

Mortgage Market Volatility Impact Seen Light On Insurers

by National-Underwriter

The volatility roiling the residential real estate market and the economy in general may impact the commercial mortgage markets, according to several industry sources.

But reverberations for insurance companies should be minor, they said.

The International Council of Shopping Centers, New York, at a Jan. 15 press conference noted there were 150,000 store closings in 2008, and that number was likely to be matched in 2009.

The first and second quarters of 2009 will track the sharp decline in fourth-quarter 2008, but 2009 will be a "transition year," according to Michael Niemira, ICSC vice president, chief economist and director of research.

But the commercial real estate story, he explained, is largely dependent on available credit, and currently "we are upon the worst of times" with "extremely tight standards to borrow."

With the commercial mortgage-backed securities market "drying up," \$250 billion in funding capacity was lost between 2007 and 2008, Mr. Niemira noted.

The key issue, he added, is whether lending facilities will be forthcoming in 2009.

On Jan. 14, the U.S. Census Bureau reported a 2.7 percent decline in advance estimates of U.S. retail and food services sales in December.

And research conducted by CB Richard Ellis, New York, indicated that the national office vacancy rate increased to 14.7 percent in fourth-quarter 2008 from 14.1 percent in the previous quarter and 12.8 percent in the 2007 fourth-quarter period.

Insurers have small exposure to commercial mortgage-backed securities relative to their total net admitted assets, according to 2007 financial statements.

And any negative impact on companies will very much depend on the ratings of the securities held in those CMBS portfolios, according to Doug Meyer, a managing director with Fitch Ratings, Chicago.

Defined multiclass residential mortgage-backed securities are those securities that are first liens and are rated in one of the two highest categories (i.e., "AAA" or "AA") by a Nationally Recognized Statistical Rating Organization (NRSRO) that is recognized by the Securities Valuation Office, a New York-based securities rating arm of the NAIC.

Other multiclass residential mortgage-backed securities are those securities that are not first liens or, if secured by first liens, are rated below "AAA" or "AA."

Total CMBS holdings for the top 25 ranged from no holdings for Riversource Life Ins. Co., Minneapolis, to a high of 11 percent of net total admitted assets held by Allstate Life Ins. Co., Northbrook, Ill.

An Allstate spokesperson referred to the company's Securities and Exchange Commission filing indicating that in 2008, the company took action to reduce exposure to these securities.

Allstate notes in its form 10Q that it reduced its holdings in mortgage-backed securities, CMBS and other securitized obligations to \$24.79 billion as of Sept. 30, 2008 from \$31.54 billion as of Dec. 31, 2007.

In addition, Allstate noted that as of Sept. 30, 2008, CMBS, excluding CRE CDOs, had a par value of \$5.98 billion, an amortized cost of \$5.86 billion, primarily the result of write-downs, and a fair value of \$5.09 billion.

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