Designation Assignment to Mortgage-Referenced Securities
Reported under Statement of Statutory Accounting Principles No. 26 –
Bonds, Excluding Loan-Backed and Structured Securities (SSAP No. 26)

The designation of Mortgaged-Referenced Security depends on the Final Intrinsic Price and the midpoint between two adjoining AVR RBC (pre-tax) charges. For the purposes of the designation assignment to Mortgage-Referenced Securities, the Final Intrinsic Price is defined as 1) Intrinsic Price less 2) Counterparty Risk. The coupon and principal payments of Mortgage Referenced Security (i.e. STACR and CAS) which are subject to the performance of reference pool(s) of mortgage loans, are unsecured obligations of issuing entity or the Issuer (i.e. Freddie Mac and Fannie Mae), ranking pari passu in priority of payment with all other unsecured and unsubordinated debt of the Issuer.

Intrinsic Price

The Intrinsic Price is an output of financial modeling, defined as '1 - Weighted Average of Discounted Principal Loss' expressed in percentage, reflecting the credit risk of Mortgage-Referenced Security, associated with the reference pool(s). The financial modeling of Mortgage-Referenced Securities is performed once a year as a part of the year-end financial modeling project. These securities are subject to the same financial modeling methodology applicable to the RMBS and CMBS to be reported under *Statement of Statutory Accounting Principles No. 43R (SSAP No. 43R)*.

Counterparty Risk

The Counterparty Risk measures the credit risk of Mortgage-Referenced Securities, associated with the Issuer. Specifically for Fannie Mae and Freddie Mac, the credit qualities of these issuers are closely linked to the U.S. sovereign credit quality. These two housing government-sponsored enterprises (GSE), currently operating under the conservatorship of the Federal Housing Finance Agency (FHFA), are the center of housing industry reform measures. Therefore, the Structured Securities Group (SSG) will constantly assess the Counterparty Risk to accurately reflect any material improvements or deteriorations in the credit risk or the credit support profile of the Issuer.

NAIC Designation Mapping

The Final Intrinsic Price is mapped to a single NAIC designation, employing the five midpoints between two adjoining AVR RBC charges (pre-tax) for NAIC designation categories (*NAIC 1* through *NAIC 6*). These midpoints are directly used as the minimum Final Intrinsic Prices (weighted average loss points) for corresponding NAIC designations. This NAIC Designation mapping methodology is consistent with the SSAP No. 26 framework and takes the Final Intrinsic Price ranging from 0 to 100. Unlike the *SSAP No. 43R* framework, neither the amortized cost nor fair value is a factor in the designation assignment to Mortgage-Referenced Securities.

Mortgage-Referenced Securities
Mapping of Intrinsic Price to Designation

Asset Class	AVR (pre-tax) Factor	AVR (pre-tax) Factor Midpoint	Minimum Final Intrinsic Price
NAIC 1	0.4%	0.85%	99.15%
NAIC 2	1.3%	2.95%	97.05%
NAIC 3	4.6%	7.30%	92.70%
NAIC 4	10.0%	16.50%	83.50%
NAIC 5	23.0%	26.50%	73.50%
NAIC 6	30.0%		