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Operator

Randy Binner *FBR - Analyst*

Kenneth Lee *RBC Capital Markets - Analyst*

Mark Hughes *SunTrust - Analyst*

Alex Scott *Evercore ISI - Analyst*

PRESENTATION

Operator

Welcome to the American Equity Investment Life Holding Company's Second Quarter 2016 Conference Call. At this time for opening remarks and introductions, I would like to turn the call over to Julie LaFollette, Director of Investor Relations.

Julie LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Good morning, and welcome to American Equity Investment Life Holding Company's conference call to discuss second quarter 2016 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com. Presenting on today's call are John Matovina, Chief Executive Officer; Ted Johnson, Chief Financial Officer; and Ron Grensteiner, President of the American Equity Investment Life Insurance Company.

Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. There are number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause the actual results to differ materially are discussed in detail on our most recent filings with the SEC. An audio replay will be available on our website shortly after today's call.

It is now my pleasure to introduce John Matovina.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

Thank you, Julie. Welcome and thank you for joining us on our second quarter earnings conference call. Our second quarter financial results had a similar tone as the first quarter. Sales were strong again at $2.1 billion, and that marks the third consecutive quarter that we exceeded the $2 billion sales threshold. Our policy holders now entrust us with over $43 billion of their funds, a 2.6% increase from the prior quarter end. We also enhanced our shareholders' wealth by generating solid profitability and high returns on equity.

Our operating income for the quarter was $50.1 million or $0.60 per diluted common share. And on a trailing 12-month basis that would translate into a 10.1% operating return on average equity, and if we exclude the effects of DAC unlocking, the return on equity bumps up to 12.3%. Furthermore, earlier this week we strengthened our capital position by physically settling our two equity forward sales agreements and that generated $135 million of additional capital at an attractive valuation.

Before I turn the call over to Ted, I'd also like to mention a change that should be visible to you all. We are always looking to strengthen our team and earlier this week, Steven Schwartz joined us as Vice President, Investor Relations. Many of you know, Steven from his prior role as Life Equity Research Analyst at Raymond James, where he covered American Equity for more than 12.5 years. Needless to say he won't have much of a learning curve in his new position with us and we're delighted to have him at American Equity.

So now let me turn the call over to Ted for additional comments on second quarter financial results.

Ted Johnson - *American Equity Investment Life Holding Company - Chief Financial Officer, Treasurer*

Thank you, John. Our operating income of $50.1 million for the second quarter was 2% lower than second quarter 2015 operating income of $50.9 million. On a per share basis, the amounts were $0.60 and $0.64 per diluted common share respectively. Much of the increase in spread earnings attributable to a larger volume of business in force was offset by higher amortization of deferred policy acquisition costs and deferred sales inducements and an increase in operating expenses, which was largely attributable to increased reinsurance risk charges associated with the larger volume of business in force.

Our investment spread for the second quarter was 2.62% compared to 2.65% last quarter and 2.84% for the second quarter of 2015. The average yield on invested assets declined 4 basis points from last quarter, while the cost of money declined 1 basis point. Average yield on invested assets continued to be unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate and high cash balances. The average yield on fixed income securities purchased and commercial mortgage loans funded in the second quarter was 3.95% compared to 4.14% in the first quarter and average yields ranging from 3.73% to 4.03% in the prior year's quarters. The average balance for cash and short-term investments was $1.1 billion during the quarter and that's compared to $807 million in the first quarter and $476 million in the fourth quarter of 2015. The unfavorable impact from these items was partially offset by fee income from bond transactions and prepayment income, which added 4 basis points to second quarter average yield on invested assets compared to 8 basis points for such items in the first quarter. The aggregate cost of money for annuity liabilities was 1.92% in the second quarter, compared to 1.93% in the first quarter. This decrease reflected continued reductions in crediting rates.

We have been counteracting the impact of lower investment yield by reducing the rates on our policy liabilities, but the impact on the cost of money from these reductions have been less than the impact on average yield on invested assets from investment purchases by a few basis points. Substantially all of our previous renewal rate adjustments were implemented by the end of the second quarter and new adjustments covering approximately $16 billion to $17 billion of a policyholder account values will begin on September 1, 2016.

On an individual policy basis, the effect of these adjustments on the cost of money ranges from 10 basis points to 40 basis points. In addition, there are $7.4 billion of policyholder account values that will be evaluated for renewal rate adjustments that would begin in the beginning of December. These changes are expected to reduce a portion of the 52 basis points cost of money differential between existing rates and the guaranteed minimums we had at the end of the second quarter.

Market conditions changed at the end of the second quarter, following the Brexit vote and those conditions have persisted in the third quarter. Investment yields available to us in the third quarter have been significantly lower and we invested approximately $875 million in July at a weighted average rate of 3.33%. Investment yields at these levels will continue to put downward pressure on our investment spread and that of our competitors, as well as new money rates and product terms. We have already observed new money crediting rates and product term adjustments from several of our competitors and expect to announce changes to our new money rates and product terms in the near future.

Other operating costs and expenses were $26.8 million in the second quarter compared to $26.8 million in the first quarter and $24.9 million in the second quarter of 2015. The increase in operating expenses compared to the prior year second quarter was primarily due to $2 million of additional reinsurance risk charge expense due to growth in our policyholder liabilities, subject to our reinsurance agreement pursuant to which we cede off excess regulatory reserves to an unaffiliated reinsurer.

Our estimated RBC ratio at 312% is down from 320% at the end of the first quarter, and 336% at the end of last year. The second quarter decrease in the RBC ratio was largely attributable to continued growth. We estimate the impact on our RBC ratio from ratings drift for securities and the energy, metals and mining sectors was 1 point in the second quarter compared to 5 points in the first quarter. Earlier this week as John said we physically settled the two forward sales agreements from our August 2015 equity offering and received $134.7 million in net cash proceeds from the issuance of 5.6 million shares of our common stock.

On a pro forma basis, assuming the net proceeds were invested in securities with an NAIC 1 designation, the estimated RBC ratio at June 30 was 328%. Our capital planning in conjunction with the 2015 equity offering included two alternatives for maintaining adequate regulatory capital should sales growth outpaced the capital generated by the net cash proceeds from the equity offering in the forward sales agreements. The two alternatives were reinsurance solutions and issuing additional debt.

During the second quarter, the Company explored a reinsurance transaction with several potential reinsurance counterparties. Because the Company intended to partially fund the reinsurance transaction with cash and short-term investments, the pricing of the proposed transaction was negatively affected by the decline in investment yields following the Brexit vote in late June, and the Company decided not to proceed and suspended the proposed transaction.

Although the current outlook for sales has moderated, the Company is considering the issuance of additional debt within the parameters that would not jeopardize the Company's current ratings from rating agencies. Additional debt within these parameters would enhance the Company's financial flexibility and in the current interest rate environment makes it an attractive time for debt financing.

Now I will turn the call over to Ron, to talk about sales results.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Thank you, Ted. Good morning, everyone. As John mentioned early, our second quarter sales were $2.1 billion on a consolidated basis, up 17% from the second quarter of 2015, and equal to the first quarter of this year. American Equity Life had gross sales of $1.6 billion, down 6.5% from the second quarter of last year and down 4% from the first quarter of this year. Eagle Life had gross sales of $490 million for the second quarter, which is up from $75 million in the second quarter of last year and up from $416 million in the first quarter of 2016.

Looking specifically at American Equity Life, FIA premium represented 83% of its total or $1.3 billion. That is down from $1.5 billion from the first quarter. The competition was ultra-competitive in the guaranteed income space, two companies in particular, one company returned to the market after a brief exit, the other company was previously mid-pack relative to guaranteed income. During the second quarter they improved policyholder terms significantly to the point of becoming an outlier. They have since pulled back however.

In addition to competition the FIA market in general has softened a bit. LIMRA estimates that second quarter industry-wide FIA sales were the second strongest ever at $15.9 billion, but declined each month during the quarter. We had a similar experience with the pending application count declining over the second quarter. The peak was at 6,370 in mid-April and settled to 3,500 at the end of July, today it is 3,473.

Turning to Eagle Life, second quarter sales were $490 million, an 18% increase over the first quarter. FIA premiums were 39% of the total or $190 million, a slight increase over the first quarter. We had a Gold Star Day, July 26th, when Eagle Life crossed the $1 billion mark for 2016 sales; a great achievement considering the Company sold just over $500 million for all of 2015.

Pending at Eagle Life peaked in mid-April at 834 but settled back to average around 460 during May and June, today it's up again at 636. We now have 51 selling agreements in place with Eagle Life. We added three new ones since our last earnings call. One is a very notable broker dealer with 8,600 reps, another is a very notable bank with over 1,000 reps, both accounts are anxious to begin writing Eagle Life business and both of these accounts sell MYGAs and FIAs.

Finally, we increased our anchor accounts from four to six. Anchor accounts are those that write meaningful business for the Company. Last year we had two relationships that we considered anchor accounts, and when considering the American Equity Group of Companies, Eagle Life has the number 2 and the number 5 ranked distribution relationships.

Let me touch on Multi-Year Guaranteed Annuity sales or MYGA sales, since they were higher than usual this past quarter. MYGA sales at American Equity Life surged 60% in the second quarter to $251 million, Eagle Life MYGA sales were up 31% over the first quarter. To help avoid channel conflict between the two companies, both had the same MYGA rates until early June. However, our MYGA strategies are different for each company. At American Equity Life, we use the MYGA as a convenience product for our FIA producers. By keeping the rates competitive, we don't force them to seek out other companies, when a MYGA sale presents itself.

The MYGA is used more strategically at Eagle Life as a door opener into financial institutions where rate means everything. Eagle Life's goal is to pivot to FIA sales as we build relationships over time. Having an overly competitive MYGA products at American Equity Life, drew attention from some traditional MYGA producers, which caused American Equity Life's MYGA sales to surge in the second quarter. We have reduced rates to moderate MYGA sales at American Equity Life, but still be competitive.

I'll wrap up my remarks with a few observations on the Department of Labor's Fiduciary Rule, while we agree with the spirit of the DOL's efforts to reduce conflicts of interest that can arise in the sale of financial products, we questioned the efficacy of the structure they seek to impose. We believe the rule will reduce access to FIAs and that reducing access is fundamentally against the interests of individuals who want and need FIAs in their retirement accounts.

We are therefore participating with other FIA carriers and trade groups in legal challenges to the rule. We hope these challenges are successful in protecting the American retirees' access to important products that can help address the retirement crisis in America. However, if they're not, American Equity will be ready to implement the rule when it becomes effective in April of next year. We have engaged with several outside advisors and consultants and established several internal task force groups to help us identify issues and ensure compliance with the rule.

We also continue to work with our distribution partners to find solutions to the challenges to implementing the rule. The rule does favor sales of fixed-indexed annuities by broker dealers and banks, two channels that are already equipped to adapt to the rule's fiduciary requirements. Eagle Life continues to have success in these distribution channels and we are also developing a strategy to serve independent agents with high quality, declared rate annuities with Lifetime Income Benefit Riders that retirees find attractive.

And with that, I'll turn the call back over to John.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

Thank you, Ron and Ted. Despite the challenges we face from the low interest rate environment and the DOL fiduciary rule, we are a strong and resilient Company and are confident that we can adapt and thrive as our industry evolves. The Brexit vote in late June has led to further decline in investment yields and added to the challenges we face from the low interest rates. We are taking actions to manage our renewal rates, the effects of which will materialize over the next 12 to 15 months.

Changes to new money rates and product terms should also be announced in near future. A hallmark of our Company is its disciplined investment approach, which seeks to minimize credit risk. Despite the pressure from lower investment yields; we are not breaking our discipline in taking on excessive credit risks. One of our key promises to agents and policyholders is that policyholders can trust us with prudent management of their funds, and that we'll be operating and financially healthy for decades to come when those policyholders need their money.

While the DOL rule creates some uncertainty as to our long-term growth rate and the pace of that growth, it has not jeopardized the substantial earnings power of our in-force business; while a favorable outcome to legal challenges to the rule would remove this uncertainty, as Ron just discussed, we are positioning ourselves for continued success, should the rule not be delayed or overturned through litigation. And of course, we're not losing track of the fact that the rule does not apply to non-qualified sales of fixed-indexed annuities.

While our comments on last quarter's call were interpreted by some as American Equity abandoning the fixed-indexed annuity business, nothing could be further from the truth. FIAs have gained in popularity for a reason, they are attractive products and offer principal protection and guaranteed lifetime income that meets the needs of Americans preparing for or enjoying their retirement. We believe American Equity remains a viable and growing Company and we'll continue to do so for years to come.

So, thank you for your time and attention this morning. I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Randy Binner, FBR.

Randy Binner - *FBR - Analyst*

Hi. Good morning. Thanks. Just wanted to ask a question on RBC, and you mentioned kind of the impact from drift on the credit side, but I was wondering if you could size the impact in the first half from higher sales, and that strain on capital. The RBC ratio is at 328, I think pro forma -- the equity pull down. Just trying to get a sense of, how much strain there was in the first half on the RBC ratio?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Well, we started out the year at 336%.

Randy Binner - *FBR - Analyst*

Do you know what's in there for [C4]?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Not sure.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

Randy this is John. Ted and I are both shaking our heads; because we didn't look real close the [C4] number. My recollection here is that, we would not have annualized first-half sales and put that in there. So I suspect that the number in there for [C4] is probably within the ballpark of where it was for full year 2015.

Randy Binner - *FBR - Analyst*

Got it. Okay. And then, I guess the question is, if the reinsurance environment is a little less optimal because of what the yield curve has done -- can you give us a sense of -- because it seems like sales are slowing down. The MYGAs are slowing down, there's a lot of competition it sounds like from what Ron said, at least there was for a little while on kind of traditional FIA sales. It seems like it would be optimal and not have to raise up to a $100 million in debt, but can you give us a sense of how you think that's going to come in capitalized over the rest of the year? Can sales come down enough to avoid a capital raise?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

They could come down enough to avoid a capital raise, but we still have that uncertainty, relative to next year. If for some reason the DOL rule litigation is successful, we don't want to be sitting there with a shortage of capital when sales opportunities materialize again.

Randy Binner - *FBR - Analyst*

And do you feel that, the debt market is open to you all right now?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

We think that -- obviously interest rates are low right now. The opposite of investing at crappy rates, is that you can borrow it at rates that are in the same market conditions. So yes, we would understand that there are attractive terms or opportunities out there. Obviously, we're still a little less than a year away from being able to do anything with the $400 million on a cost-effective basis. But we had always talked about -- we talked about back in our capital offering a year ago, about the alternatives of reinsurance and debt. And anticipating that, we might need to do one or both of those, depending upon where the sales progression has been. And even if sales back up this year, we're going to still be ahead of the sales -- back up in the second-half, we're still going to be ahead of where sales were estimated to be when we were looking at the -- the capital would come from the equity offering.

So, we kind of had in our mind that next phase might be next year, it's been pushed up to this year, and that's one of the possibilities. And one comment on the reinsurance. Part of the reason that we opted not to proceed was because we were looking to use some of the cash that we have to fund that, which meant that the potential reinsurance counterparties were going to have to invest that money in the current rate environment. And that all -- the process started before those rates reset to those levels, so once it got into late June, early July, it became clear that the desire to use cash would be an impediment to completing a reinsurance transaction.

Randy Binner - *FBR - Analyst*

That's helpful. And then last one is just on the commentary around potentially changing pricing to reduce liability costs. I think you kind of have an all-in differential between your existing rates and guaranteed minimums in the overall book is something like 52 basis points; do you have any sense of where that number might land after this next round of liability cost changes?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

No.

Randy Binner - *FBR - Analyst*

Is it going to be a -- is this kind of -- put another way, is it kind of garden variety liability cost changes we'd be looking at or is this a bigger thing?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

I would characterize what's in motion right now is as a bit bigger than the most recent one, but this is the fourth one I think that we've done, it goes all the way back to 2011 now. I think the highest rate earlier was 30 basis points and I'm gauging these off of the fixed interest rate strategies as the benchmark, so at 40 basis points we're a little bit higher than the previous high of 30 basis points. I think the third rate adjustment was more in the line of 10 basis points on the fixed rate strategy, so this is a bit bigger. But we also have perhaps more policies, have already hit minimum guarantees through the previous rate adjustments and relative to the 52 basis points; of course the dynamic is it changes every quarter because we have a totally different mix of liabilities. So as rate reductions filter in to pull the 52 basis points down, the new business would be added that would incrementally add to it. And then we obviously have all the other dynamics of policyholder activities as well.

Operator

Kenneth Lee , RBC.

Kenneth Lee - *RBC Capital Markets - Analyst*

Hi, thanks for taking my question. Just curious in terms of the -- just following-up on the cost of money. You mentioned some $16 billion to $17 billion of the accounts are going to get reset and then further in December. I mean it sounds like the aggregate cost somewhat can get lowered somewhere in the order like 15 bps or so in the third quarter. And is that sort of the right way to think about that? And how could that trajectory of the aggregate cost of money go the next couple of quarters?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

What number did you say Ken? 50?

Kenneth Lee - *RBC Capital Markets - Analyst*

15.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

Well that rate effect will not kick in immediately. We've mentioned that it -- rate adjustments happen on policy anniversaries. So of that $16 billion to $17 billion, the impact is going to be spread over 12 months starting September 1st as those policies hit their anniversaries and the rate adjustment takes effect. So you're not going to see any kind of substantial adjustment to the cost of money from rates in Q3. And also obviously since it starts on September 1, it's only going to be 1/12 of the policy base and I can't tell you how the funds are distributed monthly or quarterly over that number, but obviously the third quarter effect is going to be rather small because it will only be in for one month of the 3 and we'll only pick up 1/12, theoretically 1/12 of the policies.

Kenneth Lee - *RBC Capital Markets - Analyst*

Got you, that's helpful. And then in terms of the DOL fiduciary, obviously you guys are working to figure some options ahead of the implementation date next year. Would you be able to give any kind of high level set of the timetable or milestones that we could look forward in the coming months in terms of either new products or other developments that we could see, as it evolves?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

There is no specific timeframe yet that we would provide although, I would think within a few weeks we'll have a more detailed framework of that. I think in my view, the declared rate products, I think we said this last time, it doesn't take albeit -- there's not a long lead time to getting those products filed. So, realistically if those things were ready to go by the first of the year that's plenty of time to have new declared rate products in the marketplace. Although we wouldn't anticipate that those would be sold until come April of 2017, if and when the rule went into effect.

Kenneth Lee - *RBC Capital Markets - Analyst*

Got you. And one more question, in terms of the rising cash balances, it sounds like it's a different issue of timing, what gives you confidence that the amounts get invested in it within a short timeframe and is this going to be dependent on the new money yields that are available at that time? Thanks.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

I'm not sure we expressed an opinion that it would get invested in a short period of time. And certainly that balance has been going up, so it's not going to disappear by the end of this quarter. Realistically, it could be down by the end of the year. And we'll continue to follow our process of looking for the appropriate yields, keeping in mind credit quality and the other investment constraints that we have.

Operator

(Operator Instructions) Mark Hughes, SunTrust.

Mark Hughes - *SunTrust - Analyst*

Thank you. Good morning. Ron, the drop-off in sales through 2Q, you had suggested that they slowed each month, is that people just staying on the sidelines because rates are so low or is there something else going on?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Hi, Mark. That's a good question. I'm not sure, are you talking industry-wide, is that --

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Mark Hughes - *SunTrust - Analyst*

Yes. That's right.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

I don't know the answer to that. I sometimes speculate it could be DOL paralysis, as people start to look at the rule and figure out as a distribution, a marketing company, a producer how it's going to affect them or as insurance companies we all get a little bit distracted over the DOL now. So, that's kind of what I chalk it up to as DOL paralysis.

Mark Hughes - *SunTrust - Analyst*

Right. Has there been any repositioning that you've seen of the independent agents, aside from the paralysis so are they making any kind of shifts including the carriers they might be working with around the DOL issue?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

I have not noticed anything at this point yet, Mark.

Mark Hughes - *SunTrust - Analyst*

Yes. And then what do you hear from them, I mean what do they say, they're going to do? What do the NMOs suggest when they talk about this, what do they have in mind?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Yes, the NMOs are the ones that were affected perhaps the most, because of the deal. And they need to find ways to remain relevant and in the business and keep their businesses going. So you have some NMOs that have already broker dealers or RIAs that they need to figure out how they can look at their overall business model, utilizing those other companies. There are some NMOs that are looking to buy a broker dealer or an RIA. There are some significant ones that have filed with the DOL to become a financial institution. And I think there are some that are primarily insurance only that need to find a partner or look at another strategy. But they're all very busy, just like we are, trying to figure out what their business is going to look like in the future.

Mark Hughes - *SunTrust - Analyst*

Got you. It seems like you've picked up some nice momentum. Talking about the anchor accounts, if I heard you correctly, 2 this time last year, now 6; in some times in the past, I think you've talked about the number of relationships that you're continuing to work on, kind of the backlog or pipeline so to speak. Can you give us a sense of where these relationships accounts should be going over the next 12 months?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Well, we have, as I mentioned the 6 anchor accounts and then I kind of referred to 2 brand new ones that are just coming online that we're very excited about, that have huge potential for us. And it always takes time of course for -- from the time that they sell -- from the time they sign an agreement to the time the applications start coming in, but we are excited about the 2 new ones, plus we do have some that we've been diligently working on that we think have a good possibility of getting additional selling agreements before the end of the year, which are pretty sizable accounts. So we're very excited about Eagle Life's prospects as our name continues to get out there and our reputation continues to get out there.

Operator

Tom Gallagher, Evercore ISI.

Alex Scott - *Evercore ISI - Analyst*

Hi, this is Alex Scott actually. Question is, between the $135 million of equity forwards and debt capacity, could you just discuss the amount of runway that provides you, maybe in terms of timing and then also the amount of account value. Do you think that would support?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

So the $135 million took us to 328%, and an additional $100 million is what we have capacity if we took the full capacity under -- keeping our adjusted debt-to-leverage ratio at 20% below. A $100 million is probably about 10 to 11 points in RBC. And when you think about how much capital is needed for products that we put on, you should estimate somewhere between 6% and 7% is the amount of capital needed.

Alex Scott - *Evercore ISI - Analyst*

Got it. Okay.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

And remember that the RBC estimates that we put out are based upon a rolling 12 months of production, so that RBC estimate that we quoted as of the end of the quarter includes the first half of this year of sales and then the last half of last year, so that's a pretty robust level of sales. And so, going back to one of the prior questions is, if sales would retract and be lower in the second half of this year compared to where they were last year, that will be a pick-up in RBC, because it'll be a lower [C4] charge.

Alex Scott - *Evercore ISI - Analyst*

Okay. Got it. And then just thinking about down the road -- thinking about further capital need potentially, can you just discuss the options you'd explore there and sort of how the action on the credit and rate side and the re-pricing in the back half of this year may impact that?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman of the Board, President, Chief Executive Officer*

Well, kind of two different issues, if the re-pricing is on the in-force block of business, the re-pricing on the new money rates is going to affect production, which of course then is going to affect how much capital we do or don't need. As we go into next year, obviously, if we have looked at taking on additional debt and maxed out our capacity there, that takes that alternative away. And so, going forward we would need to manage production based upon what organic capital growth would support. And then beyond that, if we had production that would go beyond that we would need to manage capital through reinsurance transactions -- low reinsurance transactions.

Operator

Thank you. At this time I'm showing no further questions, I would like to turn the call back over to Julie LaFollette, Director of Investor Relations for any closing remarks.

Julie LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Thank you for your interest in American Equity and participating in today's call. Should you have any follow-up questions, please feel free to contact us.

Operator

Thank you, ladies and gentlemen. That will conclude our conference. Have a great day.