To: Industry and Interested Persons

From: NAIC, Structured Securities Group

Re: Macroeconomic Assumptions and Scenarios to be used for the Year End 2016 Annual Surveillance of Insurer Owned RMBS and CMBS

Date: October 11, 2016

This document contains the macroeconomic assumptions, scenarios and probability weightings that the NAIC Structured Securities Group (SSG) will use in the 2016 Annual Surveillance of insurer owned RMBS/CMBS.

BlackRock Solutions will model the securities under four scenarios: Optimistic, Baseline, Conservative, and Most Conservative, with applicable weightings. The final losses will be a probability-weighted average of valuations across all scenarios. The descriptions of these scenarios and weightings are summarized in the tables and charts in **Appendix A** for RMBS and **Appendix B** for CMBS.

Please note, that the 2016 scenarios were not used to generate our recent mid-year refresh breakpoints. The mid-year breakpoint values were based on 2015 scenarios, which were rolled forward.
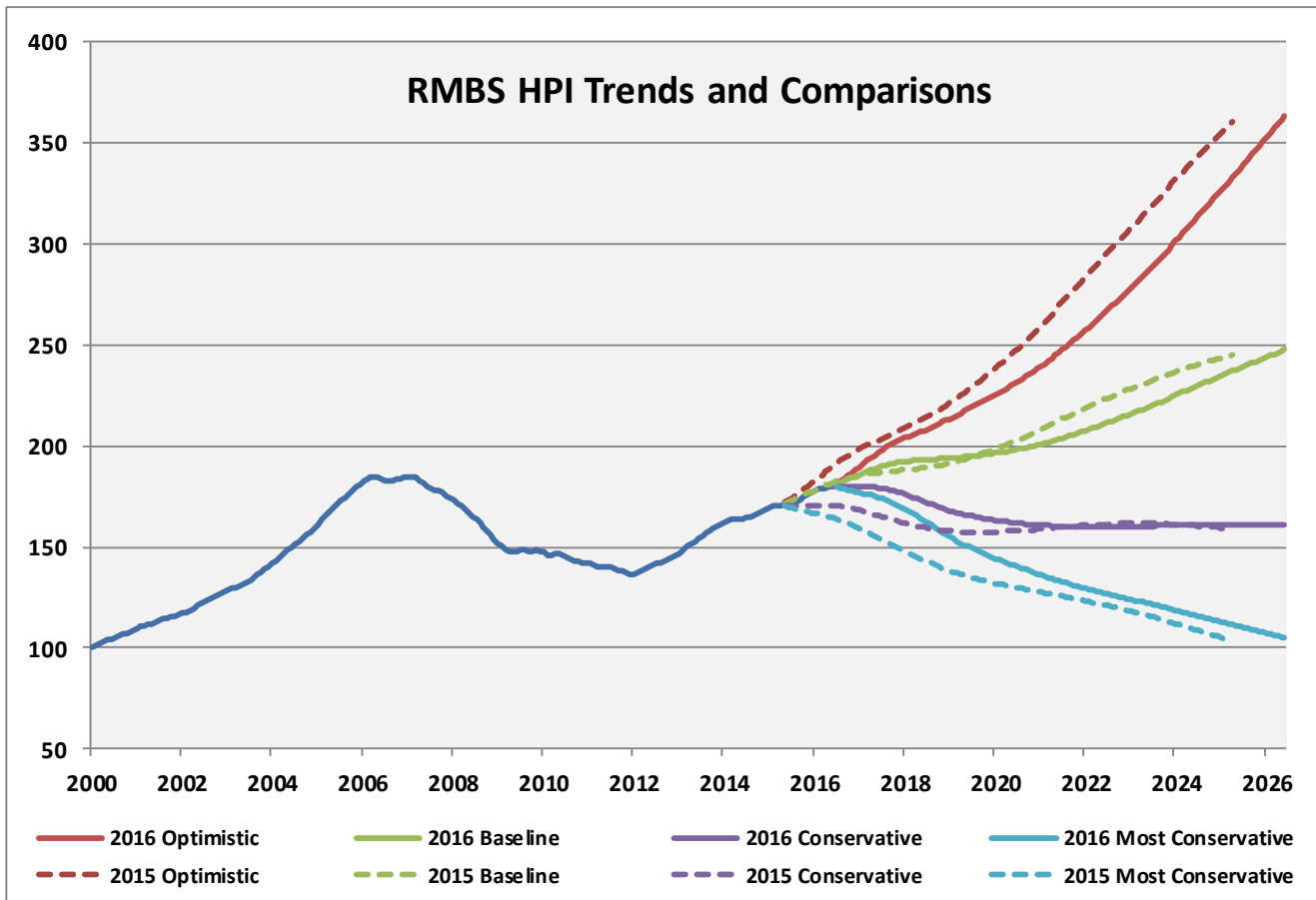
Please visit **http://www.naic.org/structured_securities/index_structured_securities.htm** for additional information.

RMBS: Comparison of Scenarios

RMBS Scenario	Probability	Current to Trough	Time of Trough	3-Year HPA Growth	5-Year HPA Growth
2016 Scenarios and Forecasts					
Optimistic	10%	N/A	N/A	21%	37%
Baseline	50%	N/A	N/A	8%	13%
Conservative	25%	-11%	Q1 2022	-8%	-11%
Most Conservative	15%	-43%	Q1 2027	-17%	-26%
2015 Scenarios and Forecasts					
Optimistic	10%	N/A	N/A	24%	43%
Baseline	50%	N/A	N/A	11%	18%
Conservative	25%	-8%	Q3 2019*	-6%	-8%
Most Conservative	15%	-43%	Q2 2027*	-15%	-23%

* The "Time of Trough" in the 2015 Scenarios and Forecast table above reflects the corrections of reporting errors discovered in the 2015 Macroeconomic Assumptions and Scenarios document, from Q1 2019 (Conservative) and Q1 2027 (Most Conservative) to Q3 2019 (Conservative) and Q2 2027 (Most Conservative), respectively.

RMBS HPI Trends and Comparisons

Legend: 2016 Optimistic, 2016 Baseline, 2016 Conservative, 2016 Most Conservative, 2015 Optimistic, 2015 Baseline, 2015 Conservative, 2015 Most Conservative
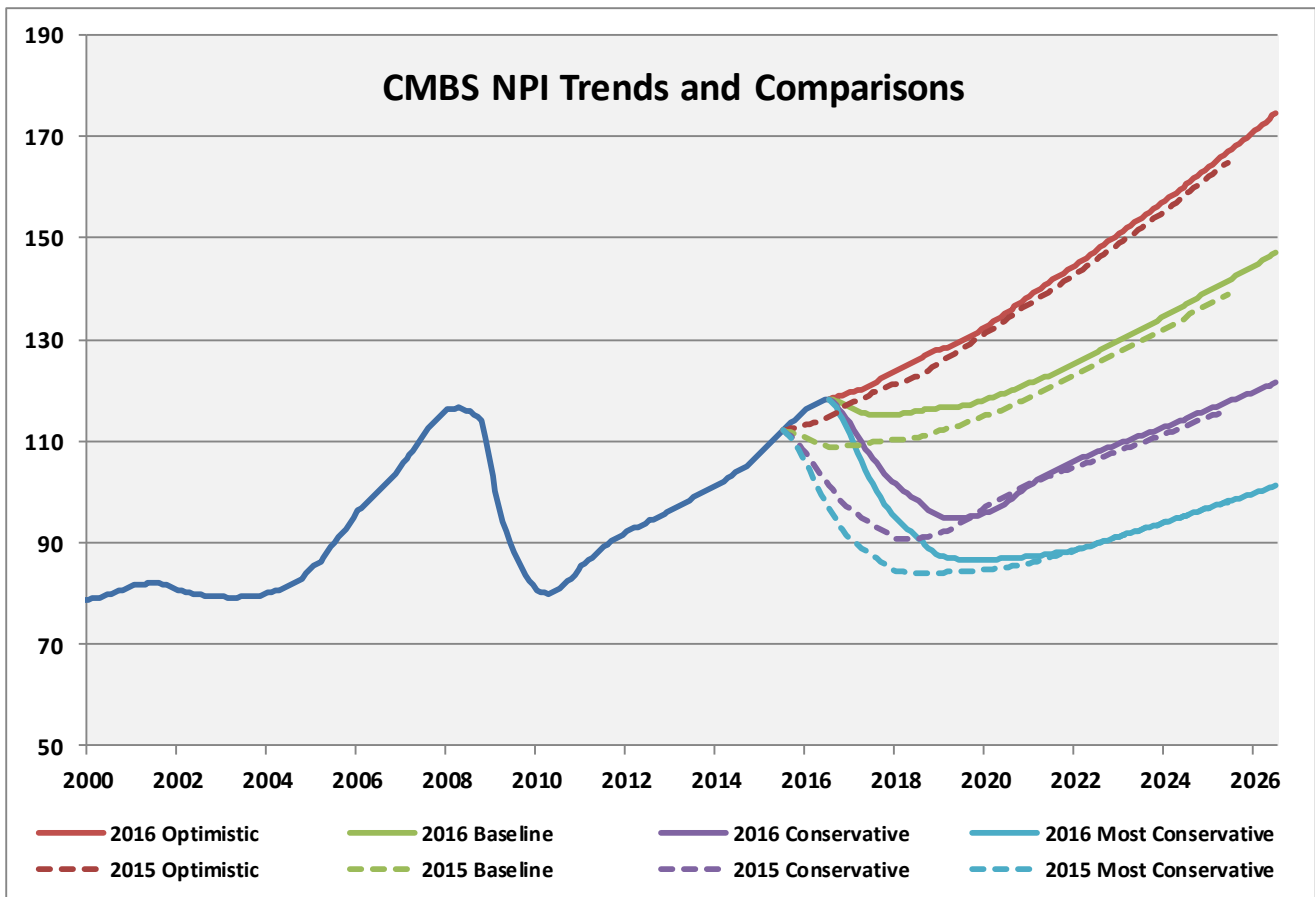
Source: *Case-Shiller and BlackRock Solutions*   *National HPI (Indexed 2000M1 = 100)*

Appendix B

CMBS: Comparison of Scenarios

CMBS Scenario	Probability	Current to Trough	Time of Trough	3-Year NPI Growth	5-Year NPI Growth
2016 Scenarios and Forecasts					
Optimistic	10%	N/A	N/A	10%	20%
Baseline	55%	-3%	Q3 2017	-1%	4%
Conservative	25%	-20%	Q3 2019	-20%	-12%
Most Conservative	10%	-27%	Q3 2019	-27%	-26%
2015 Scenarios and Forecasts					
Optimistic	10%	N/A	N/A	10%	20%
Baseline	55%	-3%	Q2 2016	-1%	4%
Conservative	25%	-19%	Q2 2018	-19%	-11%
Most Conservative	10%	-25%	Q3 2018	-25%	-24%

CMBS NPI Trends and Comparisons

Legend:
- 2016 Optimistic
- 2016 Baseline
- 2016 Conservative
- 2016 Most Conservative
- 2015 Optimistic
- 2015 Baseline
- 2015 Conservative
- 2015 Most Conservative

Source: NCREIF and BlackRock Solutions

NPI (Indexed 1990M1 = 100)