the credit risk of underlying mortgage loans and the timely payment of principal and interest on the securities.

In what was a lower-for-longer interest rate environment that existed pre-2022 and similar to other structured securities, RMBS were an attractive alternative to traditional bond investments given their higher yields for comparable ratings, particularly for private-label RMBS. As the Federal Reserve (Fed) began raising interest rates in 2022, a resilient overall housing market, combined with the historically wide spreads of mortgage-backed securities, has supported the demand for RMBS amid higher mortgage rates and a substantial contraction in the issuance volume of RMBS. According to FHLMC, the average 30-year fixed mortgage loan

As shown in Table 1, for the five years ended 2023, U.S. insurers' exposure to private-label RMBS increased, while exposure to agency RMBS decreased. Agency RMBS, however, have consistently accounted for the larger proportion of the two

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Agency RMBS increased 13% to $268.8 billion at year-end 2023 from $237.1 billion in 2022. However, for the five years ending 2023, exposure to agency RMBS decreased by 9%, and agency RMBS have become a smaller proportion of total RMBS exposure (as shown in Table 1). This may be attributed to the lower yields on government-sponsored bonds being less attractive than those of comparably rated private-label RMBS and other structured investments, along with other economic and market-related factors.

U.S. insurers' allocation to agency RMBS decreased for life companies and increased for P/C companies from year-end 2022 to year-end 2023. Almost half of U.S. insurers' exposure to agency RMBS was held by life companies2 of trending down to the 2% preferred level. Consequently, mortgage issuance has decreased in part due to high rates being unattractive for borrowers. In 2023, private-label RMBS new issuance totaled about $65.5 billion according to the Housing Finance Policy Center's monthly chartbook (Housing Finance), down from $103.9 billion in 2022 and just under $200 billion in 2021. Through February 2024, private-label RMBS new issuance was about $15 billion.

Agency RMBS new issuance totaled about $1.0 trillion in 2023, according to Housing Finance, down from about $1.7 trillion in 2022 and $3.5 trillion in 2021. Through February 2024, new issuance for agency RMBS was $139.4 billion. Mortgage loan new issuance may continue to be negatively impacted by high inflation and elevated interest rates. However, according to data from the Federal Reserve Bank of St. Louis, delinquencies on single-family residential mortgages were under 2% as of the fourth quarter of 2023, evidencing a relatively sound credit environment.

The NAIC Capital Markets Bureau will continue to monitor trends with RMBS and report as needed.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.