Insurers and Real Estate Credit

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Summary: Three Facts

- Life insurers hold ~$650B of CRE mortgages
  - >20% of CRE mortgage debt (banks + insurers)
- Insurers offer longer maturities, lower LTV
  - 66% of loans >15Y
  - Median LTV 0.55 vs. 0.64 at banks
- Earn ~100 bps > agency CMBS, ~50 bps over non-agency
  - Compensation for credit risk, illiquidity, origination & monitoring

Summary: Rates ↑ → Insurers CRE Lending ↑

- MP tightening: banks cut lending & raise loan rates
- Insurers: originations ↑, spreads ↓ → supply ↑
- *Market channel*: insurers lend more where banks retrench
- *Balance sheet channel*: 10-year rates ↑ → mismatch ↓
  - Concentrated in ≤10Y loans, where banks dominate
- Say, insurer promises to pay $100 in 20 years

Step	**Calculation**	**Value**
Needed today for $100 in year 20, at 4%	$100 / 1.04^{20}$	$45.6
Grows at 4% in the first 5Y bond	45.6×1.04^{5}	$55.5
Reinvested at 3% for 15 years	55.5×1.03^{15}	$86.5
If rates had stayed at 4%	55.5×1.04^{15}	$100.0

Consistent with Ge and Li (2026 hopefully)

- When long rates ↑, insurers buy shorter corporate bonds
- Firms with high insurer demand issue shorter bonds at higher spreads
- They also invest in shorter-lived assets
- Same balance-sheet logic as the ≤10Y mortgage tilt here

Why Is This Important?

- CRE: >$5T of mortgage debt, 2nd largest collateralized credit market
- Insurers' whole loans 3x since 2004
- Insurers are holding more opaque, illiquid investments
- Monetary transmission: insurers offset bank channel
- Financial stability: who holds CRE risk when rates rise?

Overall

- Important questions:
  - who supplies CRE credit
  - the effect of monetary policy
  - interaction with bank
- Novel results
- Convincing results, careful empirics
- Clear writing
- Great paper!
- Clear R&R! Now I will pretend to be the other referee…

Real effects?

- If insurers' investment has a local bias
- Do insurers sustain local CRE development when banks pull back?
- Fewer CRE delinquencies and forced sales at lower prices when rates increase?

Different CRE Projects?

- Insurers: $10.5M avg. loan, lower LTV, stabilized properties
- Banks: smaller loans, higher LTV, construction & land loans

- Do monetary policies affect *demand* by these projects differently?
- Suggestions
  - Ideal: follow the same building switching between insurers & banks

- Implications on effects: substitution may be incomplete

Are the New Loans Riskier?

- As rates ↑, insurers lend more at lower spreads while banks retrench
- Winner's curse?
- Lower-RBC insurers respond more
- Suggestions
  - Ex-post performance of loans made after tightening
  - Office after recent tightening?

Is Reaching for Yield Another Mechanism?

- Explain shift to CRE:
- Rates ↑ → Reserves ↓ → statutory capital ↑
- More capital → more room for assets with higher capital charges & higher risks, like CRE mortgages (Ge & Weisbach 2021)
- Need to know what insurers switch out of to invest in CRE?

- Explain tilt towards shorter CRE mortgage
- Low rates → extend maturity to get the term premium
- High rates → short assets meet the yield target → short loan ↑

Are Bank Loan Rates Net of Interest Rates?

Banks raise rates, insurers cut spreads

- Insurers: spread over matched Treasury, Δ Treasury controls
- Banks: Δ(interest income / loans)?
- Bank loan rates ↑ 5–6 bps after tightening (Table 4, col. 4)
  - "A large fraction of bank CRE is itself floating-rate
- You also don’t need to make this point; quantity is enough

Summary

- Important question, novel findings, convincing empirics
- Great paper!

- **Suggestions:**
- Real effects?
- Different projects: follow the building across lenders
- Riskier loans? Ex-post performance
- Mechanism: reaching for yield?