

Michael S. Reynolds  
Director Portfolio Manager  
Federal Home Loan Mortgage Corporation  
8200 Jones Branch Drive  
McLean, VA 22102-3110

October 15, 2014

**Re: Freddie Mac STRUCTURED AGENCY CREDIT RISK (STACR®) DEBT NOTES,  
Series 2014-DN4 Due October 2024**

Dear Mr. Reynolds:

Freddie Mac (the “Applicant” as defined in Section 7 (a) of this letter), has requested that the NAIC Structured Securities Group (SSG) use the NAIC Approved Modeling Process to develop preliminary NAIC Designations for the tranches of the captioned structured security transaction identified in Section 1 below by their CUSIP Identifiers. Freddie Mac represents it intends to share the preliminary NAIC Designations 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 Condition Framework. The SSG has agreed to conduct this assignment to fulfill NAIC regulatory objectives entrusted to it as specified in Part Seven, Section 5 (a) through (c) 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 Designation - We hereby confirm, subject to the discussion, disclosures and limitations in this letter, that the preliminary NAIC Designations shown below for the tranches of the captioned structured security transaction were developed using the NAIC Approved Modeling Process, and 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.

Preliminary NAIC Designation for the CUSIP(s) Identifier:

CUSIP Number	Note Classes	NAIC Designation
3137G0CS6	Class M-1, STACR 2014-DN4	NAIC 1
3137G0CT4	Class M-2, STACR 2014-DN4	NAIC 4
3137G0CU1	Class M-3, STACR 2014-DN4	NAIC 4

With the exception of any item specifically attributed to the NAIC, the preliminary NAIC Designations 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 – The preliminary NAIC Designations for the tranches of the captioned structured security transaction 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”).

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 Designation. An official NAIC Designation 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 Designation can also be used by other insurance companies that own the captioned structured security transaction. Under the applicable procedure, if an insurance company purchases a tranche of the captioned structured security transaction identified in Section 1 above and reports it to the SSG, assuming no material changes to the captioned structured securities transaction or to the tranches were made, the SSG would convert the preliminary NAIC Designation shown above for the tranche into an official NAIC Designation in NAIC computer systems. An official NAIC Designation can be used by insurance companies for the NAIC regulatory purposes more fully described below.

3. Regulatory Implications – The preliminary NAIC Designations 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 captioned structured security transaction meets the definition of a Structured Note as defined in Part Three, Section 3 (b) (vi) of the Purposes and Procedures Manual, which is currently captured as a bond, in Statement of Statutory Accounting Principle (SSAP) No. 26, Bonds, Excluding Loan Backed and Structured Securities.*

*c. Financial Statement Blank Reporting - SSAP No. 26 long-term bonds are included in Schedule D, Part 1; and reporting entities are required to separately identify Structured Notes, on a CUSIP basis, with information by CUSIP for actual cost, fair value, book/adjusted carrying value, and whether the Structured Note is a Mortgage-Referenced Security, as defined in Part Seven, Section 5 (b) of the Purposes and Procedures Manual.*

*d. Valuation Rules for Bonds – Pursuant to paragraph 7 of SSAP No. 26: (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.*

e. RBC Factors

Description	Current Life RBC <sup>a</sup> Pre-Tax Factor	Current Life RBC After-Tax “Factor”	Current P&C RBC Factor	Current AVR <sup>b</sup> Maximum Reserve Factor
<b>Bonds /Preferred Stock</b>				
Class <sup>c</sup> 1	0.4%	0.3%	0.3%	0.3%
Class 2	1.3%	1.0%	1.0%	1.0%
Class 3	4.6%	3.4%	2.0%	3.4%
Class 4	10.0%	7.4%	4.5%	7.5%
Class 5	23.0%	17.0%	10.0%	17.0%
Class 6	30.0%	19.5%	30.0%	20.0%

<sup>a</sup> - The risk-based capital (RBC) is a calculation of the regulatory minimum capital and surplus that a company should have which is compared to the actual capital and surplus a company has. Certain actions by the company or state are specified if the minimum capital level is not met. No liability is set up on the balance sheet as a result of the RBC calculation.

<sup>b</sup> - The asset valuation reserve (AVR) is a liability that is set up on the balance sheet of a life insurer or fraternal benefit society based on the assets that are owned and the credit-related gains or losses that the company incurs.

<sup>c</sup> - The word class means and refers to the noted NAIC Designation category.

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 Designation 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 Designations. *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 Designations (whether preliminary or official) are not indicators of, or opinions about, the adequacy or effectiveness of protective elements in the transaction documents. NAIC Designations (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 – The NAIC SSG has agreed to the inclusion of the text that appears in the Offering Circular for the captioned security under the heading: *Indicative Regulatory Assessment For Regulated Insurance Company Purchasers of Notes* (the “Indicative Regulatory Assessment Text”). The Indicative Regulatory Assessment Text discloses the Applicant’s request for the regulatory assessment transmitted in this RTAS Letter and explains the regulatory function of the preliminary NAIC Designation. The NAIC SSG does not consent to the use of The Indicative Regulatory Assessment Text, the RTAS Letter, the preliminary NAIC Designations 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. Limitations of Financial Modeling

*a. No Assurance of Economic Performance* - 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 Designations.

## 7. 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 or if you say that the analysis was conducted to assist state insurance regulators and refer the communicant to the Regulatory Treatment Analysis Service (RTAS) Application on the SSG webpage at: [Regulatory Treatment Analysis Service \(RTAS\) Application](#).

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 Designation 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 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 in Section 1 above or any official NAIC Designation 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 Group  
*For the Senior Credit Committee*

cc: Robert Carcano, Senior Counsel, NAIC Investment Analysis Office

**Schedule A**

<b>Source</b>	<b>Description</b>	<b>As of Date</b>																						
STACR 2014-DN4 Preliminary Offering Circular ("POC")	Subject to Completion, Dated October 15, 2014	N/A																						
STACR 2014-DN4 Data Files	Reference Loan Data (Final)	10/03/2014 Cut-Off Date (09/15/2014)																						
STACR 2014-DN4 Dealer's Due Diligence Review	Third Party Due Diligence Review - Narrative Report - Relevant Reports/Summary	10/07/2014 06/26/2014 – 08/07/2014																						
STACR 2014-DN4 Class Coupon Formula	As provided by Freddie Mac M-1: One-Month LIBOR + 1.35% M-2: One-Month LIBOR + 2.05% M-3: One-Month LIBOR + 3.60%	N/A																						
STACR 2014-DN4 Credit Enhancement	As per POC Class A-H ..... 5.20% Class M-1 and Class M-1H ..... 4.20% Class M-2 and Class M-2H ..... 2.90% Class M-3 and Class M-3H ..... 0.50% Class B-H ..... 0.00%	N/A																						
STACR 2014-DN4 Applicable Severity	As per POC 'Cumulative Net Credit Amounts less than or equal to 1.00%' → Loss Severity of 15.00% 'Cumulative Net Credit Amounts greater than 1.00% and less than or equal to 2.00%' → Loss Severity of 25.00% 'Cumulative Net Credit Amounts greater than 2.00%' → Loss Severity of 40.00%	N/A																						
STACR 2014-DN4 Minimum CE Test	As per POC Satisfied if Subordinate Percentage is greater than or equal to 5.70%.	N/A																						
STACR 2014-DN4 Cumulative Net Credit Event Test	As per POC Cumulative Net Credit Event Percentage does not exceed the applicable percentage below:  <table border="0"> <thead> <tr> <th><u>Payment Date in the period</u></th> <th><u>Limit</u></th> </tr> </thead> <tbody> <tr> <td>Nov-2014 to Oct-2015</td> <td>..... 0.25%</td> </tr> <tr> <td>Nov-2015 to Oct-2016</td> <td>..... 0.50%</td> </tr> <tr> <td>Nov-2016 to Oct-2017</td> <td>..... 0.75%</td> </tr> <tr> <td>Nov-2017 to Oct-2018</td> <td>..... 1.00%</td> </tr> <tr> <td>Nov-2018 to Oct-2019</td> <td>..... 1.25%</td> </tr> <tr> <td>Nov-2019 to Oct-2020</td> <td>..... 1.50%</td> </tr> <tr> <td>Nov-2020 to Oct-2021</td> <td>..... 1.75%</td> </tr> <tr> <td>Nov-2021 to Oct-2022</td> <td>..... 2.00%</td> </tr> <tr> <td>Nov-2022 to Oct-2023</td> <td>..... 2.25%</td> </tr> <tr> <td>Nov-2023 and thereafter</td> <td>..... 2.50%</td> </tr> </tbody> </table>	<u>Payment Date in the period</u>	<u>Limit</u>	Nov-2014 to Oct-2015	..... 0.25%	Nov-2015 to Oct-2016	..... 0.50%	Nov-2016 to Oct-2017	..... 0.75%	Nov-2017 to Oct-2018	..... 1.00%	Nov-2018 to Oct-2019	..... 1.25%	Nov-2019 to Oct-2020	..... 1.50%	Nov-2020 to Oct-2021	..... 1.75%	Nov-2021 to Oct-2022	..... 2.00%	Nov-2022 to Oct-2023	..... 2.25%	Nov-2023 and thereafter	..... 2.50%	N/A
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NAIC Economic Assumptions	Number of Scenarios and Weights	Year-End 2014																						
	YE 2014 RMBS Modeling Economic Scenarios	N/A																						