NAIC updates in response to COVID-19

Global Insurance Solutions

As of April 2020

AS FEDERAL AND STATE REGULATORS ENCOURAGE LENDERS TO WORK WITH BORROWERS WHO ARE UNABLE TO, OR MAY BECOME UNABLE TO, MEET THEIR CONTRACTUAL PAYMENT OBLIGATIONS BECAUSE OF THE EFFECTS OF COVID-19, THE NAIC HAS ADOPTED TEMPORARY EXEMPTIONS TO EXISTING STATUTORY GUIDANCE TO MINIMIZE THE NEGATIVE ACCOUNTING EFFECTS NORMALLY ASSOCIATED WITH TROUBLED DEBT RESTRUCTURINGS AND LOAN-RELATED IMPAIRMENTS.

TEMPORARY RELIEF RELATED TO TROUBLED DEBT RESTRUCTURINGS

SSAP 36—*Troubled Debt Restructuring* provides guidance in determining whether a debt restructuring is considered a troubled debt restructuring. The Statutory Accounting Principles Working Group (SAPWG) adopted temporary guidance[1] that suspends the accounting requirements under SSAP 36 for loan modifications (for mortgage loans and bank loans) related to the COVID-19 pandemic that would otherwise be categorized as a troubled debt restructuring.

It covers loan term modifications including forbearance arrangements, interest rate modifications, repayment plans and other similar arrangements that defer or delay the payment of principal or interest for a loan that was not more than 30 days past due as of December 31, 2019. This exemption parallels the guidance outlined in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), and will only be applicable for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the *National Emergencies Act* ends.

IMPAIRMENT ASSESSMENTS ON LOANS AND LOAN-BACKED INVESTMENT PRODUCTS

SAPWG has also adopted temporary guidance[2] to address the impact of loan forbearance or modifications on the statutory accounting and reporting requirements for bank loans, mortgage loans and investment products with underlying mortgage loans.[3] The temporary guidance provides a limited-time exemption from assessing impairment on the aforementioned instruments due to short-term deferral or modifications of interest or principal payments in response to COVID-19.

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FOR MORE INFORMATION

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[1] INT 20-03: Troubled Debt Restructuring Due to COVID-19.

[2] INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19.

[3] This includes mortgage-backed securities (MBS), mortgage-backed mutual funds and Schedule BA investments that have underlying characteristics of mortgage loans.

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The temporary exemption would not delay the recognition of other than temporary impairments (OTTI) if the entity made a decision to sell the investment and/or if provisions other than the limited-time forbearance or modifications of loan terms caused an insurer to identify that they would not recover the reported carrying value of the investment. These exemptions are applicable for 1st and 2nd quarter financial statements and will be reevaluated by the NAIC in August 2020 to assess whether an extension should be considered for subsequent reporting periods.

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