



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of the Director

October 12, 2004

Richard F. Syron
Chairman of the Board
Chief Executive Officer
Federal Home Loan Mortgage Corporation
8200 Jones Branch Drive
McLean, Virginia 22102-3110

Dear Mr. Syron:

In the three letters listed below from the Office of Federal Housing Enterprise Oversight ("OFHEO") to Federal Home Loan Mortgage Corporation ("Freddie Mac") OFHEO instructed Freddie Mac not to pay Mr. Vaughn Clarke certain money, stock and other financial benefits claimed by him as compensation.

1. June 12, 2003, letter from Armando Falcon, Jr., Director, OFHEO to Shaun F. O'Malley, Chairman of the Board, Freddie Mac;
2. June 12, 2003, letter from Stephen Blumenthal, Counsel to the Director, OFHEO, to Allan Ratner, Vice President and Deputy General Counsel for Mortgage Law, Freddie Mac; and
3. June 17, 2003, letter from Stephen Blumenthal, Counsel to the Director, OFHEO, to Allan Ratner, Vice President and Deputy General Counsel for Mortgage Law, Freddie Mac.

These three letters, copies of which are enclosed for your convenience, are hereby rescinded insofar as they apply to Mr. Clarke.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

**OFFICE OF FEDERAL
HOUSING ENTERPRISE OVERSIGHT**

IN RE:)
)
)

FEDERAL HOME LOAN MORTGAGE)
CORPORATION)
)

EXECUTIVE COMPENSATION OF)
VAUGHN A. CLARKE)
)

ORDER NO. 2004-001

DIRECTOR'S ORDER PROHIBITING EXCESSIVE COMPENSATION

WHEREAS, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4501 *et seq.* ("Safety and Soundness Act" or "Act") instructs that the Director of the Office of Federal Housing Enterprise Oversight ("OFHEO") has the duty to "ensure that the enterprises [Federal Home Loan Mortgage Corporation and Federal National Mortgage Association] are adequately capitalized and operating safely in accordance with this title." 12 U.S.C. § 4513(a);

WHEREAS, the Act expressly authorizes the Director, in fulfilling his duty to ensure the safe operation of the enterprises, to "make such determinations, take such actions, and perform such functions as [he] determines necessary regarding - * * * (8) prohibiting excessive compensation by the enterprises to any executive officer . . . under [12 U.S.C. § 4518]." 12 U.S.C. § 4513(b);

WHEREAS, the Act requires that the Director exercise his authority to "prohibit the enterprises from providing compensation to any executive officer of the enterprise that is not reasonable and comparable with compensation for employment in other similar businesses . . . involving similar duties and responsibilities." 12 U.S.C. § 4518(a);

WHEREAS, the Director's duty to prohibit excessive compensation is a continuing one that applies to current compensation and to compensation revealed as excessive by subsequent disclosures or circumstances;

WHEREAS, the Federal Home Loan Mortgage Corporation ("Freddie Mac") is an enterprise subject to the jurisdiction of OFHEO and its Director;

WHEREAS, Vaughn A. Clarke ("Clarke") was a Senior Vice President of Freddie Mac from August 1998 until November 2000, assumed the duties of the Chief Financial Officer ("CFO") in March 2000, was appointed Executive Vice President and Chief Financial Officer of Freddie Mac in November 2000, serving as CFO through the date of his resignation, June 6, 2003 and, therefore, was an executive officer of Freddie Mac as defined by 12 U.S.C. § 4502(7) and 12 C.F.R. § 1770.3(g)(1)(i), subject to the

jurisdiction of OFHEO and its Director with respect to his conduct and compensation while serving as Freddie Mac's CFO;

WHEREAS, "compensation" is defined as "any payment of money or the provision of any other thing of current or potential value in connection with employment" (12 U.S.C. § 4502(3)), and includes "all direct and indirect payments of benefits, both cash and non-cash, granted to or for the benefit of any executive officer, including, but not limited to payments and benefits derived from an employment contract compensation or benefit agreement, fee arrangement, perquisite, stock option plan, post employment benefit or other compensatory arrangement." 12 C.F.R. §§ 1770.3(d) and 1710.2(e);

WHEREAS, an executive officer's compensation is excessive and subject to prohibition when it is either "not reasonable" or not "comparable with compensation for employment in other similar businesses . . . involving similar duties and responsibilities," or both. 12 U.S.C. § 4518(a);

WHEREAS, the Act permits the Director to assess the reasonableness and comparability of executive compensation in light of all the circumstances of the executive officer's employment, including if appropriate, the officer's misfeasance, malfeasance, or nonfeasance;

WHEREAS, the Act prohibits executive compensation that is not "comparable with compensation for employment in other similar businesses . . . involving similar duties and responsibilities," under similar circumstances, including the actual performance of the executive's duties and responsibilities;

WHEREAS, the Act prohibits executive compensation that is "not reasonable" when considered in light of various factors the Director determines relevant under the circumstances;

WHEREAS, the Act prohibits executive compensation that is "not reasonable" in light of the proportionality of the value of services rendered or to be rendered to the level of compensation and that compensation is not reasonable if it is not "commensurate with [the executive officer's] duties and responsibilities" as assigned or performed (12 C.F.R. § 1710.12);

WHEREAS, Freddie Mac officially appointed Clarke as an Executive Vice President and CFO in November 2000 and he served in those positions through his resignation in June 2003;

WHEREAS, materials obtained in the course of OFHEO's regular review of compensation reveal that in 2000 Clarke's total compensation was valued at \$1,114,906, including \$298,417 in salary and a \$203,723 cash bonus; in 2001 his total compensation was valued at \$1,105,071, including \$370,000 in salary and a \$333,000 cash bonus; and in 2002 his total compensation was valued at \$865,248, including \$382,500 in salary, but

not including a cash bonus in an as yet undetermined and unliquidated amount that Freddie Mac agreed to pay to him;

WHEREAS, in 2003 Clarke received salary at an annual rate of \$385,000 from January 1 through September 30 for his service to Freddie Mac as an Executive Vice President and CFO, and Freddie Mac agreed to pay to him a cash bonus for service from January 1 through May 31, 2003, in an as yet undetermined and unliquidated amount;

WHEREAS, on February 4, 2003 Clarke and Freddie Mac entered a separation agreement and release of claims that constituted a renegotiation of an October 2002 agreement. Pursuant to 12 U.S.C. § 1452(h)(2), the Director approved the terms of the October 2002 agreement in January 2003 and he approved the terms of the February 4, 2003 agreement on March 24, 2003. Under the terms of the February 4, 2003 agreement, Clarke received regular salary for the months of June, July, August, and September, 2003 despite not performing any services for Freddie Mac during that time and notwithstanding Freddie Mac's announcement that he resigned on June 6, 2003. Freddie Mac also has agreed to pay Clarke severance pay at his last annual salary rate of \$385,000, for the months of October 2003 through August 2004;

WHEREAS, on March 13, 2003 Freddie Mac paid \$74,450.66 in attorneys' fees for Clarke's benefit, pursuant to the terms of both the October 2002 and February 2003 agreements;

WHEREAS, on January 22, 2003, Freddie Mac announced that it would restate its financial results for 2001, 2002, and possibly 2000;

WHEREAS, From December 2002 through July 2003 the law firm of Baker Botts LLP ("Baker Botts") investigated at Freddie Mac's request the causes of the accounting matters that led Freddie Mac to restate its financial results, issuing a report dated July 22, 2003;

WHEREAS, in June 2003, the Director ordered a special examination into the facts and circumstances surrounding the delay and restatement of Freddie Mac's financial statements and the events leading to the termination, resignation, and retirement of three executive officers of Freddie Mac, including Clarke, as an expansion and supplementation of an ongoing examination of Freddie Mac's financial condition and the Report of the Special Examination was issued in December 2003;

WHEREAS, considering the report of the OFHEO Special Examination and the materials cited therein, and the Baker Botts report and the materials cited therein, it is found and determined that:

(1) Clarke was not qualified to hold the position of CFO or to perform the duties and responsibilities of CFO;

(2) Clarke failed to perform the duties and responsibilities of the CFO position competently;

(3) Clarke participated in, condoned, supervised, encouraged, and perpetuated conduct inconsistent with the performance of his duties as an Executive Vice President and CFO that was prejudicial to the safe and sound operation of Freddie Mac, directly causing Freddie Mac to incur a \$125 million civil money penalty and directly resulting in Freddie Mac's need to restate its earnings and engage new accountants to reaudit its financial records, incurring many tens of millions of dollars in legal and other professional fees and expenses;

(4) Clarke failed to take reasonable action to ensure that Freddie Mac's Corporate Accounting function was adequately staffed with qualified employees;

(5) Clarke failed to supervise and implement sound financial accounting standards;

(6) Clarke participated in, encouraged, condoned, and perpetuated the "tone at the top" environment that made meeting the earnings expectations of Wall Street analysts a high priority;

(7) Clarke actively participated in, encouraged, condoned, permitted, and supervised the development and use of accounting designed to smooth earnings and to artificially meet the earning expectations of investment analysts -- misleading the public, shareholders, regulators, and Freddie Mac's Board of Directors with respect to the company's earnings performance;

(8) Clarke actively encouraged, supervised, condoned, permitted and participated in the development, use, and manipulation of investment instruments and accounting standards to smooth reported earnings and meet earnings expectations of investment analysts -- misleading the public, shareholders, and Freddie Mac's Board of Directors;

(9) Clarke failed to ensure accurate and adequate financial disclosures to the public, shareholders, and Freddie Mac's Board of Directors, adhering to a policy of minimizing disclosure of financial details;

(10) By January 2002, the Audit Committee of Freddie Mac's Board of Directors instructed the Chief Executive Officer to replace Clarke because he was not performing adequately as CFO;

(11) In June 2002, Freddie Mac publicly announced the creation of a new position, Executive Vice President of Finance, to which the "office of the chief financial officer" would report and Clarke's duties and responsibilities as CFO were effectively redistributed to the new Executive Vice President of Finance position;

(12) Clarke's June 6, 2003 resignation from his employment with Freddie Mac was announced on June 9, 2003; and

(13) Clarke did not fully perform the duties and responsibilities of his position as CFO from early 2002 through September 30, 2003, the date through which he was paid his regular salary;

WHEREAS, in light of the facts determined above, Clarke's overall cash and non-cash compensation for his performance in the position of Executive Vice President and Chief Financial Officer in the years 2000, 2001, 2002, and 2003 was not reasonable, and therefore was excessive;

WHEREAS, in light of the facts determined above, the post-employment cash and non-cash compensation paid or provided or to be paid or provided to Clarke under the terms of the February 4, 2003 and October 2002 separation agreements and releases of claims is not reasonable, and therefore is excessive;

NOW THEREFORE, pursuant to 12 U.S.C. §§ 4513(b)(8) and 4518(a), it is hereby

ORDERED that the Federal Home Loan Mortgage Corporation ("Freddie Mac") is prohibited from providing, paying, or causing to be paid or provided, and shall not provide, pay, or cause to be paid or provided to Vaughn A. Clarke any compensation as defined in 12 U.S.C. § 4502(3) and in 12 C.F.R. §§ 1710.2(e) and 1770.3(d) and herein found to be excessive for services rendered as Executive Vice President and CFO in the years 2000, 2001, 2002, and 2003;


FURTHER ORDERED that within 14 calendar days after receipt of this Order Freddie Mac and Vaughn A. Clarke may submit to the Director for his consideration a written response to this Order and/or a proposed alternative schedule of compensation and termination benefits together with a justification of the reasonableness thereof, which also shall be served on all parties identified on the service list appearing at the end of this Order;

FURTHER ORDERED that within sixty (60) calendar days after the date of this Order if no written response or alternative schedule of compensation and justification of reasonableness is submitted as provided for in this Order, Freddie Mac shall take all measures necessary to obtain reimbursement or restitution from Vaughn A. Clarke of any and all compensation, including termination-related benefits, that have been found herein to be excessive, but that the enterprise has paid, caused to be paid, provided, or caused to be provided to Clarke;

FURTHER ORDERED that Freddie Mac shall immediately take all steps necessary to rescind any and all separation agreements and releases of claims it entered into with Clarke and submit any such future agreements for approval pursuant to 12 U.S.C. § 1452(h)(2); and it is

FURTHER ORDERED that this Order is effective immediately and shall remain effective unless and until it is specifically amended, vacated, withdrawn, or rescinded by future order.

Date: 10/12/2004


ARMANDO FALCON, JR.
Director, Officer of Federal Housing
Enterprise Oversight

Service List:

Ralph F. Boyd, Jr. (For Freddie Mac)
Executive Vice President and General Counsel
Federal Home Loan Mortgage Corporation
Legal Department
8200 Jones Branch Drive
McLean, Virginia 22102

Steven M. Salky, Esq. (For Clarke)
Zukerman Spaeder LLP
1201 Connecticut Avenue, NW
Washington, DC 20036



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of the Director

June 12, 2003

Shaun F. O'Malley
Chairman of the Board
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102

Via Facsimile

Dear Mr. O'Malley:

We are in receipt of the compensation packages for Messrs. Leland Brendsel, David Glenn and Vaughn Clarke.

OFHEO has begun its review including preliminary meetings with Freddie Mac staff. OFHEO will inform you of its views regarding the packages once its investigation is complete.

Please be reminded that these benefits are not to be provided until we have completed our review and a determination is provided to you.

Thank you for your cooperation.

Sincerely,

[signed Armando Falcon, Jr.]

Armando Falcon, Jr.
Director

Copy to: Gregory J. Parseghian
Chief Executive Officer
Freddie Mac



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

June 12, 2003

BY COURIER.

Allan Ratner
Vice President and
Deputy General Counsel for
Mortgage Law
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3107

Dear Mr. Ratner:

This letter memorializes the discussion that occurred today during an 11:20 a.m. telephone conference call between yourself and Deputy General Counsel David W. Roderer, concerning compensation related to the agreements of certain executive officers of Freddie Mac.

Specifically, Mr. Roderer stated that he was speaking on behalf of the Director with respect to the agreements between Freddie Mac and Leland Brendzel, David W. Glenn, and Vaughn A. Clarke (collectively, "the executive officers"), which relate to their employment. In that capacity, Mr. Roderer instructed you that Freddie Mac is not to take any action to fulfill any of the terms of the three executive officers' agreements that relate to termination benefits, including, but not limited to, the vesting, accelerated or otherwise, of any stock or stock options.

Notably, the employment agreements of the executive officers are being reviewed by OFHEO under the Director's broad supervisory oversight of the executive compensation policies and practices of Freddie Mac, which includes safety and soundness and specific prior approval authorities.

Any inquiries regarding the instruction noted above should be directed to me (202) 414-3802.

Sincerely,

Stephen Blumenthal
Counsel to the Director

cc: David W. Roderer, Deputy General Counsel



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW, WASHINGTON DC 20552 (202) 474-3800
Office of the Director

June 17, 2003

Allan Ratner
Vice President and
Deputy General Counsel
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3107

Dear Mr. Ratner:

This letter is in reference to our telephone conference calls on June 13, 2003 concerning agreements and related termination benefits of Leland Brendsel, David W. Glenn, and Vaughn A. Clarke (collectively, "the executive officers"), and responds to various issues raised by you. As you know, the employment agreements of the executive officers are being reviewed by OFHEO. You request clarification of my letter to you dated June 12, 2003, concerning the compensation provided under the executive officers' agreements.

With respect to your first question, you stated that Freddie Mac has been informed by a representative of Mr. Brendsel of his desire to move a certain amount of stock from two accounts at Salomon Smith Barney to his account with Charles Schwab & Company. The two accounts are: (1) a restricted share account that includes shares for which the restriction period has lapsed and (2) an employee stock purchase plan account in the employee stock purchase program of Freddie Mac.

Until such time as the special examination is completed, and OFHEO removes the restrictions, OFHEO has determined that neither Freddie Mac nor any of its employees or agents, without the approval of this agency, is to take any action to effect or facilitate Mr. Brendsel, or either of the other two executive officers, in transferring, selling, or otherwise disposing of or encumbering previously restricted stock on which the restrictions have lapsed or will lapse.

Although not raised by you or other representatives of Freddie Mac in our conversations but related to the issue under discussion, is the sale on June 5, 2003 of 4,228 of previously restricted shares of stock by David Glenn. In a telephone conversation with you on June 13, 2003, a human resources attorney for Freddie Mac confirmed that these shares are sold back to the company with a portion being withheld and maintained in an account at the company for the purpose of meeting a tax liability.

Jun-20-03 02:10am From-

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Insofar as OFHEO will not approve the sale of previously restricted shares of stock on which the restrictions lapsed on June 5, 2003 by Mr. Brendsel, similarly the sale of such stock by Mr. Glenn is to be restricted. OFHEO instructs Freddie Mac to reverse and cancel Mr. Glenn's June 5, 2003 transaction, credit the shares back to his account, and prohibit him from making any other sales, transfers, or otherwise disposing of or encumbering any of these shares until such restrictions are removed by OFHEO. Initially, in our review, it does not appear that Mr. Clarke has any restricted stock, the restrictions on which would have expired on June 5, 2003. If subsequent examination discloses that he does, he will be similarly restricted.

You also seek clarification of my letter of June 12, 2003 regarding whether Freddie Mac may make payments relating to termination benefits of the executive officers. You stated that Freddie Mac understands from the instruction in that letter that Freddie Mac is to take whatever actions are necessary to preclude the three referenced executive officers from exercising vested stock options. You are correct in your understanding as to the meaning of the instructions in this regard. Freddie Mac is to take whatever actions are necessary to preclude the three executive officers from exercising vested stock options.

Remaining is the request of Mr. Brendsel to transfer approximately 4,600 shares of stock from an employee stock purchase plan account at Salomon Smith Barney to his account at Charles Schwab & Company. You explained that in this plan an employee purchases stock in his or her name but the stock is not directly available to the employee until Freddie Mac, at the request of the employee, directs Salomon Smith Barney to release the shares. The shares in the plan are fully paid for by the employee at the time of the purchase. Specifically, you asked whether OFHEO would authorize Freddie Mac to approve the transfer.

Based on representations, including the representation that Mr. Brendsel will not, on his own initiative, sell the stock, which were made in discussions with you and our subsequent conversations with John Dugan of Covington and Burling and Lawrence Lorber of Proskauer Rose as well as with Messrs. Richard Grimes and Gregory Faragasso of the Enforcement Division of the Securities and Exchange Commission, OFHEO will not object to this transaction transferring fully paid for employee stock from the employee stock purchase plan account maintained for the benefit of Mr. Brendsel at Salomon Smith Barney to his account at Charles Schwab & Company.

Any inquiries regarding the instruction noted above should be directed to me at (202) 414-3802).

Sincerely,



Stephen Blumenthal
Counsel to the Director

cc: David W. Roderer, Deputy General Counsel