

MORTGAGE EXPERIENCE ADJUSTMENT

LR003

Basis of Factors

In the absence of a quality rating system, the formula includes a moving eight quarter average ratio of company to industry experience with minimum and maximum limits. This experience adjustment is defined and calculated to be consistent with the adjustment that is used to calculate the asset valuation reserve. The experience adjustment factor (EAF) is the moving average of the company's normalized loss ratio divided by the moving average of the industry. Refer to the asset valuation reserve instructions found in the *Annual Statement Instructions for Life, Accident and Health* for a detailed description of the calculation.

Specific Instructions for Application of the Formula

Line (1)

Rapidly growing or immature mortgage loan portfolios are unlikely to have developed any meaningful delinquency experience. Until a company has five years of applicable mortgage experience, the adjustment factor is 100 percent.

Lines (2) through (10)

Refer to previous Annual and Quarterly Statements when calculating the normalized loss ratio. Companies not required to file a Quarterly Statement will calculate the Experience EAF as if Quarterly Statements had been prepared. Only amounts for farm and commercial mortgages should be entered.

Line (11)

The Company Normalized Loss Ratio represents the eight quarter average ratio using the individual company ratios calculated on Lines (2) through (10).

Line (12)

The Industry Normalized Loss Ratio is calculated by the NAIC and represents the eight quarter average ratio compiled using all life companies.

Line (13)

The mortgage experience adjustment factor is calculated by taking the ratio of average Company Normalized Loss Ratio [Line (11)] to average Industry Normalized Loss Ratio [Line (12)], with an upper and lower limit. The lower limit is 50 percent and the upper limit is 350 percent (companies with less than five years of experience are set at 100 percent). For year-end 2010, ~~and 2011~~, and 2012 only, the lower limit is 80 percent and the upper limit is 175 percent.

Column (5)

Amounts reported in this column should be year-to-date balances, not the activity for the current quarter.

Column (7)

For Lines (3), (5), (6), (7), (9) and (10) the formula for calculating Column (7) is:

[0.010 multiplied by the average of [Column (2) current quarter plus Column (2) previous quarter]
plus 0.020 multiplied by the average of [Column (3) current quarter plus Column (3) previous quarter]
plus 0.025 multiplied by the average of [Column (4) current quarter plus Column (4) previous quarter]
plus 0.120 multiplied by [Column (5) current quarter less Column (5) previous quarter]]
divided by

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(1)

(1) Does the company have 5 plus years of mortgage experience? Enter "Yes" or "No."

	(2) Farm and Commercial Mortgages With Restructured Terms	(3) Farm and Commercial Mortgages 90 Days Overdue	(4) Farm and Commercial Mortgages In Process of Foreclosure	(5) Year-to-Date Farm and Commercial Mortgages Transferred to Real Estate	(6) Farm and Commercial Mortgages In Good Standing	(7) Ratio†
(2) September 2009						xxxxxxx
(3) December 2009						
(4) March 2010						‡
(5) June 2010						
(6) September 2010						
(7) December 2010						
(8) March 2011						‡
(9) June 2011						
(10) September 2011						

(11) Company Normalized Loss Ratio (Average of Column (7) Lines (3) through (10))

(12) Industry Normalized Loss Ratio (Provided by the NAIC) §

(13) Mortgage Experience Adjustment Factor for Mortgages in Good Standing

Company Normalized Loss Ratio Line (11) divided by Industry Normalized Loss Ratio Line (12) (not more than 350 percent nor less than 50 percent)
(For year-end 2010 ~~and 2011~~, and 2012 only, Line (13) will be not more than 175 percent nor less than 80 percent)

† Column (7) calculation for quarterly amounts:
 [0.010 multiplied by the average of [Column (2) current quarter plus Column (2) previous quarter]
 plus 0.020 multiplied by the average of [Column (3) current quarter plus Column (3) previous quarter]
 plus 0.025 multiplied by the average of [Column (4) current quarter plus Column (4) previous quarter]
 plus 0.120 multiplied by [Column (5) current quarter less Column (5) previous quarter]]
 divided by
 [the average of [Columns (2), (3), (4) and (6) current quarter plus Columns (2), (3), (4) and (6) previous quarter]
 plus one-half of [Column (5) current quarter less Column (5) previous quarter]]

‡ Column (7) calculation for first quarterly amounts:
 [0.010 multiplied by the average of [Column (2) current quarter plus Column (2) previous quarter]
 plus 0.020 multiplied by the average of [Column (3) current quarter plus Column (3) previous quarter]
 plus 0.025 multiplied by the average of [Column (4) current quarter plus Column (4) previous quarter]
 plus 0.120 multiplied by Column (5) current quarter]
 divided by
 [the average of [Columns (2), (3), (4) and (6) current quarter plus Columns (2), (3), (4) and (6) previous quarter]
 plus one-half of Column (5) current quarter]

§ The **2011** Industry Normalized Loss Ratio will be available December **2011**.

Denotes items that must be manually entered on the filing software.