

September 20, 2010

A. John Voelker  
Acting Clerk of Court of Appeals  
Wisconsin Court of Appeals  
110 East Main Street, Suite 215  
Madison, WI 53701

Re: *In the Matter of the Rehabilitation of:  
Segregated Account of Ambac Assurance Corporation*  
Case No. 10-CV-1576  
Appeal No. 2010AP001291

Dear Mr. Voelker:

Defendant-Petitioner-Co-Appellant Federal Home Loan Mortgage Corporation ("Freddie Mac") wishes to inform the Court that instead of filing a separate brief in support of the above-referenced appeal from the Circuit Court's May 27, 2010 Order, Freddie Mac joins in the brief submitted by Defendants-Petitioners-Co-Appellants Eaton Vance Management, Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners LP (collectively, the "LVM Bondholders") in its entirety. Freddie Mac also joins in one of the arguments, captioned "The Circuit Court Erred In Failing To Review The CDS Settlement," contained in the brief filed by Defendants-Petitioners-Co-Appellants Aurelius Capital Management LP, Fir Tree Inc., King Street Capital L.P., King Street Capital Master Fund Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC (collectively, the "RMBS Policyholders").

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage market. 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"). On September 6, 2008, Freddie Mac was placed into conservatorship and the Federal Housing Finance Agency was appointed its Conservator. (R. 99-100).

The Circuit Court's May 27, 2010 Order, *inter alia*, denied the LVM Bondholders' Emergency Motion to Enjoin Consummation of the Proposed Settlement Between Ambac Assurance Corporation ("Ambac") and Certain CDS Counterparties, and also denied the RMBS Policyholders' Emergency Motion to Modify Order for Temporary Injunctive Relief and Motion to Intervene. Freddie Mac – as the owner of approximately \$2.0 billion in RMBS insured by policies issued by Ambac that appear to have been allocated to the Segregated Account of Ambac which is now in rehabilitation, and as 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 of Ambac – joined in the motion filed by the LVM Bondholders and partially joined in the motions filed by the RMBS Policyholders. (R. 99-100).

Freddie Mac joined in the requests by the LVM Bondholders and RMBS Policyholders that sought targeted discovery and judicial review with regard to a then-proposed \$4.6 billion settlement (the “CDS Settlement”) between Ambac and certain banks (the “CDS Banks”) in connection with Ambac’s guaranties of credit default swap agreements entered into by Ambac’s subsidiary, Ambac Credit Products, LLC. The limited available information regarding the proposed settlement raised fundamental questions as to whether the payment from Ambac’s General Account of \$2.6 billion in cash, plus an additional \$2 billion in surplus notes, would jeopardize the prospects for successful rehabilitation of the Ambac Segregated Account (which is completely dependent upon the General Account for funding), and would afford the CDS Banks more favorable treatment than Ambac policyholders in the Segregated Account — contrary to Wisconsin’s well-established priority rules. Under Wis. Stat. §645.68, the CDS Banks might be entitled to *lower* priority than Ambac policyholders, including Freddie Mac, such that the CDS Banks should be paid after, not ahead of, Segregated Account policyholders.

The procedural background and facts leading up to the Circuit Court’s May 27, 2010 Order are set forth in the appellate briefs filed by the LVM Bondholders and the RMBS Policyholders. As previously stated, Freddie Mac joins in the Argument section of the LVM Bondholders’ brief in its entirety and the previously referenced portion of the Argument section contained in the RMBS Policyholders’ brief. Freddie Mac concurs that the CDS Settlement required court approval, that the Circuit Court was required to make an informed and independent judgment regarding the settlement’s merits, after apprising itself of all relevant facts, before approving the settlement, and that the Circuit Court’s decision was neither independent nor informed by the relevant facts. Instead of undertaking an independent examination of the CDS Settlement’s merits, the Circuit Court uncritically adopted the Commissioner’s position on all issues and failed to apprise itself of key facts bearing on the settlement’s fairness. In addition, the Circuit Court erred in denying the requests for intervention as an alternative ground for taking discovery.

Accordingly, Freddie Mac joins in the relief requested in the LVM Bondholders’ brief; namely, that this Court should reverse the Circuit Court’s May 27, 2010 Order and remand for further proceedings with respect to the CDS Settlement, including discovery and the development of a full factual record, in order to permit the Circuit Court to reach an informed and independent judgment as to the CDS Settlement’s fairness.

Respectfully submitted,

von BRIESEN & ROPER, s.c.



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A. John Voelker  
September 20, 2010  
Page 3

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