

July 27, 2010

Re: RFP 1403- Assessment of Commercial Mortgage-Backed Securities (CMBS)

The National Association of Insurance Commissioners (NAIC), a 501(c)(3) not-for-profit organization, is soliciting proposals for a financial model to be used to set regulatory capital for commercial mortgage-backed securities (CMBS) owned by U.S.-domiciled insurance companies. The bid specifications for this project are contained within the attached Request for Proposal (RFP).

The NAIC is seeking a qualified financial modeling firm to model expected losses on approximately 7,500 CMBS to be used to assess the risk of CMBS owned by U.S.-domiciled insurance companies. The expected losses and resulting expected values will be determined using loan level details and a principal loss model developed and maintained by the selected firm. The outcome of this process will result in the assignment of NAIC Designations used to set the reserve factor that an insurer will use to calculate the risk-based capital (RBC) charge for a specific CMBS.

Given the importance of this proj

A one-hour bidders' teleconference will be held on Wednesday, August 4, 2010. Any questions you would like addressed during the teleconference should be directed to James Woody at jwoody@naic.org by 2:00 p.m. Eastern on Monday, August 2, 2010. If your entity intends to attend the bidder's teleconference, please identify who will present your entity in the conference and provide this information to James Woody at jwoody@naic.org by 2:00 p.m. Eastern on Monday, August 2, 2010 – please note the bidder is limited to 2 participants. Details referencing the bidders' teleconference will be provided on Tuesday afternoon, August 3, 2010, to each firm who has notified James Woody of their intention to participate.

The NAIC reserves the right to reject any or all proposals, request new proposals or request additional information. The NAIC also reserves the right to further negotiate with any or all bidders.

Please note that the name and address of the bidder will be publicly disclosed on our website after we have reviewed each proposal and have made a selection. No other information, including pricing, methodology, or any other aspect of the proposal, will be made public.

Any questions regarding the bid specifications should be directed to James Woody at jwoody@naic.org or 816-783-8015.

Respectfully,



James W. Woody
Sr. Manager Business &
Corporate Development – Central Office

NAIC

Bidder's checklist for RFP 1403

Please review the items below and ensure each item has been addressed. This document should be signed by a member of the team completing the RFP and sent to the attention of James

NAIC CONFLICT OF INTEREST FORM

Any Entity that desires to contract with the NAIC must complete this form, including vendors, consultants and purchasers of goods or services. All potential conflicts must be disclosed and approved before contract execution.

f _____ (“Entity”) did not provide gifts, favors, membership points or any other benefits to any employee or representative of the NAIC or to a state insurance regulator that affected the bidding and selection process for this contract.

f Entity will not provide or receive gifts, favors, membership points or any other benefits to any employee or repr

MUTUAL CONFIDENTIALITY AGREEMENT

This MUTUAL CONFIDENTIALITY AGREEMENT ("Agreement") is entered into as of _____, 2010 ("Effective Date"), by and between the National Association of Insurance Commissioners ("NAIC") and _____ ("Vendor").

In connection with Vendor's response to NAIC RFP 1403 - Assessment of Commercial Mortgage-Backed Securities (CMBS), NAIC and Vendor

indemnify Buyer for any liability resulting from such noncompliance by the Seller.

8. Price. The price to be paid by the Buyer shall be the price contained in Seller's bid and/or the price stated on the face of the Purchase Order whichever is less. Seller represents the price contained in Seller's bid is no higher than Seller's current prices on orders by others for similar products or services under similar or like conditions and methods of purchase.
9. Invoices. Seller shall submit invoices on each Purchase Order after each delivery. Buyer shall not be charged sales tax and shall furnish a tax exemption certificate upon request. Discounts will be taken from the date of acceptance of services or date the invoice is received by Buyer whichever is later. Buyer shall retain the right of offset.
10. Force Majeure. Buyer shall not be liable for any failure to perform including failure to: (1) accept performance of Services, or, (2) take delivery of the Goods as provided if caused by circumstances beyond Buyer's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

Seller shall not be liable for any failure to perform including failure to: (1) provide Services, or (2) deliver Goods as provided if caused by circumstances beyond Seller's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

11. Insurance. Seller shall be solely responsible for maintaining adequate auto, workers'

Insurance. r0e t or e solel57 Tw7()JTJ674(s)12 w 0 Td [(N)3(N)3(Oh)-5 Eo7(Vh)-5EN

Request for Proposal
Pertaining to Commercial Mortgage-Backed Securities (CMBS)
Owned by U.S.-Domiciled Insurance Companies

for
National Association of Insurance Commissioners (NAIC)

July 2010

I. Overview of Proposal

The National Association of Insurance Commissioners (NAIC) is seeking to expand its fixed income risk assessment capabilities by hiring a vendor to model expected losses on commercial mortgage-backed securities (CMBS). This model will be used to assess the risk of CMBS owned

At the end of 2009, the NAIC used a similar methodology to establish expected values for more than 21,000 non-agency residential mortgage-backed securities (RMBS) owned by U.S.-domiciled insurance companies. The facts giving rise to the decision to model non-agency RMBS have not materially changed and the NAIC's Valuation of Securities Task Force (VOSTF) has publicly stated that returning to pre-2009 reliance on NRS is not a viable a

(c) The SVO— The SVO division of the NAIC consists of the professional staff assigned to support the work of the VOSTF. The SVO conducts default risk and investment risk assessment of unrated securities; performs analysis of insurer portfolios; conducts capital and insurance market research; and performs a number of other analytical and technical services in support of regulatory processes. Please refer to Purposes and Procedures Manual of the NAIC Securities Valuation Office (this publication, product code number SVO-PP, can be purchased via the NAIC Web site at www.naic.org/store_svo_products.htm) for a full description of the procedures governing SVO credit risk and regulatory assignments.

The SVO will have responsibility for coordinating the work of the financial modeler with other NAIC units and with appropriate regulatory groups to ensure timely completion and delivery of the model output and deliverables to insurance companies for regulatory purposes. The work product delivered by the successful bidder will be documented and delivered to the SVO staff. As part of this overall staff responsibility, the SVO will conduct its own quality control checks of the financial modeler's valuation process. This approach reflects the need to ensure that financial values used to drive regulatory processes are disseminated by an organization controlled by and directly accountable to state insurance regulators. The SVO will have responsibility for panhe NA

III. Current Procedures Related to Determining RBC for CMBS

(a) NAIC Designations— The expected loss analysis and subsequent valuation process will relate expected losses to NAIC designations. NAIC Designations communicate credit risk (i.e., the probability of a default occurring) in securities using numerical symbols from NAIC-1 to NAIC-6. An NAIC-1 signifies a security with the lowest credit risk and highest quality, while an NAIC-6 signifies a security that is in or near default.

(b) An Overview of the RBC Process— RBC establishes levels of regulatory intervention linked to defined RBC ratios, with the Authorized Control Level Risk Based Capital being the total RBC needed for an insurer to avoid being taken into conservatorship.¹ Remedial actions available to the regulator depend on the level of RBC reported, in dollars and as a multiple of the Authorized Control Level Risk Based Capital. RBC classifies all insurance company risk into four major categories: asset risk, insurance risk, interest rate risk, and all other business risks.² A number of risk factors are then applied as multipliers to the asset or liabilities of the insurer to determine the minimum capital needed to bear the risk of loss associated with the activity. The factors themselves are estimates of possible loss associated with the activity. Asset risk, defined as the risk of default or loss in market value, represents the largest proportion of risk among the four RBC risks. NAIC Designations are used to set the risk factor that the insurer will use to calculate the RBC charge contribution to be made for every risk

IV. A Description of Products and Services Required Under This RFP

The analysis required under this RFP will use specific loan level data and a default-loss model to provide current and expected default probabilities and loss severities for each modeled CMBS CUSIP. The expected loss for each CMBS CUSIP will then be mapped to a table with corresponding values for each of the six NAIC designations.

The selected vendor will model each CMBS original list of CUSIPs to be provided by the SVO (see Section V). In addition, the SVO will provide an additional list, effective as of 12/31/10, during the first few days of 2011. The result of this project will be a table of values reflecting the relationship between the modeled expected value and the risk of loss associated with current RBC C-1 factors for each NAIC Designation category—i.e., NAIC-1 through NAIC-6.

The SVO will then publish a table with the values that correspond to each NAIC Designation category for each CUSIP. Regulated insurers determine the applicable NAIC Designation based on this information and their carrying value for each CMBS holding. Below is a sample of the RMBS table issued last year for several RMBS CUSIPs owned by a Life company:

Cusip	LIFE				
	NAIC-1	NAIC-2	NAIC-3	NAIC-4	NAIC-5
XXXXXXXX1	100.86	103.04	107.87	119.76	136.05
XXXXXXXX2	98.33	100.45	105.17	116.75	132.64
XXXXXXXX3	93.55	95.57	100.05	111.08	126.19
XXXXXXXX4	100.86	103.04	107.87	119.76	136.05
XXXXXXXX5	88.68	90.60	94.85	105.31	119.63
XXXXXXXX6	100.86	103.04	107.87	119.76	136.05
XXXXXXXX7	100.86	103.04	107.87	119.76	136.05

The assumptions and inputs used in the modeling process will be agreed upon between the successful bidder and the NAIC. In its response to this RFP, each vendor will identify the inputs required to run its model. The vendor will need to be able to run multiple economic scenarios and probability weighted results – this is similar to the approach taken for RMBS at year-end 2009.

V. RFP Specifications

- v Describe your company and your expertise and experience completing projects such as described in this RFP. Include a list of representative clients, if possible, with requirements similar to that of the NAIC as expressed in this RFP. If it is not possible to provide such a list, please indicate why.
- v Describe how your company would address and safeguard against potential conflicts of interest with other clients. Specifically, what is done to protect information learned or generated from a client engagement, and what systems are in place to protect the client relationship?
- v Describe your expected methodology and process analytic model(s), including inputs, outputs and how they can be used in risk measurement; frequency of model and input updates; and how your methodology differs from and/or is superior to other methodologies. Describe your timeline from input delivery to final product.
- v Describe how you would mitigate the risk of modeling bias.
- v Describe your quality control processes with respect to data inputs, intermediate and final results, and use of proprietary and third-party models.
- v Describe your capabilities in running multiple scenario analyses. Additionally, describe the method for determining the various scenarios, the probability of each scenario and the method and stage at which you integrate various scenarios into the final result.
- v Describe the source and the reliability of your data for loan level information on CMBS pools.
- v Describe the general approach used by your credit model, including the variables used. Describe the process of parameterization and back-testing of your model, including the dataset used to parameterize the model and the frequency of re-parameterization.
- v Describe your non-model credit process. Describe the types of non-remittance report information used in the credit process, how often obtained and how adjustments are made.
- v Describe the cash flow waterfall model engine used. Include a discussion of how you back-test to ensure validity with stated rules.

- v Describe your current library of modeled transactions and how it relates to the universe of CMBS securities in the market and owned by insurers. Discuss your process for adding transactions not currently in your library.
- v Describe your analytical infrastructure—i.e., the various components you consider essential to conduct the requested analysis of approximately 7,500 CMBS securities. Clearly identify any deadlines or other constraints the NAIC should be aware of, specifying any activity to be conducted by the NAIC having a material impact on your ability to perform in accordance with this timeline.
- v Describe the process by which the CUSIP-level analysis you will conduct under this RFP is documented and your ability and willingness to store that document on behalf of the NAIC or to send it to the NAIC for storage. Also describe any special software, systems or equipment necessary to reproduce the data as a usable data file or image.
- v Identify your fees for this project and discuss how these fees have been developed. Also note any additional costs or fees the NAIC would or could incur as part of the overall project beyond those associated with services identified herein.
- v Explain how your expertise could be leveraged to rate other structured finance products (for example, other asset-backed securities such as auto loans or credit cards). Discuss the degree of technical difficulty we could expect to encounter if we expanded the proposed model for use in risk assessment of these non-structured securities products.
- v Describe how your firm will provide post-transaction support to the NAIC in terms of staff commitments and anticipated length of this service. Also, please address how you will provide, and allow, NAIC access to your staff during this phase of the process.
- v Please provide a sample analysis of the 18 CUSIPs below:

Sample CUSIPs					
1	36828QPA8	7	17313KAQ4	13	55312VAA6
2	92979CAK3	8	22540A6G8	14	61745MZJ5
3	36246LAL5	9	36828QRY4	15	22541SWU8
4	52108H7E8	10	46632HAP6	16	617451DA4
5	05947UE20	11	52109PAN5	17	92978YAZ3
6	059500AJ7	12	929766Y23	18	61745MUN1

VI. Selection Criteria

The matrix below will be utilized in the review process to select the successful bidder:

Category

VII. Vendor Qualifications

As an organization comprised of regulators, it is extremely important our selection process be both equitable and transparent. Therefore, the following information is requested from each entity that submits a proposal:

- v Provide a list of references whom you have provided services similar to this proposal.
- v Identify the team members who will be providing this service to the NAIC. Describe their background and discuss their expertise providing this type of service.
- v Identify any known or potential conflicts of interest that may exist. For example, if your firm currently provides modeling services to any domestic insurance company, please disclose this relationship and level of service, along with your internal procedures relating to controlling or eliminating conflicts of interest.
- v In addition to the above qualifications, the successful bidder must meet the following qualifications:
 - o Have at least five years experience valuing structured securities, specifically CMBS.
 - o Have sufficient staffing and resources to permit immediate assignment to and accommodate completion of this project within established deadlines.
 - o

IX. Miscellaneous Information

The NAIC reserves the right to cancel this RFP, accept or reject any oral proposals, and to ask