

In the Matter of the Rehabilitation of:

2010 MAY 24 PM 1:47

Segregated Account of
Ambac Assurance Corporation

Case No. 10 CV 1576

COPY

**NOTICE OF PARTIAL JOINDER BY FREDDIE MAC IN EMERGENCY MOTIONS
FILED BY CERTAIN RMBS POLICYHOLDERS AND CERTAIN LVM
BONDHOLDERS**

TO: All Parties and Their Counsel on the Attached Service List

PLEASE TAKE NOTICE that the Federal Home Loan Mortgage Corporation (“Freddie Mac”), as the owner of approximately \$2 billion in residential mortgage-backed securities (“RMBS”) insured by policies issued by Ambac Assurance Corporation (“Ambac”) that appear to have been allocated to the Segregated Account, and as the owner of approximately \$2.5 billion in commercial mortgage-backed securities (“CMBS”) and mortgage revenue bonds (“MRB”) that are insured by Ambac policies which appear to remain in the General Account, by its attorneys, von Briesen & Roper, s.c., and Manatt, Phelps & Phillips, LLP, hereby joins in the following respects only in the Emergency Motions filed by Certain RMBS Policyholders on April 30, 2010 and by Certain LVM Bondholders on May 5, 2010 (collectively, the “Emergency Motions”), which are scheduled to be heard at 2 p.m. on May 25, 2010.

- 1) Freddie Mac joins in the requests for an Order determining that the Insurance Commissioner of the State of Wisconsin, Sean Dilweg, as the rehabilitator of the Segregated Account of Ambac, must submit the proposed CDS Settlement to the Court for review and approval before the CDS Settlement may take effect, or, in the alternative, modifying the Order for Temporary Injunctive Relief dated March 24, 2010, to prohibit the CDS Settlement from taking effect until it has been reviewed and approved by the Court;¹

¹ The proposed “CDS Settlement” is between Ambac and a group of banks (the “CDS Banks”) in connection with Ambac’s obligations under guaranties of credit default swap agreements (the “CDS Guaranties”) entered into by Ambac Credit Products, LLC.

- 2) Freddie Mac joins in the requests for an Order permitting expedited discovery concerning the proposed CDS Settlement, including the priority that (absent the settlement) would be given to the CDS Guaranties under Wis. Stat. § 645.68;
- 3) Freddie Mac joins in the requests for an Order permitting expedited discovery regarding the formation of the Segregated Account and the adequacy of the capitalization of the Segregated Account, at such time as the Court addresses the requests for such discovery; and
- 4) Freddie Mac requests that it be authorized to intervene in these proceedings, if the Court deems such intervention necessary.

The grounds for this Joinder are set forth in the attached Brief in Support of Partial Joinder by Freddie Mac in Emergency Motions Filed by Certain RMBS Policyholders and Certain LVM Bondholders, and the attached supporting Affidavit of Raymond G. Romano.

Freddie Mac reserves all of its rights and remedies with respect to Ambac, the General Account, the Segregated Account, the Injunction Order and/or the rehabilitation plan, which has yet to be proposed, including to seek to modify or dissolve the Injunction Order on or before June 22, 2010, as set forth in paragraph 12 of the Injunction Order. Freddie Mac further reserves all of its other rights and remedies, including its right of removal pursuant to 12 U.S.C. § 1452(f). Nothing contained herein should be deemed to prejudice any of Freddie Mac's rights or remedies, all of which are reserved.

Dated this 24th day of May, 2010.

von Briesen & Roper, s.c.
411 East Wisconsin Avenue, Suite 700
Milwaukee, WI 53202
Telephone: (414) 276-1122
Facsimile: (414) 276-6281

David I. Cisar
WI State Bar ID No. 1009501
Susan E. Lovern
WI State Bar ID No. 1025632
Christopher J. Stroebel
WI State Bar ID No. 1035182

By: 

Attorneys for the Federal Home Loan Mortgage Corporation

Of Counsel:
(Motion for Admission
Pro Hac Vice Pending)

Robert A. Zeavin
Craig S. Bloomgarden
Manatt, Phelps & Phillips, LLP
11355 W. Olympic Boulevard
Los Angeles, California 90064
Telephone: (310) 312-4000
Facsimile: (310) 312-4224

and

Marcia D. Alazraki
Manatt, Phelps & Phillips, LLP
7 Times Square
New York, New York 10036
Telephone: (212) 790-4500
Facsimile: (212) 790-4545

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In the Matter of the Rehabilitation of:

DANE CO. CIRCUIT COURT

Segregated Account of
Ambac Assurance Corporation

Case No. 10 CV 1576

**BRIEF IN SUPPORT OF PARTIAL JOINDER BY FREDDIE MAC IN EMERGENCY
MOTIONS BY CERTAIN RMBS POLICYHOLDERS AND CERTAIN LVM
BONDHOLDERS**

The Federal Home Loan Mortgage Corporation ("Freddie Mac") submits this brief in support of its Partial Joinder in the Emergency Motions filed by Certain RMBS Policyholders on April 30, 2010 and by Certain LVM Bondholders on May 5, 2010 (collectively, the "Emergency Motions"). The specific requests for relief in which Freddie Mac joins are set forth in Freddie Mac's accompanying Notice of Partial Joinder.

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage market.¹ In support of this mission, Freddie Mac purchases mortgages from lenders across the country and either packages the mortgages into securities that can be sold to investors or retains them in its own portfolio.

To increase the supply of money available for mortgage lending and the availability of funding for new home purchases, Freddie Mac actively manages its retained portfolio. Freddie Mac's portfolio investments include, among other things, residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and mortgage revenue bonds ("MRB").

Freddie Mac is the owner of approximately \$2 billion in RMBS insured by policies issued by Ambac Assurance Corporation ("Ambac") that appear to have been allocated to the

¹ On September 6, 2008, Freddie Mac was placed into conservatorship and the Federal Housing Finance Agency ("FHFA") was appointed its Conservator pursuant to Section 1145(a) of the Federal Housing Finance Regulatory Reform Act of 2008, Pub. L. 110-289, 122 Stat. 2654 (the "Reform Act") (codified at 12 U.S.C. § 4617).

Segregated Account. Freddie Mac also is the owner of approximately \$2.5 billion in CMBS and MRB that are insured by Ambac policies which appear to remain in the General Account. See the accompanying Affidavit of Raymond G. Romano, ¶¶ 3 – 4.

Freddie Mac is deeply concerned about the impact the proposed \$4.6 billion CDS Settlement will have on the assets available in the General Account, which is the sole source of funding for the Segregated Account. Freddie Mac also is deeply concerned about whether the proposed CDS Settlement is fair and equitable to policyholders, both those in the General Account and those in the Segregated Account.

For the reasons detailed in the RMBS Policyholders' and LVM Bondholders' opening briefs, the proposed CDS Settlement could have a devastating impact on the rehabilitation of the Segregated Account. The proposed CDS Settlement, if consummated, would deplete Ambac's assets by more than a third, thereby compromising Ambac's ability to honor the \$2 billion note that constitutes the Segregated Account's primary asset. In so doing, the proposed CDS Settlement would jeopardize the Segregated Account's prospects for successful rehabilitation. See, e.g., LVM Bondholders' Opening Brief, at pp. 3 and 14.

The scant available information regarding the proposed CDS Settlement (and the effect of that Settlement on the capitalization of the Segregated Account) also creates fundamental questions as to whether the payment of \$2.6 billion in cash, plus an additional \$2 billion in surplus notes, would afford the CDS Banks more favorable treatment than Ambac's policyholders are likely to receive — a potential reversal of Wisconsin's well-established priority rules. In fact, under Wis. Stat. §645.68, the CDS Banks might be entitled to *lower* priority than Ambac's policyholders. See, e.g., LVM Bondholders' Opening Brief, at pp. 10-11 and 14-17.²

As the Commissioner of Insurance has noted, absent the CDS Settlement, the CDS Banks

² In its Opposition Brief, OCI admits that it is not clear whether the CDS Banks have an interest in the reference entities for their respective credit default swaps. OCI Opposition Brief, at p. 19.

would be placed into the Segregated Account, in which case they would be enjoined from exercising the acceleration clauses and other contractual rights available to them, and at most would receive their percentage share only on the same terms as the other Segregated Account policyholders. *See Verified Petition for Order of Rehabilitation*, at p. 7. Yet the Commissioner has argued that paying these claimants upfront, pursuant to the CDS Settlement and ahead of other claimants, “benefits *all* policyholders in both the General Account and the Segregated Account.” OCI Opposition Brief, at p. 11. Even assuming the Commissioner’s assessment is true, such a determination is not within its unfettered discretion, for Wis. Stat. § 645.33(2) requires that actions of the rehabilitator are subject to court approval.

The Commissioner argues that the CDS Settlement is taken in connection with its role as regulator of the General Account, not in its role of rehabilitator of the Segregated Account, and therefore is outside the statutory requirement for court approval. OCI Opposition Brief, at pp. 11-12. This distinction does not withstand scrutiny. The General Account is the sole source of funding for the Segregated Account, and thus the Segregated Account is necessarily impacted by the settlement. Furthermore, the Cooperation Agreement between Ambac and the Segregated Account requires the Segregated Account’s written consent to consummate any transaction by Ambac that involves consideration or other proceeds in excess of \$5,000,000. *See Cooperation Agreement*, § 1.02.

Accordingly, judicial scrutiny of the proposed CDS Settlement, after full disclosure of all pertinent facts, is warranted. The CDS Settlement should not be permitted to become effective until approved by this Court, after sufficient notice and a hearing, at which time the parties can present full arguments and evidence.

Freddie Mac, therefore, joins in the requests that this Court issue an Order determining that the Insurance Commissioner of the State of Wisconsin, Sean Dilweg, as the rehabilitator of the Segregated Account of Ambac, must submit the proposed CDS Settlement to the Court for review and approval before the CDS Settlement may take effect, or, in the alternative, modifying the Order for Temporary Injunctive Relief dated March 24, 2010, to prohibit the CDS Settlement

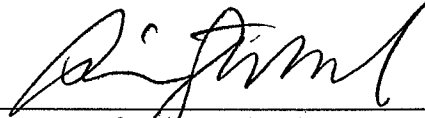
from taking effect until it has been reviewed and approved by the Court. Court approval of the proposed CDS Settlement is required pursuant to Wis. Stat. § 645.33(2) and the Cooperation Agreement, for the reasons set forth above and in the LVM Bondholders' Opening Brief at pages 11-14.

To ensure that the Court has a sufficient record to evaluate the fairness of the CDS Settlement and its impact on the rehabilitation of the Segregated Account, Freddie Mac also joins in the requests that the Court permit expedited discovery concerning the proposed CDS Settlement, including the priority that (absent the settlement) would be given to the CDS Guaranties under Wis. Stat. § 645.68. In addition, Freddie Mac joins in the requests that the Court permit expedited discovery regarding the formation of the Segregated Account and the adequacy of the capitalization of the Segregated Account, at such time as the Court addresses the requests for such discovery.³ Finally, Freddie Mac requests that it be authorized to intervene in these proceedings, if the Court deems such intervention necessary notwithstanding the invitation for motions in paragraph 12 of the Order for Temporary Injunctive Relief dated March 24, 2010.

Dated this 24th day of May, 2010.

von Briesen & Roper, s.c.
411 East Wisconsin Avenue, Suite 700
Milwaukee, WI 53202
Telephone: (414) 276-1122
Facsimile: (414) 276-6281

David I. Cisar
WI State Bar ID No. 1009501
Susan E. Lovern
WI State Bar ID No. 1025632
Christopher J. Stroebel
WI State Bar ID No. 1035182

By: 
Attorneys for the Federal Home Loan Mortgage Corporation

³ Under Wisconsin law, OCI must ensure that the Segregated Account has and maintains adequate capital and surplus. Wis. Stat. § 611.24(3)(a). In its filings with this Court, OCI has not provided anything more than conclusory assertions that this requirement was met when the Segregated Account was established.

Of Counsel:
(Motion for Admission
Pro Hac Vice Pending)

Robert A. Zeavin
Craig S. Bloomgarden
Manatt, Phelps & Phillips, LLP
11355 W. Olympic Boulevard
Los Angeles, California 90064
Telephone: (310) 312-4000
Facsimile: (310) 312-4224

and

Marcia D. Alazraki
Manatt, Phelps & Phillips, LLP
7 Times Square
New York, New York 10036
Telephone: (212) 790-4500
Facsimile: (212) 790-4545

In the Matter of the Rehabilitation of:

Segregated Account of
Ambac Assurance Corporation

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DANE CO. CIRCUIT COURT

Case No. 10 CV 1576

**AFFIDAVIT OF RAYMOND G. ROMANO IN SUPPORT OF PARTIAL JOINDER BY
FREDDIE MAC IN EMERGENCY MOTIONS FILED BY CERTAIN RMBS
POLICYHOLDERS AND CERTAIN LVM BONDHOLDERS**

County of Fairfax)
 : SS
Commonwealth of Virginia)

I, Raymond G. Romano, being first sworn on oath, state that:

1. I am over 21 years old and am competent to testify. If called, I would testify consistently with this Affidavit. All testimony is based on my own personal knowledge as Chief Credit Officer and Executive Vice President of Credit and Counterparty Risk Management of the Federal Home Loan Mortgage Corporation ("Freddie Mac"), unless otherwise indicated.

2. I submit this Affidavit in my capacity to act as affiant on behalf of Freddie Mac in support of Freddie Mac's Partial Joinder in the Emergency Motions filed by Certain RMBS Policyholders and Certain LVM Bondholders.

3. As part of its retained portfolio, Freddie Mac owns residential mortgage-backed securities ("RMBS") in the face amount of approximately \$2 billion which are insured by policies issued by Ambac Assurance Corporation ("Ambac"), as well as commercial mortgage-backed securities ("CMBS") and mortgage revenue bonds ("MRB") in the combined face amount of approximately \$2.5 billion which are insured by policies issued by Ambac.


4. Based upon information available at <http://ambacpolicyholders.com>, it appears that all policies related to Freddie Mac's RMBS have been allocated to the Segregated Account

which is subject to the Rehabilitation proceeding, whereas all policies related to Freddie Mac's CMBS and MRB appear to remain in the General Account.


RAYMOND G. ROMANO

County of Fairfax)
 :SS
Commonwealth of Virginia)

Subscribed and sworn to before me
this 24th day of May 2010.



Notary Public, State of Virginia
My commission expires on _____

