

To: Industry and Interested Persons
 From: Stewart Guerin, Chair of the Valuation of Securities (E) Task Force
 Members of the Valuation of Securities (E) Task Force
 Re: **Final** Macroeconomic Assumptions and Scenarios to be used for the Year End 2014 Annual Surveillance of Insurer Owned RMBS and CMBS
 Date: October 6, 2014

1. Introduction – This memorandum identifies the macroeconomic assumptions, scenarios and risk weightings adopted by the Task Force during an Oct. 2, 2014 conference call as final instructions to the NAIC Structured Securities Group (SSG) for the conduct of the 2014 annual surveillance of insurer owned RMBS and CMBS.

2. Final Instructions

a. **Baseline Macroeconomic Factors** - The table below outlines the baseline scenario:

Parameters	Q2 2014 (Actual)	Q2 2016 (Forecast)
Case Shiller National HPI (Index 2000Q1 =100)	159.4	179.0
Unemployment rate	6.2%	5.6%
Consumer Price Index (Index 1982 – 84 =100)	237.0	248.0
GDP (2009\$ Annualized Growth)	4.0%	3.1%

b. **Scenarios:** In addition to a Baseline scenario, PIMCO and BlackRock Solutions will model the securities under additional scenarios, with applicable weightings, as shown in the tables, below:

RMBS: Comparison of Scenarios

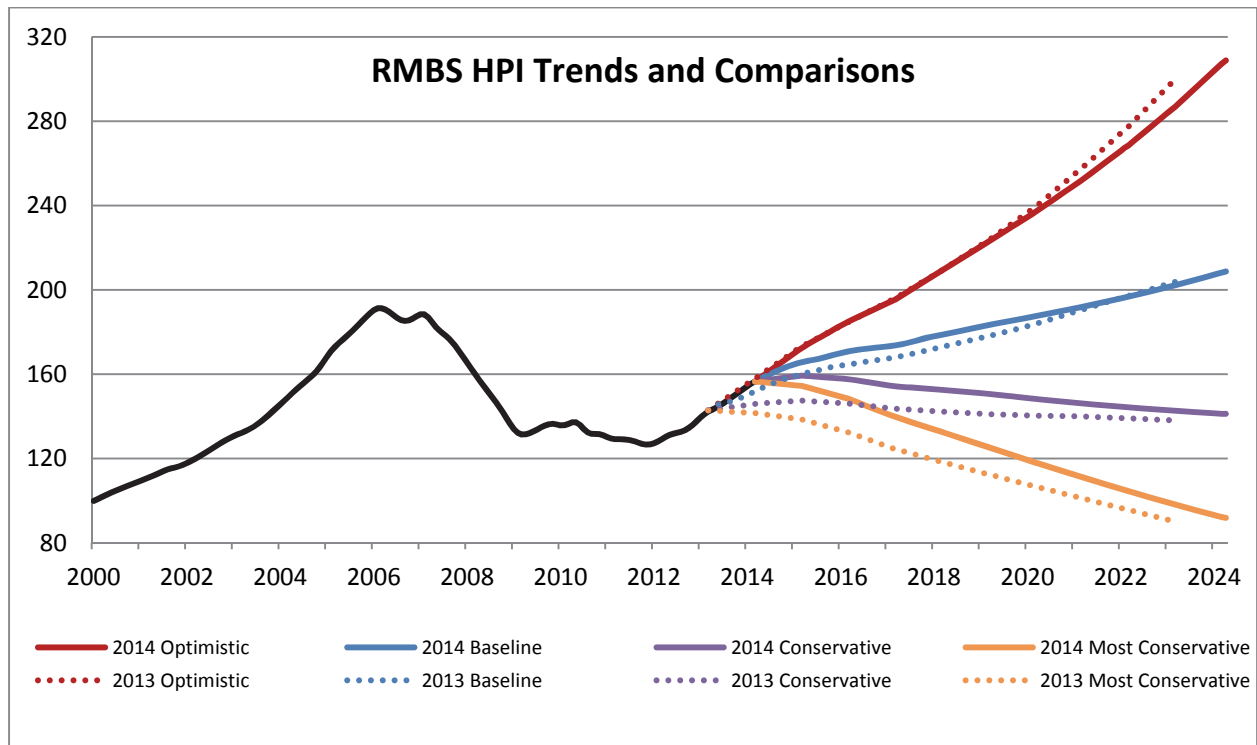
RMBS Scenario	Probability	Current to Trough	Time of Trough	3-year HPA Growth	5-Year HPA Growth
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2014 Scenarios and Forecasts

Optimistic	10%	N/A	N/A	25%	42%
Baseline	50%	N/A	N/A	11%	17%
Conservative	25%	-10%	2025	-1%	-4%
Most Conservative	15%	-44%	2026	-11%	-20%

2013 Scenarios and Forecasts

Optimistic	10%	N/A	N/A	29%	46%
Baseline	50%	N/A	N/A	15%	21%
Conservative	25%	-3%	2024	2%	0%
Most Conservative	15%	-39%	2025	-7%	-17%

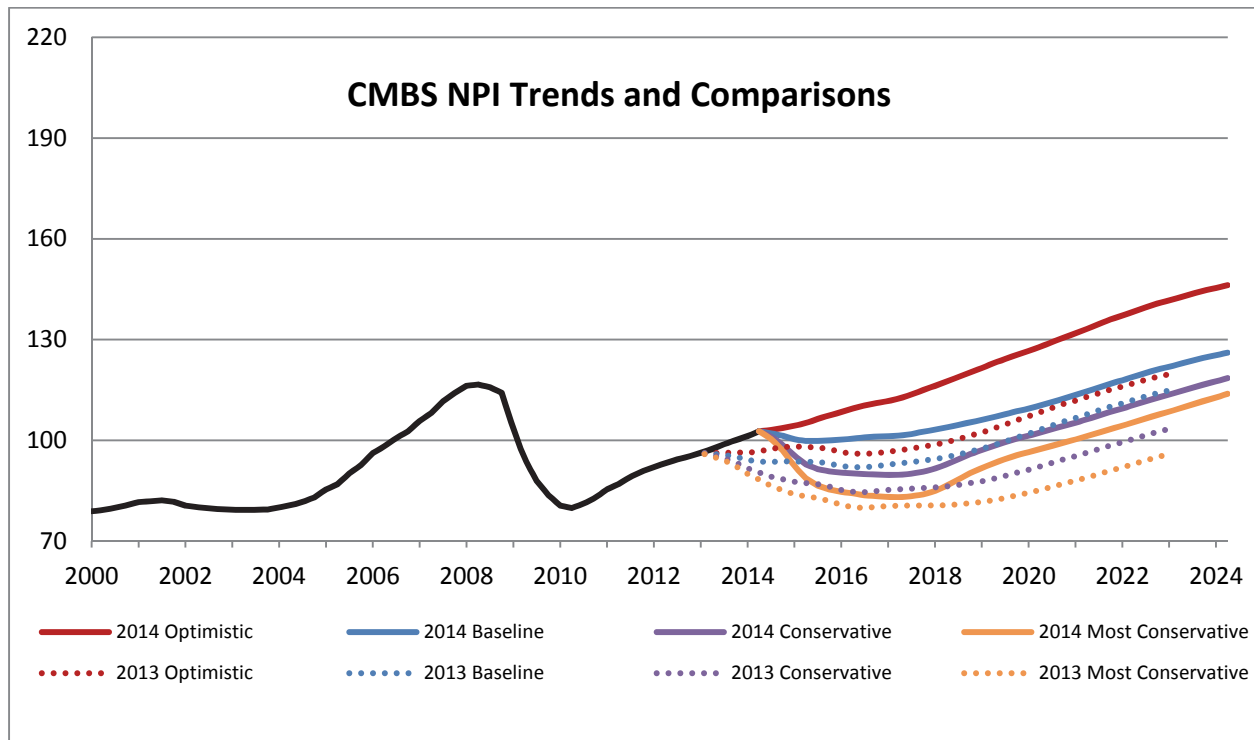


Source: Case Shiller and PIMCO

National HPI (Index 2000Q1 =100)

CMBS: Comparison of Scenarios

CMBS Scenario	Probability	Current to Trough	Time of Trough	3-year NPI Growth	5-Year NPI Growth
2014 Scenarios and Forecasts					
Optimistic	10%	N/A	N/A	10%	20%
Baseline	55%	-3%	Q2 2015	-1%	4%
Conservative	25%	-13%	Q1 2017	-13%	-4%
Most Conservative	10%	-19%	Q2 2017	-19%	-9%
2013 Scenarios and Forecasts					
Optimistic	10%	0%	Q2 2016	0%	3%
Baseline	55%	-5%	Q2 2016	-4%	-2%
Conservative	25%	-12%	Q2 2016	-11%	-11%
Most Conservative	10%	-17%	Q2 2016	-16%	-16%



Source: NCREIF and BlackRock Solutions

NPI (Index 1990Q1=100)

The final losses will be a probability-weighted average of valuations across all scenarios.

3. Other Information –

Please visit http://www.naic.org/structured_securities/index_structured_securities.htm for additional information.