MORTGAGE EXPERIENCE ADJUSTMENT
LR003

MORTGAGES
LR004

Basis of Factors

Mortgages in Good Standing
The pretax factors for commercial mortgages were developed based on analysis using the Commercial Mortgage M

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 Column (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		Description / explanation of item

(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon, 3 = full I/O 4 = partial I/O, then amortizing
(36)	Rolling Average NOI	Computation	For 2013 100% of NOI For 2014 65% NOI + 35% NOI Prior For 2015 50% NOI + 30% NOI Prior + 20% NOI 2nd Prior For loans originated or valued within the current year use 100% NOI. 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

The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year 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)

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 leae.and nybe ibe i nd uapa-3( )-2(e.)-5and nd14.14 475.66 Tm [<00B3>-5<TJ ET BTuapa-3

CM3	DSC < 095	and	55%	85%
CM3	0.95 1.15	and	75%	100%
CM3	1.15	and	100% LTV	
CM4	DSC < 0.95	and	85%	105%
CM4	0.95	and	100%	
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 1.85	and	LTV < 70%
CM2	1.85 DSC	and	60% 115%
CM3	0.90 1.45	and	80%
CM3	1.45 1.85	and	70% LTV
CM3	1.85 DSC	and	115% LTV
CM4	DSC < 0. 90	and	LTV < 90%
CM4	0.90 1.10	and	80% 90%
CM4	1.10 1.45	and	80% LTV
CM5	1.10 DSC	and	90%

(Figure 6)

Farm Mortgages (Agricultural Loans)

Timber Farm & Ranch

			1, 2, 3, 4, 5 and 6 below.
(17)	Interest rate	Input	Enter the Annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of thecurrent month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate.

(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)

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 ded in this on

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 ... insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the ... column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizt02>-1 Tm [( )35-5(an)1 0 0 1 497.35 555.18(o)-5(lid)-3(aa)4(o)-5(n)gdaao