

**UNITED STATES OF AMERICA
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

In the Matter of:)	
)	HUDALJ 04-056-NA
LELAND C. BRENDSEL)	Notice No. 2003-2
)	
Respondent.)	Judge William B. Moran
)	

**THIRD AMENDED NOTICE OF CHARGES AND NOTICE
OF HEARING FOR CEASE AND DESIST ORDER
TO DIRECT RESTITUTION AND OTHER AFFIRMATIVE
RELIEF AND FOR CIVIL MONEY PENALTIES**

The Office of Federal Housing Enterprise Oversight (“OFHEO”), as the regulatory agency charged with the supervision and regulation of the Federal Home Loan Mortgage Corporation (“Freddie Mac”), and its officers, directors, and senior managers, hereby states for its Third Amended Notice Of Charges And Notice Of Hearing For Cease And Desist Order To Direct Restitution And Other Affirmative Relief And For Civil Money Penalties as follows:

I. JURISDICTION

1. The Director of OFHEO is charged at all times with ensuring that the government sponsored enterprises regulated by OFHEO are operated in a safe and sound manner, and that they are capitalized adequately. *See* 12 U.S.C. § 4513(a). The Director is statutorily empowered with the exclusive authority to conduct annual examinations to ensure the “safety and soundness” of each enterprise’s financial operations. *See* 12 U.S.C. § 4517(a).

2. To carry out these regulatory and oversight responsibilities with respect to safety and soundness and adequate capitalization issues, the Director is authorized, without further review or approval of the Secretary of Housing and Urban Development, to make such determinations, take such actions, and perform such functions as the Director deems necessary, including, but not limited to, the institution of administrative and enforcement actions pursuant to the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (“Safety and Soundness Act”) seeking the entry of appropriate cease and desist orders and the imposition of civil money penalties. *See* 12 U.S.C. § 4513(b). All “safety and soundness” oversight authority vests with the Director, pursuant to 12 U.S.C. § 4513(a). *See* 12 U.S.C. § 4541.

II. THE PARTIES

3. OFHEO is an independent office within the Department of Housing and Urban Development, established under Title XIII of the Housing and Community Development Act of 1992, and under the Safety and Soundness Act, to ensure that the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac” or the “Enterprise”) are capitalized adequately and operate safely and in compliance with applicable laws, rules, and regulations.

4. Freddie Mac is a government-sponsored entity statutorily subject to regulation and oversight by OFHEO. *See* 12 U.S.C. §§ 4501 *et seq.* Freddie Mac was established and operates under the authority of its Federal chartering act, the Federal Home Loan Mortgage Corporation Act (the “Corporation Act”), 12 U.S.C. § 1451 *et seq.*, as a government-sponsored, privately owned corporation, to be directed by its board of

directors and management to fulfill the public purpose of providing a stable secondary mortgage market. *See* 67 Fed. Reg. 38361 (June 4, 2002), Supplementary Information.

5. Respondent Leland Brendsel was employed by Freddie Mac from 1982 until June 6, 2003. From 1987 until the time of his forced retirement, Mr. Brendsel was Chief Executive Officer (“CEO”) of Freddie Mac. From 1989 until the time of his forced retirement, Mr. Brendsel was the Chairman of Freddie Mac’s Board of Directors. Since his active employment with Freddie Mac ended on June 6, 2003, Mr. Brendsel has continued to receive deferred and other compensation from Freddie Mac, and thus presently remains “associated with” Freddie Mac following his retirement. *See* 12 U.S.C. § 4637.

6. Pursuant to 12 U.S.C. § 4637, the “resignation, termination of employment or participation, or separation of a director or executive officer of an enterprise shall not affect the jurisdiction and authority of the Director to issue any notice and proceed ... against any such director or executive officer, if such notice is served before the end of the 2-year period beginning on the date such director or executive officer ceases to be associated with the enterprise.”

7. Because the original Notice of Charges against Mr. Brendsel was filed and served on or about December 17, 2003, the Director retains full jurisdiction and authority to proceed against him as set forth below.

III. CLAIMS

FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(C&D for Conduct Based on Unjust Enrichment)

8. Prior to 1990, Freddie Mac maintained a small debt-financed mortgage portfolio that exposed the Enterprise to some mortgage credit risk, but very little interest rate risk. In 1992, however, Freddie Mac began to use debt to fund a greater proportion of the loans it purchased. As a result, the retained mortgage portfolio of the Enterprise grew rapidly over the next decade, along with the outstanding debt used to finance that portfolio.

9. To manage the interest rate risk associated with this rapidly expanding portfolio, Freddie Mac began in the early 1990s to issue debt securities with embedded call features and, in the mid-1990s, to rely heavily on interest rate derivatives. Today, Freddie Mac has evolved into one of the world's largest issuers of debt and end-users of sophisticated financial derivatives.

10. This approach was extraordinarily successful for Freddie Mac throughout the 1990s. Its shares outperformed the market throughout this time frame, reinforcing management's emphasis on the goal of steady, continued earnings growth.

11. Freddie Mac adopted the goal of steady earnings growth as far back as the early 1990s. Later in the decade, Mr. Brendsel and other senior management began to communicate to the public a message of mid-teens annual earnings growth.

12. Section 11(d) of the 2000 Policy Guidance on Minimum Safety and Soundness Requirements, PG-00-001 (December 19, 2000) ("Policy Guidance (2000)") reiterates the responsibility of the managers of the Enterprise to "set[] policies and controls to ensure the Enterprise's strategies are implemented effectively."

13. Section 11 of the Policy Guidance (2000) reiterates the responsibility of the Board of Directors of the Enterprise to "work[] with executive management to establish the

Enterprise's strategies and goals in an informed manner." 12 C.F.R. 1720.2 (Appendix A, VIII, iv).

14. Section 8(c) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to "maintain and implement internal controls appropriate to the nature, scope of its business activities that, at a minimum, provide for ... [p]olicies and procedures adequate to safeguard and to manage assets." 12 C.F.R. 1720.2 (Appendix A, VIII).

15. Section 8(d) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to "maintain and implement internal controls appropriate to the nature, scope of its business activities that, at a minimum, provide for ... [c]ompliance with applicable law, regulations and policies." 12 C.F.R. 1720.2 (Appendix A, V, iv).

16. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

17. The position description for the Chairman of the Board Chief Executive Officer states that the CEO is "accountable for providing leadership for the formulation and achievement of the Corporation's vision, mission, strategy, financial objectives and goals." Mr. Brendsel was also responsible to "[e]nsure that appropriate controls, policies, and procedures ... [were] established to protect corporate assets, and promote operational efficiency and that controls, policies and procedures ... [were] regularly evaluated for adequacy." He also was responsible for providing "supervision to the President and other senior executives."

18. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 12 through 17 above, as well as his other designated responsibilities, in a safe and sound manner.

19. Mr. Brendsel became the leading proponent of Freddie Mac's focus on steady reported earnings growth and its corresponding aversion to earnings volatility. In the early 1990s, Freddie Mac was primarily a securitizer of mortgages. As Freddie Mac's retained mortgage portfolio grew in the late 1990s, its earnings became more sensitive to interest rates, and steady mid-teens growth became an increasingly difficult goal to meet.

20. Over time, Mr. Brendsel's "financial goals" gradually developed into much more rigid financial objectives of attaining steady earnings growth and meeting stock analysts' expectations.

21. Despite increasing difficulties presented by the changes in composition of Freddie Mac's portfolio, Mr. Brendsel continued to set aggressive growth targets for Freddie Mac between 1998 and 2002.

22. In 1998, Mr. Brendsel set a growth target of 18 percent. In 1999, he set a growth target of between 17 and 20 percent. In 2000 and 2001, the target range dropped to between 13 and 15 percent, but went back up again in 2002, rising to a target range between 16 and 18 percent. In 2001 management proposed and Brendsel and the Board of Directors approved an increase in the convexity (interest rate) risk assumed by Freddie Mac in order to meet the growth and earnings targets.

23. In addition to demanding that Freddie Mac continue its mid-teens earnings growth, Mr. Brendsel also began to emphasize achieving an earnings-per-share (EPS) result that met or exceeded the expectations of Wall Street analysts, but which also fell within 2 to 3 cents per share of those analysts' expectations.

24. The rigid financial goals set by Mr. Brendsel ultimately became part of the "corporate scorecards" by which management performance was assessed. These corporate scorecards prioritized earnings management in general, with a particular emphasis on the ability of management to bring Freddie Mac's earnings within analysts' estimates.

25. Mr. Brendsel's insistence upon meeting his earnings goals, and the orders and instructions he gave to that end, fixed Freddie Mac on the course towards improper earnings management, achieved through various improper techniques and transactions. Such improper earnings management included specific activities undertaken either to deceptively smooth earnings over two or more accounting periods or to achieve a designated earnings level to meet analysts' forecasts.

June 4, 1999 Directors' Meetings

26. While earnings management may have been merely an informal or implicit policy of senior management at Freddie Mac during the early 1990s, it became the express policy of management at or before the June 4, 1999 meeting of Freddie Mac's Board of Directors, chaired by Mr. Brendsel.

27. The CFO's "Financial Review and Outlook" report given to Mr. Brendsel and the other Board members at that meeting noted that the financial prospects of Freddie Mac were bright, thanks to strong retained portfolio purchases and favorable credit results:

“NII [net interest income] is surging and *we are undertaking transactions to smooth the time pattern over 1999-2000*” (emphasis added). Net interest income is interest income earned on assets less interest expense paid on liabilities.

28. That presentation went on to state that 1999 NII was running substantially above plan and warned that, without rebalancing transactions, “1999 net interest income could exceed 2000 net interest income.”

June 4, 1999 Investment Committee Meeting

29. The Investment Committee of the Board also convened on June 4, 1999, and Mr. Brendsel attended that meeting as well.

30. In a presentation before the Investment Committee that day, “Multi-Year Net Interest Income Planning,” Nazir Dossani, Senior Vice President of Asset/Liability Management and Research in the Funding & Investment Group (“F &I”), stated that the NII outlook for 1999 was \$3.50 per share, which was at the high end of the “On-Plan” range of \$3.39 to \$3.51 per share set by management.

31. The presentation further suggested that the Enterprise could achieve income on the high end of the range with a lower measure of interest rate risk but that pursuing such a strategy would lead to an “unfavorable pattern of NII for 2000 versus 1999.”

32. The presentation advocated keeping the level of interest rate risk where it was and recommended implementing other strategies to improve the time pattern of earnings between 1999 and 2000, including “analyzing the adequacy of reserves” to determine if they could be used to manage earnings.

June 4, 1999 Audit Committee Meeting

33. On the same day, the Controller of Freddie Mac gave a presentation to Mr. Brendsel and the Audit Committee of the Board of Directors titled "Management Assessment of Current SEC Accounting Concerns." Mr. Brendsel also attended that presentation.
34. The Controller's presentation was intended to provide the Audit Committee with an assessment of the management control system and Board oversight processes of the Enterprise with respect to concerns that Securities and Exchange Commission ("SEC") Chairman Arthur Levitt had expressed in a speech addressing the "five deadly sins" of earnings management.
35. The Controller noted that the SEC was concerned that earnings management was eroding the quality of financial reporting, and that the SEC was questioning the effectiveness of the oversight role provided by audit committees relative to earnings management.
36. The Controller identified several areas that the SEC thought potentially problematic, including issues surrounding materiality, revenue recognition, and "cookie jar" reserves. "Cookie jar reserves" refers to the accounting practice of taking or increasing a reserve to reduce profits in good years, then subsequently using funds from the reserve to increase profits or reduce losses in bad years.
37. After the presentation about the Levitt speech, management reviewed the June 4, 1999 Board of Directors' minutes to ensure no references to earnings management appeared.

38. Notes from a “dry run” of the Controller’s presentation conducted by Mr. Brendsel prior to the presentation to the Audit Committee state that “[w]e have managed earnings via reserves but that is not frequent or significant/material; i.e., several cents.”

FAS 91 Reserve

39. Statement of Financial Accounting Standard Number 91, *Accounting for Loan Origination Costs* (“FAS 91”), requires a company to recognize loan fees, premiums and discounts as an adjustment over the life of the loan, rather than as one time expenses.

Freddie Mac incorporated into its income statement an estimate for mortgage prepayments.

40. Under FAS 91, a company in Freddie Mac’s situation is required to deal with any actual difference between the estimated and actual repayments by using a subsequent catch-up adjustment to the income statement. A general reserve is not permitted under FAS 91.

41. In 1994, Freddie Mac management created just such an improper reserve account to cushion against the fluctuations caused by the uneven amortization of premiums (or accretion of discounts) resulting from changing mortgage prepayment speeds. Senior management at Freddie Mac used the FAS 91 amortization reserve to absorb “catch-up” amortization when actual mortgage prepayments differed significantly from those previously forecast.

42. Mr. Brendsel was aware of the use of this amortization reserve to manage earnings improperly. A presentation by members of management to Mr. Brendsel and the Investment Committee in June 1999 stated that “analyzing the adequacy of reserves (amortization and loan loss)” is among the “strategies we are investigating for improving

the time pattern of NII (Net Interest Income) between 1999 and 2000.” *See* Multi-Year Net Interest Income Planning, Investment Committee, Board of Directors’ Meeting, June 4, 1999.

43. The amortization reserve was improperly manipulated to control earnings through the use of a variety of unsupported interest rate and yield curve assumptions to determine amortization amounts that would result in the “best” earnings result for various different earnings reporting periods.

44. The manipulation of the reserve account was part of an overall effort to achieve Mr. Brendsel's goal of steady, smooth, earnings growth and meet analyst expectations with precision.

45. The use of multiple interest-rate methodologies by management to estimate amortization at various points contravenes the consistency principle of GAAP, a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. The accounting profession has adopted certain concepts and conventions that help to ensure that accounting information is presented accurately and consistently, with consistency being one such concept. *See* Statement of Financial Accounting Concepts No. 2 at ¶ 120 (“Concepts 2”).

46. The improper amortization reserve peaked at \$216 million in the fourth quarter of 1999, approximately 5.4 percent of net income.

47. Mr. Brendsel did not decide to deplete the improper amortization reserve until the second quarter of 2001.

Loan Loss Reserve

48. Statement of Financial Accounting Standard Number 5, *Accounting for Contingencies* (“FAS 5”), establishes standards of financial accounting and reporting for loss contingencies. It requires accrual by a charge to income (and disclosure) for an estimated contingent loss if two conditions are met: (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (b) the amount of loss can be reasonably estimated. Accruals for general or unspecified business risks, so-called reserves for general contingencies, are not permitted.

49. In 1990, Freddie Mac increased its loan loss reserve by approximately \$100 million, due in large part to unexpectedly large losses in its multi-family mortgage portfolio. The loan loss reserve continued to grow throughout the 1990s.

50. Mr. Brendsel and other members of senior management thereafter deliberately kept the loan loss reserve at an unjustifiably high level relative to actual and projected losses from 1998 to 2002, a period when earnings at the Enterprise were growing rapidly and loan losses were dwindling.

51. Although senior management – including Mr. Brendsel – continually sought to explain the high reserve levels by citing the need to protect against large and unexpected credit losses, they were aware that losses on the magnitude of the loan loss reserves were extremely unlikely.

52. Despite knowing of the existence of loan loss reserves that greatly exceeded the levels permissible under GAAP, Mr. Brendsel failed to correct the situation, and allowed

the excessive loan loss reserves to continue for years, despite having been warned by Controller Sannini that the reserves were excessive.

53. The maintenance of these unjustifiably high loan loss reserves created so-called “cookie jars” – readily available reserve funds used by management, including Mr. Brendsel, to alternately suppress or support earnings, as needed, to meet Mr. Brendsel’s set earnings goals and to meet market EPS estimates.

54. Although Mr. Brendsel eventually authorized a \$250 million reduction in Freddie Mac’s loan loss reserves, which was booked in the third quarter of 2002, that reduction was largely offset in the fourth quarter of 2002 by a \$225 million cash contribution to the Freddie Mac Foundation. This contribution was ordered by Mr. Brendsel to prevent an increase in earnings that would move Freddie Mac outside the range of analysts’ estimates.

55. The improper use of adjustments to the FAS 91 reserve and the loan loss reserve to manage earnings at Freddie Mac was based on a long-standing practice at the Enterprise, under Mr. Brendsel’s leadership, of making discretionary accounting judgments with a view toward producing financial statements that more closely approximated analysts’ estimates.

56. This practice was based on a belief – fostered and encouraged by Mr. Brendsel throughout his tenure as Chairman and CEO – that the Enterprise was free to use adjustments to the FAS 91, loan loss, and other reserves under GAAP so long as the amounts involved were not “quantitatively material.”

57. In some instances, this practice of using “non-material” adjustments was reduced to a “five percent” rule of thumb — meaning that an amount less than five percent of the

Enterprise's earnings, a potentially significant amount, could be ignored as immaterial — and had the general effect of moving Freddie Mac's earnings to within a penny or two of analysts' estimates of earnings per share.

58. The use of the “five percent” rule of thumb contravened the Financial Accounting Standards Board's direction against application of such a “rule of thumb” standard to determine materiality, Concepts 2 at ¶ 132, which Mr. Brendsel knew or should have known. *See also* SEC Staff Accounting Bulletin 99, Topic 1, August 12, 1999.

59. Mr. Brendsel and other members of senior management misled OFHEO concerning the high levels of reserves Freddie Mac maintained by stating that loan loss reserves were maintained at a level that in management's judgment were adequate and necessary.

FAS 133 Transition

60. FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, became effective as of January 1, 2001, and required, among other things, that Freddie Mac recognize all derivatives as either assets or liabilities in its statement of financial position and measure those instruments at fair value.

61. Implementation of FAS 133 threatened two negative results that Mr. Brendsel and other members of senior management wished to avoid. First, it would produce a one-time gain in income upon implementation by accelerating recognition of earnings that had previously been recognized in future periods. Second, it would create volatility in Freddie Mac's earnings in future periods by requiring the marking of derivatives to market, but not permitting Freddie Mac to mark to market the corresponding debt hedged by such derivatives.

62. Mr. Brendsel believed that the Enterprise would receive no credit from analysts and investors for this one-time gain in income, and that analysts would be concerned about the anticipated volatility in future earnings.

63. Because of these perceived effects, Mr. Brendsel ordered Freddie Mac divisions, officers and employees to minimize the FAS 133 transition gain and keep earnings volatility at a low number.

64. From March 2000 forward, Mr. Brendsel assumed *de facto* control of Freddie Mac's FAS 133 transition because, among other reasons, he had devised the scheme to minimize volatility, ordained that it was to be carried out, allowed systemic weaknesses to develop in Freddie Mac's Corporate Accounting Division, including too few qualified personnel, and had placed an unqualified individual in the CFO position.

65. The vast majority of Freddie Mac's FAS 133 transition policies were aired during Audit Committee meetings throughout 2000, most of which were effectively controlled by Mr. Brendsel. The implementation and decision-making process throughout the FAS 133 transition was also run through the Audit Committee by Mr. Brendsel.

66. As a direct result of the actions and inactions of Mr. Brendsel and other members of senior management, Freddie Mac was forced to restate its financial statements for net cumulative increase of \$4.4 billion dollars for years 2000, 2001 and 2002 at significant cost to the Enterprise. *See* Freddie Mac's Restatement of Previously Issued Consolidated Financial Statements for the Years 2000, 2001 and 2002 ("Restatement"), <http://www.FreddieMac.com/investors/restatement>.

67. In correcting the various accounting errors, Freddie Mac was forced to re-classify certain held-to-maturity ("HTM") and available for sale ("AFS") securities during the

course of the Restatement, resulting in a cumulative increase of nearly \$4.5 billion in pre-tax income and pre-tax Accumulated Other Comprehensive Income. *See* Restatement, Appendix II, at 3.

68. With respect to various transactions, including the Coupon Trade-Up Giant transactions discussed below, the subsequently required security reclassifications led to many Freddie Mac securities being deemed ineligible for hedge accounting under FAS 133. This forced Freddie Mac to reverse a substantial portion of its embedded options hedging strategy. *See* Restatement, Appendix II, at 4.

69. The cumulative effect on pre-tax income of correcting the errors resulting from the misclassification of Freddie Mac securities was an increase of approximately \$6.5 billion. *See* Restatement, Appendix II, at 4.

70. During this time frame, Mr. Brendsel also shifted much of the work that should have been done by Freddie Mac's Corporate Accounting Department to the much more aggressive F&I Group, which not only handled the particulars of the FAS 133 transitions, but also devised and implemented many of the highly problematic derivatives-based strategies Freddie Mac would subsequently employ.

71. This arrangement was similar to Mr. Brendsel's improper use of the accounting firm Arthur Andersen to advise and participate in Freddie Mac's FAS 133 transition and other significant accounting issues, while Arthur Andersen also served as Freddie Mac's external auditor, thus denying management and the Board of Directors an independent evaluation of several FAS 133-related issues and transactions, as well as other transactions entered into by Freddie Mac.

72. By early November 2000, Mr. Brendsel became concerned that the transition to FAS 133 would produce a one-time gain in income of nearly \$700 million. If not eliminated, this transition adjustment would have had a significant impact on Freddie Mac's earnings per share for the year 2001.

73. On November 22, 2000, Mr. Brendsel chaired a high-level meeting to discuss FAS 133 transition issues. During that meeting, Mr. Brendsel made the decision to pursue several different courses to manipulate earnings in anticipation of the FAS 133 transition gain, and apparently there directed Chief Financial Officer ("CFO") Vaughn Clarke to carry them out.

74. Upon receiving Mr. Brendsel's instructions, Mr. Clarke met with employees from Corporate Accounting and F&I to discuss the Enterprise's strategy to minimize the FAS 133 transition gain. The agenda specifically identified their strategic objective: "Recognize book losses in 1Q01 that offset the FAS 133 transition gain and replace lost earnings in subsequent periods."

75. Operating pursuant to Mr. Brendsel's order to offset the FAS 133 transition gain, Mr. Clarke instructed employees working under his direction to find ways to eliminate the transition adjustment.

Specifics Of The FAS 133 Transition

The CTUG Transactions

76. The first device created in response to Mr. Brendsel's order to minimize the FAS 133 transition gain and keep earnings volatility at a low number were the Coupon Trade-Up Giants ("CTUGs"), a series of complex financial instruments that took advantage of a window created by the Financial Accounting Standards Board ("FASB"), the

organization established to improve standards of financial accounting and reporting, allowing re-designation of securities from HTM to AFS or trading without tainting the rest of their HTM securities upon adopting FAS 133.

77. The sole purpose of the CTUGs was to move securities with embedded losses from the HTM category (where losses are unrecognized) into trading (where losses would be immediately recognized in net income and would offset derivative gains), and then into AFS (where securities gains and losses were recorded only as “other comprehensive income,” not “net income”).

78. The CTUG transactions had little or no economic substance, and were manufactured by Freddie Mac – under Mr. Brendsel’s direction – to obtain a particular accounting result.

79. By using the window created by FASB, Freddie Mac could identify HTM Participation Certificates (“PCs”) in its portfolio with mark-to-market losses and move them to a trading account, where a loss could be immediately recognized in net income.

80. The CTUG strategy was presented to Mr. Brendsel by Freddie Mac’s senior management in the meeting on November 22, 2000, referenced in paragraph 73 above.

81. Under the plan approved and initiated by Mr. Brendsel, the Enterprise sought to have the benefit of having its securities in a trading account, but only long enough to realize a loss and reduce its FAS 133 transition gain.

82. In a December 8, 2000 e-mail memorandum from Richard Millerick to Vaughn Clarke, *et al.*, the Enterprise then estimated that the expected FAS 133 transition gain would rise to approximately \$1 billion, in the absence of any mitigating measures.

According to this memorandum, the effect of the CTUGs alone was an expected decrease of \$700 million in that transition gain.

83. Ignoring specific guidance from Arthur Andersen about the means by which the CTUG transactions needed to be conducted, Mr. Brendsel and other members of senior management allowed the actual execution to contravene GAAP requirements.

84. Mr. Brendsel and other members of senior management failed to ensure that the transfer of the CTUG securities to the counterparty constituted a “true sale” under FAS 125 (which required a transfer of financial assets to involve the surrender of control over the assets in order to be accounted for as a sale).

85. The improper accounting for the CTUGs contributed to the restatement of Freddie Mac’s financial statements.

J-Deals

86. Another set of transactions used during the FAS 133 transition to avoid earnings volatility and the income gain expected as part of the FAS 133 transition, in accordance with Mr. Brendsel’s orders, were the so-called J-Deals.

87. The J-Deals involved a series of four transactions. The earliest J-Deals were designed to generate losses to offset the FAS 133 gain; the later J-Deals were designed to avoid potential losses of over \$200 million to earnings in the second quarter of 2001 that were expected from the April 1, 2001 supplementation of EITF 99-20, “Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in Mortgage-Backed Interest Only Certificate.”

88. These transactions contravened GAAP, in part because Freddie Mac booked them as a sale, despite having received back a beneficial interest in the same assets that it held

at the start of the transactions, thereby contravening FAS 125 (the standard that preceded FAS 140), which required a transfer or a surrender of control over assets to obtain sale accounting treatment.

Changing Swaptions Valuation

89. Despite Mr. Brendsel's orders and instructions, and the efforts undertaken to carry them out, a significant anticipated transition gain under FAS 133 still remained in early December 2000. Contemporaneous changes in market conditions in late 2000, including rapidly falling mortgage rates, resulted in substantially increased market values for the PCs in Freddie Mac's portfolio.

90. This perceived problem was exacerbated by an increase in the price volatility associated with Freddie Mac's swaptions portfolio. A "swaption" is an option to enter into an interest rate swap at some future date or to cancel an existing swap in the future.

91. The increase in swaptions volatility led to a large increase in the value of Freddie Mac's swaptions portfolio in November and December 2000, thereby increasing the expected FAS 133 transition gain in January 2001.

92. On December 8, 2000, Mr. Clarke, continuing to operate pursuant to Mr. Brendsel's instructions to offset the anticipated FAS 133 transition gain, was presented with a proposal for eliminating almost all of the remaining FAS 133 transition gain through revaluing certain assets in Freddie Mac's swaptions portfolio.

93. Freddie Mac had historically used a model to value its swaptions portfolio that would have resulted, in December 2000, in a value much higher than Freddie Mac ultimately settled on for the swaptions. Freddie Mac ultimately chose a value that eliminated \$731 million from the FAS 133 transition gain.

94. While the pre-existing model for valuation of the swaptions portfolio was readily available, it would not have eliminated the FAS 133 transition gain.

95. Freddie Mac employees, operating pursuant to Mr. Brendsel's instructions to minimize the anticipated FAS 133 gain, improperly chose to use a complicated, new and unique model that used the swaptions valuations from the end of November 2000 – rather than the correct date of December 2000 – in order to all but eliminate the FAS 133 gain and meet earnings targets.

96. This led management to create a procedure to value swaptions not by any objective measure, but instead by an out of the ordinary procedure for determining a pricing date for volatility whenever “a market event has occurred.”

97. A January 2, 2001 memorandum entitled “FAS 133 Valuation Approach on Options Portfolio,” however, makes clear that Freddie Mac's determination of a “market event” was wholly subjective, and was designed to reach a predetermined result based on Mr. Brendsel's overriding desire and order to eliminate the FAS 133 transition gain and increased volatility.

98. This unique valuation method was used only for the FAS 133 transition adjustment, and not for any other risk management purpose.

99. The use of a unique and inconsistent valuation method solely for the purpose of the FAS 133 transition contravenes, among other things, the Consistency Principle of Financial Accounting Concept 2.

100. The inappropriate swaptions valuation methodology also contravened FAS 107, which states that “quoted market prices, if available, are the best evidence of the fair value of financial instruments.”

Continued Earnings Management: Linked Swaps

101. Beginning in 2001, Freddie Mac, under Mr. Brendsel's direction, kept two sets of financial information. Freddie Mac identified "operating earnings," a non-GAAP measure, as the key financial metric for the market to use as the Enterprise's "true" economic measure, rather than its GAAP earnings. Also in 2001, operating earnings were used in briefings of analysts following the performance of Freddie Mac stock.

102. In the second half of 2001, Freddie Mac entered into a series of nine transactions known as the "linked swaps," which had the effect of improperly transferring approximately \$420 million in operating earnings from 2001 into later years.

103. Mr. Brendsel became aware of these linked swaps at least as early as August 23, 2001, when he attended a "dry run," the purpose of which was to review information related to the linked swaps to be presented to the Investment Committee of the Board.

104. Mr. Brendsel further learned by that "dry run" that without the linked swaps, and the accompanying \$420 million shift in operating earnings from 2001 into later years, the anticipated NII for 2001 would have been \$0.57 per share over analysts' expectations.

105. Mr. Brendsel ordered this information to be improperly withheld from the Investment Committee.

Mr. Brendsel Improperly Allowed the Linked Swaps to Continue

106. In September 2001, Arthur Andersen strongly recommended that the swaps be terminated or unwound immediately because the impact of the transactions on the Enterprise's risk management policies was virtually non-existent. Arthur Andersen concluded the main purpose of the linked swaps was to shift income to future periods: *i.e.*, improper earnings management.

107. Freddie Mac's in-house Legal Department agreed with Arthur Andersen, concluding that the linked swap transactions needed a legitimate business purpose and needed to comply with GAAP. The Legal Department was informed by Robert Dean that the impact on the Enterprise's risk management policies, while positive, was "minimal."

108. Robert Arnall of Arthur Andersen conveyed his concerns and recommendations to Freddie Mac's Vice-Chairman and President David Glenn, on September 27, 2001. Mr. Arnall had earlier conveyed his concerns and recommendations to Mr. Clarke, as well.

109. Shortly after his September 27, 2001 meeting with Mr. Arnall, Mr. Glenn met with Mr. Brendsel to discuss Arthur Andersen's concerns, and to consider the possibility of terminating or unwinding the swaps.

110. Despite the Enterprise's Legal Department's conclusion that the linked swaps served little or no legitimate business purpose, repeated warnings from Arthur Andersen that the linked swaps should be unwound immediately, and the strong advice from Mr. Glenn to do so, Mr. Brendsel waited almost three full months, until December 2001, to direct the transactions be unwound.

111. By failing to immediately unwind the nine linked swaps and allowing them to continue until December 2001, shortly before they had already been scheduled to terminate of their own accord, Mr. Brendsel improperly allowed \$420 million in operating earnings to be shifted into later reporting periods.

112. Mr. Brendsel's actions, failures to act, and orders and instructions to others involving improper earnings management, as set out in paragraphs 8 through 111 above, were imprudent, resulted in a loss to Freddie Mac, and presented an abnormal risk or threat to its financial integrity.

113. The loss to the Enterprise caused by Mr. Brendsel encompasses, but is not limited to, the monetary costs of Freddie Mac's internal investigation, audits, restatement, and civil money penalties made necessary by the financial and accounting misconduct that took place under the supervision and direction of Mr. Brendsel.

114. Additional losses to the Enterprise have resulted from the cost of professional services and potential damages resulting from the shareholder lawsuits that have sprung from this misconduct, including without limitation the following cases: *Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio* (S.D.N.Y. 2004), *In re Federal Home Loan Mortgage Corp. Securities & Derivative Litigation (No. II)* (S.D.N.Y. 2004), *Martin v. Freddie Mac* (S.D.N.Y. 2004); *Esther Sadowsky Testamentary Trust* (S.D.N.Y. 2005) and *Greenfield v. Arnall* (E.D. Va. 2004). On information and belief, these actions were settled by Freddie Mac for \$410 million.

115. In its 2004 Annual Report, Freddie Mac conservatively estimated its losses from litigation arising from the restatement to be between \$75 and \$100 million. Freddie Mac was assessed a \$125 million civil money penalty by OFHEO as a result of the financial and accounting misconduct described herein. Freddie Mac also has agreed to pay \$50 million in settlement of a securities fraud action brought against it by the SEC. The professional and other costs associated with the restatement itself are estimated in Freddie Mac's March 31, 2005 Supplemental Disclosure Package to already exceed \$400 million. In addition, Freddie Mac sustained an as yet indeterminate amount of damages from lost employee time due to the inefficiencies and misallocation of resources to its improper and non-GAAP compliant earnings management policies.

116. While the total losses and damages Freddie Mac will ultimately sustain as a result of the financial and accounting misconduct fostered by Messrs. Brendsel and Clarke is not yet finalized, the Enterprise has already lost in excess of \$900 million, and stands to lose significantly more as the ensuing litigation is completed, and the Enterprise continues to devote considerable internal resources to remedying the unsafe and unsound conditions left behind by Mr. Brendsel.

117. For purposes of this Third Amended Notice of Charges, the losses ultimately sustained by the Enterprise are likely to exceed \$1 billion dollars, the final amount to be proved at hearing. Additionally, the Enterprise has sustained reputational and other non-monetary losses. References to loss or losses in connection with Mr. Brendsel hereafter refer to paragraphs 113 through 117.

118. By reason of the facts alleged in paragraphs 8 through 117 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched, such unjust enrichment including, without limitation, the receipt by Mr. Brendsel of millions of dollars in excess bonus, salary, severance and other compensation from the Enterprise during the time frame of this Third Amended Notice of Charges. He was also unjustly enriched by being given the opportunity to retire, rather than being terminated for cause, such resignation giving him additional rights and compensation under the terms of his employment agreement. All references hereafter made in this Third Amended Notice of Charges to unjust enrichment received by Mr. Brendsel refer to the summary of his unjust enrichment set out in this paragraph.

119. By reason of the facts alleged in paragraphs 11 through 118 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(C&D for Violation Based on Unjust Enrichment)

120. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

121. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2), (3).

122. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(C&D for Conduct Based on CMP Tier Three Standard)

123. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

124. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

125. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

FOURTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(C&D for Violation Based on CMP Tier Three Standard)

126. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

127. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2), (3).

128. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

FIFTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Two CMP for Violation Based on Pattern of Misconduct)

129. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

130. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

131. The violation set forth in paragraphs 8 through 118 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

132. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

133. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

134. The conduct set forth in paragraphs 8 through 118 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

135. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

136. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

137. The violation set forth in paragraphs 8 through 118 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

138. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

139. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

140. The conduct set forth in paragraphs 8 through 118 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

141. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

142. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

143. The violation set forth in paragraphs 8 through 118 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

TENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Engage in Improper Earnings Management

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

144. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 118 above.

145. By reason of the facts alleged in paragraphs 8 through 118 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

146. The conduct set forth in paragraphs 8 through 118 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ELEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(C&D for Conduct Based on Unjust Enrichment)

147. Pursuant to 12 U.S.C. §§ 1456(c)(1), (c)(2)(A), and (c)(2)(C), Freddie Mac is, and was at all times relevant to this Third Amended Notice of Charges, required to submit to the Director of OFHEO annual and quarterly reports of the financial condition and operations of the Enterprise, each such annual report to include, *inter alia*: (a) financial statements prepared in accordance with GAAP; (b) an assessment, signed by the CEO and CFO of the Enterprise, with respect to the effectiveness of the internal control structure and procedures of the Enterprise; and (c) an assessment, signed by the CEO and CFO of the Enterprise, of the compliance of the Enterprise with designated safety and soundness laws.

148. Pursuant to 12 U.S.C. § 1456(c)(4), each such report of financial condition must also contain a declaration by Freddie Mac's president, vice president, treasurer, or any other officer designated by the Board of Directors of the Enterprise to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

149. At all times relevant to this Third Amended Notice of Charges, Mr. Brendsel was the CEO of Freddie Mac, and was, pursuant to 12 U.S.C. § 1456(c)(4), duly designated, and was thus under an express duty to certify, to the best of his knowledge and belief, that each report of financial condition submitted by Freddie Mac was true and accurate in general, and that each report of financial condition submitted by Freddie Mac complied with GAAP in particular.

150. At all times relevant to this Third Amended Notice of Charges, and as part of the afore-mentioned statutory and contractual certification obligations, Mr. Brendsel did, in fact, certify as to the veracity, compliance, and other aspects of each report of financial condition as required under 12 U.S.C. § 1456(c)(4).

151. Under 12 U.S.C. § 1456(c)(4), Mr. Brendsel was also under a duty to keep himself reasonably informed of all facts needed to carry out his obligation to certify as to the truth and accuracy of each such report of Freddie Mac's financial condition.

152. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraph 48 through 54 above.

153. Mr. Brendsel caused and allowed the loan loss reserve at Freddie Mac to continue to be maintained at excessive levels relative to actual and projected losses from 1998 to 2002. These excessive reserve levels violated FAS 5's requirement that loss reserves be based on a reasonable estimate of a probable loss.

154. By early 2001, Mr. Brendsel and the Audit Committee had been advised that Freddie Mac's loan loss reserve exceeded any reasonable estimate of Freddie Mac's possible financial losses.

155. The “Key Financial Reporting Estimates” presented to Mr. Brendsel and the Audit Committee on March 2, 2001 stated that the “most probable case anticipates a mild slow down in the economy,” but that “the current reserve balance is well in excess of the most probable case.”

156. These excessive loan loss reserves were used to suppress or support earnings on an as-needed basis. For example, internal notes from an April 1, 1998 meeting in which Mr. Brendsel participated state that “JG [then-CFO John Gibbons] to determine whether to reduce first quarter loss provision from \$75 million to \$60-65 million to maintain a flat earnings stream” – an explicit reference to improper earnings management.

157. Mr. Brendsel was personally involved in setting policies at the Enterprise improperly designed to manage Freddie Mac’s earnings by establishing and maintaining the loan loss reserves in excess of a level reasonably permitted under FAS 5 and GAAP. Mr. Brendsel knew, or should have known, that setting loan loss reserves at excessively high levels violated GAAP, which was foreseeable to Mr. Brendsel.

158. Despite this knowledge, Mr. Brendsel failed to take adequate measures to correct the situation in a timely fashion, and caused Freddie Mac loan loss reserves to remain at levels that violated FAS 5 and GAAP for years.

159. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraph 55 through 59 above.

160. Mr. Brendsel’s causing or allowing the Enterprise to violate FAS 5 and GAAP, as set forth in paragraphs 147 through 159 above, was imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise’s financial integrity.

161. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

162. By reason of the facts alleged in paragraphs 147 through 160 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C.

§ 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2)

TWELFTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(C&D for Violation Based on Unjust Enrichment)

163. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

164. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2), (3).

165. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

THIRTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(C&D for Conduct Based on CMP Tier Three Standard)

166. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

167. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

168. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

FOURTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(C&D for Violation Based on CMP Tier Three Standard)

169. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

170. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2), (3).

171. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

FIFTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Two CMP for Violation Based on Pattern Of Misconduct)

172. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

173. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

174. The violation set forth in paragraphs 147 through 159 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SIXTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

175. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

176. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

177. The conduct set forth in paragraphs 147 through 159 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SEVENTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

178. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

179. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

180. The violations set forth in paragraphs 147 through 159 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

EIGHTEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

181. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

182. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

183. The conduct set forth in paragraphs 147 through 159 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

NINETEENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

184. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

185. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

186. The violation set forth in paragraphs 147 through 159 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

TWENTIETH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 5

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

187. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 147 through 159 above.

188. By reason of the facts alleged in paragraphs 147 through 159 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

189. The conduct set forth in paragraphs 147 through 159 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

TWENTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(C&D for Conduct Based on Unjust Enrichment)

190. Pursuant to 12 U.S.C. §§ 1456(c)(1), (c)(2)(A), and (c)(2)(C), Freddie Mac is, and was at all times relevant to this Third Amended Notice of Charges, required to submit to the Director of OFHEO annual and quarterly reports of the financial condition and operations of the Enterprise, each such annual report to include, *inter alia*: (a) financial statements prepared in accordance with GAAP; (b) an assessment, signed by the CEO and CFO of the Enterprise, with respect to the effectiveness of the internal control structure and procedures of the Enterprise; and (c) an assessment, signed by the CEO and

CFO of the Enterprise, of the compliance of the Enterprise with designated safety and soundness laws.

191. Pursuant to 12 U.S.C. § 1456(c)(4), each such report of financial condition must also contain a declaration by Freddie Mac's president, vice president, treasurer, or any other officer designated by the Board of Directors of the Enterprise to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

192. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 39 through 47 and paragraphs 149 through 151 above.

193. The very existence of a FAS 91 reserve constituted impermissible earnings management. Yet despite advice to the contrary from Freddie Mac's external auditors, the FAS 91 reserve was used to absorb "catch-up" amortization when actual mortgage prepayments differed significantly from those previously forecast.

194. Mr. Brendsel was personally involved in establishing and maintaining the FAS 91 reserve in violation of GAAP. During the time period relevant to this Third Amended Notice of Charges, Mr. Brendsel knew, or should have known, that maintaining such a reserve violated GAAP. That maintaining a FAS 91 reserve would violate GAAP was foreseeable to Mr. Brendsel. Despite this knowledge, Mr. Brendsel failed to take adequate measures to correct the situation in a timely fashion, and allowed the FAS 91 reserve to continue for years.

195. Mr. Brendsel's causing or allowing the Enterprise to violate FAS 91 and GAAP, as set forth in paragraphs 190 through 194 above, was imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise's financial integrity.

196. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

197. By reason of the facts alleged in paragraphs 190 through 196 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

TWENTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(C&D for Violation Based on Unjust Enrichment)

198. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

199. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2), (3).

200. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

TWENTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(C&D for Conduct Based on CMP Tier Three Standard)

201. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

202. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

203. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

TWENTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(C&D for Violation Based on CMP Tier Three Standard)

204. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

205. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

206. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

TWENTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Two CMP for Violation Based on Pattern of Misconduct)

207. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

208. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

209. The violation set forth in paragraphs 190 through 195 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

TWENTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Two CMP for Conduct Based on Pattern Of Misconduct)

210. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

211. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

212. The conduct set forth in paragraphs 190 through 195 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

TWENTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

213. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

214. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

215. The violation set forth in paragraphs 190 through 195 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

TWENTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

216. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

217. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

218. The conduct set forth in paragraphs 190 through 195 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

TWENTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

219. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

220. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

221. The violation set forth in paragraphs 190 through 195 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

THIRTIETH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 91

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

222. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 190 through 195 above.

223. By reason of the facts alleged in paragraphs 190 through 195 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

224. The conduct set forth in paragraphs 190 through 195 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

THIRTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(C&D for Conduct Based on Unjust Enrichment)

225. Pursuant to 12 U.S.C. §§ 1456(c)(1),(c)(2)(A), and (c)(2)(C), Freddie Mac is, and was at all times relevant to this Third Amended Notice of Charges, required to submit to the Director of OFHEO annual and quarterly reports of the financial condition and operations of the Enterprise, each such annual report to include, *inter alia*: (a) financial statements prepared in accordance with GAAP; (b) an assessment, signed by the CEO and CFO of the Enterprise, with respect to the effectiveness of the internal control

structure and procedures of the Enterprise; and (c) an assessment, signed by the CEO and CFO of the Enterprise, of the compliance of the Enterprise with designated safety and soundness laws.

226. Pursuant to 12 U.S.C. § 1456(c)(4), each such report of financial condition must also contain a declaration by Freddie Mac's president, vice president, treasurer, or any other officer designated by the Board of Directors of the Enterprise to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

227. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 149 through 151 above.

228. Statement of Financial Accounting Standard Number 107, *Disclosures about Fair Value of Financial Instruments*, requires entities "to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Where it is not possible to estimate fair value, FAS 107 requires disclosure of certain descriptive information pertinent to estimating the value of a financial instrument."

229. One strategy that Mr. Brendsel apparently directed Mr. Clarke to pursue was to manipulate the valuation of certain assets in Freddie Mac's portfolio known as "swaptions."

230. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 89 through 100.

231. Mr. Brendsel caused Freddie Mac to contravene GAAP's FAS 107 requirement that available estimates of fair market value be disclosed.

232. Mr. Brendsel knew, or should have known, that the swaptions re-valuation carried out pursuant to his specific instruction to minimize the FAS 133 transition gain violated GAAP. That the swaptions re-valuation carried out pursuant to his instructions would ultimately violate GAAP was foreseeable to Mr. Brendsel at the time he gave the instruction to carry out the re-valuation.

233. Mr. Brendsel's actions, failures to act, orders and instructions in connection with the allegations forth in paragraphs 225 through 232 above, were imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise's financial integrity.

234. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

235. By reason of the facts alleged in paragraphs 225 through 234 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

THIRTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(C&D for Violation Based on Unjust Enrichment)

236. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

237. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4355(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3)

238. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

THIRTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(C&D for Conduct Based on CMP Tier Three Standard)

239. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

240. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

241. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2)

THIRTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(C&D for Violation Based on CMP Tier Three Standard)

242. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

243. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

244. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

THIRTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Two CMP for Violation Based on Pattern of Misconduct)

245. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

246. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

247. The violation set forth in paragraphs 225 through 233 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

THIRTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

248. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

249. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

250. The conduct set forth in paragraphs 225 through 233 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

THIRTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

251. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

252. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

253. The violation set forth in paragraphs 225 through 233 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

THIRTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

254. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

255. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

256. The conduct set forth in paragraphs 225 through 233 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

THIRTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Three CMP for Knowing Violation and Substantial Loss)

257. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

258. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

259. The violation set forth in paragraphs 225 through 233 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

FORTIETH CLAIM FOR RELIEF

Mr. Brendsel Caused Freddie Mac to Contravene GAAP FAS 107 in Revaluing its Swaptions

(Tier Three CMP for Knowing Conduct and Substantial Loss)

260. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 225 through 233 above.

261. By reason of the facts alleged in paragraphs 225 through 233 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

262. The conduct set forth in paragraphs 225 through 233 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

FORTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(C&D For Conduct Based On Unjust Enrichment)

263. As Chairman of the Board and CEO, Mr. Brendsel was, among other things, responsible for ensuring that the policies and procedures of Freddie Mac complied with GAAP.

264. Section 11(d) of the Policy Guidance (2000) reiterates the responsibility of the managers of the Enterprise to “set[] policies and controls to ensure the Enterprise’s strategies are implemented effectively.” 12 C.F.R. 1720.2 (Appendix A, VIII, iv).

265. Section 11 of the Policy Guidance (2000) reiterates the responsibility of the Board of Directors of the Enterprise to “work[] with executive management to establish the Enterprise’s strategies and goals in an informed manner.” 12 C.F.R. 1720.2 (Appendix A, VIII).

266. Section 8(c) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to “maintain and implement internal controls appropriate to the nature, scope of its business activities that, at a minimum, provide for ... [p]olicies and procedures adequate to safeguard and to manage assets.” 12 C.F.R. 1720.2 (Appendix A, V, iii).

267. Section 8(d) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to “maintain and implement internal controls appropriate to the nature, scope of its business activities that, at a minimum, provide for ... [c]ompliance with applicable law, regulations and policies.” 12 C.F.R. 1720.2 (Appendix A, V, iv).

268. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to

meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

269. The position description for the Chairman of the Board and Chief Executive Officer states that the Chairman was “accountable for providing leadership for the formulation and achievement of the Corporation’s vision, mission, strategy, financial objectives and goals.”

270. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 263 through 269 above, as well as his other designated responsibilities, in a safe and sound manner.

271. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 101 through 105 above.

272. Mr. Brendsel’s actions and failures to act in connection with linked swaps, as set forth in paragraphs 263 through 271 above, were imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise’s financial integrity.

273. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

274. By reason of the facts alleged in paragraphs 263 through 273 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

FORTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(C&D for Violation Based On Unjust Enrichment)

275. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

276. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

277. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

FORTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(C&D for Conduct Based On CMP Tier Three Standard)

278. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

279. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel knowingly engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

280. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

FORTY-FOURTH CLAIM FOR RELIEF

**Mr. Brendsel Caused the Enterprise to Remain
in Improper Linked Swap Transactions**

(C&D for Violation Based On CMP Tier Three Standard)

281. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

282. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

283. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

FORTY-FIFTH CLAIM FOR RELIEF

**Mr. Brendsel Caused the Enterprise to Remain
in Improper Linked Swap Transactions**

(Tier Two CMP for Violation Based on Pattern of Misconduct)

284. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

285. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

286. The violation set forth in paragraphs 263 through 272 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

FORTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

287. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

288. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

289. The conduct set forth in paragraphs 263 through 272 above constitutes part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

FORTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

290. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

291. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

292. The violation set forth in paragraphs 263 through 272 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

FORTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

293. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

294. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

295. The conduct set forth in paragraphs 263 through 272 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

FORTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

296. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

297. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

298. The violation set forth in paragraphs 263 through 272 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. 4636(b)(3).

FIFTIETH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Remain in Improper Linked Swap Transactions

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

299. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 263 through 272 above.

300. By reason of the facts alleged in paragraphs 263 through 272 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

301. The conduct set forth in paragraphs 263 through 272 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. 4636(b)(3).

FIFTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(C&D for Conduct Based on Unjust Enrichment)

302. As an officer of Freddie Mac, Mr. Brendsel owed a fiduciary duty of care to the Enterprise and to its shareholders, which required him to exercise “as much diligence and care as the proper performance of the duties of [his] office requires.” *See Winston v. Gordon*, 80 S.E. 756, 762 (Va. 1914); 12 C.F.R. § 1710.10(b)(2).

303. Section 8(a) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to provide “an organizational structure and assignment of responsibility for management, employees, consultants and contractors, that provide for accountability and controls, including adherence to policies and procedures.” 12 C.F.R. 1720.2 (Appendix A, V, i)

304. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

305. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “provid[ing] supervision to the President and other senior executives.”

306. The position description for the Chairman of the Board of Directors and Chief Executive Officer also states that the Chairman is responsible for ensuring that “appropriate controls, policies and procedures are established to protect corporate assets and promote operational efficiency and that controls, policies and procedures are regularly evaluated for adequacy.”

307. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 302 through 306 above, as well as his other designated responsibilities, in a safe and sound manner.

308. At all times relevant to the Third Amended Notice of Charges, Freddie Mac was headquartered in the Commonwealth of Virginia, and was subject to Virginia common-law principles applicable to its corporate operations that did not conflict with any applicable federal laws, standards, rules, requirements or regulations.

309. As an officer of Freddie Mac, Mr. Brendsel owed a duty under long-standing principles of the common law of the Commonwealth of Virginia to maintain reasonable supervision of Freddie Mac executives and employees.

310. As discussed in paragraphs 385 through 403, Mr. Brendsel allowed the accounting and financial reporting functions of the Enterprise to deteriorate during his tenure as CEO.

311. As discussed in paragraphs 8 through 111 above, Mr. Brendsel directed Freddie Mac executives and employees to engage in misconduct and improper transactions designed to improperly manage the earnings of the Enterprise.

312. Mr. Brendsel's decision to allow the accounting and financial reporting functions of the Enterprise to deteriorate and his decision to allow Freddie Mac executives and employees to manage the earnings of the Enterprise represented a failure to maintain reasonable supervision of Freddie Mac executives and employees.

313. Mr. Brendsel's failure to exercise reasonable supervision of Freddie Mac executives and employees was imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

314. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

315. By reason of the facts alleged in paragraphs 302 through 314 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

FIFTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(C&D for Violation Based on Unjust Enrichment)

316. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

317. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

318. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

FIFTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(C&D for Conduct Based CMP Tier Three Standard)

319. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

320. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

321. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

FIFTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(C&D for Violation Based on CMP Tier Three Standard)

322. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

323. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

324. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

FIFTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Two CMP for a Violation Based on a Pattern of Misconduct)

325. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

326. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

327. The violation set forth in paragraphs 302 through 313 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

FIFTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

328. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

329. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

330. The conduct set forth in paragraphs 302 through 313 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

FIFTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

331. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

332. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

333. The violation set forth in paragraphs 302 through 313 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

FIFTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

334. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

335. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

336. The conduct set forth in paragraphs 302 through 313 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

FIFTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

337. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

338. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

339. The violation set forth in paragraphs 302 through 313 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

SIXTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Exercise Reasonable Supervision of Freddie Mac's Executives and Employees

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

340. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 302 through 313 above.

341. By reason of the facts alleged in paragraphs 302 through 313 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

342. The conduct set forth in paragraphs 302 through 313 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

SIXTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(C&D for Conduct Based on Unjust Enrichment)

343. As Chairman of the Board of Directors and CEO, Mr. Brendsel was responsible for seeing that Freddie Mac had qualified officers and senior management.

344. Section 11(b) of the Policy Guidance (2000) reiterates the responsibility of the Board of Directors of the Enterprise to “hire[] qualified executive management, and exercise[] oversight to hold management accountable for meeting the Enterprise’s goals and objectives.” 12 C.F.R. 1720.2 (Appendix A, VIII, ii).

345. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

346. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “see[ing] that the Corporation has an effective top management team.”

347. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513, and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 343 through 346, as well as his other designated responsibilities, in a safe and sound manner.

348. Upon the resignation of CFO John Gibbons, Mr. Brendsel approved the appointment of Mr. Clarke as interim CFO in March 2000.

349. Mr. Brendsel was responsible to see that a qualified individual be chosen as CFO for Freddie Mac.

350. However, Mr. Brendsel failed to ensure that sufficient resources and salary were allocated to attract a qualified individual to the CFO position.

351. After failing to obtain a qualified candidate for the CFO position, Mr. Brendsel approved the promotion of Mr. Clarke to the position of Executive Vice President and CFO in November 2000, despite knowing that Mr. Clarke lacked the necessary accounting background to perform the functions of the position.

352. Further, despite knowing Mr. Clarke's lack of qualifications to be CFO of Freddie Mac, Mr. Brendsel made Mr. Clarke responsible for overseeing Freddie Mac's Corporate Accounting Department and making decisions involving compliance with GAAP during the period Freddie Mac would be implementing FAS 133.

353. Mr. Brendsel was aware that the accounting for Freddie Mac's transition to and implementation of FAS 133 would be difficult and challenging.

354. Despite knowing that Mr. Clarke was unqualified to serve as CFO of Freddie Mac, Mr. Brendsel allowed Mr. Clarke to serve as interim CFO from March 2000 to November 2000, and as permanent CFO from November 2000 until Mr. Clarke's resignation in early June 2003.

355. Mr. Brendsel's failure to ensure that Freddie Mac employed a qualified CFO, and in continuing to employ a senior executive in the position of CFO despite his lack of qualifications, was imprudent, resulted in a loss to Freddie Mac, and presented an abnormal risk or threat to its financial integrity.

356. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

357. By reason of the facts alleged in paragraphs 343 through 356 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

SIXTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(C&D for Violation Based on Unjust Enrichment)

358. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

359. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

360. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

SIXTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(C&D for Conduct Based on CMP Tier Three Standard)

361. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

362. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

363. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

SIXTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(C&D for Violation Based on CMP Tier Three Standard)

364. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

365. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

366. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

SIXTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Two CMP for Violation Based on Pattern of Misconduct)

367. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

368. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

369. The violation set forth in paragraphs 343 through 355 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SIXTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Two CMP for Conduct Based on a Pattern of Misconduct)

370. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

371. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

372. The conduct set forth in paragraphs 343 through 355 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SIXTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

373. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

374. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

375. The violation set forth in paragraphs 343 through 355 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

SIXTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

376. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

377. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

378. The conduct set forth in paragraphs 343 through 355 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

SIXTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

379. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

380. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

381. The violation set forth in paragraphs 343 through 355 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

SEVENTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure that Freddie Mac Employed a Qualified CFO

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

382. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 343 through 355 above.

383. By reason of the facts alleged in paragraphs 343 through 355 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

384. The conduct set forth in paragraphs 343 through 355 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

SEVENTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(C&D for Conduct Based on Unjust Enrichment)

385. As a member of the Board of Directors of Freddie Mac, Mr. Brendsel was responsible for the integrity of the accounting and financial reporting systems of the Enterprise.

386. Section 10(d) of the Policy Guidance (2000) reiterates the responsibility for the Enterprise to “establish and implement policies and procedures for generating reports and documents that...[e]nable the Enterprise to administer and supervise all assets, liabilities, commitments and other financial obligations appropriately.” 12 C.F.R. 1720.2 (Appendix A, VII, iv).

387. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

388. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for ensuring that the Enterprise establishes “appropriate controls, policies and procedures...to protect corporate assets and promote operational efficiency and ensure that controls, policies and procedures are regularly evaluated for adequacy.”

389. The position description for the Chairman of the Board of Directors and Chief Executive Officer also states that the Chairman is responsible for maintaining an “appropriate organizational environment in which to attract, motivate, develop, retain and utilize effectively the Corporation’s human resources for the achievement of its goals.”

390. Twelve C.F.R. 1710.15(b)(4) (2002) required Mr. Brendsel as a member of the Board of Directors to oversee the “integrity of accounting and financial reporting systems of the Enterprise, including independent audits and systems of internal control.”

391. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12

U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 385 through 390, as well as his other designated responsibilities, in a safe and sound manner.

392. During his tenure as a member of the Board of Directors, Mr. Brendsel allowed the Enterprise to have a Corporate Accounting Department with severe deficiencies in the quality of its accounting expertise and resources.

393. These deficiencies rendered the Corporate Accounting Department unable to assure proper accounting for the increasingly complex and sophisticated strategies being pursued by Freddie Mac as the FAS 133 transition neared, and resulted in Freddie Mac's misapplication of or failure to properly apply, among others, SFAS 65, 80, 114, 115, 144; EITF 93-18, 96-11, 99-20; EITF topic D-14; SOP 92-3; and SAB 102.

394. Under Mr. Brendsel's leadership and direction, management actually reduced accounting and reporting personnel by nearly 20 percent between 1993 and 1996, the first four years of rapid retained portfolio growth. Even when the corporate accounting and financial reporting departments later gained more personnel, Mr. Brendsel and Freddie Mac management consistently failed to assign the resources needed to provide the controls adequate to manage billions of dollars in increasingly complex transactions.

395. Under Mr. Brendsel's leadership and direction, the Enterprise over and over again failed to allocate adequate resources for Corporate Accounting to oversee billions of dollars of transactions, and repeatedly refused to provide adequate funding for accounting systems and personnel.

396. Mr. Brendsel was repeatedly advised of the problems with financial accounting at the Enterprise, but failed to take adequate steps to correct the problems.

397. At all times relevant to this Third Amended Notice of Charges, weaknesses in the staffing, skills and resources in Corporate Accounting at Freddie Mac led to deficient accounting policies, fragile accounting and controls, and an over reliance on manual systems.

398. These deficiencies existed during a period in which the Enterprise was engaged in intricate transactions and was implementing complex accounting standards.

399. Despite the numerous warnings of staffing problems in Corporate Accounting, reports from the Internal Audit Department in January and June of 2002 indicated that staffing deficiencies remained a serious problem.

400. Despite having full knowledge of the problems in accounting, Mr. Brendsel consistently failed to take adequate action to address the weaknesses in accounting personnel, resources, and experience in a timely manner. This failure resulted in Freddie Mac's misapplication of or failure to properly apply, among others, SFAS 65, 80, 114, 115, 144; EITF 93-18, 96-11, 99-20; EITF topic D-14; SOP 92-3; and SAB 102.

401. Mr. Brendsel's failure to take adequate measures to correct these deficiencies constituted a violation of his obligations to the Enterprise and its investors and shareholders.

402. Mr. Brendsel's failure to take adequate measures to correct these deficiencies constituted an abdication of his obligations set forth in paragraphs 385 through 390 above.

403. Mr. Brendsel's failure to ensure the integrity of Freddie Mac's accounting and financial reporting systems was imprudent, resulted in a loss to Freddie Mac, and presented an abnormal risk or threat to its financial integrity

404. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

405. By reason of the facts alleged in paragraphs 385 through 404 above, Mr. Brendsel engaged in conduct that could result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

SEVENTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(C&D for Violation Based on Unjust Enrichment)

406. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

407. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

408. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

SEVENTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(C&D for Conduct Based on CMP Tier Three Standard)

409. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

410. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

411. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

SEVENTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(C&D for Violation Based on CMP Tier Three Standard)

412. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

413. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

414. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

SEVENTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Two CMP for Violation Based on Pattern of Misconduct)

415. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

416. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

417. The violation set forth in paragraphs 385 through 403 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SEVENTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Two CMP for Conduct Based on a Pattern of Misconduct)

418. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

419. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4631(a)(4).

420. The conduct set forth in paragraphs 385 through 403 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

SEVENTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

421. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

422. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

423. The violation set forth in paragraphs 385 through 403 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

SEVENTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

424. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

425. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

426. The conduct set forth in paragraphs 385 through 403 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

SEVENTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

427. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

428. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

429. The violation set forth in paragraphs 385 through 403 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

EIGHTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Ensure the Integrity of Freddie Mac's Accounting and Financial Reporting Systems

(Tier Three CMP for Conduct Based on Knowing Conduct and Substantial Loss)

430. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

431. By reason of the facts alleged in paragraphs 385 through 403 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

432. The conduct set forth in paragraphs 385 through 403 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

EIGHTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(C&D for Conduct Based on Unjust Enrichment)

433. As a member of the Board of Directors of Freddie Mac, Mr. Brendsel was obliged to oversee the compensation programs of the Enterprise.

434. Section 8(a) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to “maintain and implement internal controls appropriate to the nature, scope and risk of its business activities that, at a minimum, provide for... [a]n organizational structure and assignment of responsibility for management, employees, consultants and contractors, that provide for accountability and controls, including adherence to policies and procedures.” 12 C.F.R. 1720.2 (Appendix A, V, i).

435. Section 11(b) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise’s board of directors to “exercise[] oversight to hold management accountable for meeting the Enterprise’s goals and objectives.” 12 C.F.R. 1720.2 (Appendix A, VIII, ii).

436. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

437. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for ensuring that “appropriate controls, policies and procedures are established to protect corporate assets and promote operational efficiency and that controls, policies and procedures are regularly evaluated for adequacy.”

438. The position description for the Chairman of the Board of Directors and Chief Executive Officer also states that the Chairman is responsible for “ensuring that the Board functions effectively, interacts with management at an appropriate level and is informed on the conditions of all important factors influencing the Corporation.”

439. Twelve C.F.R. § 1710.15(b)(3) (2002) required Mr. Brendsel to have in place adequate policies and procedures to assure oversight of compensation programs of the Enterprise.

440. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 433 through 439, as well as his other designated responsibilities, in a safe and sound manner.

441. During his time as a member of the Board of Directors, Mr. Brendsel became the leading proponent of Freddie Mac's focus on steady reported earnings growth and its corresponding aversion to earnings volatility.

442. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 111.

443. Freddie Mac used a corporate scorecard that used a formulaic approach to setting the size of the corporate bonus pool for senior executives.

444. The rigid financial goals set by Mr. Brendsel ultimately became part of the "corporate scorecards" by which management performance was assessed.

445. These corporate scorecards prioritized earnings management in general, with a particular emphasis on the ability of management to make Freddie Mac's earnings meet annual specified earnings per share targets.

446. The compensation program for senior executives at Freddie Mac therefore contained substantial incentives to manage earnings at the Enterprise in order to meet the expectations of investment analysts.

447. As discussed in paragraphs 8 through 111 above, Mr. Brendsel and other senior executives at Freddie Mac used improper accounting and management practices to manage earnings to meet the expectations of investment analysts.

448. Mr. Brendsel failed to properly oversee compensation programs at Freddie Mac when he implemented and oversaw a senior executive compensation program that was based substantially on meeting pre-set earnings targets, which encouraged improper accounting and management practices. These actions were imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

449. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

450. By reason of the facts alleged in paragraphs 433 through 449 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

EIGHTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(C&D for Violation Based on Unjust Enrichment)

451. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

452. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

453. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

EIGHTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(C&D for Conduct Based on CMP Tier Three Standard)

454. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

455. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

456. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

EIGHTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(C&D for Violation Based on CMP Tier Three Standard)

457. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

458. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

459. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

EIGHTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Two CMP for Violation Based on Pattern of Misconduct)

460. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

461. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

462. The violation set forth in paragraphs 433 through 448 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

EIGHTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

463. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

464. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

465. The conduct set forth in paragraphs 433 through 448 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

EIGHTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

466. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

467. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

468. The violation set forth in paragraphs 433 through 448 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

EIGHTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

469. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

470. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

471. The conduct set forth in paragraphs 433 through 448 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

EIGHTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

472. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

473. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

474. The violation set forth in paragraphs 433 through 448 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

NINETIETH CLAIM FOR RELIEF

Mr. Brendsel Improperly Established Earnings Management as an Incentive for Senior Managers in Freddie Mac's Compensation Program

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

475. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 433 through 448 above.

476. By reason of the facts alleged in paragraphs 433 through 448 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

477. The conduct set forth in paragraphs 433 through 448 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

NINETY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(C&D for Conduct Based on Unjust Enrichment)

478. As Chairman of the Board and CEO, Mr. Brendsel was, among other things, responsible for ensuring that the Board of Directors received accurate information sufficient to allow the Board to effect its oversight duties and responsibilities.

479. Section 11(c) of the Policy Guidance (2000) reiterates the responsibility of executive managers to ensure “[t]he board (including appropriate committees) is provided with accurate information about the operations and financial condition of the Enterprise in a timely fashion, and sufficient to enable the board to effect its oversight duties and responsibilities....” 12 C.F.R. 1720.2 (Appendix A, VIII, iii).

480. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

481. The position description for the Chairman of the Board and Chief Executive Officer states that the Chairman is responsible for ensuring that the Board of Directors “is informed on the conditions of all important factors influencing the Corporation.”

482. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 478 through 481 above, as well as his other designated responsibilities, in a safe and sound manner.

483. Mr. Brendsel oversaw the FAS 133 transition and related strategies to decrease earnings volatility.

484. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 8 through 111 above.

485. Mr. Brendsel and other members of senior management purposefully withheld information from the Board of Directors regarding the means by which those under his direction and control mitigated the accounting effects of FAS 133.

486. One of the strategies to decrease earnings volatility resulting from FAS 133 was a change in the swaptions valuation methodology.

487. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 89 through 100 above regarding swaptions valuation.

488. Although Mr. Brendsel knew about the change in methodology, the Board was not informed of the new swaptions valuation methodology even though the unique method had a significant impact on Freddie Mac’s financial statements.

489. Another example of Mr. Brendsel's failure to disclose accurate and sufficient information to the Board arose when the Securitization Committee of the Board was provided with only partial information about the \$30 billion CTUG transactions.
490. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 77 through 86 above regarding the CTUG transactions.
491. The CTUGs were worth \$30 billion in the aggregate, but were separated by senior management into four parts. Freddie Mac internal procedures required transactions in excess of \$5 billion to be disclosed to the Board of Directors and those in excess of \$11 billion to be approved by the Board.
492. Only one \$10 billion CTUG transaction was disclosed to the Securitization Committee in 2001, and none of the CTUG transactions came to the Board for approval.
493. Another example of Mr. Brendsel's failure to provide timely and accurate information to the Board regarding the Company's financial condition relates to the "linked swaps" transactions.
494. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 102 through 112 above regarding the linked swap transactions.
495. During an August 21, 2001 "dry run" of a presentation that was to be given to the Board's Investment Committee, Mr. Brendsel required Mr. Greg Parseghian, head of F&I, to significantly cut back the information that he was planning to report to the Board Committee regarding the linked swap transactions.
496. As a result of Mr. Brendsel's directive, the Investment Committee was never informed that without the \$420 million shift in operating earnings resulting from the

linked swap transactions, the anticipated NII for 2001 would have been \$0.57 per share over analysts' expectations.

497. Also as a result of Mr. Brendsel's directive, the Board was not informed of the true nature of the transactions. The Board was not informed of the total magnitude or consequences of the linked swap transactions or that they failed to serve any legitimate business purpose.

498. Mr. Brendsel played a central role in developing and implementing the FAS 133 transition strategies that were the subject of the presentations to the Board of Directors.

499. At no time did Mr. Brendsel take adequate action to ensure that the Board of Directors would be provided with full and accurate information as to the nature of the transactions being undertaken during the course of Freddie Mac's FAS 133 transition.

500. The failure of Mr. Brendsel to take adequate measures to prevent the Board from being provided with defective disclosures masked the true nature of the steps being taken during the FAS 133 transition.

501. Mr. Brendsel's failure to ensure that the Board of Directors was provided with timely and accurate information regarding the operations and financial condition of the Enterprise sufficient to allow the Board to effect its oversight duties and responsibilities was imprudent, resulted in a loss to the Enterprise and presented an abnormal risk or threat to its financial integrity.

502. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

503. By reason of the facts alleged in paragraphs 478 through 502 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order pursuant to 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

NINETY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(C&D for Violation Based on Unjust Enrichment)

504. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

505. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

506. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

NINETY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(C&D for Conduct Based on CMP Tier Three Standard)

507. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

508. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

509. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

NINETY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(C&D for Violation Based on Tier Three Standard)

510. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

511. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

512. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

NINETY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Two CMP for Violation Based on Pattern of Misconduct)

513. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

514. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

515. The violation set out in paragraphs 478 through 501 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

NINETY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

516. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

517. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

518. The conduct set forth in paragraphs 478 through 501 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

NINETY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

519. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

520. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

521. The violation set forth in paragraphs 478 through 501 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

NINETY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

522. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

523. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

524. The conduct set forth in paragraphs 478 through 501 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

NINETY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Three CMP Based on a Knowing Violation and Substantial Loss)

525. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

526. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

527. The violation set forth in paragraphs 478 through 501 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDREDTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Disclose Accurate Information to the Board Sufficient to Allow the Board to Effect its Oversight Duties and Responsibilities

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

528. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 478 through 501 above.

529. By reason of the facts alleged in paragraphs 478 through 501 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

530. The conduct set forth in paragraphs 478 through 501 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(C&D for Conduct Based on Unjust Enrichment)

531. As Chairman of the Board and CEO, Mr. Brendsel was, among other things, responsible for ensuring that Freddie Mac issued complete and accurate disclosures to the public.

532. The position description for the Chairman of the Board and Chief Executive Officer states that the Chairman is “the principal representative of Freddie Mac” and is

responsible for maintaining relationships with the investment community. The CEO is also the “chief spokesperson” for the Enterprise.

533. Pursuant to 12 U.S.C. § 1456(c)(4), Mr. Brendsel, as Freddie Mac’s CEO, had an express duty to certify, to the best of his knowledge and belief, that each report of financial condition submitted by Freddie Mac was true and accurate in general, and that each report of financial condition submitted by Freddie Mac complied with GAAP in particular.

534. At all times relevant to this Third Amended Notice of Charges, and as part of the afore-mentioned statutory and contractual certification obligations, Mr. Brendsel did in fact certify as to the veracity, compliance, and other aspects of each report of financial condition as required under 12 U.S.C. § 1456(c)(4).

535. Under 12 U.S.C. § 1456(c)(4), Mr. Brendsel also had a duty to keep himself reasonably informed of all facts needed to carry out his obligations to certify as to the truth and accuracy of each report of Freddie Mac’s financial conditions.

536. Statement of Financial Accounting Standards Number 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (“FAS 140”), which became effective during the first quarter of 2001, requires that the gain or loss from the sale of financial assets in securitizations be disclosed.

537. SEC Rule 10b-5, 17 C.F.R § 40.10(b)-5, which applies to Freddie Mac, specifically makes it unlawful for any person “to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.”

538. Freddie Mac relied on overly general public disclosures of the financial transactions it undertook to offset the FAS 133 transition gain in a deliberate effort to conceal the true nature and scope of those transactions.

539. From 2000 until March 2002, Freddie Mac's public statements failed to acknowledge that the various FAS 133 transactions were initiated for the purpose of generating a \$750 million loss to offset the gain expected from the implementation of FAS 133.

540. Freddie Mac made no specific public disclosure of the size of the components that allowed Freddie Mac to produce a small Year 2000 net transition gain until the release of Freddie Mac's 2001 information statement, fifteen months after the fact.

541. Mr. Brendsel played a central role in developing and implementing the FAS 133 transition strategies that were the subject of the 2001-2002 information statements to the public. As a result, Mr. Brendsel knew, or should have known, that the Enterprise's public disclosures regarding the specific elements of that strategy were defective. That the public disclosures were defective was foreseeable to Mr. Brendsel at the time the disclosures were authorized to be made.

542. Mr. Brendsel failed to take adequate steps to prevent Freddie Mac from providing the public with defective disclosures that masked the true nature of the steps being taken during the FAS 133 transition, in contravention of applicable principles of GAAP and applicable securities laws.

543. Mr. Brendsel falsely certified that the Enterprise's annual financial statements complied with GAAP, despite his knowledge of the Enterprise's defective public disclosures from 2000-2002.

544. Mr. Brendsel's failure to issue complete and accurate public disclosures was imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise's financial integrity.

545. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

546. By reason of the facts alleged in paragraphs 531 through 545 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C.

§ 4631(d)(1). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(C&D for Violation Based on Unjust Enrichment)

547. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

548. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

549. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(C&D for Conduct Based on CMP Tier Three Standard)

550. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

551. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

552. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FOURTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(C&D for Violation Based on CMP Tier Three Standard)

553. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

554. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

555. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIFTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Two CMP for Violation Based on Pattern of Misconduct)

556. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

557. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

558. The violation set forth in paragraphs 531 through 544 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

559. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

560. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

561. The conduct set forth in paragraphs 531 through 544 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

562. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

563. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

564. The violation set forth in paragraphs 531 through 544 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

565. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

566. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

567. The conduct set forth in paragraphs 531 through 544 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

568. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

569. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

570. The violation set forth in paragraphs 531 through 544 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED TENTH CLAIM FOR RELIEF

Mr. Brendsel Caused the Enterprise to Issue Incomplete and Misleading Public Disclosures

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

571. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 531 through 544 above.

572. By reason of the facts alleged in paragraphs 531 through 544 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

573. The conduct set forth in paragraphs 531 through 544 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED ELEVENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(C&D for Conduct Based on Unjust Enrichment)

574. As a member of the Board of Directors of Freddie Mac, Mr. Brendsel was responsible for the quality of the Enterprise's reporting to shareholders, investors, and potential investors.

575. Section 10(f) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to “establish and implement policies and procedures for generating and retaining reporting and documents that...[e]nsure timely and complete submissions of reports of financial condition and operations....” 12 C.F.R. 1720.2 (Appendix A, VII, vi).

576. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

577. The position description for Freddie Mac’s Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for ensuring that the Enterprise establishes “appropriate controls, policies and procedures...to protect corporate assets and promote operational efficiency and that controls, policies and procedures are regularly evaluated for adequacy.”

578. The position description for the Chairman of the Board of Directors and Chief Executive Officer also states that the Chairman is responsible for maintaining relationships with the investment community, as well as providing “direction for the on-going development, projection and maintenance of the Corporation’s image and relationships with its various constituencies including serving as chief spokesperson.”

579. Twelve C.F.R. 1710.15(b)(5) (2002) reiterates the fiduciary duty and responsibility of members of the Board of Directors, including Mr. Brendsel, to have in place adequate policies and procedures to assure oversight of “the process and adequacy of reporting, disclosures, and communications to shareholders, investors, and potential investors.”

580. The principles of safety and soundness established under federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and reiterated at 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 574 through 579, as well as his other designated responsibilities, in a safe and sound manner.

581. Mr. Brendsel imposed and encouraged a policy of minimizing financial disclosures, both internally and publicly. This philosophy was strongly supported and fostered by Mr. Brendsel.

582. With respect to its public disclosures of the FAS 133 transition, Freddie Mac, under Mr. Brendsel's leadership, relied on general statements that failed to convey the size of the gross transition gain and the substantial and complex transactions utilized by the Enterprise to offset it.

583. Mr. Brendsel played a central role in developing and implementing the FAS 133 transition strategies that were the subject of the 2001 and 2002 information statements to the public, and thus knew or should have known that public disclosures regarding the specific elements of that strategy were incomplete and defective. That the public disclosures were defective was foreseeable to Mr. Brendsel at the time the disclosures were authorized to be made.

584. Freddie Mac made no specific disclosure of the size of the components that allowed the Enterprise to produce the small 2000 FAS 133 net transition gain until the release of the 2001 information statement in March 2002, fifteen months after the transition.

585. At no time did Mr. Brendsel take adequate action to ensure that Freddie Mac made specific disclosure of the gross amount of the FAS 133 transition gain, or the key role of the change in the swaptions portfolio valuation in reducing the gain to an amount that could be offset by the CTUG transactions.

586. Mr. Brendsel's failure to assure adequacy of reporting, disclosures, and communications to shareholders, investors, and potential investors was imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

587. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

588. By reason of the facts alleged in paragraphs 574 through 587 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED TWELFTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(C&D for Violation Based on Unjust Enrichment)

589. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

590. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

591. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

ONE HUNDRED THIRTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(C&D for Conduct Based on CMP Tier Three Standard)

592. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

593. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

594. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FOURTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(C&D for Violation Based on CMP Tier Three Standard)

595. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

596. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

597. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIFTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Two CMP for Violation Based on Pattern of Misconduct)

598. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

599. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

600. The violation set forth in paragraphs 574 through 586 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SIXTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

601. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

602. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

603. The conduct set forth in paragraphs 574 through 586 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SEVENTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Two CMP for a Violation Based on Recklessness and Material Loss)

604. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

605. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

606. The violation set forth in paragraphs 574 through 586 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED EIGHTEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

607. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

608. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

609. The conduct set forth in paragraphs 574 through 586 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED NINETEENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

610. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

611. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

612. The violation set forth in paragraphs 574 through 586 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED TWENTIETH CLAIM FOR RELIEF

Mr. Brendsel Improperly Caused Inaccurate Reporting of Financial Information to Shareholders, Investors and Potential Investors

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

613. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 574 through 586 above.

614. By reason of the facts alleged in paragraphs 574 through 586 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

615. The conduct set forth in paragraphs 574 through 586 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED TWENTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Signed False Declarations of Freddie Mac's Compliance with GAAP in Violation of the Corporation Act

(C&D for Violation Based on Unjust Enrichment)

616. Pursuant to 12 U.S.C. §§ 1456(c)(1) and (c)(2)(A), Freddie Mac is, and was at all times relevant to this Third Amended Notice of Charges, required to submit to the Director of OFHEO annual and quarterly reports of the financial condition and operations of the Enterprise, each such annual report to include, *inter alia*, financial statements prepared in accordance with GAAP.

617. Pursuant to 12 U.S.C. § 1456(c)(4), each such report of financial condition must also contain a declaration by Freddie Mac's president, vice president, treasurer, or any other officer designated by the Board of Directors of the Enterprise to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

618. At all times relevant to this Third Amended Notice of Charges, Mr. Brendsel was the CEO of Freddie Mac, and was, pursuant to 12 U.S.C. § 1456(c)(4), duly designated, and was thus under an express duty to certify, to the best of his knowledge and belief, that each report of financial condition submitted by Freddie Mac was true and accurate in general, and that each report of financial condition submitted by Freddie Mac complied with GAAP in particular.

619. In 1999, 2000 and 2001, and as part of the afore-mentioned statutory and contractual certification obligations, Mr. Brendsel did, in fact, certify as to the veracity, compliance, and other aspects of each report of financial condition as required under 12 U.S.C. § 1456(c)(4).

620. Under 12 U.S.C. § 1456(c)(4), Mr. Brendsel was also under a duty to keep himself reasonably informed of all facts needed to carry out his obligation to certify as to the truth and accuracy of each such report of Freddie Mac's financial condition.

621. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraphs 531 through 544 above.

622. Mr. Brendsel knew or should have known that the financial statements submitted for 1999, 2000 and 2001 were not in compliance with GAAP. That the financial statements submitted for 1999, 2000 and 2001 would not be in compliance with GAAP was foreseeable to Mr. Brendsel.

623. Freddie Mac announced on January 22, 2003, that it would restate its financial results for 2002 and 2001 and possibly 2000.

624. Freddie Mac has now restated its earnings for the years 2000, 2001 and 2002. The direct cost to Freddie Mac for the restatement is more than \$400 million.

625. Mr. Brendsel's certifications in 1999, 2000 and 2001 that Freddie Mac was in compliance with GAAP were false.

626. As alleged in paragraphs 616 through 625 above, Mr. Brendsel signed a false declaration of Freddie Mac's compliance with GAAP, in violation of 12 U.S.C. § 1456(c)(4). *See* 12 U.S.C. § 4631(a)(3).

627. By reason of the facts alleged in paragraphs 616 through 626 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED TWENTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Signed False Declarations of Freddie Mac's Compliance with GAAP in Violation of the Corporation Act

(C&D for Violation Based on CMP Tier Three Standard)

628. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 616 through 625 above.

629. As alleged in paragraphs 616 through 625 above, Mr. Brendsel signed a false declaration of Freddie Mac's compliance with GAAP, in violation of 12 U.S.C. § 1456(c)(4). *See* 12 U.S.C. § 4631(a)(3).

630. By reason of the facts alleged in paragraphs 616 through 625 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED TWENTY-THIRD CLAIM FOR RELIEF

**Mr. Brendsel Signed False Declarations of Freddie Mac's Compliance with GAAP
in Violation of the Corporation Act**

(Tier Two CMP for Violation Based on Pattern of Misconduct)

631. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 616 through 625 above.

632. As alleged in paragraphs 616 through 625 above, Mr. Brendsel signed a false declaration of Freddie Mac's compliance with GAAP, in violation of 12 U.S.C. § 1456(c)(4). *See* 12 U.S.C. § 4636(a)(1).

633. The violation set forth in paragraphs 616 through 625 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED TWENTY-FOURTH CLAIM FOR RELIEF

**Mr. Brendsel Signed False Declarations of Freddie Mac's Compliance with GAAP
in Violation of the Corporation Act**

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

634. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 616 through 625 above.

635. As alleged in paragraphs 616 through 625 above, Mr. Brendsel signed a false declaration of Freddie Mac's compliance with GAAP, in violation of 12 U.S.C. § 1456(c)(4). *See* 12 U.S.C. § 4636(a)(1).

636. The violations set forth in paragraphs 616 through 625 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED TWENTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Signed False Declarations of Freddie Mac's Compliance with GAAP in Violation of the Corporation Act

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

637. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 616 through 625 above.

638. As alleged in paragraphs 616 through 625 above, Mr. Brendsel signed a false declaration of Freddie Mac's compliance with GAAP, in violation of 12 U.S.C. § 1456(c)(4). *See* 12 U.S.C. § 4636(a)(1).

639. The violation set forth in paragraphs 616 through 625 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED TWENTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Signed a False Assessment of the Internal Control Structure and Procedures of Freddie Mac in Violation of the Corporation Act

(C&D for Violation Based on Unjust Enrichment)

640. Pursuant to 12 U.S.C. § 1456(c)(2)(C)(i), the CEO [Mr. Brendsel] and CFO [Mr. Clarke] of the Enterprise must sign an assessment in the Enterprise's annual report of financial condition and operations of the "effectiveness of the internal control structure and procedures of the Corporation."

641. In 1999, 2000 and 2001, Mr. Brendsel signed certifications as to the effectiveness of Freddie Mac's internal control structure.

642. Mr. Brendsel was advised in August 2000 by the Enterprise's Internal Auditor that there were insufficient controls over Freddie Mac's financial reporting process and that the controls had deteriorated after 1998.

643. Mr. Brendsel was also advised by the Internal Auditor that there was a lack of adequately trained and knowledgeable accounting staff, and that that weakness increased the risk of producing misstated financial statements.

644. Under Mr. Brendsel's leadership, the Enterprise did not invest sufficiently in personnel and financial accounting systems, threatening the effectiveness of the Corporation's internal control structure.

645. Freddie Mac announced on January 22, 2003 that it would restate its financial results for 2002 and 2001 and possibly 2000.

646. The direct costs to Freddie Mac for the restatement alone exceed \$400 million.

647. Beginning in 1998, Mr. Brendsel failed to provide the necessary resources to invest in key personnel and financial accounting systems.

648. These failures on the part of Mr. Brendsel to assure the adequacy and effectiveness of the internal control structure of Freddie Mac resulted in the need for the Restatement and the resulting losses to the Enterprise.

649. Mr. Brendsel's certifications in 1999, 2000 and 2001 that Freddie Mac had an effective internal control structure were false.

650. As set out in the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel signed a false assessment of the internal control structure and procedures of Freddie Mac in violation of 12 U.S.C. § 1456(c)(2)(C)(i). *See* 12 U.S.C. § 4631(a)(2),(3).

651. By reason of the facts alleged in paragraphs 640 through 650 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED TWENTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Signed a False Assessment of the Internal Control Structure and Procedures of Freddie Mac in Violation of the Corporation Act

(C&D for Violation Based on CMP Tier Three Standard)

652. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 640 through 649 above.

653. By reason of the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

654. As set out in the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel signed a false assessment of the internal control structure and procedures of Freddie Mac in violation of 12 U.S.C. § 1456(c)(2)(C)(i). *See* 12 U.S.C. § 4631(a)(2),(3).

ONE HUNDRED TWENTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Signed a False Assessment of the Internal Control Structure and Procedures of Freddie Mac in Violation of the Corporation Act

(Tier Two CMP for Violation Based on Pattern of Misconduct)

655. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 640 through 649 above.

656. As set out in the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel signed a false assessment of the internal control structure and procedures of Freddie Mac in violation of 12 U.S.C. § 1456(c)(2)(C)(i). *See* 12 U.S.C. § 4636(a)(1).

657. The violation set forth in paragraphs 640 through 649 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED TWENTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Signed a False Assessment of the Internal Control Structure and Procedures of Freddie Mac in Violation of the Corporation Act

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

658. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 640 through 649 above.

659. As set out in the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel signed a false assessment of the internal control structure and procedures of Freddie Mac in violation of 12 U.S.C. § 1456(c)(2)(C)(i). *See* 12 U.S.C. § 4636(a)(1).

660. The violation set forth in paragraphs 640 through 649 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED THIRTIETH CLAIM FOR RELIEF

Mr. Brendsel Signed a False Assessment of the Internal Control Structure and Procedures of Freddie Mac in Violation of the Corporation Act

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

661. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 640 through 649 above.

662. As set out in the facts alleged in paragraphs 640 through 649 above, Mr. Brendsel signed a false assessment of the internal control structure and procedures of Freddie Mac in violation of 12 U.S.C. § 1456(c)(2)(C)(i). *See* 12 U.S.C. § 4636(a)(1).

663. The violation set forth in paragraphs 640 through 649 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED THIRTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Violated 12 U.S.C. § 1456(c)(2)(C)(ii) by Failing to Sign an Assessment of Freddie Mac's Safety and Soundness Compliance

(C&D for Violation Based on Unjust Enrichment)

664. Pursuant to 12 U.S.C. § 1456(c)(2)(C)(ii) of Freddie Mac's Corporation Act, the chief executive officer [Mr. Brendsel] and chief accounting or financial officer [Mr. Clarke] of the Enterprise must sign an assessment in the Enterprise's annual report of financial condition and operations of the "compliance of the Corporation with designated safety and soundness laws."

665. In 1999, 2000 and 2001, Mr. Brendsel failed to sign an assessment in accordance with 12 U.S.C. §1456 (c)(2)(C)(ii).

666. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel violated 12 U.S.C. 1456(c)(2)(C)(ii) by failing to sign an assessment of Freddie Mac's compliance with designated safety and soundness laws. *See* 12 U.S.C. § 4631(a)(2),(3).

667. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED THIRTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Violated 12 U.S.C. § 1456(c)(2)(C)(ii) by Failing to Sign an Assessment of Freddie Mac's Safety and Soundness Compliance

(C&D for Violation Based on CMP Tier Three Standard)

668. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraphs 664 through 665 above.

669. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel violated 12 U.S.C. 1456(c)(2)(C)(ii) by failing to sign an assessment of Freddie Mac's compliance with designated safety and soundness laws. *See* 12 U.S.C. § 4631(a)(2),(3).

670. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel engaged in a violation for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED THIRTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Violated 12 U.S.C. § 1456(c)(2)(C)(ii) by Failing to Sign an Assessment of Freddie Mac's Safety and Soundness Compliance

(Tier Two CMP for a Violation Based on a Pattern of Misconduct)

671. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraphs 664 through 665 above.

672. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel violated 12 U.S.C. 1456(c)(2)(C)(ii) by failing to sign an assessment of Freddie Mac's compliance with designated safety and soundness laws. *See* 12 U.S.C. § 4636(a)(1).

673. The violation set forth in paragraphs 664 through 665 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED THIRTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Violated 12 U.S.C. § 1456(c)(2)(C)(ii) by Failing to Sign an Assessment of Freddie Mac's Safety and Soundness Compliance

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

674. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 664 through 665 above.

675. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel violated 12 U.S.C. 1456(c)(2)(C)(ii) by failing to sign an assessment of Freddie Mac's compliance with designated safety and soundness laws. *See* 12 U.S.C. § 4636(a)(1).

676. The violation set forth in paragraphs 664 through 665 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED THIRTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Violated 12 U.S.C. § 1456(c)(2)(C)(ii) by Failing to Sign an Assessment of Freddie Mac's Safety and Soundness Compliance

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

677. The Director re-alleges and herein reincorporates by reference the allegations set forth in paragraphs 664 through 665 above.

678. By reason of the facts alleged in paragraphs 664 through 665 above, Mr. Brendsel violated 12 U.S.C. 1456(c)(2)(C)(ii) by failing to sign an assessment of Freddie Mac's compliance with designated safety and soundness laws. *See* 12 U.S.C. § 4636(a)(1).

679. The violation set forth in paragraphs 664 through 665 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED THIRTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(C&D for Conduct Based on Unjust Enrichment)

680. As a member of the Board of Directors of Freddie Mac, Mr. Brendsel was responsible for the quality of the Enterprise's reporting to Federal regulators.

681. Section 10(f) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to "ensure timely and complete submissions of reports of financial condition and operations, as well as annual and other periodic reports and special reports to OFHEO whenever requested or required by OFHEO." 12 C.F.R. 1720.2 (Appendix A, VII, vi).

682. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

683. Twelve C.F.R. 1710.15(b)(6)(2002) reiterates the responsibility of the Board of Directors, including Mr. Brendsel, to have in place adequate policies and procedures to assure oversight of the responsiveness of executive officers in providing accurate and timely reports to Federal regulators.

684. Twelve C.F.R. § 1750.3(a), the Examination Handbook (Dec. 1998), the Risk-Based Examinations - Evaluation Criteria (Dec. 1998), and the Policy Guidance (2000) require the Enterprise to file with the Director a minimum capital report each quarter or at such other times as the Director requires.

685. Twelve U.S.C. § 1456(c)(2)(A) requires the Enterprise to submit to the Director annual reports of the financial condition and operations of the Enterprise.

686. The principles of safety and soundness established under federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12

U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 12 through 18 and 680 through 685, as well as his other designated responsibilities, in a safe and sound manner.

687. As discussed in paragraphs 616 through 679 above, the financial reports filed by the Enterprise during the period covered by this Third Amended Notice of Charges were incomplete and defective, and failed to comply with GAAP.

688. Mr. Brendsel's failure to provide accurate reports to federal regulators, as set forth in paragraphs 616 through 625; 640-649; 664-665 above, and 718 through 723 below, was imprudent, resulted in a loss to Freddie Mac, and presented a risk or threat to the Enterprise's financial integrity.

689. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

690. By reason of the facts alleged in paragraphs 680 through 689 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED THIRTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(C&D for Violation Based on Unjust Enrichment)

691. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

692. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

693. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED THIRTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(C&D for Conduct Based on CMP Tier Three Standard)

694. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

695. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

696. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED THIRTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(C&D for Violation Based on CMP Tier Three Standard)

697. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

698. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

699. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FORTIETH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Two CMP for Violation Based on Pattern of Misconduct)

700. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

701. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

702. The violation set forth in paragraphs 680 through 688 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED FORTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

703. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

704. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

705. The conduct set forth in paragraphs 680 through 688 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED FORTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Two CMP for a Violation Based on Recklessness and Material Loss)

706. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

707. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

708. The violation set forth in paragraphs 680 through 688 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED FORTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

709. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

710. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

711. The conduct set forth in paragraphs 680 through 688 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED FORTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

712. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

713. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

714. The violation set forth in paragraphs 680 through 688 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FORTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Improperly Provided Inaccurate Financial Reports to Federal Regulators

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

715. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 680 through 688 above.

716. By reason of the facts alleged in paragraphs 680 through 688 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

717. The conduct set forth in paragraphs 680 through 688 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FORTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(C&D for Conduct Based on Unjust Enrichment)

718. Pursuant to the *Examination Handbook* (Dec. 1998), the *Risk-Based Examinations – Evaluation Criteria* (Dec. 1998), the Policy Guidance (2000), and 12 C.F.R. § 1750.3(a) (promulgated July 8, 1996), the Enterprise is required to file with the Director a minimum capital report each quarter or at such other times as the Director requires, such report to contain the information that responds to all of the items required by OFHEO in written instructions to the Enterprise, including, without limitation:

(1) estimates of the minimum capital requirements; (2) estimates of core capital coverage or shortfall relative to the estimated minimum capital requirement; and (3) such other information as may be required by the Director.

719. Pursuant to 12 C.F.R. §§ 1750.3(b) and (e), each minimum capital report or amended minimum capital report shall be submitted in writing, and “shall contain a declaration by an officer authorized by the board of directors of the Enterprise to make such a declaration, including, but not limited to, a president, vice president, or treasurer, that the report is true and correct to the best of such officer’s knowledge and belief.”

720. During the relevant time period, Mr. Brendsel was on actual and constructive notice that the minimum capital reports Freddie Mac was required to submit to the Director were required to be submitted with accompanying declarations of truth and accuracy executed by Messrs. Brendsel or Clarke.

721. During the relevant time period, the minimum capital reports Freddie Mac was required to submit to the Director were submitted by Messrs. Brendsel and Clarke, with accompanying declarations of truth and accuracy executed by Mr. Clarke.

722. Mr. Brendsel knew or should have known that the information contained in the minimum capital reports, of which Mr. Clarke attested to the truth and accuracy, were false, inaccurate or misleading.

723. Mr. Brendsel's action in causing false, inaccurate or misleading minimum capital reports to be submitted to the Director was imprudent, resulted in a loss to Freddie Mac and presented an abnormal risk or threat to its financial integrity. That the information contained in the minimum capital reports to which Mr. Clarke attested was in fact false, inaccurate and misleading was foreseeable to Mr. Brendsel at the time the reports were made.

724. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

725. By reason of the facts alleged in paragraphs 718 through 724 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order pursuant to 12 U.S.C. § 4631(d)(1). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FORTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(C&D for Violation Based on Unjust Enrichment)

726. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723.

727. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

728. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED FORTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(C&D for Conduct Based on CMP Tier Three Standard)

729. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

730. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

731. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FORTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(C&D for Violation Based on CMP Tier Three Standard)

732. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

733. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

734. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIFTIETH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Two CMP for a Violation Based on Pattern of Misconduct)

735. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

736. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

737. The violation set out in paragraphs 718 through 723 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED FIFTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

738. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

739. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. 4636 § (a)(4).

740. The conduct set forth in paragraphs 718 through 723 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED FIFTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

741. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

742. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

743. The violation set forth in paragraphs 718 through 723 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED FIFTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

744. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

745. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

746. The conduct set forth in paragraphs 718 through 723 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED FIFTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

747. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

748. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

749. The violation set forth in paragraphs 718 through 723 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIFTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Caused Inaccurate Minimum Capital Reports to be Submitted to the Director

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

750. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 718 through 723 above.

751. By reason of the facts alleged in paragraphs 718 through 723 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

752. The conduct set forth in paragraphs 718 through 723 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED FIFTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(C&D for Conduct Based on Unjust Enrichment)

753. As an officer of Freddie Mac, Mr. Brendsel owed a fiduciary duty of care to the Enterprise and to its shareholders, which required him to exercise “as much diligence and care as the proper performance of the duties of [his] office requires.” *See Winston v. Gordon*, 80 S.E. 756, 762 (Va. 1914); 12 C.F.R. § 1710.10(b)(2).

754. Section 10(a) of the Policy Guidance (2000) establishes a duty for the Enterprise to establish and implement policies and procedures for generating reports and documents “that...[e]nable the Enterprise’s board of directors (including appropriate committees) to make informed decisions and to exercise its oversight function.” 12 C.F.R. 1720.2 (Appendix A, VII, i).

755. Section 11(c) of the Policy Guidance (2000) establishes a duty for the Enterprise and the Enterprise’s board of directors to ensure that the board is provided with “accurate information about the operations and financial condition of the Enterprise in a timely

fashion, and sufficient to enable the board to effect its oversight duties and responsibilities.” 12 C.F.R. 1720.2 (Appendix A, VIII, iii).

756. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

757. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “ensuring that the Board functions effectively, interacts with management at an appropriate level and is informed on the conditions of all important factors influencing the Corporation.”

758. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 753 through 757, as well as his other designated responsibilities, in a safe and sound manner.

759. At all times relevant to the Third Amended Notice of Charges, Freddie Mac was headquartered in the Commonwealth of Virginia, and was subject to Virginia common-law principles applicable to its corporate operations that did not conflict with any applicable federal laws, standards, rules, requirements or regulations.

760. As an officer of Freddie Mac, Mr. Brendsel owed a duty under long-standing principles of the common law of the Commonwealth of Virginia to be reasonably informed concerning the affairs of the Enterprise.

761. Mr. Brendsel could not remain reasonably informed about the state of the Enterprise without establishing information and reporting systems in the organization that were reasonably designed to provide senior management and the Board timely and accurate information about the operations of Freddie Mac.

762. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 385 through 403 above.

763. As discussed in paragraphs 385 through 403 above, Mr. Brendsel failed to protect the integrity of the information and reporting systems of the Enterprise.

764. Mr. Brendsel's failure to remain reasonably informed concerning the affairs of the Enterprise by failing to ensure the integrity of the information and reporting systems of the Enterprise was imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

765. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

766. By reason of the facts alleged in paragraphs 753 through 765 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C.

§ 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FIFTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(C&D for Violation Based on Unjust Enrichment)

767. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

768. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

769. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in a violation in connection with which he was unjustly enriched.

ONE HUNDRED FIFTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(C&D for Conduct Based on CMP Tier Three Standard)

770. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

771. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

772. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED FIFTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(C&D for Violation Based on CMP Tier Three Standard)

773. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

774. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

775. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SIXTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Two CMP for Violation Based on Pattern of Misconduct)

776. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

777. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

778. The violation set forth in paragraphs 753 through 764 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SIXTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

779. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

780. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

781. The conduct set out in paragraphs 753 through 764 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SIXTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

782. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

783. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

784. The violation set forth in paragraphs 753 through 764 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED SIXTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

785. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

786. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

787. The conduct set out in paragraphs 753 through 764 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED SIXTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

788. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

789. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

790. The violation set forth in paragraphs 753 through 764 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SIXTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed about the State of the Enterprise

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

791. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

792. By reason of the facts alleged in paragraphs 753 through 764 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

793. The conduct set out in paragraphs 753 through 764 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SIXTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(C&D for Conduct Based on Unjust Enrichment)

794. As a member of the Board of Directors of Freddie Mac, Mr. Brendsel was obligated to remain reasonably informed of the conditions, activities, and operations of the Enterprise.

795. Section 10(a) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise to establish and implement policies and procedures for generating reports and documents that...[e]nable the Enterprise's board of directors (including appropriate committees) to make informed decisions and to exercise its oversight function." 12 C.F.R. 1720.2 (Appendix A, VII, i).

796. Section 11(c) of the Policy Guidance (2000) reiterates the responsibility of the Enterprise and the Enterprise's board of directors to ensure that the board is provided with "accurate information about the operations and financial condition of the Enterprise in a timely fashion, and sufficient to enable the board to effect its oversight duties and responsibilities." 12 C.F.R. 1720.2 (Appendix A, VIII, iii).

797. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

798. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “ensuring that the Board functions effectively, interacts with management at an appropriate level and is informed on the conditions of all important factors influencing the Corporation,” and that the Chairman shall “facilitate[] the optimum interaction between management and the Board of Directors.”

799. Twelve C.F.R. § 1710.15(b)(2002) recites the duty and responsibility that Mr. Brendsel, as a member of the Board of Directors, to remain reasonably informed of the conditions, activities, and operations of the Enterprise.

800. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 12 through 18 and 794 through 800 above, as well as his other designated responsibilities, in a safe and sound manner.

801. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 753 through 764 above.

802. In order to remain reasonably informed of the conditions, activities, and operations of Freddie Mac, Mr. Brendsel was obligated to ensure that the information and

reporting systems of the Enterprise were sufficient to provide timely and accurate information to the Board.

803. As discussed in paragraphs 753 through 764 above, Mr. Brendsel did not remain reasonably informed concerning the affairs of the Enterprise because he failed to ensure the integrity of the information and reporting systems of the Enterprise.

804. Mr. Brendsel's failure to remain reasonably informed concerning the affairs of the Enterprise by failing to ensure the integrity of the information and reporting systems of the Enterprise was imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

805. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

806. By reason of the facts alleged in paragraphs 794 through 805 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED SIXTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(C&D for Violation Based on Unjust Enrichment)

807. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

808. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

809. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

ONE HUNDRED SIXTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(C&D for Conduct Based on Tier Three Standard)

810. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

811. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

812. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED SIXTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(C&D for Violation Based on CMP Tier Three Standard)

813. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

814. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

815. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SEVENTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Two CMP for Violation Based on Pattern of Misconduct)

816. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

817. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

818. The violation set forth in paragraphs 794 through 804 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SEVENTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

819. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

820. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

821. The conduct set forth in paragraphs 794 through 804 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED SEVENTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Two CMP for Violation Based on Recklessness and Material Loss)

822. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

823. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

824. The violation set forth in paragraphs 794 through 804 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED SEVENTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

825. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

826. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

827. The conduct set forth in paragraphs 794 through 804 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED SEVENTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

828. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

829. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

830. The violation set forth in paragraphs 794 through 804 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SEVENTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Remain Reasonably Informed of the Condition, Activities and Operations of Freddie Mac

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

831. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 794 through 804 above.

832. By reason of the facts alleged in paragraphs 794 through 804 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

833. The conduct set forth in paragraphs 794 through 804 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED SEVENTY-SIXTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(C&D for Conduct Based on Unjust Enrichment)

834. As an officer of Freddie Mac, Mr. Brendsel owed a fiduciary duty of care to the Enterprise and to its shareholders, which required him to exercise “as much diligence and care as the proper performance of the duties of [his] office requires.” See Winston v. Gordon, 80 S.E. 756, 762 (Va. 1914); 12 C.F.R. § 1710.10(b)(2).

835. Section 11(d) of the Policy Guidance (2000) reiterates the responsibility of the managers of the Enterprise and the Enterprise’s board of directors to ensure that management sets policies and controls to ensure the Enterprise’s strategies are implemented effectively, and to ensure that the Enterprise’s organization structure and assignment of responsibilities provide clear accountability and controls. 12 C.F.R. 1720.2 (Appendix A, VIII, iv).

836. Section 12(a) of the Policy Guidance (2000) reiterates the duty and responsibility of designated officers to approve the policies and procedures used by the Enterprise to meet the responsibilities reiterated in the Policy Guidance. 12 C.F.R. 1720.2 (Appendix A, IX, i).

837. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “provid[ing] supervision to the President and other senior executives.”

838. The position description for the Chairman of the Board of Directors and Chief Executive Officer states that the Chairman is responsible for “ensur[ing] that appropriate controls, policies and procedures are established to protect corporate assets and promote operational efficiency and that controls, policies and procedures are regularly evaluated for adequacy.”

839. The principles of safety and soundness established through federal law, financial institution regulation and congressional guidance, applied by the Director pursuant to 12 U.S.C. § 4513 and 12 U.S.C. § 1456(c)(2)(C)(ii), imposed the duty on Mr. Brendsel, as Chairman of the Board and CEO of Freddie Mac, to carry out his responsibilities, as described in paragraphs 13-19, as well as his other designated responsibilities, in a safe and sound manner.

840. As discussed in paragraphs 8 through 117 above, Mr. Brendsel allowed Freddie Mac executives and employees to engage in misconduct and improper transactions designed to improperly manage the earnings of the Enterprise.

841. Mr. Brendsel’s failure to prevent Freddie Mac executives and employees from improperly managing the earnings of the Enterprise represented a failure to discover wrongdoing, malfeasance, or other misconduct that might ordinarily have been discovered by the exercise of ordinary and reasonable care.

842. Mr. Brendsel’s failure to discover specific wrongdoing, malfeasance, or other misconduct in connection with the improper earnings management at the Enterprise that might ordinarily have been discovered by the exercise of ordinary and reasonable care was imprudent, resulted in a loss to the Enterprise, and presented an abnormal risk or threat to its financial integrity.

843. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct in connection with which he was unjustly enriched.

844. By reason of the facts alleged in paragraphs 834 through 843 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C.

§ 4631(d)(1)(A). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED SEVENTY-SEVENTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(C&D for Violation Based on Unjust Enrichment)

845. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

846. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

847. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel was unjustly enriched in connection with this violation.

ONE HUNDRED SEVENTY-EIGHTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(C&D for Conduct Based on CMP Tier Three Standard)

848. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

849. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

850. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct that may result in the issuance of an order under 12 U.S.C. § 4631(d)(1)(B). *See* 12 U.S.C. § 4631(a)(2).

ONE HUNDRED SEVENTY-NINTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(C&D for Violation Based on CMP Tier Three Standard)

851. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

852. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4631(a)(2),(3).

853. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED EIGHTIETH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Two CMP for a Violation Based on a Pattern of Misconduct)

854. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

855. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

856. The violation set forth in paragraphs 834 through 842 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED EIGHTY-FIRST CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Two CMP for Conduct Based on Pattern of Misconduct)

857. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

858. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

859. The conduct set forth in paragraphs 834 through 842 above is part of a pattern of misconduct for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(A).

ONE HUNDRED EIGHTY-SECOND CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Two CMP for a Violation Based on Recklessness and Material Loss)

860. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

861. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

862. The violation set forth in paragraphs 834 through 842 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED EIGHTY-THIRD CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Two CMP for Conduct Based on Recklessness and Material Loss)

863. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

864. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

865. The conduct set forth in paragraphs 834 through 842 above involved recklessness and caused or would be likely to cause a material loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(2)(B).

ONE HUNDRED EIGHTY-FOURTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Three CMP Based on Knowing Violation and Substantial Loss)

866. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

867. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in unsafe and unsound conduct in violation of 12 U.S.C. § 4513(b)(5). *See* 12 U.S.C. § 4636(a)(1).

868. The violation set forth in paragraphs 834 through 842 was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

ONE HUNDRED EIGHTY-FIFTH CLAIM FOR RELIEF

Mr. Brendsel Failed to Discover Conduct and Violations that Might Normally Have Been Discovered with Ordinary Care

(Tier Three CMP Based on Knowing Conduct and Substantial Loss)

869. The Director re-alleges and herein incorporates by reference the allegations set forth in paragraphs 834 through 842 above.

870. By reason of the facts alleged in paragraphs 834 through 842 above, Mr. Brendsel engaged in conduct that caused or was likely to cause a loss to Freddie Mac. *See* 12 U.S.C. § 4636(a)(4).

871. The conduct set forth in paragraphs 834 through 842 above was knowing and caused or would be likely to cause a substantial loss to Freddie Mac for which a civil money penalty may be imposed pursuant to 12 U.S.C. § 4636(b)(3).

IV. PRAYER FOR RELIEF

A. Prayer for Affirmative Relief (12 U.S.C. § 4631)

872. OFHEO hereby incorporates and re-alleges all of the foregoing allegations of this Third Amended Notice of Charges as if expressly set forth herein.

873. Mr. Brendsel has engaged in violations, unsafe and unsound practices, and other actionable conduct in violation of the Safety and Soundness Act, the Corporation Act, and rules and regulations under such acts.

874. WHEREFORE, a final order should issue pursuant to 12 U.S.C. § 4631 requiring Mr. Brendsel to cease and desist from the conduct and violations alleged in this Third

Amended Notice of Charges and to take affirmative action to correct and remedy the conditions that caused the conduct and violations of law, rules, regulations, and safety and soundness practices, including without limitation:

- requiring Mr. Brendsel not to seek, without the prior written consent of the Director and upon such terms as the Director deems appropriate, to participate in any manner in the conduct of the affairs of Freddie Mac or Fannie Mae or in any activity that would cause him to be considered an institution-affiliated party of Freddie Mac or Fannie Mae, as defined by 12 U.S.C. § 1813(u), as if either of these enterprises were insured institutions. In addition, requiring Mr. Brendsel to agree to disclose and provide a copy of any order entered against him in this action to any financial institution and its primary regulator and insurer if, and at the time, he seeks to be employed by or participate in any manner in the affairs of: (1) any federally insured depository institution; (ii) any institution treated as an insured bank under 12 U.S.C. § 1818(b)(3) or (b)(4), or as a savings association under 12 U.S.C. § 1818(b)(9); (iii) any insured credit union under the Federal Credit Union Act, 12 U.S.C. § 1781 *et seq.*; (iv) any institution chartered under the Farm Credit Act of 1971, 12 U.S.C. § 2001 *et seq.*; (v) any Federal depository institution regulatory agency; and (vi) the Federal Housing Finance Board or any Federal home loan bank.
- requiring Mr. Brendsel to waive any contractual or other non-statutory right or claim he may have to restitution, reimbursement, indemnity, guaranty against loss, civil money penalty, or other payment for any affirmative monetary relief awarded against him in this action pursuant to 12 U.S.C. §§ 4631 or 4636, and to repay any such restitution, reimbursement, indemnity, civil money penalty, or other payments (excluding legal fees and costs in this administrative action), that he may already have received (see 12 C.F.R. § 1710.20(a));
- such other affirmative relief as may be deemed necessary and appropriate upon the hearing of this matter.

B. Prayer for Affirmative Relief (12 U.S.C. § 4631(d))

875. OFHEO hereby incorporates and re-alleges all of the foregoing allegations of this Third Amended Notice of Charges as if expressly set forth herein.

876. Mr. Brendsel has engaged in violations, unsafe and unsound practices, and other actionable conduct in violation of the Safety and Soundness Act, the Corporation Act, and rules and regulations under such acts.

877. Mr. Brendsel has engaged in conduct and violations in connection with which each was unjustly enriched. *See* 12 U.S.C. § 4631(d)(1)(A).

878. Mr. Brendsel has engaged in conduct and violations that would subject each to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3). *See* 12 U.S.C. § 4631(d)(1)(B).

879. Thus, Mr. Brendsel has specifically engaged in conduct and violations of law that may result in the issuance of an order pursuant to 12 U.S.C. § 4631(d)(1).

880. WHEREFORE, a final order should issue pursuant to 12 U.S.C. § 4631(d)(1) requiring Mr. Brendsel to take affirmative action to correct and remedy the conditions that caused and resulting from the conduct and violations of law, rules, regulations, and safety and soundness practices, including without limitation:

- requiring Mr. Brendsel to make restitution, or provide reimbursement, indemnification, or guarantee loss to the Enterprise to the extent to which he was unjustly enriched in connection with such conduct or violation;
- requiring Mr. Brendsel to make restitution or provide reimbursement, indemnification, or guarantee against loss to the Enterprise to the extent that he engaged in conduct or a violation that would subject him to a civil money penalty pursuant to 12 U.S.C. § 4636(b)(3); and
- such other affirmative relief as may be deemed necessary and appropriate upon the hearing of this matter.

C. Prayer for Civil Money Penalty (12 U.S.C. § 4636(b)(2))

881. OFHEO hereby incorporates and re-alleges all of the foregoing allegations of this Third Amended Notice of Charges as if expressly set forth herein.

882. Mr. Brendsel has engaged in violations, unsafe and unsound practices, and other actionable conduct in violation of the Safety and Soundness Act, the Corporation Act, and rules and regulations under such acts.

883. The above-alleged unsafe and unsound practices, other actionable conduct and violations of law, rules and regulations, various combinations thereof, and each of them, constituted part of a pattern of misconduct dating from at least 1998 through 2002. *See* 12 U.S.C. § 4636(b)(2)(A).

884. The above-alleged unsafe and unsound practices, other actionable conduct and violations of law, rules and regulations involved recklessness and caused or would be likely to cause a material loss to the Enterprise. *See* 12 U.S.C. § 4636(b)(2)(B).

885. WHEREFORE, final orders should issue pursuant to 12 U.S.C. § 4636(b)(2) and 12 C.F.R. § 1780.1(c) and § 1780.80 requiring that Mr. Brendsel pay a penalty of \$10,000 for each day prior to January 4, 2001 and \$11,000 for each day thereafter that it is determined that the above-alleged unsafe and unsound practices, other actionable conduct, violations of law, rules and regulations continued in connection with each of them.

D. Claim for Civil Money Penalty (12 U.S.C. § 4636(b)(3))

886. OFHEO hereby incorporates and re-alleges all of the foregoing allegations of this Third Amended Notice of Charges as if expressly set forth herein.

887. Mr. Brendsel has engaged in violations, unsafe and unsound practices, and other actionable conduct in violation of the Safety and Soundness Act, the Corporation Act, and rules and regulations under such acts.

888. The above-alleged unsafe and unsound practices, other actionable conduct and violations of law, rules and regulations was knowing and caused or would be likely to cause a substantial loss to the Enterprise. *See* 12 U.S.C. § 4636(b)(3).

889. WHEREFORE, final orders should issue pursuant to 12 U.S.C. § 4636(b)(3) and 12 C.F.R. § 1780.1(c) and § 1780.80 requiring that Mr. Brendsel pay a penalty of \$100,000 for each day prior to January 4, 2001, and \$110,000 for each day thereafter that it is determined that the above-alleged unsafe and unsound practices, other actionable conduct, violations of law, rules and regulations continued in connection with each of them.

V. NOTICE OF HEARING

890. Notice of Hearing: Notice is hereby given that, pursuant to 12 U.S.C. § 4633, and in accordance with OFHEO's Rules of Practice and Procedure in Adjudicatory Proceedings, 12 C.F.R. § 1780.1 *et seq.* ("Adjudicatory Rules"), an administrative hearing will be held to determine whether final orders should be issued against Respondent Leland Brendsel obtaining the relief requested above, or such other and further relief that the Director determines appropriate.


891. Location and Date: The hearing will be held within the federal judicial district for the district of Washington, D.C. before an appropriately designated Administrative Law Judge ("ALJ"). The exact time of day and location will be announced by the ALJ, and will be conducted before the ALJ in accordance with the adjudicatory provisions of the Administrative Procedure Act, 5 U.S.C. §§ 554-557, as made applicable by relevant statutes and the Adjudicatory Rules.

892. Answer Required: Mr. Brendsel is directed to file an Answer in response to the charges set forth in the preceding Amended Notice within ten (10) days after receiving service thereof, as required by 12 C.F.R. § 1780.22, or as otherwise ordered by the ALJ. The requirements for the Answer and the consequences of failure to file an Answer are set forth in 12 C.F.R. § 1780.21. The original and one copy of any answer shall be filed with the Office of the Director, Office of Federal Housing Enterprise Oversight, 1700 G Street, N.W., Washington, D.C. 20552, and another copy shall be filed with the assigned ALJ. A copy of any answer shall also be served with the Office of the General Counsel, Office of Federal Housing Enterprise Oversight, 1700 G Street, N.W., Washington, D.C.

20552, and with the OFHEO attorney whose name appears on the accompanying certificate of service.

As provided by section 1780.21(c) of the Adjudicatory Rules, the failure to file an Answer as required by this Amended Notice within the time provided herein shall constitute a waiver of his right to appear and contest the allegations of the foregoing Third Amended Notice of Charges, and may, upon OFHEO's Motion, cause the ALJ or the Director to find the facts in this Third Amended Notice to be as alleged, upon which an appropriate Order may be issued.

OFFICE OF FEDERAL HOUSING ENTERPRISE
OVERSIGHT

By: 

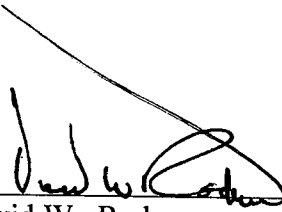
James B. Lockhart, III
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, N.W.
Washington, D.C. 20552

Date: October 9, 2007

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of October 2007, I caused a copy of the foregoing THIRD AMENDED NOTICE OF CHARGES to be served by courier on the person identified below:

Kevin Downey, Esq.
Williams & Connolly LLP
725 Twelfth St., N.W.
Washington, DC 20005
(202) 434-5291



David W. Roderer
Office of Federal Housing Enterprise Oversight



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of the General Counsel

October 9, 2007

VIA COURIER

Chief Docket Clerk
Attn: William B. Moran
United States Administrative Law Judge
U.S. Environmental Protection Agency
Office of Administrative Law Judges
1099 14th Street, NW
Suite 350 West
Washington, DC 20005

Re: In the Matter of Leland C. Brendsel,
HUDALJ 04-056-NA, Notice No. 2003-2

Dear Sir or Madam:

Enclosed please find the Third Amended Notice of Charges for filing in this action, removing the charges against Mr. Vaughn A. Clarke (In the Matter of Vaughn A. Clarke, HUDALJ 04-057NA, Notice No. 2003-3), which were dismissed by the Director on September 27, 2007. The Third Amended Notice of Charges also updates paragraphs 84, 114-116 and 492 and the Prayer for Relief, as well as conforms the paragraph numbering upon removal of the charges against Mr. Clarke. A WordPerfect CD containing the document is also enclosed. We have tested the CD here and were able to open it, but if you have any questions, please feel free to contact me at (202) 414-6924.

Sincerely,

A handwritten signature in black ink, appearing to read "David W. Roderer", is written over a large, sweeping flourish that extends upwards and to the left.

David W. Roderer
Deputy General Counsel

Enclosures

cc: Kevin Downey (w/o Enclosures)



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of the General Counsel

October 9, 2007

VIA COURIER

Kevin Downey, Esq.
Williams & Connolly LLP
725 Twelfth St., N.W.
Washington, DC 20005
(202) 434-5291

**Re: In the Matter of Leland C. Brendsel,
HUDALJ 04-056-NA, Notice No. 2003-2**

Dear Mr. Downey:

Enclosed please find the Third Amended Notice of Charges in this action, removing the charges against Mr. Vaughn A. Clarke (In the Matter of Vaughn A. Clarke, HUDALJ 04-057NA, Notice No. 2003-3), which were dismissed by the Director on September 27, 2007. The Third Amended Notice of Charges also updates paragraphs 84, 114-116 and 492 and the Prayer for Relief, as well as conforms the paragraph numbering upon removal of the charges against Mr. Clarke.

Sincerely,

David W. Roderer
Deputy General Counsel

Enclosures