages-All Other – **Category CM1** | N/A‡ | **0.0090** | N/A‡ |
| (5) | **Commercial Mortgages – Category CM2** | N/A‡ | **0.0175** | N/A‡ |
| (6) | **Commercial Mortgages – Category CM3** | N/A‡ | **0.0300** | N/A‡ |
| (7) | **Commercial Mortgages – Category CM4** | N/A‡ | **0.0500** | N/A‡ |
| (8) | **Commercial Mortgages – Category CM5** | N/A‡ | **0.0750** | N/A‡ |
| (10) | **Farm Mortgages - Category CM1** | N/A‡ | **0.0090** | N/A‡ |
| (11) | **Farm Mortgages – Category CM2** | N/A‡ | **0.0175** | N/A‡ |
| (12) | **Farm Mortgages – Category CM3** | N/A‡ | **0.0300** | N/A‡ |
| (13) | **Farm Mortgages – Category CM4** | N/A‡ | **0.0500** | N/A‡ |
| (14) | **Farm Mortgages – Category CM5** | N/A‡ | **0.0750** | N/A‡ |
| | 90 Days Overdue, Not in Process of Foreclosure | | | |
| (16) | Farm Mortgages – **Category CM6** | 0.1800 | ‡ | **N/A‡** |
| (17) | Residential Mortgages-Insured or Guaranteed | 0.0027 | 0.0014 | 1.0 **N/A** |
| (18) | Residential Mortgages-All Other | 0.0140 | 0.0068 | 1.0 **N/A** |
| (19) | Commercial Mortgages-Insured or Guaranteed | 0.0027 | 0.0014 | 1.0 **N/A** |
| (20) | Commercial Mortgages-All Other – **Category CM6** | 0.1800 | ‡ | **N/A‡** |
| | In Process of Foreclosure | | | |
| (21) | Farm Mortgages – **Category CM7** | 0.2300 | ‡ | **N/A‡** |
| (22) | Residential Mortgages-Insured or Guaranteed | 0.0054 | 0.0014 | 1.0 **N/A** |
| (23) | Residential Mortgages-All Other | 0.0270 | 0.0068 | 1.0 **N/A** |
| (24) | Commercial Mortgages-Insured or Guaranteed | 0.0054 | 0.0014 | 1.0 **N/A** |
| (25) | Commercial Mortgages-All Other – **Category CM7** | 0.2300 | 0.0260 | **N/A‡** |

† The category factor is a factor used for a particular category of mortgage loans that are not in good standing.

‡ The RBC Requirement for mortgage loans in good standing or restructured are not calculated on Figure (1). These requirements are calculated on **Mortgage Worksheet company developed (Figure 3) and transferred to** LR004 Mortgage Loans Lines (**4**) through (**8**) **and** (**10**) **through** (**14**). **In addition, for Commercial and Farm mortgage loans 90 days past due or In Process of Foreclosure, the CM category is determined in Mortgage Worksheet company developed and transferred to Worksheet A**.

**(Figure 3)**

**Mortgage Worksheet (Company developed)**
**In Good Standing – Commercial Mortgages and Farm Mortgages**

| Price Index current (year end calculations to be based off of 3rd Quarter index of the given year)} | {input Price Index as of September 30} | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name / ID / Line (1) | Date of Origination (2) | Maturity Date (3) | Property Type (4) | Farm Loan sub-property type (5) | Postal Code (6) | Book / Adjusted Carrying Value (7) | Statutory Write-downs (8) | Statutory Involuntary Reserve (9) |
| | | | | | | | | |

| Original Loan Balance (10) | Principal Loan balance to company (11) | Balloon Payment at maturity (12) | Principal Balance total (13) | NOI Second Prior year (14) | NOI Prior Year (15) | NOI (16) | Interest Rate (17) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Trailing 12 month debt service (18) | Original Property Value (19) | Property Value (20) | Year of valuation (21) | Calendar Quarter of Valuation (22) | Credit Enhancement? (23) | (24) Senior Debt? | (25) Construction Loan? |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Construction Loan out of Balance? (26) | Construction Loan Issues? (27) | Land Loan? (28) | 90 Days Past Due? (29) | In Process of Foreclosure? (30) | Current payment lower than based on Loan Interest? (31) | Is loan interest a floating rate? (32) | Is fixed rate reset during term? (33) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Is negative amortization allowed? (34) | Amortization Type (35) | Rolling Average NOI (36) | RBC Debt Service (37) | RBC DCR (38) | Price Index at valuation (39) | Contemporaneous Property Value (40) | RBC LTV (41) | CM Category (42) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

The Company should develop this worksheet on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Annual Statement Schedule B. This worksheet column (7), and (9) subtotals for each category are to be carried over and entered in Columns (1) and (2) of the Mortgages (LR004) in the risk-based capital formula lines (4) – (8) and (10) – (14). Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. Amounts in Columns (7), (9), (42) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure.  NOTE: This worksheet will not be available in the risk-based capital filing software and needs to be developed by the company.

| Column # | Heading | | Description / explanation of item |
|---|---|---|---|
| | | | Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States. |
| (1) | Name / ID | Input | Name / ID / Line – identify each mortgage included as in good standing |
| (2) | Date of Origination | Input | Enter the year and month that the loan was originated.  If the loan has been restructured, extended, or otherwise re-written, enter that new date. |
| (3) | Maturity date | Input | Enter earlier of maturity of the loan, or the date the lender can call the loan. |
| (4) | Property Type | Input | Property Type – Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type.  For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans. |
| (5) | Farm sub-type | Input | Sub-category – If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other (See Note 8.) |
| (6) | Postal Code | Input | Enter zip code of property for US.  If multiple properties or zip codes, enter multiple codes.  If foreign address, use postal code.  If not available, N/A |
| (7) | Book / Adjusted Carrying Value | Input | Enter the value that the loan is carried on the company ledger. |
| (8) | Statutory write-downs | Input | Enter the value of any write-downs taken on this loan due to permanent impairment. |
| (9) | Involuntary Reserve | Input | Enter the amount of any involuntary reserve amount.  Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement. |
| (10) | Original Loan Balance? | Input | Enter the loan balance at the time of origination of the loan. |
| (11) | Principal balance to Co. | Input | Enter the value of the loan balance owed by the borrower. |
| (12) | Balloon payment at maturity | Input | Enter the amount of any balloon or principal payment due at maturity. |
| (13) | Principal balance total | Input | Enter the total amount of mortgage outstanding including debt that is senior to or pari passu with the company's mortgage (Note 2) |

| (14) | NOI second prior | Input | Enter the NOI from the year prior to the value in (15) See Note 1. |
|------|------------------|-------|-------------------------------------------------------------------|
| (15) | NOI prior | Input | Enter the NOI from the prior year to the value in (16) See Note 1. |
| (16) | NOI | Input | Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July1 of the year prior to this report and June 30 of the year of this report.  The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0.  Section VII.  See Notes 1, 3, 4, 5, and 6 below. |
| (17) | Interest rate | Input | Enter the Annual interest rate at which the loan is accruing.<br>   -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or<br>   -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate.<br>If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance. |
| (18) | Trailing 12 month debt service | Input | Enter actual 12 months debt service for prior 12 months |
| (19) | Original Property Value | Input | Enter the Property Value at the time of origination of the loan. (Note 9.) |
| (20) | Property Value | Input | Property Value is the value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing.  (Note 9.) |
| (21) | Year of valuation | Input | Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation. |
| (22) | Quarter of valuation | Input | Calendar quarter of the valuation date defining the value in (20). |
| (23) | Credit Enhancement | Input | Enter the full dollar amount of any credit enhancement.  (see Note 5.) |
| (24) | Senior Debt? | Input | Enter yes if the senior position, no if not.  (see Note 7.) |
| (25) | Construction Loan? | Input | Enter 'Yes' if this is a construction loan. (see Note 4.) |
| (26) | Construction – not in balance? | Input | Enter 'Yes" if his is a construction loan that is not in balance.  (see Note 4.) |
| (27) | Construction – Issues? | Input | Enter 'Yes" if this is a construction loan with issues.   (see Note 4.) |
| (28) | Land Loan? | Input | Enter 'Yes' if this is a loan on non-income producing land.  (see Note 6.) |
| (29) | 90 days past due? | Input | Enter 'Yes' if payments are 90 days past due. |
| (30) | In process of foreclosure? | Input | Enter 'Yes' if the loan is in process of foreclosure. |
| (31) | Is current payment lower than a payment based on the Loan Interest? | Input | Yes / No |
| (32) | Is loan interest a floating rate? | Input | Yes / No |
| (33) | If not floating, does loan reset during term? | Input | Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a pre-determined rate or may be the then current market rate.  Generally any such changes are less frequent than annual.  . |
| (34) | Is negative amortization allowed? | Input | Yes / No |

| (35) | Amortization type? | Input | 1 = fully amortizing<br>2 = amortizing with balloon,<br>3 = full I/O<br>4 = partial I/O, then amortizing |
|------|---------------------|-------|---------------------------------------------------------|
| (36) | Rolling Average NOI | Computation | For 2013 – 100% of NOI<br>For 2014 – 65% NOI + 35% NOI Prior<br>For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2<sup>nd</sup> Prior<br>For loans originated or valued within the current year use 100% NOI.<br>For loans originated 2013 or later and within 2 years, use 65% NOI and 35% NOI Prior |
| (37) | RBC Debt Service | Computation | RBC Debt Service Amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17). |
| (38) | RBC DCR | Computation | Debt Coverage Ratio is the ratio of the Net Operating Income (36) divided by the RBC Debt Service (37) rounded down to 2 decimal places. See Note 3 below for special circumstances. |
| (39) | NCREIF Price Index at Valuation | Computation | Price index is the value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22). |
| (40) | Contemporaneous Property Value | Computation | Contemporaneous Value is the Property Value (20) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index at valuation (39). |
| (41) | RBC LTV | Computation | The Loan to Value ratio is the Total Loan Value (13) divided by the Contemporaneous Value (40) rounded to the nearest percent. |
| (42) | CM category | Computation | Commercial Mortgage Risk category is the risk category determined by applying the DCR (38) and the LTV (41) to the criteria in Figure (4), Figure (5) or Figure (6). See Notes 2, 3, 4, 5, and 6 below for special circumstances. |

**Note 1: Net Operating Income (NOI):** The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements v.5.1. (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance would be a standardized basis for determining NOI for RBC.

**The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.**

**Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.**

**Note 3: *Unavailable Operating Statements***
**There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:**

1. **Loans on owner occupied properties**

   a. **For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).**
   b. **For properties where the owner is a minority tenant (49% of less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).**

2. **Borrower does not provide the annual operating statement**

   a. **Borrower refuses to provide the annual operating statements**
      i. **If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.**
      ii. **If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.**
      iii. **If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = $0.**
   b. **If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.**

   **Note 4: Construction loans**

**Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:**

    a. **In balance, no construction issues:**       **DSC = 1.0, LTV determined as usual**
    b. **Not in Balance, no construction issues:**  **CM4**
    c. **Construction issues:**          **CM5**

**A loan is *"in balance"* if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.**

**A *"construction issue"* is a problem that may reasonably jeopardize the completion of the project. Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.**

**Note 5: Credit enhancements: Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service. These situations are typically short term in nature, and are intended to bridge the lease-up following renovation or loss of a major tenant.**

**Note 6: Non-income-producing land: NOI = $0**

**Note 7: Non-senior financing**

    a. **The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.**
    b. **The non-senior piece should than be assigned to the next riskier RBC category. For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3. However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.**

**Note 8: <u>Definitions of each type of Farm Mortgage</u>:**

**<u>Timber</u>: A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.**

**<u>Farm & Ranch</u>: Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops and livestock of all kinds, including, beef, swine, poultry, fowl and fish. Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.**

**<u>Agribusiness Single Purpose</u>: Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.**

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

<u>Agribusiness All Other</u>: Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

Note 9. The origination value is developed during the underwriting process using appropriate appraisal standards.
    a. If values were received from a qualified third party appraiser, those values must be used.
    b. If the company performs internal valuations using standards comparable to an external appraisal, then the internal valuation may be used.

**(Figure 4)**

**For Office, Industrial, Retail and Multi-family**

| Risk category | DSC limits | | LTV limits |
|---|---|---|---|
| CM1 | 1.50 ≤ DSC | and | LTV < 85% |
| CM2 | DSC < 1.50 | and | LTV < 55% |
| CM2 | 0.95 ≤ DSC < 1.50 | and | 55% ≤ LTV < 75% |
| CM2 | 1.15 ≤ DSC < 1.50 | and | 75% ≤ LTV < 100% |
| CM2 | 1.50 ≤ DSC | and | 85% ≤ LTV < 100% |
| CM2 | 1.75 ≤ DSC | and | 100% ≤ LTV |

| | | | | |
|------|------------------------|-----|------|------------------|
| CM3 | DSC < 0.95 | and | 55% | ≤ LTV < 85% |
| CM3 | 0.95 ≤ DSC < 1.15 | and | 75% | ≤ LTV < 100% |
| CM3 | 1.15 ≤ DSC < 1.75 | and | 100% | ≤ LTV |
| CM4 | DSC < 0.95 | and | 85% | ≤ LTV < 105% |
| CM4 | 0.95 ≤ DSC < 1.15 | and | 100% | ≤ LTV |
| CM5 | DSC < 0.95 | and | 105% | ≤ LTV |

**(Figure 5)**

**For Hotels and Specialty Commercial**

| Risk category | DSC limits | | LTV limits |
|---------------|------------------------|-----|------------------------|
| CM1 | 1.85 ≤ DSC | and | LTV < 60% |
| CM2 | 1.45 ≤ DSC < 1.85 | and | LTV < 70% |
| CM2 | 1.85 ≤ DSC | and | 60% ≤ LTV < 115% |
| CM3 | 0.90 ≤ DSC < 1.45 | and | ≤ LTV < 80% |
| CM3 | 1.45 ≤ DSC < 1.85 | and | 70% ≤ LTV |
| CM3 | 1.85 ≤ DSC | and | 115% ≤ LTV |
| CM4 | DSC < 0.90 | and | LTV < 90% |
| CM4 | 0.90 ≤ DSC < 1.10 | and | 80% ≤ LTV < 90% |
| CM4 | 1.10 ≤ DSC < 1.45 | and | 80% ≤ LTV |
| CM5 | 1.10 ≤ DSC | and | 90% ≤ LTV |

**(Figure 6)**

**Farm Mortgages (Agricultural Loans)**

| | Timber | Farm & Ranch | Agribusiness Single Purpose | Agribusiness All Other |
|-----|--------------------|--------------------|--------------------|--------------------|
| CM1 | LTV <= 55% | LTV <= 60% | | LTV <= 60% |
| CM2 | 55% < LTV <= 65% | 60% < LTV <= 70% | LTV <= 60% | 60% < LTV <= 70% |
| CM3 | 65% < LTV <= 85% | 70% < LTV <= 90% | 60% < LTV <= 70% | 70% < LTV <= 90% |
| CM4 | 85% < LTV <= 105% | 90% < LTV <= 110% | 70% < LTV <= 90% | 90% < LTV <= 110% |
| CM5 | 105% < LTV | 110% < LTV | 90% < LTV | 110% < LTV |

# SCHEDULE BA MORTGAGES
LR009

*Basis of Factors*

**For Affiliated Mortgages (Line 10999999), t**he factors used are the same as for commercial mortgages **and are defined in Figure 9.  Risk categories and factors are determined using a company generated worksheet  for In Good Standing (Figure 10) and (Figure 8) for Past Due or In Process of Foreclosure**.

**For Unaffiliated Mortgages, (Line 0999999), the factors used are the same as for commercial mortgages and are defined in Figure 9.  Risk categories and factors are determined as follows:**

1) **For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (2) for mortgages with covenants that are in compliance.**
2) **Investments that are defeased with government securities will be assigned to CM1.**
3) **Other investments comprised primarily of senior debt will be assigned to CM2.**
4) **All other investments in this category will be assigned CM3. This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.**

*Specific Instructions for Application of the Formula*

Column (1)

Except for Line (1), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet**s** (Figure **8**) **and (Figure 10)** for how the individual mortgage calculations are completed. Line (**20**) should equal Schedule BA Part 1, Column 12, Line 0999999 plus Line 1099999.

Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)

For Lines (**12**) through (**14**) **and Lines (16) through (18)**, summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the Schedule BA mortgage calculation worksheet (Figure **8**).

Column (5)

For Line (1), the pre-tax factor is 0.0014.

**See Figure 9 for computation of appropriate factors.**


<u>Column (6)</u>
For Lines (1) through (**10**) the RBC subtotal is multiplied by the average factor to calculate Column (6).  **The categories and subtotals will be determined in the company developed worksheet Figure (10).**


For Lines (**12**) through (**14**) **and Lines (16) through (18)**, summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the Schedule BA mortgage calculation worksheet (Figure **8**).

(Figure **8**)

Schedule BA Mortgage Worksheet **A**
**Other Than In Good Standing**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (7a) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Name **/ ID** | Book/Adjusted Carrying Value | Involuntary Reserve Adjustment**§** | RBC Subtotal | Cumulative Writedowns * | Category Factor | In Good Standing Factor | **In Good Standing Category** | Col (6) X [Col (4)+(5)] - Col (5) | Col (4) X Col (7) | RBC Requirement ‡ |
| | 90 Days Overdue – Insured or Guaranteed | | | | | † | † | † | | | |
| (1) | All Mortgages Without Cumulative Writedowns | | | | XXX | 0.0027 | 0.0014 | **N/A** | | | |
| (2) | With Cumulative Writedowns: | | | | | 0.0027 | 0.0014 | **N/A** | | | |
| (3) | | | | | | 0.0027 | 0.0014 | **N/A** | | | |
| | Total | | | | | | | | | | |
| | 90 Days Overdue – **Unaffiliated** | | | | | | | | | | |
| (1) | All Mortgages Without Cumulative Writedowns | | | | XXX | 0.1800 | † | † | | | |
| (2) | With Cumulative Writedowns: | | | | | 0.1800 | † | † | | | |
| (3) | | | | | | 0.1800 | † | † | | | |
| | Total | | | | | | | | | | |
| | **90 Days Overdue – Affiliated** | | | | | | | | | | |
| **(1)** | **All Mortgages Without Cumulative Writedowns** | | | | **XXX** | **0.1800** | † | † | | | |
| **(2)** | **With Cumulative Writedowns:** | | | | | **0.1800** | † | † | | | |
| **(3)** | | | | | | **0.1800** | † | † | | | |
| | Total | | | | | | | | | | |
| | | | | | | | | | | | |
| | In Process of Foreclosure – Insured or Guaranteed | | | | | | | | | | |
| (1) | All Mortgages | | | | XXX | 0.0054 | 0.0014 | **N/A** | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Without Cumulative Writedowns | | | | | | | | | |
| (2) | With Cumulative Writedowns: | | | | | 0.0054 | 0.0014 | **N/A** | | |
| (3) | | | | | | 0.0054 | 0.0014 | **N/A** | | |
| | Total | | | | | | | | | |
| | In Process of Foreclosure – **Unaffiliated** | | | | | | | | | |
| (1) | All Mortgages Without Cumulative Writedowns | | | | XXX | 0.2300 | † | † | | |
| (2) | With Cumulative Writedowns: | | | | | 0.2300 | † | † | | |
| (3) | | | | | | 0.2300 | † | † | | |
| | Total | | | | | | | | | |
| | **In Process of Foreclosure – Affiliated** | | | | | | | | | |
| **(1)** | **All Mortgages Without Cumulative Writedowns** | | | | **XXX** | **0.2300** | † | † | | |
| **(2)** | **With Cumulative Writedowns:** | | | | | **0.2300** | † | † | | |
| **(3)** | | | | | | **0.2300** | † | † | | |
| | **Total** | | | | | | | | | |
| | | | | | | | | | | |
| (99) | Total Schedule BA Mortgages | | | | | | | | | |

**This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 9) that are applicable.** The Column (2), (3), (5) and (**10**) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Schedule BA Mortgages (LR009) Lines (**12**) through (**14**) **and Lines (16) through (18)** in the risk-based capital formula. NOTE: This worksheet will be available in the risk-based capital filing software.

† See (Figure 9) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 10) and reported in Column 7a.

‡ The RBC Requirement column (10) is calculated as the greater of Column (8) or Column (9), but not less than zero.

§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.

£ Column (4) is calculated as Column (2) less Column (3).

\* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 8 and 10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure. The factors are used in Columns (6) and (7) of the mortgage worksheet (Figure 8) and are dependent on which of the 14 mortgage categories below the mortgage falls into. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are classified as Category CM1. The following factors are used for each category of mortgages:

| LR009 Line Number | Schedule BA Mortgage Factors | Category Factor† | In Good Standing Factor |
|---|---|---|---|
| (2) | Unaffiliated – defeased with government securities | N/A‡ | 0.0090 |
| (3) | Unaffiliated investments comprised primarily of Senior Debt | N/A‡ | 0.0175 |
| (4) | Unaffiliated – all other unaffiliated mortgages | N/A‡ | 0.0300 |
| (5) | Affiliated Mortgages – Category CM1 | N/A‡ | 0.0090 |
| (6) | Affiliated Mortgages – Category CM2 | N/A‡ | 0.0175 |
| (7) | Affiliated Mortgages – Category CM3 | N/A‡ | 0.0300 |
| (9) | Affiliated Mortgages – Category CM4 | N/A‡ | 0.0500 |
| (10) | Affiliated Mortgages – Category CM5 | N/A‡ | 0.0750 |
| | | | |
| (12) | 90 Days Past Due - Insured or Guaranteed | 0.0027 | .0014 |
| (13) | 90 Days Past Due - Unaffiliated | 0.1800 | ‡ |
| (14) | 90 Days Past Due – Affiliated | 0.1800 | ‡ |
| (16) | In Process of Foreclosure - Insured or Guaranteed | 0.0054 | .0014 |
| (17) | In Process of Foreclosure - Unaffiliated | 0.2300 | ‡ |
| (18) | In Process of Foreclosure – Affiliated | 0.2300 | ‡ |
| | | | |

† The category factor is a factor used for a particular category of mortgage loans that are not in good standing.
‡ The RBC Requirement for mortgage loans in good standing are not calculated on Figure (8). These requirements are calculated on the company's Schedule BA Mortgage Worksheet and transferred to LR009 Schedule BA Mortgage Loans Lines (12) – (14) and (16) – (18).

(Figure 10)

**Mortgage Worksheet  (Company developed)**
**In Good Standing - Commercial**

| Price Index current  (year end calculations to be based off of 3rd Quarter index of the given year)} | {input Price Index as of September 30} | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

| Name / ID / Line (1) | Date of Origination (2) | Maturity Date (3) | Property Type (4) | Farm Loan sub-property type (5) | Postal Code (6) | Book/Adjusted Carrying Value (7) | Statutory Write-downs (8) | Statutory Involuntary Reserve (9) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

| Original Loan Balance (10) | Principal Loan balance to company (11) | Balloon Payment at maturity (12) | Principal Balance total (13) | NOI Second Prior year (14) | NOI Prior Year (15) | NOI (16) | Interest Rate (17) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Trailing 12 month debt service (18) | Original Property Value (19) | Property Value (20) | Year of valuation (21) | Calendar Quarter of Valuation (22) | Credit Enhancement? (23) | (24) Senior Debt | (25) Construction Loan |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Construction Loan out of Balance (26) | Construction Loan Issues (27) | Land Loan (28) | 90 Days Past Due (29) | In Process of Foreclosure? (30) | Current payment lower than based on Loan Interest? (31) | Is loan interest floating? (32) | Is fixed rate reset during term? (33) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Is negative amortization allowed? (34) | Amortization Type (35) | Schedule BA mortgage? (36) | Affiliated Mortgage (37) | Covenant – Max LTV (39) | Covenant – Min DCR (40) | Loan Covenants in compliance? (41) | Defeased with government securities? (42) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| Primarily Senior positions? | Rolling Average NOI | RBC DCR (45) | Price Index at valuation | Contemporaneous Property Value | RBC - Loan to Value ratio | RBC Risk Category |
|---|---|---|---|---|---|---|

| (43) | (44) | | (46) | (47) | (48) | (49) |
|---|---|---|---|---|---|---|
| | | | | | | |

This worksheet is prepared on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Schedule BA. The Column (5), and (6) subtotals for each category are carried over and entered in Columns (1) and (2) of the Mortgages (LR009) in the risk-based capital formula lines (2) – (10). Small mortgages aggregated into one line on Schedule BA can be treated as one mortgage on this worksheet. Amounts in Columns (7), (9), (49) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure. NOTE: This worksheet will not be available in the risk-based capital filing software and must be developed by the Company.

| Column | | | Description / explanation of item |
|---|---|---|---|
| # | Heading | | |
| | | | Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States. |
| (1) | Name / ID | Input | Name / ID / Line – identify each mortgage included as in good standing |
| (2) | Date of Origination | Input | Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date. |
| (3) | Maturity date | Input | Enter earlier of maturity of the loan, or the date the lender can call the loan. |
| (4) | Property Type | Input | Property Type – Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans. |
| (5) | Farm sub-type | Input | Sub-category – If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other (See Note 8.) |
| (6) | Postal Code | Input | Enter zip code of property for US properties. If multiple properties or zip codes, enter multiple codes. If foreign, enter postal code. If not available, N/A |
| (7) | Book / Adjusted Carrying Value | Input | Enter the value that the loan is carried on the company ledger. |
| (8) | Statutory writedowns | Input | Enter the value of any writedowns taken on this loan due to permanent impairment. |
| (9) | Involuntary Reserve | Input | Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement. |
| (10) | Original Loan Balance? | Input | Enter the loan balance at the time of origination of the loan. |
| (11) | Principal balance to Co. | Input | Enter the value of the loan balance owed by the borrower. |
| (12) | Balloon payment at maturity | Input | Enter the amount of any balloon or principal payment due at maturity. |
| (13) | Principal balance total | Input | Enter the total amount of mortgage outstanding that is senior to or pari passu with the company's mortgage |
| (14) | NOI second prior | Input | Enter the NOI from the year prior to the value in (15) See Note 1. |
| (15) | NOI prior | Input | Enter the NOI from the prior year to the value in (16) See Note 1. |
| (16) | NOI | Input | Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes |

| | | | 1, 2, 3, 4, 5 and 6 below. |
|---|---|---|---|
| (17) | Interest rate | Input | Enter the Annual interest rate at which the loan is accruing.<br><br>   -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or<br>   -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate.<br>If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance. |
| (18) | Trailing 12 month debt service | Input | Enter actual 12 months debt service for prior 12 months |
| (19) | Original Property Value | Input | Enter the loan balance at the time of origination of the loan. |
| (20) | Property Value | Input | Property Value is the value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing. |
| (21) | Year of valuation | Input | Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation. |
| (22) | Quarter of valuation | Input | Calendar quarter of the valuation date defining the value in (20). |
| (23) | Credit Enhancement | Input | Enter the full dollar amount of any credit enhancement. (see Note 5.) |
| (24) | Senior Loan? | Input | Enter yes if the senior position, no if not. (see Note 7.) |
| (25) | Construction Loan? | Input | Enter 'Yes' if this is a construction loan. (see Note 4.) |
| (26) | Construction – not in balance | Input | Enter 'Yes" if his is a construction loan that is not in balance. (see Note 4.) |
| (27) | Construction – Issues | Input | Enter 'Yes" if this is a construction loan with issues.  (see Note 4.) |
| (28) | Land Loan? | Input | Enter 'Yes' if this is a loan on non-income producing land. (see Note 6.) |
| (29) | 90 days past due? | Input | Enter 'Yes' if payments are 90 days past due. |
| (30) | In process of foreclosure? | Input | Enter 'Yes' if the loan is in process of foreclosure. |
| (31) | Is current payment lower than a payment based on the Loan Interest? | Input | Yes / No |
| (32) | Is loan interest a floating rate? | Input | Yes / No |
| (33) | If not floating, does loan reset during term? | Input | Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a pre=determined rate or may be the then current market rate.  Generally any such changes are less frequent than annual.  . |
| (34) | Is negative amortization allowed? | Input | Yes / No |
| (35) | Amortization type? | Input | 1 = fully amortizing<br>2 = amortizing with balloon,<br>3 = full  I/O<br>4 =  partial I/O, then amortizing |
| (36) | Schedule BA mortgage? | Input | Yes / no |

| (37) | Affiliated Mortgage? | Input | Yes / no |
|------|---------------------|-------|----------|
| (38) | Covenant Max LTV | Input | For mortgage investments with covenants, what is the maximum LTV allowed? |
| (39) | Covenant Min DCR | Input | For mortgage investments with covenants, what is the minimum DCR allowed? |
| (40) | Covenants in compliance? | Input | Yes / no – for mortgage investments with covenants, is the investment in compliance with the covenants? |
| (41) | Defeased with government securities | Input | Yes/no – has the mortgage loan been defeased using government securities? |
| (42) | Primarily senior mortgages | Input | Is the mortgage pool primarily senior mortgage instruments? {If yes, assigned to CM2} |
| (43) | Rolling Average NOI | Computation | For 2012 – 100% of NOI<br>For 2014 – 65% NOI + 35% NOI Prior<br>For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2$^{nd}$ Prior<br>For loans originated or valued within the current year use 100% NOI.<br>For loans originated 2012 or later and within 2 years, use 65% NOI and 35% NOI Prior |
| (44) | RBC Debt Service | Computation | RBC Debt Service Amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17). |
| (45) | RBC - DCR | Computation | Debt Coverage Ratio is the ratio of the Net Operating Income (43) divided by the RBC Debt Service (44) rounded down to 2 decimal places. See Note 3 below for special circumstances. For loan pools with covenants, this will be the minimum DCR by covenant. |
| (46) | NCREIF Index at Valuation | Computation | Price index is the value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22). |
| (47) | Contemporaneous Property Value | Computation | Contemporaneous Value is the Property Value (11) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index (46). |
| (48) | RBC - LTV | Computation | The Loan to Value ratio is the Loan Value (13) divided by the Contemporaneous Value (47) rounded to the nearest percent.<br>For Loan Pools with covenants, this will be the max LTV by covenant. |
| (49) | CM category | Computation | Commercial Mortgage Risk category is the risk category determined by applying the DCR (45) and the LTV (48) to the criteria in Figure (11), Figure (12) or Figure (13). See Notes 2, 3, 4, 5, and 6 below for special circumstances. If (41) = yes, CM1. If (42) = yes, CM2. If no LTV and DCR, and (41) = no and (42) = no, CM3. |

**Note 1: Net Operating Income (NOI):** The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements v. 5.1([www.crefc.org/irp](www.crefc.org/irp)) . These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% $2^{nd}$ prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.

Note 3: *Unavailable Operating Statements*
There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:

1. Loans on owner occupied properties

   a. For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).
   b. For properties where the owner is a minority tenant (49% of less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).

2. Borrower does not provide the annual operating statement

   a. Borrower refuses to provide the annual operating statements
      i. If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.
      ii. If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.
      iii. If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = $0.

b.   If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.

**Note 4: Construction loans**

Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:

d.   In balance, no construction issues:       DSC = 1.0, LTV determined as usual
e.   Not in Balance, no construction issues:   CM4
f.   Construction issues:              CM5

A loan is *"in balance"* if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.

A *"construction issue"* is a problem that may reasonably jeopardize the completion of the project.  Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.

**Note 5: Credit enhancements:**  Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service.  These situations are typically short term in nature, and are intended to bridge the lease-up following renovation or loss of a major tenant.

**Note 6:  Non-income-producing land:  NOI = $0**

**Note 7:  Non-senior financing**

c.   The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.
d.   The non-senior piece should than be assigned to the next riskier RBC category.  For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3.  However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.

**Note 8: Definitions of each type of Farm Mortgage:**

**Timber:**  A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.

**Farm & Ranch:**  Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops  and livestock of all kinds, including, beef, swine, poultry, fowl and fish.  Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.

**Agribusiness Single Purpose:** Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

**Agribusiness All Other:** Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

**(Figure 11)**

**For Office, Industrial, Retail and Multi-family**

| Risk category | DSC limits | | LTV limits |
|---|---|---|---|
| CM1 | 1.50 ≤ DSC | and | LTV <  85% |
| CM2 | DSC <  1.50 | and | LTV <  55% |
| CM2 | 0.95 ≤ DSC <  1.50 | and | 55%    ≤ LTV <  75% |
| CM2 | 1.15 ≤ DSC <  1.50 | and | 75%    ≤ LTV <  100% |
| CM2 | 1.50 ≤ DSC | and | 85%    ≤ LTV <  100% |
| CM2 | 1.75 ≤ DSC | and | 100%   ≤ LTV |
| CM3 | DSC < 0.95 | and | 55%    ≤ LTV <  85% |
| CM3 | 0.95 ≤ DSC <  1.15 | and | 75%    ≤ LTV <  100% |
| CM3 | 1.15 ≤ DSC < 1.75 | and | 100%   ≤ LTV |
| CM4 | DSC < 0.95 | and | 85%    ≤ LTV <  105% |
| CM4 | 0.95 ≤ DSC < 1.15 | and | 100%   ≤ LTV |
| CM5 | DSC < 0.95 | and | 105%   ≤ LTV |
| | | | |
| | | | |

**(Figure 12)**
**For Hotels and Specialty Commercial**

| Risk category | DSC limits | | LTV limits |
|---|---|---|---|
| CM1 | 1.85 ≤ DSC | and | LTV <  60% |
| CM2 | 1.45 ≤ DSC <  1.85 | and | LTV <  70% |
| CM2 | 1.85 ≤ DSC | and | 60%    ≤ LTV <  115% |
| CM3 | 0.90 ≤ DSC <  1.45 | and | ≤ LTV <  80% |
| CM3 | 1.45 ≤ DSC <  1.85 | and | 70% ≤ LTV |
| CM3 | 1.85 ≤ DSC | and | 115%    ≤ LTV |
| CM4 | DSC <  0. 90 | and | LTV <  90% |
| CM4 | 0.90 ≤ DSC <  1.10 | and | 80%    ≤ LTV <  90% |
| CM4 | 1.10 ≤ DSC <  1.45 | and | 80%    ≤ LTV |
| CM5 | 1.10 ≤ DSC | and | 90%    ≤ LTV |

**(Figure 13)**

**For Farm Loans:**

|  | Timber | Farm & Ranch | Agribusiness Single Purpose | Agribusiness All Other |
|---|---|---|---|---|
| CM1 | LTV <= 55% | LTV <= 60% |  | LTV <= 60% |
| CM2 | 55% < LTV <= 65% | 60% < LTV <= 70% | LTV <= 60% | 60% < LTV <= 70% |
| CM3 | 65% < LTV <= 85% | 70% < LTV <= 90% | 60% < LTV <= 70% | 70% < LTV <= 90% |
| CM4 | 85% < LTV <= 105% | 90% < LTV <= 110% | 70% < LTV <= 90% | 90% < LTV <= 110% |
| CM5 | 105% < LTV | 110% < LTV | 90% < LTV | 110% < LTV |

# ASSET CONCENTRATION FACTOR
LR010

*Basis of Factors*

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45 percent pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

*Specific Instructions for Application of the Formula*

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, **NAIC** 1 bonds, **NAIC** 1 unaffiliated preferred stock, **NAIC** 1 Hybrids**, CM 1 Commercial and Farm Mortgages** and any other asset categories with RBC factors less than 0.8 percent post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, and cash and short-term investments).

In determining the assets subject to the concentration factor for both C1o and C1cs, the ceding company should exclude any asset whose performance inures primarily (>50 percent) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100 percent of such asset. Any asset where no one reinsurer receives more than 50 percent of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA partnerships should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any **NAIC** 1 bonds, **NAIC** 1 unaffiliated preferred stock or **NAIC** 1 Hybrids from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. The RBC filing software automatically allows for an overall 45 percent RBC cap.

<u>Lines (23) through (28)</u>
The Asset Concentration RBC Requirement for a particular property plus the Real Estate RBC Requirement for a particular property cannot exceed the book/adjusted carrying value of the property. Any properties exceeding the book/adjusted carrying value must be adjusted down to the book/adjusted carrying value in Column (6) of the Asset Concentration.

Line (24), Column (4) is calculated as Line (23), Column (2) multiplied by 0.2300 plus Line (24), Column (2) multiplied by 0.2000, but not greater than Line (23), Column (2).
Line (26), Column (4) is calculated as Line (25), Column (2) multiplied by 0.1500 plus Line (26), Column (2) multiplied by 0.1200, but not greater than Line (25), Column (2).
Line (28), Column (4) is calculated as Line (27), Column (2) multiplied by 0.2300 plus Line (28), Column (2) multiplied by 0.2000, but not greater than Line (27), Column (2).

<u>Lines (29) through (**60**)</u>
The Asset Concentration RBC Requirement for a particular mortgage plus the LR004 Mortgages RBC Requirement or LR009 Schedule BA Mortgages RBC Requirement for a particular mortgage can not exceed 45 percent of the book/adjusted carrying value of the mortgage. Any mortgages exceeding 45 percent of the book/adjusted carrying value must be adjusted down in Column (6) of the Asset Concentration.


Line (**38**), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (**37**) plus Line (**38**)] less Line (**38**) or Line (**37**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**40**), Column (4) is calculated as the greater of 0.0140 multiplied by [(Line (**39**) plus Line (**40**)] less Line (**40**) or Line (**39**) multiplied by 0.0068.
Line (**42**), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (**41**) plus Line (**42**)] less Line (**42**) or Line (**41**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**44**), Column (4) is calculated as the greater of 0.**22**00 multiplied by [(Line (**43**) plus Line (**44**)] less Line (**44**) or Line (**43**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**46**), Column (4) is calculated as the greater of 0.0270 multiplied by [(Line (**45**) plus Line (**46**)] less Line (**46**) or Line (**45**) multiplied by 0.0068.
Line (**48**), Column (4) is calculated as the greater of 0.2**2**00 multiplied by [(Line (**47**) plus Line (**48**)] less Line (**48**) or Line (**47**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**49**), Column (4) is calculated as Line (**49**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**58**), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (**57**) plus Line (**58**)] less Line (**58**) or Line (**57**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.
Line (**60**), Column (4) is calculated as the greater of 0.2**2**00 multiplied by [(Line (**59**) plus Line (**60**)] less Line (**60**) or Line (**59**) multiplied by **the appropriate factor for the CM class to which the loan is assigned**.