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## U.S. Insurers' Exposure to Mortgage Loans Continues to Climb Through Year-End 2020

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### Executive Summary

- Mortgage loans reported by U.S. insurers at year-end 2020 (in Schedule B) totaled about \$626.5 billion in book/adjusted carrying value (BACV), representing a 4% increase from \$602 billion in BACV at year-end 2019; they were about 8% of total cash and invested assets at year-end 2020.
- Life insurance companies held the majority, or 96%, of the industry's total mortgage loans, as they match well with the longer-term nature of their liabilities.
- About one-quarter of U.S. insurers' exposure to mortgage loans was in multifamily/apartment properties, which have thus far not been severely affected by the COVID-19 pandemic.
- Almost 90% of U.S. insurers' total mortgage loan exposure, or \$557.6 billion, was in commercial mortgage loans.
- Life companies accounted for about 15% of the market's commercial mortgage loans outstanding at year-end 2020, which was consistent with year-end 2019, according to the Mortgage Bankers Association (MBA).
- Commercial mortgage loan origination volume through 1Q 2021 was down 14% versus 1Q 2020 due in part to seasonality declines and COVID-19 pandemic economic effects.

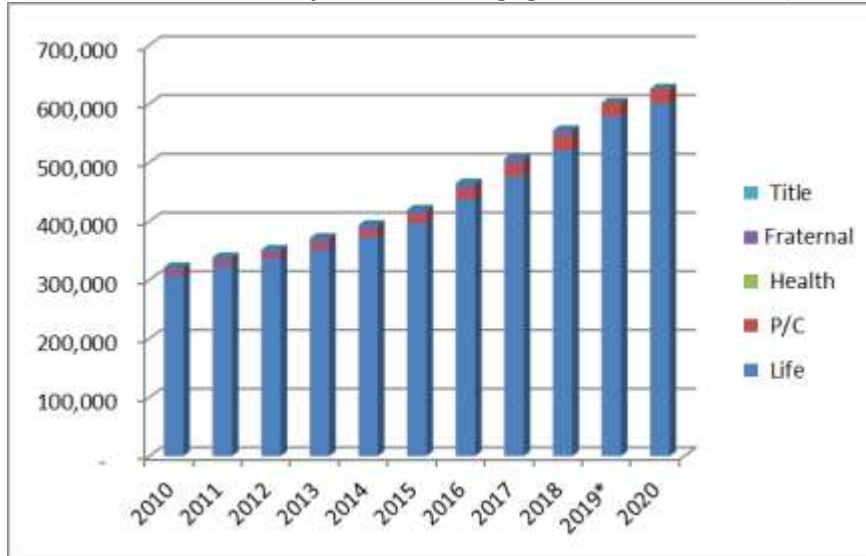
### U.S. Insurers' Mortgage Loan Exposure

The U.S. insurance industry's exposure to mortgage loans has been on a steady incline over at least the last 10 years, as shown in Chart 1, with life companies consistently accounting for a significant share, or 96%, of total exposure at year-end 2020. Life insurance companies have a long history as lenders to the commercial real estate market. Real estate and real estate lending are commonly viewed as long-term investments, which match well with the longer liabilities of life companies. Also, as an alternative asset



class, commercial real estate loans are considered a suitable source of risk diversification in life company portfolios. Growth in U.S. insurers’ exposure to mortgage loans backed by real estate properties —i.e., commercial, residential, farm, and other—increased by 94% over the 10-year period 2010 to 2020.

**Chart 1: U.S. Insurers’ Exposure to Mortgage Loans, 2010–2020 (\$BACV mil)**



\*Life and fraternal companies were reported together beginning with year-end 2019 data.

U.S. insurers’ exposure to mortgage loans backed by real estate properties, as reported in Schedule B at year-end 2020, was \$626.5 billion in BACV, a 4% increase from \$602 billion at year-end 2019.

Commercial mortgage loans were almost 90% of U.S. insurers’ total mortgage loan exposure (see Table 1), at \$557.6 billion as of year-end 2020.

**Table 1: U.S. Insurers’ Mortgage Loan Exposure by Loan Type, Year-End 2020 (\$mil. BACV)**

Mortgage Loan Type	Total	% of Total
Commercial	557,556.6	89%
Residential	33,684.4	5%
Farm	24,903.9	4%
Other	10,345.1	2%
<b>Total</b>	<b>626,489.9</b>	<b>100%</b>

At year-end 2020, multifamily/apartment accounted for the largest property type among U.S. insurers’ total mortgage loan exposure, at almost \$164 billion, or 26% of the total (see Table 2). In comparison, multifamily/apartment accounted for about \$154.5 billion (a lower BACV amount) at year-end 2019 but at relatively the same percentage of total mortgage loans. As multifamily/apartment properties have not been significantly affected by the COVID-19 pandemic, concern regarding potential losses in this sector is mitigated.

**Table 2: U.S. Insurers' Mortgage Loan Exposure by Property Type, Year-End 2020 (\$mil. BACV)**

Property Type	Total	% of Total
Multifamily/Apartment	\$ 163,889.2	26%
Office	\$ 146,865.9	23%
Retail	\$ 105,467.9	17%
Industrial	\$ 85,201.9	14%
Other	\$ 88,563.9	14%
Lodging	\$ 24,040.9	4%
Mixed Use	\$ 9,650.3	2%
Healthcare	\$ 2,809.8	0%
<b>Total</b>	<b>\$ 626,489.9</b>	<b>100%</b>

The retail and lodging sectors experienced a significant loss of revenues, due in part to the economic impact of the COVID-19 pandemic. This is especially true for lodging given the limitations put on travel. In particular, there has been a continued lack of business travel even though leisure travel recently experienced a rebound. According to Trepp, a real estate industry data source, lodging is said to be the most affected property sector, as hotel occupancy is only at 53% as of September 2021. Similar to year-end 2019, lodging properties totaled about \$24 billion at year-end 2020 for U.S. insurers, representing about 4% of the total in both years.

The retail sector has undergone a change in landscape with e-commerce sales becoming more prevalent. This trend negatively affects shopping mall tenants whose revenues depend on brick-and-mortar consumers. U.S. insurers' exposure to retail property mortgage loans totaled \$105.5 billion at year-end 2020, or 17% of the total, which was slightly less than the \$107.8 billion U.S. insurers reported at year-end 2019, or about 18% of the total. Concentrations of retail and/or lodging mortgage loans within individual insurers' portfolios have the potential to become a source of risk, due in part to the COVID-19 impact, particularly in terms of the percentage of an insurer's total capital and surplus.

Another notable sector with the potential to be affected by the pandemic is office properties, which totaled about \$147 billion at year-end 2020, or 23% of U.S. insurers' total mortgage loan exposure. In comparison, at year-end 2019, office properties totaled about \$143 billion, or 24% of total mortgage loan exposure. Office properties were not immediately affected by COVID-19 because of the long-term nature of leases; however, with the possibility of permanently remote or hybrid work structures remaining in place, noticeable effects could appear in the near or medium-term.

According to Trepp, the industrial sector has persevered throughout the pandemic and has even shown signs of growth. This is due in part to the impact of increased e-commerce sales on warehouse and distribution industrial properties.<sup>1</sup>

Given the long-term nature of mortgage loans and their significant size, it is not surprising that over 90% of the U.S. insurers' exposure was with large life companies at year-end 2020, or those whose assets

<sup>1</sup> Trepp Commercial Mortgage-Backed Securities (CMBS) Research, *Industrial Market Snapshot: Promising Signs for Continued Expansion and Growth*, September 2021.



under management exceed \$10 billion, as shown in Table 3. Small insurers, or those with less than \$1 billion in assets under management, accounted for less than 1% of the U.S. insurance industry's total mortgage loan exposure at year-end 2020.

**Table 3: Mortgage Loan Exposure by Total Assets Under Management, Year-End 2020, (\$mil. BACV)**

Asset Under Management	Life	P/C	Title	Health	Total	% of Total
Greater Than \$10B	\$ 561,235.4	\$ 13,590.7	\$ -	\$ -	\$ 574,826.1	92%
Between \$5.0B and \$10.0B	\$ 18,654.1	\$ 5,906.5	\$ -	\$ 61.4	\$ 24,622.0	4%
Between \$2.5B and \$5.0B	\$ 11,813.3	\$ 3,595.9	\$ -	\$ -	\$ 15,409.2	3%
Between \$1.0B and \$2.5B	\$ 6,425.8	\$ 1,372.2	\$ 4.2	\$ 28.4	\$ 7,830.6	1%
Between \$500MM and \$1.0B	\$ 1,504.5	\$ 179.1	\$ 2.5	\$ 50.3	\$ 1,736.4	0%
Between \$250MM and \$500MM	\$ 1,156.6	\$ 193.9	\$ -	\$ 13.8	\$ 1,364.4	0%
Less Than \$250MM	\$ 534.1	\$ 107.6	\$ 33.5	\$ 26.0	\$ 701.2	0%
<b>Total</b>	<b>\$ 601,323.8</b>	<b>\$ 24,946.0</b>	<b>\$ 40.2</b>	<b>\$ 179.9</b>	<b>\$ 626,489.9</b>	<b>100%</b>

At year-end 2020, approximately 6% of the U.S. insurance industry's mortgage loans, or \$34.2 billion, were pledged as collateral to the Federal Home Loan Banks (FHLBs). As such, the exposure is considered a restricted asset in that it is not under the exclusive control of the reporting entity. In comparison, this represents a slight increase from 5% of the U.S. insurance industry's total mortgage loans, or almost \$30 billion, at year-end 2019.

#### *U.S. Insurers' Mortgage Loan Acquisitions and Dispositions Since Year-End 2020*

Since year-end 2020, U.S. insurers net acquired \$7.7 billion in mortgage loans through 2Q 2021. Specifically, they acquired approximately \$55.2 billion in mortgages (reported actual cost), 84% of which were acquired by large insurers, or those with more than \$10 billion assets under management. About 82% of acquired mortgages were commercial mortgages; 30% of total acquired mortgages were multifamily properties. For the same time period, U.S. insurers disposed of about \$47.5 billion in mortgage loans, which includes mortgages sold as well as those paid down. Almost 90% of the dispositions were by large insurers.

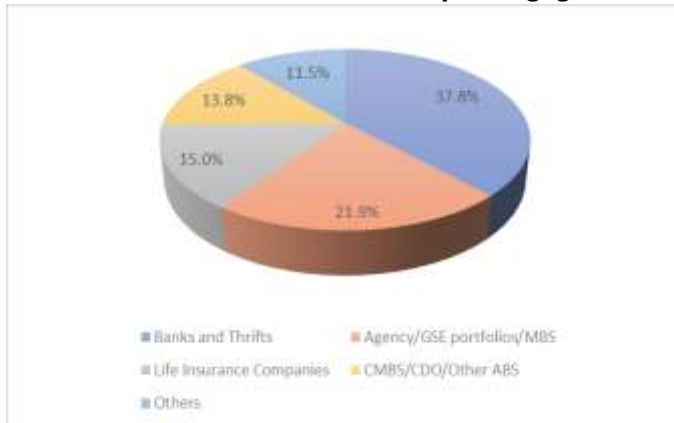
### Commercial Mortgage Loan Market Trends

Commercial and multifamily mortgage debt outstanding increased by almost 6% to \$3.93 trillion as of 1Q 2021, from \$3.71 trillion as of 1Q 2020 according to the MBA. Within this total, commercial mortgage debt alone accounted for about \$2 trillion for both time periods.<sup>2</sup> The MBA estimates that commercial and multifamily mortgages provided by life insurance companies accounted for 15% of commercial and multifamily mortgage debt outstanding as of 1Q 2021 (see Chart 2), consistent with their overall market share over the last few years.

<sup>2</sup> MBA, *Quarterly Databook*, 1Q 2021 and 2Q 2020.



**Chart 2: Commercial and Multifamily Mortgage Loans Outstanding by Investor Type (1Q2021)**



Source: MBA

According to the MBA, new origination volume for commercial and multifamily mortgage loans for 1Q 2021 was down 14% compared to the same time period in 2020, due in part to seasonality trends. Notwithstanding, by property type, retail, hotels, and office experienced the largest declines in originations due to lingering pandemic effects. From 1Q 2020 to 1Q 2021, new origination volume for hotel loans was down 82%, retail decreased by 45% (which was lower than the lowest level experienced during the Global Financial Crisis), and office properties decreased by 34%.

The COVID-19 pandemic affected property type delinquencies differently and unevenly. Retail and lodging were affected the most, with 20% and 9.5% of lodging and retail loan balances, respectively, being delinquent (60 or more days past due) as of May 2021. A mitigating concern over life companies' investment in mortgage loans is a 0.1% delinquency rate on their exposure as of 1Q 2021, according to the MBA. Although, in general, life companies' mortgage loan investments have had a delinquency rate below 1% since 1998 according to the MBA.

For more information on [commercial mortgage loans](#), please see the NAIC Capital Markets primer published in June 2019.

The NAIC Capital Markets Bureau will continue to monitor financial market trends with mortgage loans and report as deemed appropriate.

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Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org](mailto:CapitalMarkets@naic.org).

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