



The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published [NAIC Capital Markets Bureau Special Reports](#) are available via its webpage and the NAIC archives (for reports published prior to 2016).

U.S. Insurers' Exposure to Residential Mortgage-Backed Securities Increases Double-Digits in 2023

Analysts: Jennifer Johnson, Jean-Baptiste Carelus, and George Lee

Executive Summary

- At year-end 2023, U.S. insurers' investment in residential mortgage-backed securities (RMBS), including both agency-backed (agency) and non-agency-backed (private-label), increased by 13% from year-end 2022 and totaled about \$386 billion in book/adjusted carrying value (BACV).
- Total RMBS were about 4.5% of total cash and invested assets, a slight increase from the year prior.
- For the five years ended 2023, however, U.S. insurers' exposure to total RMBS decreased by 1% due in part to economic factors and trends in the mortgage new issuance market.
- Agency RMBS, or those collateralized by loans backed by U.S. government or government-sponsored entities, totaled about \$269 billion, while private-label RMBS totaled about \$117 billion BACV at year-end 2023.
- More than 90% of U.S. insurers' private-label RMBS were held by life companies, while life and property/casualty (P/C) companies evenly split the percentage of agency-backed RMBS.
- U.S. insurers' exposure to all RMBS mainly carried NAIC 1 designations, implying the highest credit quality, mitigating concerns of credit risk.

Residential mortgage-backed securities (RMBS) are reported by U.S. insurers as structured securities investments, and they may be agency-backed (agency) or non-agency-backed (private label). The timely payment of interest and principal on agency RMBS either carry the Government National Mortgage Association (GNMA) guaranty that is backed by the full faith and credit of the U.S. government or are guaranteed by U.S. government-sponsored entities (GSEs), such as Federal Home Loan Mortgage Corp. (FHLMC) or the Federal National Mortgage Association (FNMA). In contrast, private-label RMBS are issued by other private, non-government financial institutions, such as banks. As such, private-label RMBS bear



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

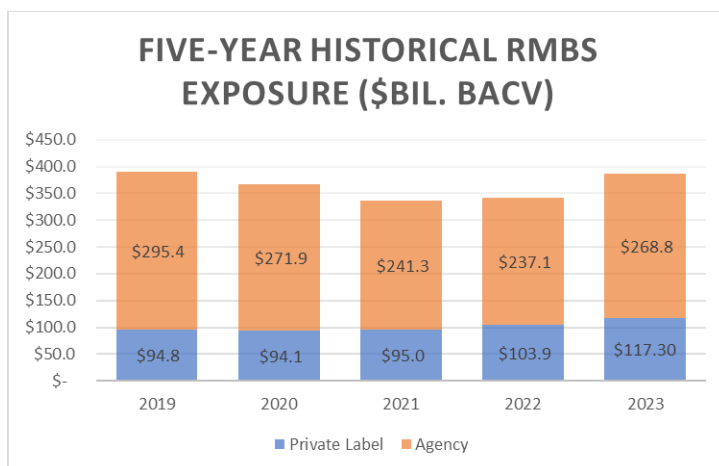
In what was a lower-for-longer interest rate environment that existed pre-2022 and similar to other structured securities, RMBS were an attractive alternative to traditional bond investments given their higher yields for comparable ratings, particularly for private-label RMBS. As the Federal Reserve (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 rate increased to an average of 6.81% in 2023 from 5.34% in 2022. Due in part to the attractive yield opportunities and benign credit environment, U.S. insurers' investment in both private-label and agency-backed RMBS increased by double digits from year-end 2022 to year-end 2023.

U.S. Insurers' RMBS Exposure Increases

At year-end 2023, U.S. insurers' exposure to all RMBS totaled \$386.1 billion at year-end 2023, a 13% increase from \$341 billion at year-end 2022. It was also 4.5% of U.S. insurers' total cash and invested assets, a small increase from 4% at year-end 2022. In addition, on an aggregate basis, 98% of all RMBS held by U.S. insurers carried NAIC 1 designations at year-end 2023. Life companies accounted for 54% of total RMBS exposure, followed by property/casualty (P/C) and health companies with 37% and 9% of total RMBS exposure, respectively.

Despite the current year-over-year (YOY) double-digit increase, for the five years ended 2023, U.S. insurers' exposure to RMBS (agency and private label) was relatively unchanged from 2019 to 2023. As shown in Chart 1, the majority of U.S. insurers' RMBS exposure, for at least the five years ended 2023, has been agency-backed.

Chart 1:





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, at almost three-quarters of total exposure to RMBS each year. For the five-year period, agency RMBS averaged about 73% of the total.

Table 1: Historical Percentage of Private Label RMBS Vs. Agency RMBS, 2018-2023

	Private Label	Agency
2018	25%	75%
2019	24%	76%
2020	26%	74%
2021	28%	72%
2022	30%	70%
2023	30%	70%

Private Label RMBS Exposure Mostly Highest Credit Quality and With Life Companies

U.S. insurers' exposure to private-label RMBS was relatively unchanged between 2018 and 2021 but began to rise in 2022 and more so in 2023. From 2018 to 2023, U.S. insurers' exposure to private-label RMBS increased by about 21%. In addition, U.S. insurers' exposure to private-label RMBS increased by 13% to \$117.4 billion at year-end 2023 from \$104 billion at year-end 2022. Similar to years prior, private-label RMBS were predominantly held by life companies, at about 75% of the total at year-end 2023, which was a slight decrease from 76% at year-end 2022, even though the book/adjusted carrying value (BACV) experienced a YOY increase of about \$10 billion. (Refer to Table 2). P/C companies' exposure increased to \$25.6 billion at year-end 2023 from \$22.0 billion at year-end 2022 and accounted for about 22% of total exposure at year-end 2023. Also similar to the prior year, about 94% of U.S. insurers' private-label RMBS exposure carried NAIC 1 designations, implying the highest credit quality. The remainder was mostly in securities carrying NAIC 2 designations, implying high credit quality and mitigating concerns of credit risk.

Table 2: U.S. Insurers' Private-Label RMBS Exposure, Year-End 2022 and 2023

Industry Type	YE 2023	% of Total	YE 2022	% of Total
Life	\$ 88.1	75%	\$ 78.6	76%
P/C	\$ 25.6	22%	\$ 22.0	21%
Health	\$ 3.7	3%	\$ 3.4	3%
Total	\$ 117.4	100%	\$ 104.0	100%

The majority of U.S. insurers' exposure to private-label RMBS matures in more than 20 years, at 72% of the total, which is not surprising given the long-term nature of the underlying mortgage loans and the asset-liability match for life companies. Overall, 97% of U.S. insurers' private-label RMBS mature in more than 10 years. Note that the structure's amortization feature, along with prepayments, may result in the expected maturity (or duration) of RMBS to be shorter than the stated maturity.



Agency RMBS Exposure Evenly Split Between Life and P/C Companies and Almost All Highest Credit Quality

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 companies at year-end 2022, but for year-end 2023, it was evenly split at 44% for life and P/C companies. (Refer to Table 3). Note that at year-end 2021, life companies accounted for 55% of agency RMBS exposure, evidencing a trend in life companies shifting away from agency RMBS investments. Countering the decrease in life companies' exposure has been an increase in P/C companies' exposure. That is, P/C companies' exposure to agency RMBS has increased from 37% of total agency RMBS at year-end 2021. All agency RMBS held by U.S. insurers at year-end 2023 carried NAIC 1 designations, implying the highest credit quality. During periods of economic uncertainty, investors, including U.S. insurers, tend to seek investments in government bonds or those backed by the U.S. government, which may be a reason for the YOY increase for P/C companies (as they may have represented "safer," attractive yield opportunities).

Table 3: U.S. Insurers' Agency RMBS Exposure, Year-End 2022 and 2023

Industry Type	YE 2023	% of Total	YE 2022	% of Total
Life	\$ 119.6	44%	\$ 114.3	48%
P/C	\$ 119.0	44%	\$ 96.1	41%
Health	\$ 29.9	11%	\$ 25.8	11%
Title	\$ 0.7	0%	\$ 0.8	0%
Total	\$ 269.1	100%	\$ 237.0	100%

At year-end 2023, about 76% of agency RMBS held by U.S. insurers had a scheduled maturity of more than 20 years, an increase from 71% at year-end 2022, and 94% mature in more than 10 years. This trend, in part, is a function of the underlying mortgage loan duration and the asset-liability match for U.S. insurers, particularly for life companies.

Mortgage Market Trends

Mortgage rates continue to remain elevated compared to prior years as a result of the Fed increasing the federal funds rate to between 5.25% and 5.5% as of July 2023, which is also a 23-year high and where it currently remains. The robust pace of economic growth and higher-for-longer inflation may cause the Fed to keep the federal funds rate at this current range for the remainder of this year. However, it could begin to reduce rates if economic trends demonstrate a reason to do so, such as the inflation rate showing signs



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.

The views expressed in this publication do not necessarily represent the views of the NAIC, its officers or members. NO WARRANTY IS MADE, EXPRESSED OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

© 1990 – 2024 National Association of Insurance Commissioners. All rights reserved.