UNITED STATES OF AMERICA

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Order No. 2005-1

In the Matter of:	)
	)
Federal Home Loan Mortgage Corporation	)
	)

CONSENT ORDER

WHEREAS, on December 17, 2003, the Director of the Office of Federal Housing Enterprise Oversight ("OFHEO") issued against the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Enterprise") a Notice of Charges (OFHEO No. 2003-1), under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4501 *et seq.*, and the Federal Home Loan Mortgage Corporation Act, 12 U.S.C. § 1451 *et seq.*, in which the Director seeks relief in the form of an Order that:

> (i) directs Freddie Mac to convert the June 2003 termination of Mr. Leland C. Brendsel, Freddie Mac's former Chairman and Chief Executive Officer, to a termination for cause under Mr. Brendsel's September 7, 1990, Employment Agreement with Freddie Mac;
>
> (ii) prohibits Freddie Mac from making, or causing to be made, any payments to Mr. Brendsel that exceed the payments to which Mr. Brendsel would be entitled if he had been terminated for cause under his September 7, 1990, Employment Agreement with Freddie Mac;
>
> (iii) directs Freddie Mac to convert the June 2003 termination of Mr. Vaughn A. Clarke, Freddie Mac's former Executive Vice President and Chief Financial Officer, to a termination for loss of confidence; and

> (iv) prohibits Freddie Mac from making, or causing to be made, any payments to Mr. Clarke that exceed the payments to which Mr. Clarke would be entitled if he had been terminated for loss of confidence under Freddie Mac Policy Number 3-254.1 Series III, Human Resources, Severance-Officers (May 15, 2001), specifically including any severance pay, restricted stock award or bonus.

WHEREAS, on December 17, 2003, the Director of OFHEO issued against Mr. Brendsel a Notice of Charges (OFHEO No. 2003-2), pursuant to 12 U.S.C. § 4631 *et seq.* and 12 C.F.R. § 1780 *et seq.*, in which the Director seeks relief in the form of an order that, among other things, prohibits Mr. Brendsel from pursuing or accepting any payments that exceed payments to which Mr. Brendsel would be entitled had he been terminated "for cause" under his September 7, 1990, Employment Agreement with Freddie Mac;

WHEREAS, on December 17, 2003, the Director of OFHEO issued against Mr. Clarke a Notice of Charges (OFHEO No. 2003-3), pursuant to 12 U.S.C. § 4631 *et seq.* and 12 C.F.R. § 1780 *et seq.*, in which the Director seeks relief in the form of an order that, among other things, prohibits Mr. Clarke from pursuing or accepting any payments that exceed the payments to which Mr. Clarke would be entitled had he been terminated for "loss of confidence" under Freddie Mac Policy Number 3-254.1 Series III, Human Resources, Severance-Officers (May 15, 2001), specifically including any severance pay, restricted stock award or bonus;

WHEREAS, the Enterprise, in order to avoid the expense and distraction of further litigation with OFHEO, has duly and lawfully executed a "Stipulation and Consent to the Issuance of a Consent Order," dated September 9, 2005, that is Attachment A to this Consent Order (the "Order") and that is accepted by the Director, and by such Stipulation and Consent the Enterprise has consented to the issuance of this

Order by the Director before any evidentiary proceedings have been conducted in this matter, before the entry of any findings of fact or conclusions of law in this matter, and without the Enterprise admitting or denying any wrongdoing or any asserted or implied finding of fact or conclusion of law (except as set out in Attachment A as to OFHEO's authority to issue this Order), or any other asserted or implied basis for this Order; and

WHEREAS, the Director believes that entry into this Order with the Enterprise would be in the public interest and consistent with the purpose of the issuance of OFHEO Notice of Charges No. 2003-1;

NOW, THEREFORE, the Director, pursuant to the authority vested in him by 12 U.S.C. § 4631 *et seq.* and 12 C.F.R. § 1780 *et seq.*, hereby orders that:

As to Leland Brendsel

1. To the extent that the administrative enforcement action initiated by OFHEO through Notice of Charges No. 2003-2 results in a Final Order that Mr. Brendsel's June 2003 termination be converted to a termination "for cause" under Section 5.5 of Mr. Brendsel's September 7, 1990, Employment Agreement, Freddie Mac shall take all steps necessary to reflect on the relevant records of the Enterprise, including, without limitation, any relevant Board of Director and human resources records, that Mr. Brendsel was terminated "for cause" under his September 7, 1990, Employment Agreement with Freddie Mac;

2. To the extent that the administrative enforcement action initiated by OFHEO through Notice of Charges No. 2003-2 results in a Final Order that prohibits

Mr. Brendsel from pursuing or accepting any form of compensation that would exceed the payments to which Mr. Brendsel would be entitled had he been terminated "for cause" under his September 7, 1990, Employment Agreement with Freddie Mac, Freddie Mac shall not make, or cause to be made, to Mr. Brendsel after the date of such Final Order any further payment of any form of compensation that would result in Mr. Brendsel receiving, contrary to the terms of such Final Order, payments (including any severance compensation or benefits, restricted stock award or bonuses) under his September 7, 1990, Employment Agreement with Freddie Mac that would exceed the amount of any forms of compensation to which Mr. Brendsel would be entitled had he been terminated "for cause" under such Employment Agreement; and

3. If so directed by the Director of OFHEO, Freddie Mac shall take any and all lawful steps that are within its authority to obtain from Mr. Brendsel any relief awarded against Mr. Brendsel and for the benefit of Freddie Mac in any Final Order under 12 U.S.C § 4631 issued in action No. 2003-2; provided that nothing in this paragraph shall require Freddie Mac to take any steps, or pursue any action, other than the enforcement of such Final Order by Freddie Mac.

As to Vaughn Clarke

4. With regard to any forms of compensation still in its possession or control that Mr. Clarke claims are owed to him, Freddie Mac shall carry out the provisions of OFHEO Director's Order No. 2004-001, dated October 12, 2004, that apply to it

in the event that OFHEO is successful in its appeal of the November 30, 2004 Memorandum Opinion and Order in Clarke v. OFHEO, Civil Action No. 04-1252 (U.S.D.C. D.C.) and that such Order No. 2004-001 is not otherwise stayed, set aside, vacated or overturned by an effective court order. Freddie Mac agrees that nothing in this provision or this Order bars OFHEO from taking whatever action it deems appropriate to attempt to enforce OFHEO Director's Order No. 2004-001, dated October 12, 2004, with regard to any forms of compensation still in Freddie Mac's possession or control that Mr. Clarke claims are owed to him, prior to the time such Order is ruled upon by the United States Court of Appeals for the District of Columbia, and OFHEO agrees that nothing in this provision or this Order bars Freddie Mac from taking whatever action it deems appropriate in response to such an attempt to enforce by OFHEO;

5. To the extent that OFHEO Notice of Charges No. 2003-3 results in a Final Order that Mr. Clarke's June 2003 termination be converted to a termination for "loss of confidence," "gross misconduct," or for any other alternative basis, Freddie Mac shall take all steps necessary to reflect on the relevant records of the Enterprise, including, without limitation, any relevant Board of Directors and human resources records, that Mr. Clarke was terminated upon the basis set forth in the Final Order;

6. To the extent that OFHEO Notice of Charges No. 2003-3 results in a Final Order that prohibits Mr. Clarke from pursuing or accepting payment of any form of compensation, or which otherwise restricts or limits the amount of compensation

that is still in Freddie Mac's possession or control and that Mr. Clarke may be entitled to receive, Freddie Mac shall not make, or cause to be made, to Mr. Clarke after the date of such Final Order any further payment of any form of compensation that would result in Mr. Clarke receiving, contrary to the terms of such Final Order, payments (including any severance compensation or benefits, restricted stock award or bonuses) that would exceed the payments to which Mr. Clarke would be entitled under the Final Order; and

7. If so directed by the Director of OFHEO, Freddie Mac shall take any and all lawful steps that are within its authority to obtain from Mr. Clarke any relief awarded against Mr. Clarke and for the benefit of Freddie Mac in any Final Order under 12 U.S.C § 4631 issued in action No. 2003-3; provided that nothing in this paragraph shall require Freddie Mac to take any steps, or pursue any action, other than the enforcement of such Final Order by Freddie Mac.

As to Both Mr. Brendsel and Mr. Clarke

8. Freddie Mac shall, within 30 days of the effective date of this Order, provide OFHEO with the names of all present and former employees of Freddie Mac and other persons who have or may have information relevant to the allegations in Notices of Charges Nos. 2003-2 and 2003-3, which names shall consist of the names of all present and former employees of Freddie Mac who were interviewed by Baker Botts, deposed by OFHEO or the SEC, or named as senders or recipients of documents in Freddie Mac's litigation management document database relevant to the Freddie Mac restatement for 2000-2002.

9. Freddie Mac shall arrange and facilitate OFHEO interviewing, normally in a non-transcribed format, any current Freddie Mac employees regarding the allegations of Notices of Charges Nos. 2003-2 and 2003-3, and shall encourage its employees to cooperate in such interviews. Freddie Mac shall promptly facilitate the scheduling of interviews upon OFHEO's request and shall provide logistic support for the interviews, if requested by OFHEO. Employee interviews shall be held during the employees' normal work hours, and shall be scheduled on dates and at times and locations that are mutually agreeable, unless an employee and OFHEO otherwise agree. Any current employee may be accompanied to an OFHEO interview by counsel for Freddie Mac and, if the employee so elects, counsel for the employee.

10. Within 30 days of Freddie Mac's receipt of notification from OFHEO of any former Freddie Mac employees OFHEO wishes to interview, Freddie Mac shall provide OFHEO with the last known address of such former employees as reflected in Freddie Mac's records and, at OFHEO's request, encourage any former employee to cooperate with OFHEO. When OFHEO cannot contact a former employee through his or her last known address provided by Freddie Mac, Freddie Mac shall promptly (a) make its best efforts to locate the former employee and (b) report the former employees' whereabouts to OFHEO. Any former employee may be accompanied to an OFHEO interview by counsel for the employee, if the employee so elects, and with the agreement of OFHEO, counsel for Freddie Mac.

11. Freddie Mac shall, within 45 days of signing this Order, provide OFHEO with CDs containing copies of all documents that have been produced to the plaintiffs in the civil securities litigation pending against Freddie Mac, except for documents that Freddie Mac has already furnished to OFHEO. The documents shall be provided to OFHEO on CDs in a manner to be agreed by OFHEO and Freddie Mac. Freddie Mac shall undertake all reasonable efforts to determine which documents it has already produced to OFHEO in order to minimize any possible duplication of document production to OFHEO. Any and all additional documents subsequently produced to plaintiffs by Freddie Mac in the pending civil litigation or any newly filed third-party securities litigation relating to the allegations in Notices of Charges 2003-2 and 2003-3 shall be produced to OFHEO, within ten business days of producing the documents in the civil litigation, in a manner to be agreed by OFHEO and Freddie Mac.

12. Freddie Mac shall within 20 days of the effective date of this Order explain to OFHEO the extent and scope of the document searches it has conducted in connection with the Baker Botts investigation, the Special Examination of Freddie Mac conducted by OFHEO, the SEC investigation of Freddie Mac, the investigation conducted by the Office of the U.S. Attorney for the Eastern District of Virginia and the third party civil litigation pending against Freddie Mac (collectively hereafter, "the searches"), and, to the best of its ability, answer any questions OFHEO may have regarding the conduct, scope and extent of the searches.

13. Freddie Mac shall within 30 days of the effective date of this Order explain to OFHEO the organization and categories of documents it has previously provided to OFHEO in connection with the searches, and, to the best of its ability, answer any questions OFHEO may have regarding the organization and categories of documents it has previously provided OFHEO in connection with the searches.

14. On a schedule mutually agreed to by OFHEO and Freddie Mac, or in any case no later than 120 days of the effective date of this Order, Freddie Mac shall complete all undertakings and produce to OFHEO all documents and categories of documents mutually agreed to by OFHEO and Freddie Mac, in a format to be agreed by OFHEO and Freddie Mac; provided that Freddie Mac does not waive its right to assert any privileges that it may claim as to any document or category of documents.

15. Upon completion of the provisions of paragraphs 12-14 above, OFHEO may identify to Freddie Mac particular documents or discrete categories of documents that OFHEO has reason to believe have not been searched for or produced in connection with the searches. If OFHEO identifies such documents or categories of documents to Freddie Mac, Freddie Mac either will (a) search for and produce them, (b) produce them if no search is required, or (c) provide OFHEO the information necessary for it to find the documents among those produced by Freddie Mac in connection with the searches. If OFHEO, in consultation with Freddie Mac, still is unable to locate the identified documents among the documents it has received from Freddie Mac, Freddie Mac will conduct another search for the identified documents and, if possible, produce them to OFHEO. In

the event that Freddie Mac notifies OFHEO that Freddie Mac objects to OFHEO's request (*e.g.*, on grounds that it is unreasonable or overbroad), which Freddie Mac must do within 20 days of a request or forfeit its right to do so, then OFHEO shall be able to seek the documents pursuant to 12 C.F.R. § 1780.28 by filing a third party subpoena for the documents in OFHEO administrative actions No. 2003-2 or No. 2003-3, and Freddie Mac may oppose the request as provided by that regulation.

16. Production of documents by Freddie Mac to OFHEO in connection with this Order shall be subject to the June 9, 2003, agreement with OFHEO, the Protective Order in this action (entered May 5, 2004), and the July 15, 2003, agreement with the Securities and Exchange Commission concerning production of confidential and privileged documents.

General

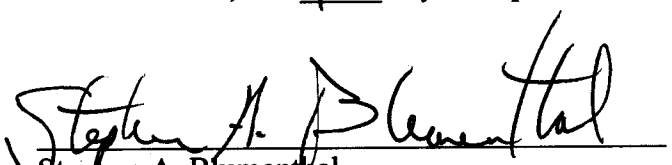
17. This Consent Order and incorporated Stipulation and Consent may be used, without objection by Freddie Mac, in any proceeding brought by OFHEO to enforce this Order.

18. For purposes of this Order, the term "Final Order" means an order issued by the Director of OFHEO that is not stayed by court order and that is not subject to further judicial review or revision.

This Order constitutes the Final Decision and Order with respect to OFHEO Notice of Charges No. 2003-1, and shall become effective on the date it is issued, as shown in the caption hereof. The incorporated Stipulation and the Order shall remain in effect until

terminated, modified or suspended in writing by the Director of OFHEO, or an authorized representative thereof.

It is so ordered, this 9th day of September 2005.



Stephen A. Blumenthal
Acting Director
Office of Federal Housing Enterprise Oversight

ATTACHMENT A

United States of America
Office of Federal Housing Enterprise Oversight

In the Matter of
THE FEDERAL HOME LOAN MORTGAGE CORPORATION
OFHEO No. 2003-1

September 9, 2005

STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER

The Director of the Office of Federal Housing Enterprise Oversight ("OFHEO") has issued against the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Enterprise") a notice of charges in this matter (OFHEO no. 2003-1) pursuant to 12 U.S.C. § 4631 *et seq.* and 12 C.F.R. § 1780 *et seq.*

The Enterprise, in the interest of cooperation and in the interest of resolving the matters that are the subject of OFHEO notice of charges no. 2003-1 without incurring the expense and distraction of further litigation with OFHEO, consents to the issuance of a Consent Order, dated September 9, 2005 ("Order"), before any evidentiary proceedings have been conducted in this matter and before the entry of any findings of fact or conclusions of law in this matter.

In consideration of the above premises, the Director and the Enterprise, through its duly authorized representative, hereby stipulate and agree to the following:

ARTICLE I

Jurisdiction

(1) The Enterprise is a corporation chartered pursuant to the Federal Home Loan Mortgage Corporation Act of 1970, 12 U.S.C. §§ 1451 to 1459, and subject to supervision and regulation by OFHEO pursuant to the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4501 *et seq.*

ARTICLE II

Agreement

(2) Based solely on this Stipulation and Consent, the Enterprise consents and agrees to the issuance of the Order by the Director. In so doing, the Enterprise neither admits nor denies any wrongdoing or any asserted or implied finding of fact or conclusion of law or any other asserted or implied basis for the Order. The Enterprise further consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by OFHEO under the provisions of 12 U.S.C. §§ 4635 and 4636.

ARTICLE III

Waivers

(3) The Enterprise, by signing this Stipulation and Consent, hereby waives:

(a) any and all procedural rights available against OFHEO in connection with the issuance of the Order;

(b) all rights to seek any type of administrative or judicial review of the Order; and

(c) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

Other Action

(4) The Enterprise agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Director from taking any other action affecting the Enterprise with respect to matters not related to the matters that are the subject of OFHEO notice of charges no. 2003-1 if, at any time, the Director deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

(5) The Enterprise agrees that the provisions of this Stipulation and Consent shall not be construed to limit or otherwise affect regulatory actions by other federal regulatory agencies.

(6) The Director agrees that, upon issuance of the Order, he will dismiss OFHEO notice of charges no. 2003-1.

IN TESTIMONY WHEREOF, the undersigned, the Director of OFHEO, has hereunto set his hand on behalf of himself and OFHEO.

DATED: September 9, 2005

Stephen A. Blumenthal
Acting Director
Office of Federal Housing Enterprise Oversight

IN TESTIMONY WHEREOF, the undersigned, as the duly authorized representative of the Enterprise, has hereunto set his hand on behalf of the Enterprise.

DATED: September 9, 2005

Richard F. Syron
Chairman and Chief Executive Officer
Federal Home Loan Mortgage Corporation