

Laurel Davis
Vice President
Fannie Mae
1100 15th Street, NW
Washington, DC 20005

September 4, 2019

Re: Connecticut Avenue Securities® (CAS) REMIC Transaction CAS 2019-R02

Dear Ms Davis:

Fannie Mae (the “Applicant” as defined in Section 8 (a) of this letter), has requested that the NAIC Structured Securities Group (SSG) use the NAIC Approved Modeling Process to develop preliminary NAIC Designations and Breakpoints for the tranches of the captioned structured security transaction identified in Section 1 below by their CUSIP Identifiers. Fannie Mae represents it intends to share the preliminary NAIC Designations or Breakpoints for the tranches of the captioned structured security transaction with insurance company customers who may wish to purchase the tranches and who would therefore want to consider the probable regulatory status that the tranches would be accorded under the NAIC Financial Conditions Framework. The SSG has agreed to conduct this assignment to fulfill NAIC regulatory objectives entrusted to it as specified in Part Seven, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (hereafter, the “Purposes and Procedures Manual”)*. Capitalized terms used above and not already defined are defined in Section 2 of this letter.

1. Determination of Preliminary NAIC Breakpoints

We hereby confirm, subject to the discussion, disclosures and limitations in this letter, that the preliminary NAIC Breakpoints shown below for the tranches of the captioned structured security transaction were developed using the NAIC Approved Modeling Process (hereinafter the “Modeled Securities”).

Preliminary NAIC Breakpoints for the Modeled Securities are listed in **Schedule B**.

These Breakpoints can be referred to by an insurance company as indicated in Section 2 below to comply with the regulatory processes discussed in Sections 3 below.

With the exception of any item specifically attributed to the NAIC, the preliminary NAIC Breakpoints identified above were generated using data, information and documents provided to the SSG by the Applicant and identified in **Schedule A** of this letter.

2. NAIC Process and Definitions, Generally – The preliminary NAIC Breakpoints for the Modeled Securities identified in Section 1 above were developed using a proprietary financial modeling

methodology licensed to the NAIC and additional specified NAIC owned inputs, procedures and formats (collectively, the “NAIC Approved Modeling Process”).

For Modeled Securities, under the NAIC Financial Conditions Framework (a term defined in the *Purposes and Procedures Manual*), the regulatory treatment applicable to certain securities or bonds is set by reference to an official NAIC Breakpoints. An official NAIC Breakpoints is defined as one generated by the SSG for an insurer owned security using a methodology specified in the *Purposes and Procedures Manual* and entered into NAIC computer systems by SSG staff. Once entered into NAIC computer systems the official NAIC Breakpoints can also be available to other insurance companies that own the captioned structured security transaction.

3. Regulatory Implications – The preliminary NAIC Breakpoints identified in Section 1 above imply the following regulatory treatment for the tranches of the captioned structured security transaction identified in Section 1 above.

a. *Disclosure* - *The information presented in this Section 3 is a brief explanation of applicable NAIC regulatory principles only and is not presented as instructions or guidance to insurers or others who should in all instances refer to official NAIC guidance on RBC and or AVR for the full text and related guidance on those regulatory processes and to the Accounting Practices and Procedures Manual for the full text and related guidance for statutory accounting.*

b. *Statutory Accounting* - Using the guidance in the *NAIC Accounting Practices and Procedures Manual*, it is our opinion that the Modeled Securities meet the definition of a bond, in *Statement of Statutory Accounting Principle. 43R, Loan Backed and Structured Securities*.

c. *Financial Statement Blank Reporting* – Investments in scope of *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-backed and Structured Securities* are included in Schedule D, Part 1.

d. *Valuation Rules for Bonds* – Pursuant to *SSAP No. 26R*: (1) Reporting entities that maintain an Asset Valuation Reserve (AVR), report bonds at amortized cost, except for bonds designated **NAIC 6**. Bonds designated **NAIC 6** are reported at the lower of amortized cost or fair value. (2) Reporting entities that do not maintain an AVR, report bonds designated **NAIC 1** and **NAIC 2**, respectively at amortized cost. Bonds designated **NAIC 3** through **NAIC 6** are reported at the lower of amortized cost or fair value. Securities in scope of *SSAP No. 43R* follow the same reporting guidelines as a *SSAP No. 26R* bond unless is a RMBS/CMBS that is financially modeled (as more fully defined in paragraphs 25 and 26 of *SSAP 43R*).

4. Not an Assessment or Opinion on Protective Elements in Transaction - The sole function of the RTAS process is to provide insurance companies and/or their investment advisors an assessment regarding the probable regulatory treatment under the NAIC Financial Conditions Framework, expressed in the form of a preliminary NAIC Breakpoints that would apply to the security. As part of the RTAS process, SSG will evaluate the transaction documents, including the representations, warranties, enforcement mechanisms and other protective elements (collectively, the protective elements) but only in connection with the application of internal analytical and regulatory criteria to generate the preliminary NAIC Breakpoints. *Insurance companies must, as investors, conduct their own analysis of the adequacy and effectiveness, and of the legal and other implications, of protective elements in the transaction.* NAIC Breakpoints (whether preliminary or official) are not indicators of, or opinions about, the adequacy or effectiveness of protective elements in the transaction documents. NAIC Breakpoints (whether

preliminary or official) express an assessment of expected loss in a state insurance regulatory framework derived by reference to the NAIC Financial Conditions Framework.

5. Non Consent for Inclusion in Registration Statements or Prospectuses - This RTAS Letter explains the regulatory function of the preliminary NAIC Designations and Breakpoints. The NAIC SSG does not consent to the use of the RTAS Letter, the preliminary NAIC Designations and Breakpoints shown above or any portion of this assessment in a registration statement or prospectus, as defined in US federal securities law and whether or not exempt from the registration requirements of the Securities Act of 1933, that would convey a credit rating opinion or an assessment of the merits of an investment in offered securities to an investor.

6. Reserved.

7. Limitations of Financial Modeling for the Modeled Securities

a. *No Assurance of Economic Performance* – With respect to the Modeled Securities, the financial modeling process generally, and the NAIC Approved Modeling Process specifically, employs assumptions about economic variables and other factors that are deemed to be correlated to the performance of the captioned structured security transaction. No assurance can be given that actual economic performance will match or track the assumptions made about economic performance, that the assumptions employed will be accurate, or that either the weighted scenarios chosen or the probability weights assigned to them will be optimum or predictive of actual economic or market performance.

b. *Elements Used in Modeling* - The NAIC Approved Modeling Process requires the use of time sensitive and time appropriate inputs such as macro-economic assumptions, weighted economic scenarios and their associated probability distributions, the “as of date” for the captioned structured security transaction’s performance data and other similar variables. The inputs and variables used in the NAIC Approved Modeling Process for this assignment may differ from those that would be used by the SSG at another point in time. The use of different inputs and variables for any given structured security transaction by the SSG at a different time period would generate different preliminary NAIC Breakpoints.

8. Disclosures; Limitations

a. *About this Letter* - This letter is issued pursuant to, is subject to the terms of, and shall be read in conjunction with, the Application for Regulatory Treatment Analysis Services which you or your representative (the “Applicant”) has signed and which is hereby incorporated by reference.

Our assessment is based on a review of the data, information and documents you presented to the SSG identified in **Schedule A** of this letter, and the terms, representations and assumptions they contained. No assurance can be given that the assessment expressed herein may not change if any aspect of the captioned structured securities transaction is, or of its constituent tranches, are modified.

In accordance with the terms of the Application, we will not publicly disclose characteristics or features of the captioned structured securities transaction which you have indicated to us are proprietary or confidential until either you inform us or we independently discover that public disclosure of that feature or aspect has been made. In accordance with the terms of the Application, we reserve the right to make full disclosure of confidential information to members of the regulatory community, including the NAIC Valuation of Securities (E) Task Force as necessary and appropriate but in private communications.

You may discuss the content of this letter with anyone, provided that the regulatory purposes and limited objective of the SSG and of the RTAS process are disclosed. For purposes of the preceding sentence, it shall be a sufficient disclosure of regulatory purposes if you provide a copy of this letter in full.

This letter does not express any views regarding the merits of an investment in the securities, the sufficiency of the disclosures, the legal or economic terms or any assessment or opinion regarding the issuer of the captioned structured security transaction.

Nothing in this letter authorizes, or shall be construed as authorizing, the Applicant or a recipient of this letter from the Applicant to distribute the preliminary NAIC Designations or Breakpoints for the captioned structured securities transaction on the Applicant's or a recipient's electronic computer system or to permit its dissemination on the Applicant's or a recipient's public web-site except in accordance with the terms and conditions of a separate written License Agreement.

b. About SSG Analytical Assessments – The proper uses, purposes, objectives and limitation of SSG analytical products are described in the *Purposes and Procedures Manual* which is hereby incorporated by reference. Preliminary and Official NAIC Designations and Breakpoints are produced solely for NAIC members and are indications of eligibility for certain regulatory treatment under the NAIC Financial Conditions Framework. Because SSG opinions and analytic products are intended for regulatory purposes, they may be derived by the application of criteria that is relevant only to state insurance regulators. Accordingly, no SSG assessment in this letter should be treated as if it were intended to assist investors in making a decision to buy or sell the captioned or any other structured securities transaction nor should the preliminary NAIC Designations and Breakpoints in Section 1 above or any official NAIC Designation and Breakpoint be referred to as a “credit rating” or a “rating” or be used by any entity other than a regulated insurance company.

We appreciate the opportunity to have been of service to you. Please contact me at (212) 386-1943 should you have any questions or concerns you wish to discuss.

Sincerely,



Eric Kolchinsky, Director, NAIC Structured Securities and Capital Markets
For the Senior Credit Committee

Schedule A

Source	Description	As of Date
CAS 2019-R02 Deal Documents	Administration Agreement Amended and Restated Trust Agreement Collateral Administration Agreement Capital Contribution Agreement Indenture Investment Agency Agreement	Dated 03/13/2019
CAS 2019-R02 Data Files	Structure and Loan Data	04/30/2019
NAIC Economic Assumptions	Number of Scenarios and Weights YE 2018 RMBS Modeling Economic Scenarios	Year-End 2018 N/A

Schedule B

CUSIP Number	CLASS	AVR TYPE CODE	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	ZERO LOSS
20753KAA0	1M1	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAA0	1M1	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAB8	1M2	AVR	97.57	99.68	104.36	115.86	131.62	N
20753KAB8	1M2	NON-AVR	97.37	98.21	99.99	104.3	120.92	N
20753KAC6	1M2A	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAC6	1M2A	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAD4	1M2B	AVR	100.11	102.28	107.08	118.87	135.05	N
20753KAD4	1M2B	NON-AVR	99.91	100.77	102.59	107.02	124.07	N
20753KAE2	1M2C	AVR	91.74	93.72	98.12	108.93	123.75	N
20753KAE2	1M2C	NON-AVR	91.55	92.34	94.01	98.07	113.7	N
20753KAL6	1EA1	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAL6	1EA1	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAM4	1EA2	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAM4	1EA2	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAN2	1EA3	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAN2	1EA3	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAP7	1EA4	AVR	100.86	103.04	107.87	119.76	136.05	Y
20753KAP7	1EA4	NON-AVR	100.65	101.52	103.36	107.82	125	Y
20753KAU6	1EB1	AVR	99.93	102.1	106.89	118.66	134.81	N
20753KAU6	1EB1	NON-AVR	99.73	100.59	102.41	106.83	123.86	N
20753KAV4	1EB2	AVR	99.98	102.14	106.94	118.72	134.87	N
20753KAV4	1EB2	NON-AVR	99.78	100.64	102.46	106.88	123.91	N
20753KAW2	1EB3	AVR	100.02	102.19	106.98	118.77	134.93	N
20753KAW2	1EB3	NON-AVR	99.82	100.68	102.5	106.92	123.96	N
20753KAX0	1EB4	AVR	100.06	102.23	107.02	118.82	134.98	N
20753KAX0	1EB4	NON-AVR	99.86	100.72	102.54	106.97	124.01	N
20753KBC5	1EC1	AVR	89.9	91.85	96.16	106.75	121.28	N
20753KBC5	1EC1	NON-AVR	89.72	90.5	92.13	96.11	111.43	N
20753KBD3	1EC2	AVR	90.37	92.32	96.66	107.3	121.9	N
20753KBD3	1EC2	NON-AVR	90.19	90.96	92.61	96.6	112	N
20753KBE1	1EC3	AVR	90.81	92.78	97.13	107.83	122.5	N
20753KBE1	1EC3	NON-AVR	90.63	91.41	93.06	97.08	112.55	N
20753KBF8	1EC4	AVR	91.23	93.21	97.58	108.33	123.07	N
20753KBF8	1EC4	NON-AVR	91.05	91.84	93.5	97.53	113.07	N
20753KBG6	1ED1	AVR	100.4	102.57	107.38	119.21	135.43	N
20753KBG6	1ED1	NON-AVR	100.19	101.06	102.89	107.32	124.43	N
20753KBH4	1ED2	AVR	100.42	102.59	107.41	119.24	135.46	N
20753KBH4	1ED2	NON-AVR	100.22	101.08	102.91	107.35	124.46	N
20753KBJ0	1ED3	AVR	100.44	102.61	107.43	119.26	135.49	N
20753KBJ0	1ED3	NON-AVR	100.24	101.1	102.93	107.37	124.48	N
20753KBK7	1ED4	AVR	100.46	102.63	107.45	119.29	135.52	N
20753KBK7	1ED4	NON-AVR	100.26	101.12	102.95	107.39	124.51	N

20753KBL5	1ED5	AVR	100.48	102.66	107.47	119.32	135.55	N
20753KBL5	1ED5	NON-AVR	100.28	101.15	102.98	107.42	124.54	N
20753KBM3	1EF1	AVR	94.92	96.97	101.52	112.71	128.04	N
20753KBM3	1EF1	NON-AVR	94.73	95.55	97.27	101.47	117.64	N
20753KBN1	1EF2	AVR	95.17	97.23	101.8	113.01	128.39	N
20753KBN1	1EF2	NON-AVR	94.98	95.8	97.53	101.74	117.96	N
20753KBP6	1EF3	AVR	95.42	97.48	102.05	113.3	128.71	N
20753KBP6	1EF3	NON-AVR	95.22	96.05	97.78	102	118.26	N
20753KBQ4	1EF4	AVR	95.65	97.72	102.3	113.57	129.03	N
20753KBQ4	1EF4	NON-AVR	95.46	96.28	98.02	102.25	118.54	N
20753KBR2	1EF5	AVR	95.92	98	102.6	113.9	129.4	N
20753KBR2	1EF5	NON-AVR	95.73	96.56	98.3	102.54	118.89	N