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

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- 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.

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

Table 2Ÿ ¦ φ{φLy̸ădzǸŜǸăΩ a ƻǸǘƎI·ƎŜ [ƻI·y̸9ȄLJƻădzǸŜ by Property Type, Year-End 2020 ($mil. BACV)

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. D10 G[D10 G[D10 G[D10 G1)83(o)27(TJETQqec)-7(en)23Qq0.00000912 0 6 under management exceed $10 billion, as shown in Table 3. Small insurers, or those with less than $1

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

Source: MBA

According to the