Structured Agency Credit Risk Debt Notes, Series 2014-DN2

Freddie Mac Risk Transfer Transaction

Presale Report

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Related Presale Appendix

Structured Agency Credit Risk Debt Notes, Series 2014-DN2 (March 2014)

Related Criteria

U.S. RMBS Loan Loss Model Criteria (August 2013)

U.S. RMBS Rating Criteria (July 2013)

U.S. RMBS Representations and Warranties Criteria (June 2013)

Global Structured Finance Rating Criteria (May 2013)

U.S. RMBS Originator Review and Third-Party Due Diligence Criteria (April 2013)

U.S. RMBS Cash Flow Analysis Criteria (April 2013)

Global Rating Criteria for Single- and Multi-Name Credit-Linked Notes (February 2013)

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Capital Structure

Class	Expected Rating	Expected Outlook	Amount ($ Mil.)	CE (%)	Interest Rate (%)	Final Maturity	TT (%)	TTLM (x)
A-H[a]	NR	N.A.	26,880.37	4.50	N.A.	N.A.	95.50	136.43
M-1[b]	Asf	Stable	230.00	3.50	TBD	April 2024	1.00	1.43
M-1H[a]	NR	N.A.	51.47	3.50	N.A.	N.A.	1.00	1.43
M-2[b]	BBB–sf	Stable	345.00	2.00	TBD	April 2024	1.50	2.14
M-2H[a]	NR	N.A.	77.20	2.00	N.A.	N.A.	1.50	2.14
M-3[b]	NR	N.A.	391.00	0.30	TBD	April 2024	1.70	2.43
M-3H[a]	NR	N.A.	87.50	0.30	N.A.	N.A.	1.70	2.43
B-H[a]	NR	N.A.	84.44	0.00	N.A.	N.A.	0.30	0.43
Total			**28,146.98**					

[a]Classes A-H, M-1H, M-2H, M-3H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Freddie Mac. [b]Original notes, which can be exchanged for modifications and combinations (MAC) notes. See Appendix E for more information on MAC notes and exchangeable combinations. Note: Expected ratings do not reflect final ratings and are based on information provided by the issuer as of March 28, 2014. These expected ratings are contingent on final documents conforming to information already received. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase. Note: TTLM (tranche-thickness loss multiple) is calculated using the 'Bsf' expected loss assumption. CE – Credit enhancement. NR – Not rated. N.A. – Not applicable. TBD – To be determined.

Transaction Summary

Fitch Ratings expects to rate the M-1 and M-2 notes on Freddie Mac's fourth risk transfer transaction, Structured Agency Credit Risk (STACR) Debt Notes, Series 2014-DN2. The notes are general unsecured obligations of Freddie Mac (AAA/Stable) but are subject to the credit and principal payment risk of a pool of certain residential mortgage loans (reference pool) held in various Freddie Mac-guaranteed mortgage-backed securities (MBS).

While the transaction structure simulates the behavior and credit risk of traditional RMBS mezzanine and subordinate securities, Freddie Mac will be responsible for making monthly payments of interest and principal to investors based on the payment priorities set forth in the transaction documents.

Given the structure and counterparty dependence on Freddie Mac, Fitch's rating on the M-1 and M-2 notes, along with their corresponding MAC notes, will be based on the lower of: the quality of the mortgage loan reference pool and credit enhancement available through subordination; and Freddie Mac's issuer default rating (IDR). The notes will be issued as uncapped LIBOR-based floaters and have 10-year legal final maturities.

Key Rating Drivers

Prime Quality Mortgage Reference Pool: The reference mortgage loan pool consists of 116,677 prime quality mortgages totaling $28.15 billion acquired by Freddie Mac in 3Q13. Weighted average combined loan-to-value, debt-to-income, and credit scores are 76.4%, 33.2%, and 760, respectively. All loans were underwritten with full documentation. The reference pool also benefits from significant geographic diversity with the largest metropolitan statistical area (MSA) accounting for 7.5%.

Market Value Decline Sensitivity: Fitch considered additional market value decline (MVD) sensitivities in addition to those generated by its sustainable home price model. These scenarios aligned Fitch's 'Asf' sustainable MVD assumptions with peak-to-trough market value declines experienced during the housing crisis through 2009. The sensitivity analysis, which was factored into Fitch's loss expectations, resulted in applying a sMVD of 12% from 14%.

Additional Rating Drivers

Solid Lender Review and Acquisition Processes: Based on its review of Freddie Mac's aggregator platform, Fitch believes that Freddie Mac has a well-established and disciplined credit-granting process in place and views its lender approval and oversight processes for minimizing counterparty risk and ensuring sound loan quality acquisitions as positive. Loan quality control (QC) review processes are thorough and indicate a tight control environment as evidenced by the very few findings noted by the third-party due diligence results. Tight controls lower operational risk and improve overall loan quality. The lower risk was accounted for by Fitch by applying a lower default estimate for the reference pool.

Few Findings in Third-Party Diligence: While only 1,000 loans in the reference pool were selected for review by a third-party diligence provider, the results indicated limited findings or were deemed as nonmaterial by Fitch. The overall results are reflective of Freddie Mac's tight control over the documentation and loan delivery process.

Eminent Domain Risk Mitigated: The STACR Series 2014-DN2 transaction includes a provision that protects investors against eminent domain risk. Loans will be removed from the reference pool if they are seized pursuant to any special eminent domain proceeding brought by any federal, state, or local government.

Fixed Loss Severity: The transaction's fixed loss severity schedule tied to cumulative net credit events is a positive feature as it reduces uncertainty that may be driven by future changes in Freddie Mac's loss mitigation or loan modification policies and offers investors greater protection against natural disaster events where properties are severely damaged and there is limited or no recourse to insurance. If the actual loan loss severity is above the set schedule, Freddie Mac absorbs the higher losses.

Advantageous Payment Priority: The payment priority of the M-1 class will result in a shorter life and more stable credit enhancement than mezzanine classes in private label (PL) RMBS, providing a relative credit advantage. Unlike PL mezzanine RMBS, which often do not receive a full pro rata share of the pool's unscheduled principal payment until year 10, the M-1 class can receive a full pro rata share of unscheduled principal immediately as long as a minimum credit enhancement level is maintained and the net cumulative credit event is within a certain threshold. Additionally, unlike PL mezzanine classes, which lose subordination over time due to scheduled principal payments to more junior classes, the M-2, M-3, and B-H classes will not receive any scheduled or unscheduled allocations until the M-1 is paid in full. The B-H class will not receive any scheduled or unscheduled principal allocations until the M-3 is paid in full.

10-Year Hard Maturity: The M-1, M-2, and M-3 notes benefit from a 10-year legal final maturity. As a result, any collateral losses on the reference pool that occur beyond year 10 are borne by Freddie Mac and do not affect the transaction. Fitch accounted for the 10-year hard maturity window in its default analysis and applied a 10% reduction to its lifetime default expectations.

Rep and Warranty Sunsets: All of the loans were acquired by Freddie Mac in 3Q13, which qualify for the new representation and warranty framework adopted by Freddie Mac through its regulator, the U.S. Federal Housing Finance Agency (FHFA), for conventional loans sold or delivered after Jan. 1, 2013. Under the new framework, lenders will be provided repurchase relief from underwriting breaches for loans that have made 36 consecutive on-time payments or those with no more than two 30-day delinquencies and no 60-day or greater delinquencies that were current on the 60th month. In conjunction with this change, Freddie Mac enhanced its

Related Research

Fitch Affirms Fannie Mae and Freddie Mac Ratings Following US Sovereign Action; Outlook Stable (March 2014)GSE Mortgage Credit Risk Analysis (July 2013)

U.S. RMBS 2.0: Reps and Warranties Changing Landscape (February 2013)

U.S. Housing Finance GSEs: Where to from Here (February 2013)

Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions (April 2012) performing loan QC process and instituted incentives for lenders to maintain high quality loan standards.

Seller Insolvency Risk Present: While the loan defect risk for 2014-DN2 is notably lower than for agency and non-agency mortgage pools securitized prior to 2009, Fitch believes the risk is greater for this transaction than for recently issued U.S. PL RMBS. Notably, Freddie Mac does not conduct reviews of loans from a seller once it has filed for bankruptcy. Fitch incorporated this risk into its analysis by treating all historical repurchases as if they were defaulted loans that were not repurchased. Consequently, the rating analysis includes an assumption that the loans will experience defect rates consistent with historical rates and that those defects will not be repurchased.

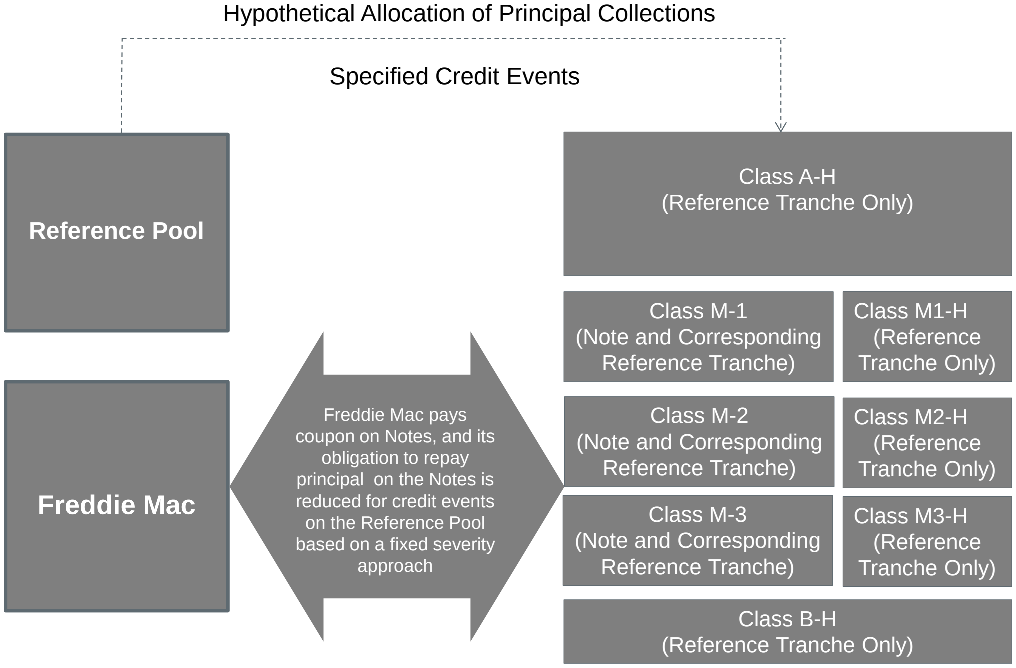
Solid Alignment of Interests: While the transaction is designed to transfer credit risk to private investors, Fitch believes the transaction benefits from solid alignment of interests. Freddie Mac will be retaining credit risk in the transaction by holding the senior reference tranche A-H, which has 4.5% of loss protection, as well as the first-loss B-H reference tranche, sized at 30 bps. Freddie Mac is also retaining an 18% vertical slice/interest in the M-1, M-2, and M-3 tranches.

Special Hazard Leakage: Fitch believes the structure is vulnerable to special hazard risk as there is no consideration for payment disruptions related to natural disaster events in the credit event definition. As such, credit protection in the transaction may be eroded by natural disasters that may cause extended delinquencies (that may in part be allowed by disaster relief programs) but where borrowers ultimately cure. Fitch considered this risk in its analysis, conducted sensitivity analysis and found, based on prior observed performance in post-natural disaster events including Hurricane Katrina and the Northridge earthquake, the risk exposure is relatively low.

Receivership Risk Considered: Under the Federal Housing Finance Regulatory Reform Act, the FHFA must place Freddie Mac into receivership if it determines that Freddie Mac's assets are less than its obligations for longer than 60 days following the deadline of its SEC filing. As receiver, FHFA could repudiate any contract entered into by Freddie Mac if it is determined that it would promote an orderly administration of Freddie Mac's affairs. Fitch believes that the U.S. government will continue to support Freddie Mac as reflected in its current rating of Freddie Mac. However, if at some point Fitch views the support as being reduced and receivership likely, the rating of Freddie Mac could be downgraded and the ratings on the M-1 and M-2 notes, along with their corresponding MAC notes, could be affected.

Transaction Overview

Structured Agency Credit Risk Debt Notes, Series 2014-DN2 (STACR 2014-DN2) represents Freddie Mac's fourth risk-transfer transaction and is in line with the FHFA's Conservatorship Strategic Plan for 2013. Under this plan, each enterprise needs to demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion of unpaid principal balance in 2013. This transaction follows Freddie Mac's STACR 2014-DN1 transaction that closed in February 2014 and employs a very similar structure.



The objective of the transaction is to transfer credit risk from Freddie Mac to private investors with respect to a $28.15 billion pool of mortgage loans currently held in previously issued MBS guaranteed by Freddie Mac. The transaction effectively mimics a credit-linked note structure with the principal repayment of the notes subject to the performance of a reference pool of mortgage loans. As loans become 180 days delinquent or other credit events occur, the outstanding principal balance of the debt notes will be reduced by a pre-defined, tiered loss severity percentage related to those credit events.

While the transaction repayment profile is linked to the performance of the reference pool, the notes issued are unsecured obligations of Freddie Mac and have the same priority as all of its other unsecured and unsubordinated debt. Freddie Mac continues to operate its business under conservatorship and the direction of the FHFA, its regulator. The ratings of both Fannie Mae and Freddie Mac are directly linked to the U.S. sovereign rating, based on Fitch's view of the U.S. government's direct financial support of the two housing government-sponsored enterprises (GSEs). If, at some point in the future, Fitch views the strength of support as being reduced, the ratings of Freddie Mac may be delinked from the sovereign and downgraded.

The actual cash flows from the reference pool will not be paid to the holders of the notes but rather Freddie Mac will make monthly payments of accrued interest and periodic payments of principal to the noteholders based on payment priorities set forth in the transaction's governing documents. If Freddie Mac is placed into receivership or defaults on its senior unsecured obligations, investors in the M-1,M-2 and M-3 notes will not have recourse to the reference pool, and recoveries on outstanding notes will be on par with other outstanding senior unsecured obligations (subject to performance of the reference pool).

Transaction Structure

The STACR 2014-DN2 debt notes will be subject to the performance of the mortgage loans included in the reference pool (reference obligations) and, as such, are intended to simulate the repayment behavior and credit risk of a private-label U.S. RMBS bond.

Classes A-H, M1-H, M2-H, M-3H, and B-H are reference tranches and have a notional amount only for calculating principal and credit event allocations as they relate to the mortgage loans comprising the reference pool. The class M-1, M-2, and M-3 notes correspond to the Class M-1H, M-2H, and M-3H reference tranches and their notional balances for calculating principal allocations and credit event reductions but only the notes are being offered and sold as part of the STACR 2014-DN2 transaction. Principal and interest distributions will only be made to the class M-1, M-2, and M-3 notes.

The offered notes will have a 10-year legal final maturity as well as an early redemption option once the aggregate unpaid principal balance of the reference pool is less than or equal to 10% of the original balance.

Unscheduled principal will be paid pro rata to subordinated classes as long as the senior reference tranche has credit enhancement of 5% and the cumulative net credit test is satisfied.

Principal and Interest

Freddie Mac will make monthly payments of accrued interest and periodic payments of principal to the M-1, M-2, and M-3 notes. The actual cash flows from the reference obligations will not be paid to the holders of the notes. Rather, interest will be paid at the note rate and the amount of principal payable each month will replicate scheduled and unscheduled principal received on the reference obligations and also include calculated recovery principal on credit event loans, the balance of loan removals due to rep and warranty repurchases by the underlying sellers, and any adjustments to the loan balances arising from modifications. Scheduled and unscheduled principal reductions and distributions are more fully described under Financial Structure, Credit Enhancement, and Cash Flow Analysis beginning on page 19.

Generally, scheduled principal will be allocated pro rata between the senior A-H tranche and the subordinated classes (class M-1H, class M-2H, class M-3H, and class B-H reference tranches and class M-1, class M-2, and class M-3 notes). As long as a minimum credit enhancement of 5% for the senior A-H tranche has been maintained and the cumulative net credit event test is satisfied, unscheduled principal will also be allocated to the subordinate classes.

Among the subordinated classes, principal will be allocated sequentially: first, pro rata to the class M-1H notes and M-1 reference tranche until reduced to zero; second, to the M-2H reference tranche and M-2 notes pro rata until reduced to zero; third, to the M-3H reference tranche and M-3 notes pro rata until reduced to zero; fourth, to the B-H reference tranche. Principal will be allocated to the M-1H reference tranche and M-1 notes pro rata, the M-2H reference tranche and M-2 notes pro rata, and the M-3H reference tranche and M-3 notes pro rata but will be distributed only to the class M-1, M-2, and M-3 notes.

Credit Events

The reference tranches and class M-1, M-2, and M-3 note balances will also be reduced by pre-defined, tiered-loss severity percentages for reference obligations that experience a credit event. However, current month credit events will be reduced by reversals of prior months' credit events and any application of rep and warranty settlement amounts at the loan level, if any. As a result, the loss severity calculations will be applied to net credit event amounts each month.

Credit events experienced by the reference obligations include the following events:
- 180 or more days delinquent (regardless of any grant of forbearance).
- A short sale is settled.
- The related mortgage note is sold to a third party during the foreclosure process.
- A deed in lieu of foreclosure is executed.
- A real estate owned (REO) acquisition occurs.

Reversals of prior months' credit events will be applied if the reference obligations are found in the related reporting period through Freddie Mac's QC process to have an underwriting defect or a data correction invalidating the credit event. Underwriting defects include the following:

1. The reference obligation is repurchased by the related seller or servicer.
2. In lieu of repurchase, an alternative remedy (such as indemnification) is mutually agreed upon by both Freddie Mac and the seller or servicer.
3. Freddie Mac in its sole discretion elects to waive the enforcement of a remedy against the seller or servicer in respect of an unconfirmed underwriting defect (as more fully described on page 18).
4. The party responsible for the representations and warranties and/or servicing obligations or liabilities with respect to the reference obligation becomes subject to a bankruptcy or insolvency proceeding or is put into receivership (for reference obligations for which Freddie Mac has determined the existence of an unconfirmed underwriting defect).

Loss Severity Tiered Percentages and Tranche Writedowns/Ups

The B-H, M-3H, M-2H, M-1H, and A-H reference tranches and the M-1, M-2, and M-3 notes will be subject to tranche writedowns equal to the net credit event amount each month times a loss severity percentage based on a predetermined tiered structure as follows.

If credit event reversals exceed the current month's credit events, the reference tranches and notes previously subject to tranche writedowns will be written back up. The tranche writeup amount will be equal to the excess of reversals over credit events times the loss severity percentage for the current payment date. The applicable severity rate for the credit events allocated on that date will be a blended rate if the cumulative net credit events through that date cross between the tiers.

The subordinate reference tranches and the M-1, M-2, and M-3 notes will be subject to tranche writedowns equal to the net credit event amount times a loss severity percentage.

Loss Severity Schedule

If Cumulative Net Credit Amounts Are:	Loss Severity % Applied
<= to 1% of the Cut-off Date Unpaid Balance	15
>1% but <=2%	25
>2%	40

Credit Enhancement

The B-H reference tranche is subordinated to the class M-3H reference tranche and M-3 notes, the class M-2H reference tranches and M-2 notes, and the class M-1H reference tranche and the class M-1 notes. All of the class B and M reference tranches as well as the M-1, M-2, and M-3 notes are subordinated to the senior A-H reference tranche.

Tranche writedowns will be first allocated to the class B-H reference tranche until it is reduced to zero. Thereafter, the M-3H reference tranche and the M-3 note balance will be written down, pro rata until those balances are reduced to zero. Once the M-3H and M-3 tranches are reduced to zero, the M-2H reference tranche and the M-2 note balance will be written down, pro rata, until those balances are reduced to zero. Next, tranche writedowns will be allocated to the M-1H and M-1 notes pro rata. The A-H tranche will be written down once the M-1H and M-1 are reduced to zero.

Compared with STACR 2013-DN2 and CAS 2014-C01, STACR 2014-DN2 has a higher concentration of purchase loans.

Tranches previously written down will be written back up (only up to amounts previously written down) due to reversals of credit events and any rep and warranty settlement amounts that relate to the specific loans that experienced a credit event or reversal of a credit event during the prior payment period. Tranche writeups will be applied to offset previously applied writedowns: first to the A-H senior reference tranche, second to the M-1H reference tranche and M-1 notes pro rata, third to the M-2H reference tranche and M-2 notes pro rata, fourth to the M-3H reference tranche and M-3 notes pro rata, and fifth to the B-H reference tranche.

Loans are not added back to the reference pool when there are credit event reversals; rather, the offset to any tranche writeup is made by applying a corresponding reduction to the senior Class A-H reference tranche through its senior reduction amount. This, in turn, reduces the senior reference tranche's percentage interest in principal reductions for future payment dates while increasing the percentage interest in principal allocations and/or payments for those tranches written up.

Transaction Comparison

Transaction Name	STACR 2014-DN2 (Freddie Mac)	STACR 2013-DN2 (Freddie Mac)	Connecticut Avenue 014-C01 (Fannie Mae)	Private Label RMBS Deal Average
Current Pool Balance ($)	28,146,981,246	35,327,316,632	29,308,718,890	421,000,000
Average Loan Balance ($)	241,238	242,636	239,664	823,000
Number of Loans	116,677	145,598	122,291	514
Top Three Originators (%)	JPM (19), USB (10), BBT (6)	WF (21), USB (12), JPM (12)	WF (17), FL(7), PM (5)	N.A.
Seasoning (Months)	6	7	12	5
WA LTV (%)	75	74	75	66
WA CLTV (%)	76	75	76	67
WA sLTV (%)	89	86	82	78
WA FICO	760	764	765	771
WA DTI (%)	33	32	32	30
FRMs/ARMs (%)	100/0	100/0	100/0	95/5
IO (%)	0	0	0	6.6
Full Documentation (%)	100	100	100	100
WA Original Term	360	360	360	348
Piggy Back Seconds (%)	9	10	10	11
Primary Residence (%)	88	89	87	94
Purchase (%)	53	27	31	37
Retail (%)	45	40	47	67
2+ Borrower (%)	59	61	59	N.A.
Property Type (%)				
Single-Family/PUD	88	91	87	92
Geographic Concentration (%)				
Largest State	(CA) 20.9	(CA) 24.5	(CA) 30.0	(CA) 46.9
Top 3 States	32	35	39	66
Top 5 States	41	43	47	75
PD Assumption (Lifetime)				
AAAsf	19.85*	19.10*	16.75*	12.50[a]
AAsf	16.00*	15.40*	13.40*	9.75[a]
Asf	12.30	11.80	10.30	7.50[a]
BBBsf	8.75	8.40	7.30	5.50[a]
BBB–sf	7.65	7.40	6.40	5.00[a]
BBsf	5.50	5.30	4.55	4.00[a]
Bsf	3.35	3.10	2.45	2.60[a]

[a]Average for Fitch-reviewed/analyzed transactions 2011–2013. * Indicative Levels Only
BBT – Branch Bank & Trust. WF – Wells Fargo. JPM – JP Morgan Chase. FL – Flagstar. USB – US Bank.
NR – Not rated. N.A. – Not applicable. WA – Weighted average. PUD – Planned unit development.
IO – interest only. FICO – Fair Isaac Corp. score. DTI – debt-to-income ratio.
Source: Termsheet.

Asset Analysis

The reference pool represents 116,677 mortgage loans originated primarily in Q213 and Q313 and acquired by Freddie Mac during 3Q13 that meet the eligibility criteria (defined in the table to the left) out of an initial cohort population of 122,987 loans. To be eligible to be included in the reference pool, loans must satisfy eligibility criteria. Discovery of certain violations of eligibility criteria will result in a reference pool removal.

Reference Pool Eligibility Criteria

a) Fully amortizing.
b) Fixed rate.
c) 1–4 unit.
d) First lien.
e) Original term of 30 years.
f) Original LTV >60% and <=80%.
g) Originated on or after April 1, 2013.
h) Was securitized into a mortgage participation certificate (PC) by March 4, 2014.
i) Not covered by mortgage or pool insurance.
j) Was not subject to a lender recourse or indemnification agreement.
k) Was not originated under Freddie Mac's Relief Refinance program, Home Possible, Home Affordable Refinance Program (HARP), or other affordable mortgage programs of Freddie Mac.
l) Has an original principal balance >=$5,000
m) As of Jan. 31, 2014 has never been reported 30 days or more delinquent.
n) Was not originated under a government program (eg FHA, VA, or Guaranteed Rural Housing loans).

Collateral Attribute Comparison

Vintage	Sum (000)	Average Loan	WAC	LTV	CLTV	DTI	Credit Score	Purchase (%)	Owner Occupied (%)	CA (%)
1999	137,909,518	125,941	7.3	77.5	77.6	33.2	712	58	94	17
2000	103,662,770	131,819	8.1	78.2	78.8	35.2	714	76	92	12
2001	259,616,751	147,797	7.0	75.5	76.2	33.7	717	39	94	17
2002	261,966,524	155,513	6.5	73.8	74.9	33.9	720	36	94	18
2003	311,446,862	161,429	5.7	72.2	73.5	32.8	725	29	94	16
2004	188,449,273	166,657	5.8	73.6	75.4	35.6	718	46	92	14
2005	239,850,767	181,201	5.8	72.2	74.1	36.9	724	44	93	13
2006	202,446,473	186,962	6.4	72.9	75.7	38.0	723	50	91	10
2007	202,135,111	189,025	6.4	74.3	77.2	38.2	724	47	90	11
2008	209,683,453	212,810	6.0	72.0	73.8	37.8	741	42	89	16
2009	344,439,645	227,701	5.0	67.1	68.9	32.8	763	24	93	18
2010	176,599,235	224,150	4.8	69.9	71.3	33.3	762	37	90	21
2011	130,966,531	235,910	4.6	71.1	72.4	33.4	763	43	90	25
STACR 2014-DN2	**28,146,981**	**241,238**	**4.0**	**75.3**	**76.4**	**33.2**	**760**	**53**	**88**	**21**
STACR 2013-DN2	**35,327,317**	**242,636**	**3.6**	**74.3**	**75.3**	**32.2**	**764**	**27**	**89**	**25**

WAC – Weighted average coupon. DTI – Debt-to-income ratio. CLTV – Combined loan-to-value ratio. CA – California.

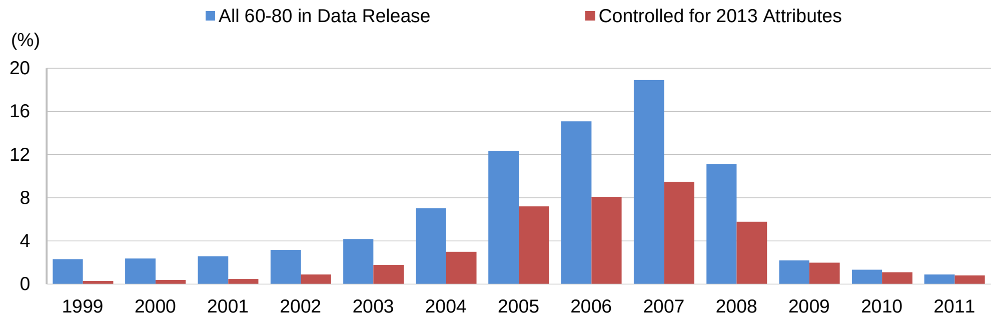
Fitch believes the reference pool is diverse and composed of high-quality prime collateral. The pool is approximately six months seasoned with clean payment histories since acquisition. Compared to historical Freddie Mac vintages, the pool has similar attributes to 2009 to 2011 vintages.

Overall, the reference pool for STACR 2014-DN2 is very similar to STACR 2013-DN2. Notable differences include a higher percentage of purchase loans (53% compared to 27%) and a lower WAVG credit score (760 compared to 764). There are also higher sLTVs among the STACR 2014-DN2 borrowers. This transaction also has a higher percentage of retail loans (45% compared to 40%) and slightly lower California concentration (21% compared to 25%).

Recently originated loans in both agency and non-agency are high credit quality and are expected to experience lower lifetime defaults than loans originated in prior years. New agency pools will likely experience modestly higher defaults than recently issued non-agency loans due to differences in credit attributes. The main drivers behind the higher default expectations are higher CLTVs and lower property values. Furthermore, non-agency borrowers tend to have substantial liquid reserves, but for agency borrowers this information was not made available to Fitch. In addition, Fitch has found the relationship of a loan's property value to the state-level median property value to be highly predictive of borrower default. Agency mortgage pools have lower property value ratios than non-agency mortgage pools, which results in higher default expectations.

For a detailed description of Fitch's approach to analyzing the mortgage loans, see GSE Mortgage Credit Risk Analysis listed under Related Research on page 2.

Historical Freddie Mac Default Rates
(As of Second-Quarter 2013)



Reference Pool Sellers

Reference Pool Loan Sellers	%
JP Morgan Chase Bank, N.A.	19
US Bank, N.A.	10
Branch Banking & Trust	6
Suntrust Mortgage	5
Wells Fargo Bank N.A.	5
Guaranteed Rate, Inc.	3
CitiMortgage, Inc.	3
PennyMac Corp	3
Quicken Loans Inc.	2
Caliber Home Loans, Inc.	2
Other	41
Top 5	46
Top 10	59

In early 2013, both Freddie Mac and Fannie Mae released historical loan level performance data for loans originated in 1999 through 2012. Fitch's analysis of these datasets was published in a special report titled "GSE Mortgage Credit Risk Analysis" dated July 2013. The table above compares Freddie Mac cumulative default performance for historical vintages through 2011 with performance tracked through 2Q13. It also shows defaults adjusted for the eligibility parameters applied to STACR 2014-DN2 reference portfolio.

Collateral Attribute Distribution

OCLTV Range	% Pool	Credit Score Range	% Pool	DTI Range	% Pool	UPB Range	% Pool
60.01–65.00	7	<680	3	0–25	23	<$100K	3
65.01–70.00	12	680–719	14	25.01–30	15	$100.01K–$200K	21
70.01–75.00	21	720-739	11	30.01–40	34	$200.01K–$300K	27
75.01–80.00	53	740-759	14	40.01–45	21	$300.01K–$400K	25
80.01–90.00	6	760-779	20	45.01–50	7	$400.01K–$500K	16
90.01–100.00	1	> 780	38	>50.01	0	>$500.0K	8

OLTV – Original loan-to-value ratio. DTI – Debt-to-income ratio. UPB – Unpaid principal balance.

Based on its analysis of the historical datasets, Fitch determined that Fannie Mae, Freddie Mac and prime jumbo loans have comparable sensitivities to default drivers. As such, agency and prime jumbo loans were analyzed together. The probability of default (PD) model was developed using a logistic regression analysis on a sample of fixed-rate, fully amortizing loans consisting of loans originated between 1999 and 2009. Through the regression analysis, Fitch identified 13 significant drivers of default.

Collateral Loss Assumptions

(%)

Rating	sMVD	Lifetime PD	Adjusted PD	Implied Blended LS (%)	ELoss
AAAsf[a]	43.8	19.85[a]	15.90	37.42	5.95
AAsf[a]	39.5	16.00[a]	12.80	36.72	4.70
Asf	35.2	12.30	9.85	35.53	3.50
BBBsf	30.9	8.75	7.00	34.29	2.40
BBB–sf	29.4	7.65	6.10	32.79	2.00
BBsf	26.5	5.50	4.40	30.68	1.35
Bsf	22.2	3.35	2.70	25.93	0.70

Adjusted for 10-year maturity and operational quality of Freddie Mac as an aggregator. [a]Indicative levels only. sMVD – Sustainable market value decline. PD – Probability of default; LS – Loss severity. ELoss – Expected loss. Note: Numbers rounded.

Key Probability of Default Drivers

Fitch's default projections were determined with a loan-by-loan analysis of the mortgages, establishing a projected default for the aggregate pool. The agency's PD analysis focused on both the borrower's willingness and ability to pay their mortgage debt. The pool's key PD drivers, as determined by Fitch, are described in the following sections.

Low CLTV and sLTV — Positive

The weighted average (WA) original LTV of 75% and WA combined LTV (CLTV) of 76.4% represent adequate equity in the property and reduced default probability. While 9.2% of the loans have second liens, the WA mark-to-market (MtM) CLTV is 75% based on the third-quarter 2013 Case Shiller home price index. All mortgages in this pool are in the first-lien position. After taking into account Fitch's market value decline estimates, the base case WA sustainable loan-to-value ratio (sLTV) on the pool is 88.9%. The sLTV is an indication that the borrowers will still have enough equity to absorb a sustainable market value decline (sMVD) of 13.6%, estimated by Fitch's model.

The sLTV is calculated based on the lower of the appraisal value and the value determined by Fitch's sustainable home price (SHP) model. The SHP model calculates the declines necessary to return to sustainable home prices at the state level or MSA level. The sMVD used to calculate SHP is based on regional economic conditions and analysis of fundamental price drivers. The sLTV reflects equity in the property after adjusting for changes in market value needed to achieve price sustainability. Further detail on Fitch's SHP model can be found in Fitch Research on "U.S. Prime RMBS Loan Loss Model Criteria," dated August 2013, available at Fitch's website at www.fitchratings.com.

Original CLTV Ratios

Original CLTV (%)	Number of Mortgage Loans	WA Original FICO	WA Original CLTV (%)	% of Mortgage Pool
Not Available	1	676	N.A.	0.00
60.01–65.00	8,568	760	63.31	7.29
65.01–70.00	14,024	757	68.39	12.29
70.01–75.00	24,306	762	73.82	20.90
75.01–80.00	63,996	760	79.54	52.91
80.01–85.00	1,342	756	83.80	1.55
85.01–90.00	3,441	758	89.31	4.09
90.01–95.00	999	752	94.02	0.96
Total	**116,677**	**760**	**76.39**	**100.00**

CLTV – Combined loan-to-value ratio. WA – Weighted average.

In its analysis, Fitch also considered additional sMVD stress assumptions to those generated by the SHP model. These supplementary scenarios reflected base case sMVDs that aligned Fitch's 'Asf' sMVD stress assumptions with peak-to-trough market value declines experienced in the U.S. during the recent financial crisis (2007–2009). This is consistent with Fitch's view as described in its US RMBS Loan Loss Model Criteria (dated December 2013, available on its website at www.fitchratings.com.) which associates the recent national housing recession and related performance observations with an 'Asf' stress. The result of this sensitivity analysis was included in the consideration of the loss expectations for this transaction. The sensitivity analysis resulted in a base sMVD of 12% from 14%.

Fitch conducted additional sensitivity analyses assuming a greater sMVD at the national level than estimated by its SHP model. These sensitivity analyses are detailed further in Appendix C.

High Original Credit Score — Positive

The WA CLTVs of 74%–76% as well as the maximum original LTV of 80% for those loans with FICO scores of 700 and below indicate limited risk layering among weaker credit borrowers.

The collateral pool comprises borrowers with strong credit profiles, demonstrated by the high original WA FICO of 760. Approximately 38.4% of the borrowers have credit scores that are 780 or above. Borrowers with high credit scores generally experience lower probability of defaulting on their debts. Approximately 8.4% of borrowers have a credit score below 700. However, the WA CLTVs of 74%–76% as well as the maximum original LTV of 80% for those loans with FICO scores of 700 and below indicate limited risk layering among weaker credit borrowers. The FICO score for four loans in the reference pool was not available so Fitch assumed a 680 FICO for these loans.

Original Credit Score

Original FICO	Number of Mortgage Loans	WA Original Credit Score	WA Original CLTV (%)	% of Mortgage Pool
Not Available	4	N.A.	69.86	0.00
Less Than 620	35	612	74.23	0.02
620–639	486	630	75.01	0.32
640-659	1,243	650	75.03	0.87
660-679	2,596	670	74.37	1.95
680-699	6537	690	75.98	5.25
700-719	9,876	709	76.82	8.31
720-739	12,489	730	76.87	10.75
740-759	16,245	750	76.77	14.30
760-779	22,263	770	76.67	19.87
780-799	27,824	790	76.36	24.68
800-900	17,079	807	75.58	13.69
Total	**116,677**	**760**	**76.39**	**100.00**

FICO – Fair Isaac Corp. score. WA – Weighted average. CLTV – Combined loan-to-value ratio.

Full Documentation — Positive/Neutral

All loans in the reference pool were underwritten to Freddie Mac's full documentation guidelines and support the borrower's ability to repay. Freddie Mac's employment and income policies focus on the borrower's ability to repay the mortgage debt and consider the stability, adequacy and likelihood of continued receipt of income. For income to be used for qualifying purposes, the lender must be able to substantiate the income by documenting its source, amount and, for certain types of income, the history of receipt and likelihood of continued receipt.

Freddie Mac has two levels of documentation: streamlined and standard. Under the Streamlined requirement where lenders use Loan Prospector (LP) and LP provides a streamlined designation, the "Rule of 1" applies where, for a salaried borrower a verification of employment, a year-to-date pay stub or 30 days of consistent income, and a W-2 form for the most recent year is required. Asset verification is a bank statement for one month. This is consistent with Fitch's definition of a full documentation program.

The standard documentation is used for manually underwritten loans, and loans evaluated by LP but where LP assigns the standard document designation. Under the Standard documentation program, a salaried borrower would require a verification of employment, a year-to-date pay stub or 30 days of consistent income, and a W-2 form for the most recent two years. Asset verification is a bank statement for two months.

Number of Borrowers — Neutral

Fitch has identified a strong relationship between the number of borrowers on a loan and default behavior. Mortgage loans made to two borrowers outperform those made to a single borrower. To account for this performance difference, Fitch assigns a lower default probability to two-borrower loans than to those made to single borrowers.

Approximately 41% of the loans in the reference pool were made to one borrower and the remaining 59% of the loans were made to two or more borrowers. The reference pool's borrower count composition is consistent with the historical dataset used in the development of Fitch's mortgage loan loss model.

Key Loss Severity Drivers

Fitch did not apply its standard loss-severity assumptions to the pool given that the transaction will employ a fixed, tiered loss-severity schedule as listed below. The severity applied to each loan is a function of the cumulative credit events observed in the reference pool. The loss-severity schedule shown on page 6 above applies loss severities that are well below what Fitch would estimate using its criteria and rating stresses.

Other Considerations

While the loan loss model is a key component in the rating process, Fitch factored in other important considerations when assigning ratings to this transaction, as described below.

Special Hazard Risk — Concern

The proposed structure may expose bondholders to greater special hazard risk than a typical private-label RMBS transaction. In the event a natural disaster caused borrowers to become temporarily delinquent but then subsequently cure, the defined credit event of 180 days delinquent (D180) may result in more losses to bondholders than would otherwise occur if losses were only realized at liquidation, as they typically are in private-label RMBS.

In the event a natural disaster caused borrowers to become temporarily delinquent then subsequently cure, the defined credit event of 180 days delinquent (D180) may result in more losses to bondholders than if losses were only realized at liquidation.

Prior Natural Disasters — Increase in 180 Days Past Due

Event	Location	Year	Magnitude	Cost ($Bil.)	Increase in 30+ Days Past Due — All Loans (%)	Increase in 180 Days Past Due — Prime Loans (%)
Northridge Earthquake	Los Angeles	January 1994	6.7	23	4	7
Hurricane Katrina	New Orleans	August 2005	Category 5	84	11	3
Hurricane Andrew	Miami	August 1992	Category 5	25	7	1
Hurricane Ike	Galveston	September 2008	Category 4	38	8	3

Source: CoreLogic Loan Performance

To assess this risk, Fitch analyzed prime quality loans' post-disaster D180 experience and found the largest increase to be approximately 7.0% following the Northridge earthquake in January of 1994. Importantly, the 7.0% figure was only for the small town at the direct epicenter of the earthquake and the impact on Los Angeles county overall was more modest (1.0%). Conservatively, if the largest MSA concentration in this pool (7.5% in Los Angeles) was to experience a D180 increase similar to the town at the epicenter of the Northridge earthquake (ie a 7.0% increase) with the highest LS structure of 40.0%, the pool would incur about 21 bps of loss. After considering M-1 and M-2's credit protection and the historical likelihood of such an event, Fitch believes this risk is appropriately reflected in the bond's rating.

Seller Insolvency Risk — Concern

If a seller becomes subject to a bankruptcy or insolvency proceeding or is put into receivership prior to Freddie Mac issuing a repurchase request for a breach of a representation and warranty (rep and warranty) including delivery of ineligible loans, the loan may not be removed from the reference pool or treated as a credit event reversal should it become 180 days past due. Thus, the transaction has some counterparty risk exposure for sellers rated below investment grade or not rated by Fitch, which comprise approximately 50% of the pool. The class M-1 loss protection could be eroded by defective loans that experience a credit event but would have otherwise been removed or reversed had a repurchase request been made prior to the seller's insolvency.

Fitch believes that this risk is limited for several reasons. First, Freddie Mac has a sound lender-oversight platform that includes monitoring of a seller's net worth and financial condition and closely interacts with its loan review QC unit so that defective loans and weak sellers are likely to be identified early. Second, Fitch's default expectations were derived using a regression analysis of historical data that included defective loans that were ultimately repurchased; thus, had the repurchased loans been excluded, Fitch's default expectations for agency/prime mortgage pools would be somewhat lower than those currently projected. Lastly, because the exposure is to current higher quality loan production and limited to sellers that declare bankruptcy or are put into receivership prior to Freddie Mac's repurchase request, the risk to the transaction is somewhat limited.

Solid Lender Review and Acquisition Process — Positive

Fitch considers Freddie Mac to be an above average aggregator for 2013 acquisitions.

Based on its review, Fitch considers Freddie Mac to be an above average aggregator for 2013 acquisitions. Fitch's assessment is based on Freddie Mac's robust lender approval and monitoring processes, strong underwriting and loan acquisition process, improved credit risk management structure and expanded/robust lender quality and loan QC platform.

Because Freddie Mac relies on its lenders/sellers' QC processes for ensuring that loans are in compliance with applicable laws, Fitch reviewed Freddie Mac's counterparty risk management processes. To determine the adequacy of its sellers' QC processes, Freddie Mac's counterparty operational risk evaluation (CORE) unit conducts annual on-site reviews of lenders' QC platforms for its top lenders by volume with others targeted based on certain flagged activity.

CORE will assess the counterparty's overall control environment based on the aggregation of risk ratings of new and existing open findings. In these reviews, approved lenders' QC processes are carefully analyzed and assessed. Any deficiencies are brought to their attention, and recommendations are made to correct the deficiencies. Using the four overall assessment categories Freddie Mac categorizes lenders based on its findings as satisfactory, marginal, controls need strengthening, and unsatisfactory.

Limited Due Diligence Findings — Positive

The third-party due diligence review noted minimal findings. Because Clayton Holdings LLC's (Clayton), review differs from Freddie Mac's QC reviews and documentation requirements, some of the exceptions that were noted are due to missing documentation that Freddie Mac does not consider to be a significant defect as long as it can otherwise establish that the loan met its underwriting guidelines. Fitch did not apply an adjustment for these findings due to the immateriality of the findings as well as Fitch's positive opinion of Freddie Mac's lender/seller reviews, post-close loan file reviews, and servicer oversight.

Clayton performed a compliance review based on Freddie Mac's Anti-Predatory Lending Compliance Review and Loan Document Inventory scope. The compliance review consisted of performing federal state and local anti-predatory lending, high cost testing. Of the loans Clayton reviewed, all satisfied compliance documentation requirements and none was a federal, state, or local high-cost loan.

Risk Retention – Positive

Freddie Mac will retain the risk of losses on the reference obligations in the reference pool that are allocable to the class A-H reference tranche, class M-1H reference tranche, class M-2H reference tranche, class M-3H reference tranche, and Class B-H reference tranche.

Freddie Mac does not intend, through this transaction or any subsequent transactions, to enter into agreements that transfer or hedge more than a 95% pro rata share of the credit risk on (i) the class A-H reference tranche, (ii) the class M-1 and class M-1H reference tranches (in aggregate), (iii) the class M-2 and class M-2H reference tranches (in aggregate), (iv) the class M-3 and class M-3H reference tranches (in aggregate), or (v) the class B-H reference tranche.

While Fitch believes that the risk of loan quality defects is low due to Freddie Mac's lender review process and risk management controls, the strong alignment of interests provides a greater incentive for Freddie Mac to manage lender oversight quality and enforce loan repurchases for defective loans that could otherwise increase credit events with respect to the reference pool.

10-Year Deal Maturity — Positive

The notes mature on the payment date in April 2024. Freddie Mac will be obligated to retire the M-1, M-2, and M-3 notes by paying the full amount of the remaining principal balance outstanding and accrued and unpaid interest.

Unlike PL RMBS, where the stated maturity is linked to the last maturing loan and tail risk and adverse selection can strongly influence the pool and ratings performance is driven primarily by small loan count later in the life of the deal, the hard maturity for the STACR 2014-DN2 virtually eliminates this risk. The 10-year maturity effectively caps the M-1 and M-2 notes' exposure to credit losses to a 10-year window.

Fitch reduced its default expectations 10% due to the 10-year maturity date.

Given the reduced default exposure, an adjustment to Fitch's lifetime default expectations was applied. To determine the adjustment, Fitch analyzed the percentage of losses that occur, or are projected to occur, after 10 years. Default data were analyzed for 1991–2012 vintage loans (approximately 17.8 million loans). This analysis showed that, on average, about 10%–15% of actual or projected defaults happened past year 10. Based on this analysis, Fitch applied a 10% reduction to the model's lifetime PD for the 10-year bullet.

Third-Party Due Diligence Review

As per Fitch's criteria, third-party loan-level results were reviewed by Fitch for this transaction. The due diligence company, Clayton, examined selected loan files with respect to the presence or absence of relevant documents. Fitch received certifications indicating that the loan-level due diligence was conducted in accordance with Fitch's published standards. The certifications also stated that the company performed its work in accordance with the independence standards as per Fitch's criteria and that the due diligence analysts performing the review met Fitch's criteria of minimum years of experience.

The due diligence sample was 1,000 loans randomly chosen by Clayton out of approximately 3,900 eligible loans acquired in 3Q13 for which Freddie Mac had completed post-purchase QC reviews. The scope of the due diligence engagement, covered the following:

- Credit and compliance reviews.
- Property valuation reviews.
- Data integrity.

Overall Fitch Grade Summary

Final Overall Grade	Total Loan Count
A	988
B	4
C	6
D	2
Total	**1,000**

Clayton's standard credit and property reviews differ from Freddie Mac's reviews and documentation requirements. As a result, many of the exceptions noted on the sample loans are due to missing documentation, which Freddie Mac does not consider to be a significant defect as long as it can otherwise establish that the loan met its underwriting and eligibility criteria. With regards to compliance, Freddie Mac relies on the seller representations and warranties to ensure compliance with all laws, including consumer protection laws, and only validates the absence of any anti-predatory lending issues that could lead to assignee liability. Of the loans sampled, the table on the right reflects Clayton's final overall grades (using Fitch's event grades) and loan counts. For a further discussion on the due diligence review results, refer to Appendix D.

Aggregator Review Analysis

A key part of Fitch's credit analysis is the qualitative assessment of the aggregator's platform and operations. Fitch attended a rating agency presentation held by Freddie Mac at its McLean, VA office that focused on its loan acquisition, risk management, and QC processes. A supplemental call was also conducted that focused on loan QC processes, lender quality assurance, QC reporting, and loan defect settlements. These reviews, coupled with follow-up information provided, allowed Fitch to assess Freddie Mac as an acquirer and aggregator of mortgage loan collateral in accordance with its seller/lender criteria as detailed in Fitch Research on "U.S. RMBS Originator and Third-Party Due Diligence Criteria." A full description of Fitch's review and findings of Freddie Mac as an aggregator is in Appendix A.

Based on its review, Fitch considers Freddie Mac to be an above average aggregator for 2013 acquisitions. Fitch's assessment is based on Freddie Mac's robust lender approval and monitoring processes, strong underwriting and loan acquisition process, improved credit risk management structure and expanded/robust lender quality and loan QC platform.

As of the 2013 review, Freddie Mac had approximately 1,000 active sellers. In 2013, they purchased more than two million loans with an approximate unpaid balance of $423 billion. Freddie Mac acquires a significant portion of its mortgage loan purchase volume from several large lenders, or seller/servicers. Freddie Mac's top 10 mortgage loan seller/servicers provided approximately 64% of its single-family purchase volume during 2013. Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., accounted for 17% and 13%, respectively, of the single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of the purchase volume during 2013.

Freddie Mac uses a delegated underwriting process for the mortgage loans that it acquires. Underwriting standards on loans purchased are generally governed by the agency's Single Family Seller/Servicer Guide, which is managed by credit policy and credit risk management and updated regularly to reflect Freddie Mac's risk tolerances. Freddie Mac provides select lenders with exceptions or variance to standard guidelines through contracts with negotiated credit terms.

Freddie Mac has provided updates and enhancements to the technology solutions it uses to manage and monitor its sellers. The existing platforms and key applications include:

- LP, the GSE's proprietary automated underwriting system (AUS).
- Uniform Collateral Data Portal (UCDP).
- Loan Quality Advisor (LQA).
- Selling System.

Freddie Mac actively monitors both lender and loan quality. With respect to loan quality, random and targeted reviews are conducted on newly acquired performing loans. In addition, the agency also reviews a significant percentage of nonperforming loans. For a detailed description of Freddie Mac's aggregator platform see Appendix A on page 25.

Servicers and Master Servicer

Freddie Mac has robust servicer approval and servicing oversight processes.

Servicing of Freddie Mac purchased loans will generally be retained by each individual originator/seller if the entity is also an approved servicer. Freddie Mac will act as master servicer. In this role, Freddie Mac will set servicing standards and requirements, monitor the direct servicers' performance, remove direct servicers with or without cause, and approve (or deny) any transfer of servicing prior to transfer. Freddie Mac communicates standard requirements for all servicers through its servicing guide and with written announcements, lender letters, and servicer notices.

Fitch believes that Freddie Mac has robust servicer approval and servicing oversight processes and has implemented a number of changes in recent years to improve market practices and performance. Among these is the introduction of the servicing alignment initiative that is designed to establish consistent policies and processes for the servicing of delinquent loans owned or guaranteed by the GSEs. The objectives of the program are to improve service to the borrower, increase efficiencies in loan modification processing, and strengthen servicer accountability.

Servicers

Reference Pool Servicers	UPB (%)
JP Morgan Chase Bank, N.A.	20
US Bank, N.A.	10
Nationstar Mortgage LLC	7
Branch Banking & Trust	6
Suntrust Mortgage Inc.	5
Wells Fargo Bank, N.A.	5
CitiMortgage, Inc.	3
Pennymac Corp.	3
Quicken Loans Inc.	2
Caliber Home Loans, Inc.	2
Other	37
Top 5	49
Top 10	63

UPB – Unpaid principal balance.

In addition, Freddie Mac has made material enhancements to its servicing success program which outlines how Freddie Mac defines, measures, and recognizes servicing excellence, including servicer success scorecard, servicer success file reviews, and servicer success rewards and remedies.

While Fitch views the primary servicer diversity (approximately 37% Fitch rated) and Freddie Mac's servicing oversight role as a positive for the transaction, their impact will be somewhat limited given the fixed-loss severity structure employed in the transaction. With that said, servicing can certainly influence whether or not credit events are breached. For a detailed description of Freddie Mac's servicer approval and oversight see Appendix B.

Mortgage Loan Representations and Warranties

The mortgage loans comprising the reference pool are not pledged to secure the notes, and Freddie Mac is not making representations (reps) and warranties regarding the loans. However, because Freddie Mac's QC review of loan files is limited in scope — where the focus of its review is to confirm that the manufacturing of the loan is in compliance with its underwriting and eligibility guidelines (or determining if compensating factors are present when outside those guidelines) rather than assessing credit risk and future performance — and does not include a review of loan files for compliance with most local, state, and federal laws, significant reliance is placed on the reps and warranties made by the loan sellers to Freddie Mac.

The substance of the reps made to Freddie Mac by the lenders is consistent with Fitch's criteria.

While Fitch believes that Freddie Mac's risk management platform and processes are robust, the quality of the reps and warranties made by the lenders to Freddie Mac plays an essential role in determining the overall risk profile of the reference pool. Fitch reviewed the reps and warranties made by the lenders to Freddie Mac and compared those reps to those listed in Fitch criteria and typically found in PL RMBS.

Reps and warranties are contained in the selling and servicing guides and in the lender contracts. Violation of any representation or warranty is a breach of the lender contract, including the warranty that the loan complies with all applicable requirements, which provides Freddie Mac with certain rights and remedies. As per Freddie Mac's guide, the warranties and representations in the purchase documents for any mortgage purchased by Freddie Mac survive payment of the purchase price by Freddie Mac. The warranties and representations are not affected by any investigation made by, or on behalf of, Freddie Mac, except when expressly waived in writing by Freddie Mac.

The reps and warranties made by the lenders to Freddie Mac do not replicate Fitch's criteria verbatim. However, Fitch concluded that the substance of the reps made to Freddie Mac by the lenders as well as the eligibility guidelines is consistent with its criteria. Fitch noted three key exceptions as follows:

- Data: Fitch's rep expects credit scores to be refreshed within six months of deal closing. However, Freddie Mac's rep requires that the credit score not be more than four months old at the time the note is signed. Therefore, the FICOs provided to Fitch for loans originated in 2Q13 and 3Q13 have not been refreshed. An adjustment to the PDs was not made due to six months WA seasoning of the reference pool, which is not materially longer than Fitch criteria.
- No bankruptcy/no foreclosure: Fitch expects no borrower has been subject to any bankruptcy proceedings in the four years prior to the origination of the mortgage loan. Fitch also expects no borrower previously owned a property that was subject to a foreclosure, deed-in-lieu or short sale in the prior seven years from the origination of the mortgage. Freddie Mac's rep is significantly shorter, with a waiting period for bankruptcy of 24 months and for foreclosure of 36 months. Because these guidelines are mandated by FHFA and

borrowers are subject to a full underwriting, Fitch did not make any adjustment to its default expectations.

- Mortgage loan qualifies for REMIC: This rep is not applicable as the transaction is senior unsecured debt of Freddie Mac and not a trust structure.

Enforcement Mechanisms

None of the reps and warranties made to Freddie Mac by the lenders/sellers will be passed through to the noteholders. Rather, rep and warranty breaches will be treated as removals from the reference pool upon identification and final determination, through Freddie Mac's QC process, of an underwriting defect relating to a reference obligation (as listed on page 5 of this report) or the discovery of a violation of the Eligibility Criteria (as listed on page 8 of this report).

Underwriting defects are reference obligations for which Freddie Mac has determined the existence of an unconfirmed underwriting defect and a repurchase request has been made, indemnification between Freddie Mac and the seller/lender is agreed upon, Freddie Mac waived a remedy enforcement or the seller becomes subject to a bankruptcy or insolvency proceeding or put into receivership after a repurchase request was made or indemnification agreement was entered into.

Unconfirmed underwriting defects are those loans for which Freddie Mac has determined and notified the lender/seller that the reference obligation is in material violation of its guidelines, is not supported by the collateral or repayment in full cannot be expected. If the seller/lender cannot cure the defect, a repurchase or indemnification is transacted and the reference obligation is then deemed an underwriting defect for purposes of loan removals or credit event reversals.

A loan will also be deemed as having an underwriting defect and therefore will be removed from the pool or treated as a credit event reversal if it is designated as an unconfirmed underwriting defect and the seller has become subject to a bankruptcy or insolvency proceedings or was put into receivership.

A loan is treated as a reversed credit event if it became 180 days delinquent and, as a result, was treated as a credit event that reduced available credit enhancement (CE), but is later identified as having an underwriting defect or as being in violation of eligibility criteria. Reversed credit event obligations apply to a reference obligation that became a credit event in a prior reporting period.

Reversed credit events are accounted for in the calculated tranche writeup amount. Tranche writeups may also be adjusted for any rep and warranty settlement amounts on a loan level. The loan repurchase process can take up to 120 days or longer if Freddie Mac ultimately determines that a noncurable breach has occurred.

Financial Structure, Credit Enhancement, and Cash Flow Analysis

Classes A-H, M-1H, M-2H, M-3H, and B-H are reference tranches and have notional balances solely for the purpose of calculating principal payments that are required to be paid by Freddie Mac to the class M-1, M-2, and M-3 notes as well as any reductions or increases of principal as a result of credit events and reversed credit events experienced by the reference obligations. Only the Classes M-1, M-2, and M-3 reference tranches, which also have notional balances, will have corresponding classes of notes offered in conjunction with the issuance of the STACR 2014-DN2 transaction.

Financial Structure

The class M-1 notes will receive principal payments each month based on allocations applied to its respective reference tranche. The class M-1 notes benefit from the pro rata pay structure and subordination of the M-2, M-3, and B-H classes provided for in this transaction. Scheduled principal is paid pro rata between the senior A-H reference tranche and the subordinated classes (M-1, M-1H, M-2, M-2H, M-3, M-3H, and B-H). If the minimum CE test of 5% of the pool balance is maintained and the cumulative net credit event test is satisfied, the subordinated classes will also share in unscheduled principal amounts.

Initial Expected Credit Enhancement

Reference Tranches	Tranche Size (%)	Initial Expected Credit Enhancement (%)
A-H	95.50	4.50
M-1 and M-1H	1.00	3.50
M-2 and M-2H	1.50	2.00
M-3 and M-3H	1.70	0.30
B-H	0.30	0.00

All amounts allocable as principal payments to the subordinated classes are applied or paid first to the M-1H reference tranche and M-1 notes, pro rata, before any payments are applied to the M-2H, M-2, M-3H, M-3, and B-H classes. This has the effect of quickly paying down the M-1 notes while increasing its protection through the full lockout of the M-2H, M-2, M-3H, M-3, and B-H classes.

Cumulative Net Credit Event Test

Payment Date Occurring in the Period	(%)
May 2014 to April 2015	0.25
May 2015 to April 2016	0.50
May 2016 to April 2017	0.75
May 2017 to April 2018	1.00
May 2018 to April 2019	1.25
May 2019 to April 2020	1.50
May 2020 to April 2021	1.75
May 2021 to April 2022	2.00
May 2022 to April 2023	2.25
May 2023 and thereafter	2.50

Payments of principal will simulate scheduled and unscheduled principal received on the reference obligations and will also include the balance of loan removals. The notes will be subject to tranche write-downs arising from credit events and write-ups from loan repurchases and rep and warranty settlements. Scheduled principal includes all monthly payments due on the reference obligations and collected by the servicer. Unscheduled principal includes the following:

- All partial principal prepayments on the reference obligations in the reference pool collected during the related reporting period, plus
- The aggregate unpaid principal balance of all reference pool removals (excluding credit event reference obligations) for such payment date, plus
- Negative adjustments in the unpaid principal balance of all reference obligations as the result of loan modification or data corrections, minus
- Positive adjustments in the unpaid principal balances of all reference obligations as the result of loan modifications, reinstatements due to error or data corrections.

Reference obligations subject to modifications will remain in the pool including those that require or permit Freddie Mac to forgive principal. However, the portion of the loan balance that is forgiven will be treated as unscheduled principal and allocated to the various reference tranches based on their share of unscheduled principal. Only the portion of the balance outstanding (unforgiven portion) remains in the pool and has the loss severity percentage applied if it subsequently experiences a credit event.

If positive adjustments to the reference obligation loan balances from modifications or data corrections exceed the total amount of principal collections or negative adjustments, the difference will be added to the senior class A-H reference tranche. Reference pool removals include:

- The reference obligation becomes a credit event reference obligation;
- Payment in full of the reference obligation; or
- The identification and final determination, through Freddie Mac's QC process, of an underwriting defect relating to that reference obligation; or
- The discovery of a violation of the eligibility criteria for such reference obligation; or
- The reference obligation is seized pursuant to any special eminent domain proceeding brought by any federal, state or local government with the intent to provide relief to financially-distressed borrowers with negative equity in the underlying mortgage loan.

If the senior credit enhancement drops below 5% or the cumulative net credit event test is not satisfied, unscheduled principal otherwise allocable to the subordinate classes will be diverted to the senior tranche until these tests are satisfied again.

Credit Enhancement

Together, the M-1, M-1H, M-2, M-2H, M-3, M-3H, and B-H reference tranches provide credit enhancement for the senior A-H reference tranche. The Class M-1 notes, which Fitch expects to rate 'Asf', have 3.50% in credit support and the Class M-2 notes, which Fitch expects to rate 'BBB–sf' have 2.00% in credit support. Credit events are netted against credit event reversals (both as described on page 6) and applied a tiered loss severity. The loss amount derived will result in a writedown to the most subordinated B-H reference tranche first, then to the M-3 notes and M-3H reference tranches pro rata, and so forth.

Tranche writeups will be applied to those classes previously written down if the reversals exceed the current month's credit events. The most senior tranche to have been written down is first in the priority to be written up beginning with the senior class A-H, second to M-1 and M-1H pro rata, and so forth. Tranche writeups may also be adjusted for any rep and warranty settlement amounts on a loan level.

Net credit event reversals do not result in additions to the reference pool. To offset the increase in tranches that are written up from a reversal of a credit event or a post-credit event rep and warranty settlement, a concurrent reduction is made to the senior reduction amount. This has the effect of reducing the senior percentage interest in future principal allocations while increasing the subordinated classes' percentage interest, which ultimately is distributed first to the M-1 notes.

The applicable severity rate for the credit events allocated on that date will be a blended rate if the cumulative net credit events through that date cross between the tiers.

Cumulative Net Credit Event

Event Percentages	Applicable Severity (%)
For Cumulative Net Credit Events Less than or Equal to 1%	15
For Cumulative Net Credit Events Greater than 1% and Less than or Equal to 2%	25
For Cumulative Net Credit Events Greater than 2%	40

Cash Flow Analysis

Fitch's cash flow analysis for rating RMBS includes a combination of six prepayment and default timing scenarios. These six sensitivity scenarios capture potential variability in expected loss timing and prepayment speeds and are used to determine the rating of each class, based on its subordination and where that class is paid in the priority of payments.

The six prepayment and default timing scenarios analyzed and tested by Fitch are as follows:

- Front-loaded CDRs and benchmark CPRs.
- Front-loaded CDRs and assuming 5% voluntary prepayments for the life of the deal.
- Mid-loaded CDRs and benchmark CPRs.
- Mid-loaded CDRs and assuming 5% voluntary prepayments for the life of the deal.
- Back-loaded CDRs and benchmark CPRs.
- Back-loaded CDRs and assuming 5% voluntary prepayments for the life of the deal.

In the 'Asf' scenario, the class M-1 does not experience any writedowns and in the 'BBB−sf' rating scenario, the class M-2 does not experience any principal writedowns. Thus, the M-1 and M-2 bonds have sufficient protection for full payment of principal using default and loss stresses associated with the relevant bond rating.

Fitch's criteria report, "U.S. RMBS Cash Flow Analysis Criteria," dated April 2013, available on its website at www.fitchratings.com, details in full Fitch's cash flow analysis assumptions.

Counterparty Risk

The notes are senior unsecured obligations of Freddie Mac, which has been under conservatorship since 2008, with FHFA acting as conservator. Freddie Mac has a long-term Issuer Default Rating (IDR) of 'AAA', Rating Outlook Stable. The IDR and Rating Watch are directly linked to the U.S. sovereign rating based on Fitch's view of the U.S. government's direct financial support of Freddie Mac. If, at some point in the future, Fitch views the strength of support as being reduced, the ratings and/or rating watch may be delinked from the sovereign and downgraded.

In the event of a downgrade of Freddie Mac's IDR, the M-1 and M-2 notes, along with their corresponding MAC notes, could be subject to downgrade based on the lower of Fitch's analysis of the quality of the mortgage loan reference pool and credit enhancement available through subordination and Freddie Mac's IDR.

Transaction and Legal Structure

The issuer for this transaction is Freddie Mac. The notes will be general unsecured general obligations of Freddie Mac and will have the same priority as all of Freddie Mac's other general unsecured and unsubordinated debt ($522.8 billion outstanding as of Sept. 30, 2013).

Proceeds from the issuance will be used for general corporate purposes. The repayment of the principal portion of the debt obligations for this transaction will be subject to the performance of the reference mortgage obligations. The actual cash flows from the reference obligations will not be paid to the holders of the notes; however, Freddie Mac will make monthly payments of accrued interest and periodic payments of principal to the noteholders. The notes will have a 10-year legal final maturity, at which point the issuer will be obligated to retire the notes by paying an amount equal to their full remaining principal balance plus any accrued and unpaid interest.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax, and/or structuring advice from Fitch and should not be used or interpreted as legal, tax, and/or structuring advice from Fitch. Should readers of this report need legal, tax, and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Model, Criteria Application, and Data Adequacy

Modeling

Fitch analyzed the credit characteristics of the underlying collateral to determine base case and rating stress loss expectations using its prime residential mortgage loss model, which is fully described in its August 2013 criteria report, "U.S. RMBS Loan Loss Model Criteria." In addition, Fitch considered the results relative to the previous version of the mortgage loss model, as described in its August 2012 criteria report, "U.S. RMBS Loan Loss Model Criteria" — effective Aug. 10, 2012 to Aug. 7, 2013. Fitch simulated transaction cash flow scenarios using various cash flow modeling assumptions as described in its April 2013 criteria report, "U.S. RMBS Cash Flow Analysis Criteria." All reports are available on Fitch's website at www.fitchratings.com.

Criteria Application

Fitch analyzed the transaction in accordance with its RMBS rating criteria as described in its July 2013 report "U.S. RMBS Rating Criteria." Fitch's rating process also incorporates a review of the originators' lending platforms, in accordance with its criteria as described in the April 2013 report, "U.S. RMBS Originator Review and Third-Party Due Diligence Criteria," available on its website at www.fitchratings.com. Based on Fitch's criteria, originators contributing more than 15% to the pool are subject to an onsite review. The only contributor of over 15% is JP Morgan Chase Bank NA (JPM) which contributed approximately 19% of the loans in the pool. Fitch completed a review of JPM's origination platform in January, 2013 and views their operations as "Above Average."

An exception made to the criteria was the size of the due diligence review. Fitch's criterion for prime pools with multiple lenders is the larger of 300 loans or 20% of the entire pool with at least 20% of each originator represented. Given the size of the reference pool, which totals over 116,000 loans, an exception to criteria was deemed necessary. The sample size was derived based on the QC sample conducted and submitted by Freddie Mac with an assumed defect rate of 12%, which is more than three times the current actual defect rate, under a 95% confidence level and 2% margin of error. To determine the adequacy of the sample size and the defect rate assumed, Fitch conducted a review of Freddie Mac's aggregator platform.

Based on its findings, together with the amount and level of detailed information provided, Fitch found Freddie Mac's competencies as an aggregator to be supportive of the sample size and defect rate assumed.

An assessment of the transaction's reps and warranties provided by the originator was also completed and found to be consistent with the ratings assigned to the certificates. Fitch assessed the reps and warranties using its criteria described in the June 2013 criteria report, “U.S. RMBS Representations and Warranties Criteria.”

Data Adequacy

Fitch relied on an independent, third-party due diligence review performed on a sample of 1,000 loans, which were randomly chosen by Clayton out of approximately 3,900 eligible loans acquired in 3Q13 for which Freddie Mac had completed post-purchase QC reviews. The agency assessed the due diligence results using its criteria described in the April 2013 criteria report, “U.S. RMBS Originator Review and Third-Party Due Diligence Criteria,” available on Fitch’s website at www.fitchratings.com.

The scope of the due diligence engagement covered: credit, and compliance reviews; property valuation reviews; and a data integrity review.

A final exception and waiver report was provided to Fitch, indicating that the pool of reviewed loans had some exceptions and waivers. Fitch determined that, given the overall quality of the borrowers in the pool, the exceptions and waivers do not materially affect the overall credit risk of the loans, and, therefore, no adjustments were needed to compensate for these occurrences. For a more detailed discussion on the review results and findings, refer to Appendix D.

Fitch also utilized data files made available by the issuer on its SEC Rule 17g-5 designated website.

Fitch received loan-level information; however, it was not provided based on the American Securitization Forum’s (ASF) data layout format. Although it was not provided in the ASF data layout, Fitch considered the data to be comprehensive. The ASF data tape layout was established with input from various industry participants, including rating agencies, issuers, originators, investors and others to produce an industry standard for the pool-level data in support of the U.S. RMBS securitization market. The data contained in Freddie Mac’s layout data tape were reviewed by the due diligence company, and no material discrepancies were noted.

Performance Analytics

The transaction will be analyzed and reviewed by a full committee process involving senior members of the RMBS group at least once every 12 months but more frequently, if warranted, due to unexpected changes in performance. Additional detail on Fitch’s surveillance process can be found in Fitch research on “U.S. RMBS Surveillance Criteria,” dated August 2012, available on Fitch’s website at www.fitchratings.com

Appendix A: Aggregator

Fitch attended a rating agency presentation held by Freddie Mac on its risk management and loan acquisition process at its McLean, VA office on Sept. 12, 2013 as part of the government-sponsored entity (GSE) risk transfer initiative. The visit consisted of a day-long presentation that covered areas typically reviewed by Fitch for private label (PL) aggregators and securitizers of residential mortgage collateral.

The rating agency presentation began with the Freddie Mac's organization, financial condition, single-family strategy and business plan, their housing market, and industry perspective as well as counterparty credit risk management. Freddie Mac also discussed its operational controls, risk management, and technology areas, which will be discussed further below.

In addition to the Sept. 12 presentation, supplemental written responses and a detailed discussion on quality control (QC) and Counterparty Operational Risk Evaluation (CORE) areas were provided. The rating agency presentation, the written responses and discussion, as well as information provided by Freddie Mac following the presentation, provided sufficient information to assess Freddie Mac as an acquirer and aggregator of mortgage loan collateral in accordance with Fitch's originator review criteria as detailed in its "U.S. RMBS Originator Review and Third-Party Due Diligence Criteria," dated April 2013.

At the time of the 2013 review, Freddie Mac had approximately 1,000 active sellers, and for 2013 purchased more than two million loans with an approximate UPB of $423 billion. Freddie Mac acquires a significant portion of its mortgage loan purchase volume from several large lenders, or seller/servicers. Freddie Mac's top 10 mortgage loan seller/servicers provided approximately 64% of its single-family purchase volume during 2013. Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., accounted for 17% and 13%, respectively, of the single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of the purchase volume during 2013.

Fitch agrees that Freddie Mac operates under a well-established and disciplined credit-granting process using specific criteria and that credit exposures are within levels consistent with internal limits and standards. Based on its review, Fitch considers Freddie Mac to be an above average aggregator 2013 acquisitions.

Summary

Freddie Mac, as part of the rating agency presentation, discussion and follow up documentation, provided information on its risk management strategy, processes and controls, including loan acquisition, credit risk management QC and internal audit, counterparty and third-party management, and its technology and business continuity areas.

Freddie Mac discussed its efforts to manage counterparty risk, which is the risk of financial loss to Freddie Mac if a business partner fails to meet its contractual obligations. This risk is managed using:

- Counterparty approval process and negotiated terms of business
- Compliance and eligibility requirements and CORE reviews
- Credit analysis, monitoring and surveillance
- Limits and exposure management
- Risk mitigation and termination.

Credit Policy

Counterparty Credit Risk Management

Counterparty credit risk management (CCRM) enforces the eligibility requirements to sell loans to Freddie Mac, which include financial capacity, operational capabilities, and reputational considerations. The approval process includes:

- Compliance with eligibility requirements.
- Background checks.
- Financial review.
- Counterparty policy and procedures review.

- Contractual documentation review.
- Assignment of risk rating and limits.
- Counterparty approval and setup.

Once approved, single-family counterparties are monitored on a monthly, quarterly and/or annual basis depending on determined risk factors. The surveillance process includes the following:

- Monitoring for exposure versus limits.
- Periodic financial analysis.
- Changes in internal and external risk ratings (including rating agency levels).
- Monitoring of operational performance and compliance with eligibility requirements.

CCRM conducts baseline reviews of all counterparties on an annual schedule, as well as an automated quarterly rating and limit updates of all single-family counterparties. These reviews cover affirming or changing ratings and limits, approval of terms of business (TOB), and ensuring compliance with policies and procedures.

To manage counterparty exposure, Freddie Mac sets and monitors the potential loss if the counterparty fails to meet its contractual obligations. The exposure may be direct or indirect, secured or unsecured, and could vary by term. Based on the reviews, Freddie Mac maintains a watch list and troubled counterparty designation which escalates the concerns to senior management. This may result in reduced limits, restricted TOB, transfer of custodial accounts, collateral/parental guaranties, settlement of counterparty exposure, or adverse action (suspension or termination).

The factors resulting in a counterparty placement on the watch list includes exposure for materiality and risk rating. Entities may also be added on a discretionary basis. Freddie Mac's watch list could contain as many as 50 lenders during the year, though there is no minimum or maximum. However, there are currently approximately 12 lenders on the list. Seller removals are dependent upon determining whether the counterparty no longer meets the quantitative measures for inclusion on the watch list. Seller removals are also reviewed with the chief credit officer.

Single-Family Loan Acquisition Technology and Risk Management

Freddie Mac's employees within Single Family Loan Acquisition Technology and Data are from the Mortgage Purchase Operations group within the Single Family Operations organization. Their tenure at Freddie Mac averaged 12–15+ years, with approximately 40% of the staff having 20 or more years' of experience.

The model governance group at Freddie Mac assesses the risk of models used at the company on a quarterly basis. Models are reviewed periodically, based on the assigned risk ranking. Furthermore, significant changes to models are reviewed by the model risk management function prior to deployment for use. The frequency of model change varies by model and is dependent on model performance, changes in the external environment, model user request, and ability to apply new data or techniques, among other items.

The existing platforms and key applications in this area included:

- Loan Prospector (LP), the GSE's proprietary automated underwriting system (AUS).
- Uniform Collateral Data Portal (UCDP).
- Loan Quality Advisor (LQA).
- Selling System.

LP

LP is focused on credit eligibility encompassing credit, capacity, and collateral. It is meant to be used early in the lender's process and provides both a view of Freddie Mac's assessment of the risk of the loan, as well as guidance on how to underwrite and document the loan to meet Freddie Mac's eligibility requirements.

LP's key features include:

- Feedback Certificates that validate the accuracy of the data entered and determines the risk class, documentation level, and purchase eligibility. The system provides feedback messages with specific underwriting guidelines based on the loan data provided.
- Credit Report Options allow the ordering or reassessing of credit reports provided by credit reporting companies. The system also contains a reorder credit feature that allows the request of fresh credit in files or merged credit on an existing loan transaction.
- Home Value Explorer Results provides value estimates to help identify potentially inflated appraised values.

Seller benefits from the use of LP include:

- Transactions receiving a loan prospector accept risk class can receive representations and warranty relief for borrower creditworthiness.
- Provides document-gathering guidelines with two documentation levels, standard and streamlined.
- Communicates FACT Act Alerts by passing on alerts received with the credit in files.

The LP model owner at Freddie Mac reviews model performance with users and model risk management each quarter. Further, the model may periodically be reviewed by an internal auditor or FHFA examiners.

LQA

LQA is a recently released tool to be used by lenders later in the origination process to ensure that as the loan file builds, the loan continues to meet Freddie Mac's credit risk and eligibility criteria. LQA is a web-based risk and eligibility assessment tool that evaluates loan data to help lenders determine if a loan is eligible for sale to Freddie Mac at the time where it is most useful — either pre- or post-closing.

LQA key benefits include;

- LP data compare provides a comparison view of current loan data submitted to LQA against data used in the loan LP submission.
- Provides a risk assessment for loans that were not originated using LP, by assessing the loan and providing a summary level indication of Freddie Mac's view of credit risk and associated quality of the loan.
- Provides purchase eligibility by running data quality and purchase eligibility rules consistent with those run at loan delivery, allowing the seller to identify and correct potential delivery errors prior to selling the loan to Freddie Mac.

Seller benefits from the use of LQA include:

- Validates that manufactured loans are consistent with Freddie Mac policy.
- Allows for changes to comply with the seller guide requirements before the loan closes.
- Determines whether aggregator correspondents have manufactured the loan according to Freddie Mac guide requirements.
- Allows sellers an early view of loan delivery issues.
- Reduces the time to fund at loan delivery.
- Monitors loan manufacturing defect trends and proactively resolve them.

Uniform Mortgage Data Program and Uniform Loan Delivery Dataset

Working under the direction of FHFA, Freddie Mac and Fannie Mae (the GSEs) released the Uniform Mortgage Data Program (UMDP), which provides a set of common requirements for appraisal and loan delivery data. The Uniform Loan Delivery Dataset (ULDD) leverages the industry-standard MISMO version 3.0 reference model and identifies all data points that the GSEs will require at loan delivery. The use of UAD was required as of Sept. 1, 2011 and Freddie Mac will not fund loans unless delivered in the required format.

Selling System

Although data checks are in place during submission of loans through LP, a loan must be separately delivered through the selling system to be purchased by Freddie Mac. At loan delivery through the selling system, a seller may specify the key that allows the selling system to pull the underwriting decision record from LP.

All loans delivered to Freddie Mac through the selling system are subject to thousands of charter, credit and data quality checks prior to funding. The data quality checks between LP and the selling system are consistent. Certain data quality checks may be "critical" edits that must be resolved before a lender is permitted to set the loan to "fund" in the selling system.

Policy Setting: Mortgage Credit Risk Management

Mortgage credit risk management (MCRM) is responsible for establishing, developing, and implementing credit policies, and risk limits for sellers/lenders, loan quality, and servicers. Through its various units, MCRM is responsible for developing and maintaining the seller/servicer guides, setting tolerance limits, TOBs and customer contracts, and approving policy exceptions. Policy exceptions are not negotiated for FICO, DTI, LTV, and minimum documentation standards (Rule of 1 applies).

Freddie Mac's MCRM is an independent department within Enterprise Risk Management (ERM), which establishes, develops and implements credit policies, risk limits and parameters, with six areas of accountability:

- Mortgage credit and collateral policy.
- Credit risk management at the customer level:
  - Negotiated TOB.
  - Customer credit performance.
- Portfolio management (Servicing) Credit Policy.
- Insurance policy (IP) — property, flood, earthquake, title, fidelity, and error and omissions.
- Automated underwriting policy and selling system rules and edits.
- Credit policy implementation.

MCRM employees have an average Freddie Mac tenure of 14 years, with the following position averages:

- Credit risk management: 16 years.
- Credit policy implementation: nine years.
- Mortgage credit and collateral policy: 10 years.
- Portfolio management credit policy: 16 years.
- IP: 17 years.
- Automated Underwriting Policy: 20 years.

MCRM's credit framework is designed to provide clear accountabilities and authorities, including approval levels, while allowing flexibility for the business to operate within the company's credit risk tolerance. The framework's purpose is also to promote a disciplined credit granting process while reducing credit policy exceptions and create a transparent governance process built to withstand credit cycles. This is accomplished through its seller/servicer guide, corporate credit policy and corporate policy exceptions.

Corporate credit policy (CCP) was created in 2007 to define Freddie Mac's credit boundaries in accordance with the firm's risk tolerance. Key policy positions include maximum LTV/CLTV (reduced to 95%), minimum documentation standards, and the elimination of interest only (IO) option adjustable rate mortgages and balloon products.

Freddie Mac Seller/Servicer Guide

The guide is a public document that provides core selling, servicing and delivery requirements. The guide contains requirements for both the Selling and Servicing of loans, as well as necessary insurance. Changes to the selling guide start with policy changes by the individual policy groups. Change can occur for a number of reasons: regulator mandate, customer requests, part of an offering, performance issues, QC feedback, market events, etc. Once a necessary change is identified, the policy group researches and develops the policy action. The policy area and MCRM management are the policy approvers.

CCP

Documents Freddie Mac's risk tolerance and includes the seller/servicer guide, but goes beyond the guide limits in certain areas and is implemented through negotiated TOBs and customer contracts.

Corporate Credit Policy Exceptions

Exceptions outside of CCP are approved by MCRM, but are limited in number and only provided to sellers with demonstrated ability to manage associated risk. These are implemented through TOBs in customer contracts.

Freddie Mac currently approves approximately 10% of the exceptions granted pre-2007. CCPEs are not negotiated for core policy credit limits of FICO, DTI, LTV or minimum documentation standards.

The top seven most frequently negotiated TOBs are as follows:
- Use of AUS other than LP.
- Incomplete improvements.
- Calculating monthly debt-to-income ratios for deferred student loans.
- Calculating monthly debt-to-income ratio on revolving accounts.
- Using LTVs that apply to mortgages without secondary financing.
- Calculating qualifying income using future income.
- Use of streamlined accept document in lieu of standard document requirements.

On Freddie Mac's business that comes from AUSs other than LP, one or more TOBs are deployed in numerous contracts; however, actual estimated usage is low. TOBs are negotiated and reviewed annually as part of contract renewals; quarterly and monthly as part of Freddie Mac's review processes; and on an ad hoc basis based on either changing policy at Freddie Mac or a customer's need.

Counterparty risk rating is one of many factors that are analyzed to determine credit TOB availability. Freddie Mac stated that it takes a holistic view of a customer's creditworthiness by looking at modeled results, loan performance, actual loan file reviews (QC results), operational results (CORE reviews), financial ratings, and expert management judgment.

Many of the newer credit policy changes are supported by the Consumer Financial Protection Bureau's (CFPB) qualified mortgage ruling around ability-to-repay, which took effect in January 2014.

Customer Credit Risk Management

Customer credit risk management (CCM) performs the following functions.
- Analyzes seller credit performance using credit metrics to identify trends and outlier behavior.
- Periodically reviews seller contracts and TOBs to determine if changes to the TOBs are needed.
- Develops and implements action plans and take corrective actions.
- Leverages customer credit performance analysis in determining credit TOBs.
- Analyzes and decisions customer credit requests from Sellers across all segments.
- Routinely provides direct feedback to customers regarding their credit performance to sustain loan manufacturing quality and performance results.

Property Eligibility and Valuation

Freddie Mac requires the property to be adequate collateral for the mortgage transaction, residential in nature, safe, sound, habitable and undamaged, as well as meet community standards. The GSE's appraiser requirements are to be independent, state-licensed or state-certified and qualified to appraise properties by type and in the subject geographic location. The appraisal must meet Freddie Mac's report requirements, and be on approved forms with appraiser's certification.

Freddie Mac maintains an exclusionary list, which captures the names of appraisers and other individuals and companies that lenders are prohibited from allowing to participate in transactions involving Freddie Mac. Compliance with this list is tested by the QC group as part of its loan file review process.

Lender Oversight: CORE

Single-Family CORE

Through the use of on-site reviews and monitoring the remediation of identified issues, CORE provides internal Freddie Mac stakeholders necessary information about single-family counterparties' effectiveness of controls over mortgage operations and compliance with Freddie Mac requirements to enable informed risk management decisions. For the staff members in CORE who conduct the reviews, experience levels range from 3 –35 years in the industry.

CORE Process Activities include:

- Determination of which counterparties to review and the scope and depth of each review.
- Conducting the on-site review.
- Communicating results of the review.
- Monitoring and validating remediation of the issues noted.

Approximately two years ago, CORE underwent a significant transformation effort including realignment under enterprise operational risk management. This aligned review objectives with business needs and eliminated redundancies, as well as re-engineering the review process to implement a risk-based approach and provide clear communication of findings and remediation priorities. All affected internal areas are now involved with the selection of counterparties for review, lender functional areas needing specific attention and processes or results requiring additional emphasis during the review.

Selection of Sellers for Review

Freddie Mac's annual review plan targets counterparties based upon the degree of risk posed to Freddie Mac. After the plan is created it can be updated through the year with input from key stakeholders. The plan is based on the following guidelines:

- National accounts are reviewed one or more times annually.
- Regional accounts, which are larger counterparties, are risk-assessed annually to determine the need for review.
- Community accounts are selected for a review based on referrals by the business units.

As of the third quarter of 2013, non-regulated seller/servicer applicants will also be reviewed by CORE prior to approval as a Freddie Mac seller.

Historically, CORE reviewed sellers that comprise approximately 80% of Freddie Mac's volume on an annual basis. The number of counterparties reviewed in 2012 was 76; the targeted number for 2013 is 140. For 2013, Freddie Mac's targeted seller reviews will cover approximately 75% of all 2013 production volume, and approximately 92% of servicing unpaid principal balance.

On average, CORE reviewed 8.5% of Freddie Mac's community accounts over the past five years. However, based on the more risk based, targeted selection parameters now in place, CORE has reviewed only approximately 5% of community accounts in 2013.

Review Execution

CORE examiners employ a number of methods to understand and assess the counterparty's mortgage operations and controls:

- Meaningful discussions with management to obtain a high level understanding of the mortgage operation.
- Documentation review of policies and procedures, internal audit reports, management reports, and other documentation evidencing operation of internal controls.
- Walkthroughs to observe counterparty staff performing a particular function/task or system demonstration to understand processes and identify sources of risk, control points, and possible gaps.
- Detail testing of a sample of supporting documentation to validate and assess the effectiveness of the counterparty's controls or its compliance with specific requirements.
- CORE will typically no longer review loan files during its on-site reviews, but instead relies on and utilizes the results of the file review performed by the post-purchase QC review process.

CORE utilizes the operational risk oversight framework to risk rate each finding, considering input from its business unit partners. Risk ratings are based on the effectiveness of the counterparty's controls and the severity of the impact of the risk to Freddie Mac. The ratings assigned are:

- Critical — Weak control, high impact.
- Major — Findings ranked as strong/high or weak/moderate.
- Other — Findings with weak/low, satisfactory/moderate or strong/high.
- Observations — Findings with very low associated risk which will not be tracked.

CORE will assess the counterparty's overall control environment based on the aggregation of risk ratings of new and existing open findings. The distribution of overall assessments of counterparties reviewed over the last twelve months was as follows:

- Satisfactory (41%).
- Controls need strengthening (43%).
- Marginal (14%).
- Unsatisfactory (2%).

CORE tracks and monitors the issue status and remediation plans and collaborates with business unit partners to assess the efficacy and timeliness of counterparty remediation plans. Aged issue reports are escalated to management and to SF credit committee for critical or major findings. Also for these findings, CORE performs a validation of the remediation depending on the agreed timing of the specific finding and with input from others areas of Freddie Mac. The validation may be done in the form of performance monitoring, testing, or a follow-up on-site visit.

Post-Purchase Loan Review: SF Underwriting QC and Credit Analytics

The SF QC process tests the accuracy of the delivered data on SF purchases to validate the existence of the loans and assess compliance with requirements. Results are used to determine ineligible defect rates of lenders and to assess fees and/or implement action plans for lenders that deliver outside tolerances for defects.

Freddie Mac currently preforms QC post funding for both performing and non-performing loans. Loans are sampled to mitigate losses, resolve repurchases, provide feedback to policy management, ensure sellers have strong underwriting processes, and to validate data quality. Freddie Mac's QC samples are periodic statistical sampling and inspection of newly funded performing loans (PL and compliance samples) — both random and targeted.

The random sample includes loans sampled from all sellers. The sample size is calculated based on one or more of the following factors: number of loans funded, historical rate of non-investment quality, and desired level of precision. The random sample size has decreased since 2011, as its size is also based on the defect rate which has materially decreased. Freddie Mac indicated it expects the random portion of the loans selected for QC to continue to decrease as the defect rates are expected to continue to drop.

The targeted sample includes loans from high-risk new sellers, sellers flagged by QC and Freddie Mac's counterparty credit risk management area, and loans with other high-risk loan attributes. Targeted loans are also selected based on the additional data available to Freddie Mac from its ULDD delivered data, LP submissions, electronic appraisal information, results of loans not originally submitted through LP (but which are later put through LP for comparison), as well as other sources of data now available.

The net defect rate (initial defects identified less cures) has decreased substantially over the past two years.

The requirements for repurchases have seen a material change in 2013. In 2012 and prior, Freddie Mac would typically issue feedback letters to a lender if a new performing loan was found to contain defects, which would delay a repurchase demand until and unless the loan became delinquent. Starting in late 2011, Freddie Mac allowed lenders to appeal the defects noted in the feedback letters by providing either additional documentation or explanation. Starting in 2013, Freddie Mac will eliminate the feedback program and require a repurchase when a loan is found to contain a material defect, whether performing or non-performing.

Freddie Mac's contracts with a number of its larger sellers give it the right to levy certain penalty fees when mortgage loans delivered fail to meet its aggregate loan quality metrics. The current acceptable defect rate for lenders is 5%. Those lenders that have defect rates exceeding the 5% threshold will be assessed a penalty fee for all loans delivered during the applicable timeframe.

Freddie Mac attributes the improvement in defect rates to various factors including; enforcement of penalties, lenders tightening their origination and underwriting standards to reduce repurchases, and the ability to appeal defects. All of Freddie Mac's largest (National) sellers are currently below the defect threshold.

QC Property Valuations

The original appraisal value of the mortgaged property is reviewed against a value from Freddie Mac's automated valuation model, Home Value Explorer (HVE), when available, as well as a desk review by an underwriter, in order to assess if the original appraisal report supported the value and marketability of the subject property. To the extent HVE indicates that the original appraisal report significantly exceeded the actual value, Freddie Mac will use other tools, including review appraisals, to determine if value and marketability of the Mortgaged Property was supported.

Roughly 6.7% of the nonperforming loans reviewed each month require a third party valuation to be ordered, while the percentage is 4.4% for performing loans. This results in approximately 6.0% of the total non-performing and performing loan population reviewed requiring third party valuations to be ordered.

QC Results

As a result of the QC review for the mortgage loans purchased in the third quarter of 2013 (approximately $73.1 billion), a defect rate for the mortgage loans is currently between approximately 2.5% and 3.2% with a 95% confidence. The sample volume is sized to result in this confidence band. The deficiency rate for loans acquired in third quarter 2013 is consistent with historical experience of Freddie Mac's QC across its portfolio (based on reviews completed through June 2013, the average aggregate deficiency rate across all seller/servicers for loans funded during 2012, 2011, and 2010 was approximately 3%, 5%, and 13%, respectively).

Most common defects found through the QC reviews are:

- Unable to calculate income — documentation insufficient/missing.
- Insufficient income — income calculated incorrectly.
- Unable to calculate monthly obligations — documentation missing.
- LP requirements not met — inaccurate data invalidates LP decision.
- Funds to close insufficient — verified funds insufficient to close.
- MI requirements not met — missing certificate.
- Title binder/policy requirements not met — documentation missing.
- LP requirements not met — feedback cert conditions not met.

As part of the QC process, loans are underwritten to purchase documents, guide or contract, as of funding date.

The underwriting decision will be:

- Acceptable if deemed acceptable quality.
- Repurchase if deemed non-acceptable quality, which is required for anti-predatory lending deficiencies.

Appeals have been allowed since 2011 for loans that received feedback in lieu of repurchase. The appeals are permitted based on the Seller/Servicer Guide, which may change remedy decisions.

Defect/Remedy Management

Freddie Mac meets with its larger sellers to discuss deficiencies identified during the performing loan sampling to help ensure appropriate changes are made to their underwriting processes. In addition, for all of the largest sellers, Freddie Mac actively manages the current quality of loan originations by providing monthly written and oral communications regarding loan defect rates and the drivers of those defects. If necessary, the Freddie Mac will work with sellers to develop an appropriate plan of corrective action.

Freddie Mac maintains ongoing repurchase communications with seller/servicers and provides them detailed tracking of outstanding repurchases. Reports on the aging of repurchases and historical resolution efforts are provided on a loan level and aggregated basis. Freddie Mac enforces the representation and warranties of repurchase obligations for non-compliant seller/servicers through the remedy management escalation policy, which includes the assessment of late fees for lenders with repurchases aged greater than 120 days.

Loan Review Quality Assurance Process

Freddie Mac has an independent department that samples decisions made by the QC department in the prior month. Decisions from Freddie Mac underwriters and remedy staff are reviewed for accuracy and compliance. QC responds to the preliminary draft for any major findings report and modifies loan decisions or justifies reason for maintaining the original decision.

Summary QC Enhancements

Over time and post-crisis, the SF, QC, and CAR groups have made the following enhancements:

- Significantly expanded the share of nonperforming loans reviewed.
- Accelerated performing loan reviews to be timelier allowing for near real time results to sellers on their quality and process.
- Reinstated appeals process, for loans that received feedback letters, providing customers the ability to proactively manage their defect rates.
- Obtain full re-verifications on PL loans (matching the NPL process).
- Implemented a penalty fee and defect rate thresholds for large customers.
- Implemented repurchase late fees for non-payment of repurchase requests.

Third-Party Vendor Management

Freddie Mac currently has over 1000 vendors. Vendor risk management (VRM) was established to provide enterprise-wide management of key vendor risk and enables the identification, assessment, reporting, management, and escalation of risks associated with vendors identified as key to Freddie Mac. Non-key vendors still follow basic contract processes in compliance with the procurement policy, however they do not require the additional due diligence associated with key vendors.

While the VRM organization was formalized in 2006, informal vendor risk management processes were conducted prior to 2006 along with the procurement function and within various business areas at Freddie Mac.

The VRM group performs an average of 80 to 90 risk assessments per year. 9.1% of vendors identified as key vendors were rated high risk, representing approximately 0.8% of vendors engaged. The most frequent finding common to all high-risk vendors identifies the fact that various information security protocols need improvement.

Internal Audit

An auditable entity can be a department, process, product or combination thereof. At least annually, internal audit (IA) determines whether the significant activities of the company are reflected in the audit universe, which comprises approximately 150 entities.

Staffing and budget for the IA function increased from 2008 to 2012. Head count increased by 75% and budget increased by 57%. The external auditor and the regulators leverage the work of the internal function, created a financial reporting audit team, developed a model audit team and improved annual planning and risk assessment methodology.

In 2013, IA initiated a rotation program. An IA supervisor rotates out to the finance division and an employee from the finance division rotates into the finance audit team for several months. IA is exploring the possibility of creating an audit rotation program with the company's information technology division.

Seventy-five percent of Freddie Mac's IA staff has at least one professional certification and the average number of total years of experience for IA staff is 10, and 4 years with Freddie Mac.

Risk-Based Planning

As a starting point in determining which auditable entities to include in the annual audit plan, IA completes a comprehensive risk assessment of the inherent risks related to each auditable entity.

- In 2008, IA completed 45 out of 61 audits in the audit plan by year end.
- In 2012, IA completed all of the audits in the 2012 plan by Dec. 31, 2012. IA issued 75 audit reports, exceeding the number in the amended 2012 audit plan by one.

Audit Frequency

The target audit frequency is a function of risk; higher risk entities are audited more frequently. The target audit cycles are: high — every 4–6 quarters, medium — every 6–8 quarters, and low — every 8–12 quarters.

Audit Opinions

Freddie Mac provided information that approximately 55% of all opinions were satisfactory, 35% were needs strengthening, and marginal and unsatisfactory were approximately 5% each.

Issue Severity

- Critical: An issue that inhibits the activity or function from completing its goals or objectives relative to the company as a whole and requires immediate management attention to mitigate significant exposures. If not corrected, the weaknesses could expose the company to significant losses or significant errors.
- Major: An issue that inhibits an activity or function from completing a substantial part of its goals or objectives relative to the company as a whole.
- Other: An issue that warrants reporting and management attention but does not significantly inhibit the activity or function from accomplishing its goals or objectives relative to the company as a whole.
- Observation: An issue communicated to the responsible manager but presents low risk of preventing management from achieving their business objectives.

Remediation Actions

Remediation follow-up reviews of critical and major audit issues are completed within 90 days of receipt of management's written closure package. Follow-ups of control deficiencies are completed as soon as possible after remediation. Follow-ups of other issues are completed within 180 days of receipt of management's written closure package. Follow-ups of regulatory matters requiring attention are completed within 90 days of receipt of written closure package.

Appendix B: Servicers

Servicing of Freddie Mac purchased loans will generally be retained by each individual originator/seller if the entity is also an approved servicer. Freddie Mac has approximately 1,400 approved servicers and acts as master servicer. In this role, Freddie Mac will set servicing standards and requirements, monitor the direct servicers' performance, remove direct servicers with or without cause, and approve (or deny) any transfer of servicing prior to transfer. Freddie Mac communicates standard requirements for all servicers through its servicing guide, written announcements, lender letters, and servicer notices.

SF Servicing and REO Oversight

Freddie Mac's servicer approval and oversight processes have developed with a specific target of effectively managing the company's $1.6 trillion single-family guarantee portfolio by reducing credit losses and preserving communities through responsible loss mitigation and liquidation, improving servicer performance and executing against REO asset management and disposition strategies.

Freddie Mac's website gives general information on servicing loans by providing access to key resources on servicing-related topics and includes:

- Servicing guide which contains Freddie Mac's servicing requirements and links to guide bulletins and industry updates
- Servicing technology tools provides access to and information on servicing tools required by Freddie Mac
- Servicing success program, which outlines how Freddie Mac defines, measures, and recognizes servicing excellence, including servicer success scorecard, servicer success file reviews, and servicer success rewards and remedies.

Freddie Mac, in its oversight role, has the ability to remove servicers with or without cause. The agency also retains the right to refuse a requested transfer of servicing from one servicer to another. In addition, the agency retains the right to transfer portfolios when it feels the need, in order to facilitate better outcomes.

The SF Servicing and REO department does not normally complete on site reviews of servicers. Instead, on-site reviews of servicers are performed by the CORE group on SF Servicing and REO's behalf. However, SF Servicing performs desktop reviews of the default servicing actions, in adherence to the Freddie Mac seller/servicing guide and TOBs for modifications, short sales and deed-in-lieu of foreclosures.

Counterparties to be reviewed by the CORE group are selected by the degree of risk posed to Freddie Mac. CORE creates a plan and updates it quarterly with input from key stakeholders, including SF Servicing and REO. National Accounts are reviewed one or more times annually, large regional accounts and sub-servicers are reviewed annually with the remaining regionals on a rotational schedule. Smaller community accounts are selected based on performance risk metrics and referral by the business units.

The top issues found when reviewing default management processes with servicers are electronic default reporting (EDR) and foreclosure management.

Servicer Scorecards

Freddie Mac provides a monthly reporting of key servicing performance metrics including:

- Loss mitigation and foreclosure alternatives.
- Investor reporting.
- Default management.
- File review defect rates.

The servicer scorecards are delivered via the servicer performance profiles (SPP) website. Freddie Mac's servicer scorecards include individual performance targets or rankings, metric weights, and synthetic portfolio/peer comparisons.

The servicer scorecards also provide:

- Historical views of the servicer's performance.
- Comprehensive measurements and requirements in multiple categories.
- Individualized goals and objectives for larger servicers.
- The servicer's rank order relative to other ranked servicers for performance measures.

Freddie Mac indicated that the top issues when reviewing default management processes with servicers are electronic default reporting and foreclosure management.

Servicing Alignment Initiative

Freddie Mac and Fannie Mae, under the direction of their regulator, FHFA, announced a servicing alignment initiative (SAI) designed to establish consistent policies and processes for the servicing of delinquent loans owned or guaranteed by the GSEs. The program was created to include a series of carrots and sticks to motivate the right servicer behavior. The four key areas under the SAI program are:

- Borrower contact.
- Delinquency management practices.
- Loan modifications and foreclosure alternatives.
- Foreclosure timelines.

The objectives of the program are to improve service to the borrower, efficient processing of loan modifications, increase servicer accountability, and to simplify the requirements for servicers and homeowners and mitigate the impact of credit losses. The servicers are motivated by tiered loan modification incentives tied to solution delivery timing and uniform compensation fees.

Appendix C: Rating Sensitivity

Fitch's analysis incorporates a sensitivity analysis to demonstrate how the ratings would react to steeper market value declines (MVDs) than assumed at the MSA level. The implied rating sensitivities are only an indication of some of the potential outcomes and do not consider other risk factors that the transaction may become exposed to or be considered in the surveillance of the transaction. Two sets of sensitivity analyses were conducted at the state and national level to assess the effect of higher MVDs for the subject pool.

Rating Sensitivity: Market Value Declines

In its analysis, Fitch considered additional sMVD stress assumptions to those generated by the SHP model. These supplementary scenarios reflected base case sMVDs that aligned Fitch's 'Asf' sMVD stress assumptions with peak-to-trough market value declines experienced during the housing crisis through 2009. The sensitivity analysis resulted in a base sMVD of 12% from 14%.

Defined Stress: Additional Decline in sMVD at the National Level

This defined stress sensitivity analysis demonstrates how the ratings would react to steeper market value declines at the national level. The analysis assumes market value declines of 10%, 20%, and 30%, in addition to the model projected 34.1% at the 'Asf' level and 28.2% at the 'BBB–sf' level. As shown in the table to the right, the analysis indicates that there is some potential rating migration with higher MVDs, compared with the model projection.

Defined Stresses
(%)

	Additional Decline		
Original Rating	10%	20%	30%
Asf	BBBsf	BBsf	Bsf
BBB-sf	BBB-sf	XXXBsf	<Bsf

Defined Sensitivities: Additional Decline in sMVD at the National Level

The defined rating sensitivities determine the stresses to MVDs that would reduce a rating by one full category, to non-investment grade, and to 'CCCsf'. The percentage points shown in the table to the right reflect the additional MVDs that would have to occur to impact ratings for each defined sensitivity for this transaction.

Defined Sensitivities
(%)

	Reduced Rating		
Original Rating	One Full Category	Non-Investment Grade	To CCCsf
Asf	7	16	34
BBB-sf	9		24

Appendix D: Third-Party Due Diligence

As per Fitch's criteria, third-party loan-level results were reviewed by Fitch for this transaction. The due diligence company, Clayton, examined selected loan files with respect to the presence or absence of relevant documents. Fitch received certifications indicating that the loan-level due diligence was conducted in accordance with Fitch's published standards. The certifications also stated that the company performed its work in accordance with the independence standards as per Fitch's criteria and that the due diligence analysts performing the review met Fitch's criteria of minimum years of experience.

The due diligence sample was 1,000 loans randomly chosen by the Clayton out of approximately 3,900 eligible loans acquired in 3Q13 for which Freddie Mac had completed post-purchase QC reviews. The scope of the due diligence engagement covered:

- Credit and compliance reviews.
- Property valuation reviews.
- Data integrity.

Of the loans sampled, the table to the right reflects Clayton's final overall grades (using Fitch's event grades) and loan counts.

Overall Fitch Grade Summary

Final Overall Grade	Total Loan Count
A	988
B	4
C	6
D	2
Total	**1,000**

Credit and Collateral Findings

Clayton's credit and property reviews differ from Freddie Mac's QC reviews and documentation requirements. As a result, many of the exceptions Clayton noted on the sample loans are due to missing documentation, which Freddie Mac does not consider to be a significant defect as long as it can otherwise establish that the loan met its underwriting and eligibility criteria.

Based on Fitch's on-site review of Freddie Mac's lender review and post-purchase loan QC process, Fitch did not recommend any adjustment to the PD for loans that Clayton identified as Grade C loans. These loans either did not fully meet guidelines or had missing documentation. The two loans that Clayton identified as Grade D loans for credit were removed from the pool and therefore Fitch did not make any adjustment to the PD.

Based on Fitch's review and the positive opinion of Freddie Mac's lender/seller reviews (which include a comprehensive review of the lenders' QC processes), post-close loan file reviews and servicer oversight, Fitch does not believe that PD adjustment is necessary to address these findings, particularly since review approaches between Freddie Mac's loan QC process and Clayton's full re-underwriting are markedly different.

Compliance Findings

The compliance documents required under Freddie Mac's Anti-Predatory Lending Compliance Review and Loan Inventory scope were reviewed. Of the 1,000 loans 303 loans were reviewed and all files contain the Final Truth-In-Lending disclosure and satisfy all other compliance documentation requirements.

For all of the loans in the due diligence population, Clayton confirmed that the loan application was signed by all borrowers and if not, they confirmed the file contained the appropriate signed borrower authorization(s).

Of the 303 loans reviewed for compliance, none resulted as a Federal, State and local high cost loan.

Property Valuation Review Findings

For the sample pool of loans, all of the loans contained original or copies of standard FNMA/FHLMC appraisals. Clayton found the appraisals, in general, to be of average quality based on content and acceptable support of the indicated value.

Clayton ordered Retrospective AVM reports on the 710 loan sample. Additional valuation products were completed for loans where the AVM returned a 10% variance, an appraisal that was more than 120 days before the note date, or if there were inconsistencies or problems with the original appraisal. A secondary valuation review included ordering an enhanced product such as a Retro Collateral Desktop Analysis (CDA). If the result of the CDA being completed reflected a greater than 10% variance, a third valuation, retrospective field review, was completed.

There are only three loans which fall outside the 10% tolerance. One loan is only over the 10% variance by 0.53% and the other two had a variance of 17.65% that would increase the LTV to 90% and a variance of 18.45% which would increase the LTV to 98%, respectively. However, there are compensating factors which Fitch was comfortable with.

Data Integrity Findings

Clayton compared the loan tape to the files reviewed for any data discrepancies. There were a total of 93 data differences, which are noted in the table below.

Of the 93 data discrepancies, 38 were differences in DTI. While Clayton re-calculated some DTIs to be higher and some to be lower than was what was initially provided on the tape, overall, for the 38 loans with DTI differences, the net difference was less than 3%. Fitch deemed the net difference as immaterial.

Data Integrity Findings

Data Difference	Count of Loans	Tape Value (%)	Review Value (%)
DTI (Back) > 5.0% lower	6	39.3	31.2
DTI (Back) > 5.0% higher	16	27.1	36.4
DTI (Back) b/ 2.0% and 5.0% lower	8	32.0	28.9
DTI (Back) b/ 2.0% and 5% higher	8	27.9	32.0
Loan to Value	2	67.0	66.0
Combined Loan to Value	10	74.8	81.1
Representative Score	1	768	761
Loan Purpose (CO/RT)	7		
First Time Home Buyer	31		
Property Type	4		
Total	**93**		

Appendix E: Exchangeable Notes

Holders of the original notes may exchange all or part of each class of such original notes for a proportionate interest in the modifications and combinations (MAC) notes in the related exchangeable combination. The holders of each class of MAC notes in an exchangeable combination may also exchange all or part of such class for a proportionate interest in each class of related original notes. This process may occur repeatedly.

In the event that any original notes are exchanged for the related exchangeable combination, such MAC notes in the exchangeable combination will be entitled to a proportionate share of the principal and interest distributions on each class of related original notes. In addition, the MAC notes in an exchangeable combination will bear a proportionate share of losses and interest shortfalls, as applicable, allocable to each class of related original notes.

Exchangeable Notes

MAC Notes	Rating	Outlook	Amount ($ Mil.)	CE (%)	Interest Rate (%)	ISIN/CUSIP
M-1F	Asf	Stable	230.00	3.50	TBD	3137G0AZ2
M-1I	Asf	Stable	230.00[a]	N.A.	TBD	3137G0BA6
M-2F	BBB-sf	Stable	345.00	2.00	TBD	3137G0BB4
M-2I	BBB-sf	Stable	345.00[a]	N.A.	TBD	3137G0BC2
M-3F	NR	N.A.	391.00	0.30	TBD	3137G0BD0
M-3I	NR	N.A.	391.00	N.A.	TBD	3137G0BE8
MA	NR	N.A.	966.00	0.30	TBD	3137G0BG3
M12	BBB-sf	Stable	575.00	2.00	TBD	3137G0BF5

[a]Notional Principal Amount. N.A. – Not applicable. TBD – To be decided.

Exchangeable Combinations

Combination	Original Notes	Amount ($)	Interest Rate (%)	MAC Notes	Amount ($)	Interest Rate (%)
1	M-1	230,000,000	TBD	M-1F	230,000,000	TBD
				M-1I	230,000,000[a]	TBD
2	M-2	345,000,000	TBD	M-2F	345,000,000	TBD
				M-2I	345,000,000[a]	TBD
3	M-3	391,000,000	TBD	M-3F	391,000,000	TBD
				M-3I	391,000,000[a]	TBD
4	M-1	230,000,000	TBD	MA	966,000,000	TBD
	M-2	345,000,000	TBD			
	M-3	391,000,000	TBD			
5	M-1	230,000,000	TBD	M-12	575,000,000	TBD
	M-2	345,000,000	TBD			

[a]Notional amount. TBD – To be decided.

Appendix F: Transaction Overview

Structured Agency Credit Risk Debt Notes, Series 2014-DN2 — U.S.RMBS

Class	Expected Ratings	Expected Rating Outlook	Size (%)	Size ($ Mil.)	CE (%)	Interest Rate (%)	Final Maturity	ISIN/CUSIP
A-H[a]	NR	N.A.	95.5	26,880.37	4.50	N.A.	N.A.	N.A.
M-1[b]	Asf	Stable	0.82	230.00	3.50	TBD	April 2024	3137G0AW9
M-1H[a]	NR	N.A.	0.18	51.47	3.50	N.A.	N.A.	N.A.
M-2[b]	BBB–sf	Stable	1.23	345.00	2.00	TBD	April 2024	3137G0AX7
M-2H[a]	NR	N.A.	0.27	77.20	2.00	N.A.	N.A.	N.A.
M-3[b]	NR	N.A.	1.39	391.00	0.30	TBD	April 2024	3137G0AY5
M-3H[a]	NR	N.A.	0.31	87.50	0.30	N.A.	N.A.	N.A.
B-H[a]	NR	N.A.	0.30	84.44	0.00	N.A.	N.A.	N.A.
Total			**100.00**	**28,146.98**				

[a]Classes A-H, M-1H, M-2H, M-3H and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Freddie Mac. [b] Original notes, which can be exchanged for modifications and combinations (MAC) notes. See Appendix E for more information on MAC notes and exchangeable combinations.
NR – Not rated. N.A. – Not applicable. TBD – To be determined.

Key Information

Details:

Expected Closing Date	April 9, 2014
Country of Assets and Type	U.S./RMBS
Country of Issuer	U.S.
Analyst	Rachel Noonan +1 212 908-0224
Performance Analyst	Ryan O'Loughlin +1 212 908-0387

Parties:

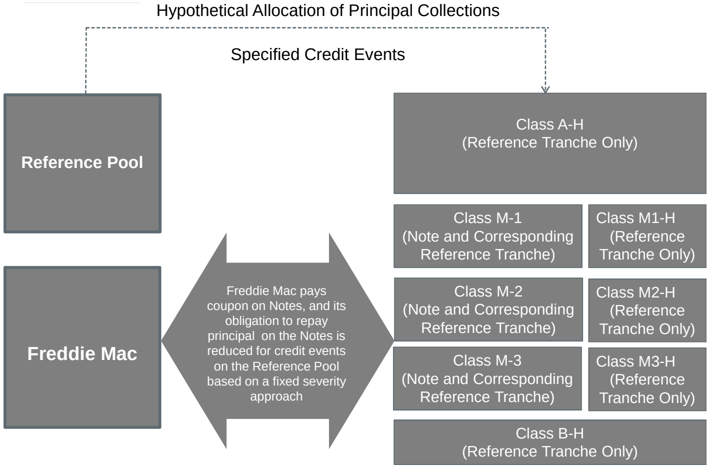
Issuer	Freddie Mac
Title of Series	Structured Agency Credit Risk Debt Notes, Series 2014-DN2
Global Agent	U.S Bank, N.A.
Originators	Various
Master Servicer	Freddie Mac
Lead Dealer	Morgan Stanley

Key Rating Drivers

Prime Quality Mortgage Reference Pool: The reference mortgage loan pool consists of 116,677 prime quality mortgages totaling $28.15 billion acquired by Freddie Mac in 3Q 2013. Weighted average combined-loan-to-value, debt-to-income and credit scores are 76.4%, 33.2% and 760, respectively. All loans were underwritten with full documentation. The reference pool also benefits from significant geographic diversity with the largest metropolitan statistical area (MSA) accounting for 7.5%.

Market Value Decline Sensitivity: Fitch considered additional market value decline (MVD) sensitivities in addition to those generated by its sustainable home price model. These scenarios aligned Fitch's 'Asf' sustainable MVD assumptions with peak-to-trough market value declines experienced during the housing crisis through 2009. The sensitivity analysis, which was factored into Fitch's loss expectations, resulted in applying a sMVD of 12.0% from 14%.

Hypothetical Allocation of Principal Collections



The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.