The CRE Finance Council and Trepp Release Preliminary Survey Results for Second-Half 2017 Insurance Company Investment Performance

NEW YORK CITY (June 25, 2018) – The CRE Finance Council (CREFC) and Trepp, LLC today released the preliminary results of the CREFC & Trepp Insurance Company Investment Performance Survey for the second-half of 2017. The biannual survey tracks the performance of commercial mortgage investments across 23 insurance companies with a combined $217 billion in loan exposure. Tom Fink, Senior Vice President and Managing Director of Trepp, presented a detailed analysis of the results to the Portfolio Lenders Forum at CREFC's 2018 Annual June Conference in New York**.**

"The CREFC & Trepp Insurance Company Performance Survey provides data and performance metrics that aren't readily available to the market. For the participating insurance companies, it offers an opportunity to provide additional transparency in the sector's role in the commercial real estate lending landscape. For the sector as a whole, the survey helps quantify emerging trends in insurance company commercial real estate lending and assists in benchmarking the performance measurements necessary for optimal asset allocation," said Marcia Diaz, chair of the CREFC Portfolio Lenders Insurance Company Sub-Forum.

As with previous surveys, respondents contributed data from their general accounts and subsidiaries in order to fully capture the performance of any sub-performing or non-performing loans in these entities.

"CREFC is pleased to work with the Trepp team once again on this important insurance company commercial real estate lending survey. This very useful survey represents an important benchmarking tool for many in the industry," added Lisa Pendergast, executive director of CREFC. "Our biyearly survey showcases how life company portfolio lenders are performing and collectively we're happy to see another strong performance for the second half of last year."

Insurance companies reported continued strong performance and increased allocations to commercial mortgages during the second-half of 2017. The next iteration of the CREFC & Trepp Insurance Company Investment Performance Survey, covering data for the first half of 2018, will be released at CREFC's Miami Conference in January 2019.

Key results from the Insurance Company Investment Performance Survey include:

- **Mortgage Exposure Held:** Commercial mortgage holdings averaged 11.72% of total invested assets for survey participants at the end of 2017. This was a 52-basis point increase from year-end 2016, indicating increased allocations to commercial mortgages. Individual company holdings ranged from a high of 18.39% to a low of 4.00%.

- **Total Realized Net Losses:** Insurance company loan portfolios continue to experience lower losses and perform better than the commercial mortgage-backed securities (CMBS) and commercial bank sector loans. Realized net losses in the general accounts and subsidiary entities of survey participants totaled 0.005%. In contrast, CMBS and commercial banks experienced losses of 1.43% and 0.02%, respectively, as of the second-half of 2017.

- **Delinquencies:** Total insurance company loan delinquencies (30 days or greater) decreased during the second-half of 2017. Delinquencies recorded by survey participants within their general account holdings and subsidiary entities averaged 0.01% as of year-end 2017, slightly down from year-end 2016. Contrary to end of Q4 2016 when most delinquencies fell into the 90+ days category, year-end Q4 2017 delinquencies were distributed across all of the categories.

- **Problem Loans:** The percentage of problem loans (90 or more days delinquent) decreased during the second-half of 2017. Problem loans totaled 0.001% in the second-half of 2017, down about four basis points from year-end 2016. However, the delinquency rate for the insurance sector continues to remain low compared to CMBS and banks, with rates at 4.81% and 0.50%, respectively, for the same period.

- **Actions Taken on Problem Loans:** Compared to 2016, insurance companies used fewer options to resolve troubled assets in 2017. For realized losses reported in this survey, 63.38% were generated by distressed note sales, 34.41% were from foreclosure and only 2.21% from discounted payoff. Past action types, including non-distressed sale, restructured loans, and write downs, saw no usage in 2017. In 2016, these action types accounted for a total of 25.16% of realized losses.

- **Other Portfolio Statistics:** As of Q4 2017, the average loan-to-value (LTV) ratio on loans held within the participating company portfolios increased to 53.17% from 51.08% at year-end 2016. Only 0.3% of the loan exposures had an LTV ratio greater than 100%. The average debt service coverage ratio (DSCR) for the portfolios was 2.16x as of Q4 2017, which is a two-basis point increase over the year-earlier level.

- **New Originations:** Survey participants added $44.37 billion of new mortgages in 2017. This is approximately a $3.4 billion increase over year-end 2016 when total new originations were at $41.00 billion. 91.52% of the new originations were fixed-rate loans and 92.18% of the new originations came from "New Business/Financing," which could include refinancing of maturing loans from other lenders. The New Business breakout represents a decrease of approximately 3% from 2016, while the fixed-rate allocation remained unchanged. In 2017, the property type distribution for new originations indicated increases in office and industrial exposures with a decrease in retail exposure. Office and multifamily comprised 24.56% and 30.63% of the total originations, respectively, compared to 22.54% and 30.71% in 2016. Retail and industrial loans each represented 18.53% and 20.24%, respectively, compared to 21.24% and 18.92% in 2016. The weighted average LTV reported for the new originations increased to 56.90% from 56.40% in 2016, while the weighted average DSCR ticked up slightly to 2.13x from

2.12x in 2016. The overall credit quality of insurance companies' mortgages, as measured by the new Commercial Mortgage (CM) Test Scores, appears to be good. Based on data collected on approximately 68% of the new originations, a vast majority (93.78%) of participants maintained a high concentration in both CM1 and CM2 categories.

Contact:

Brendan Beaver	Keegan St. Onge-May
CREFC Media Relations	Marketing Director, Trepp, LLC
(646) 576-4111	(212) 754-1010
pr@crefc.org	Keegan_Stongemay@trepp.com

About CRE Finance Council

The CRE Finance Council (CREFC) is the trade association for lenders, investors and servicers engaged in the $3.9 trillion commercial real estate finance industry. More than 300 companies and 9,000 individuals are members of CREFC. Member firms include life company and bank balance-sheet lenders, securitized lenders, alternative, high-yield lenders, loan and bond investors, private equity firms, servicers and rating agencies, among others. CREFC promotes capital formation, encouraging commercial real estate finance market efficiency, transparency and liquidity. CREFC also acts as a legislative and regulatory advocate for the industry, plays a vital role in setting market standards and provides education for market participants in this key sector of the global economy. CREFC affiliates operate in Canada, Europe and Japan. For more information, please visit our website.

About Trepp, LLC

Trepp, LLC is the leading provider of information, analytics and technology to the CMBS, commercial real estate and banking markets. Trepp provides primary and secondary market participants with the tools and insight they need to increase their operational efficiencies, information transparency and investment performance. For more information, visit www.trepp.com.