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January 19, 2016

BY EMAIL & CERTIFIED MAIL

Federal Home Loan Mortgage Corporation
Office of the Secretary of the Corporation
8200 Jones Branch Drive MS 200
McLean, Virginia 22102

Christopher S. Lynch, Non-Executive Chairman
Raphael W. Bostic
Carolyn H. Byrd
Lance F. Drummond
Thomas M. Goldstein
Richard C. Hartnack
Steven W. Kohlhagen
Donald H. Layton
Sara Mathew
Saiyid T. Naqvi
Nicolas P. Retsinas
Eugene B. Shanks
Anthony A. Williams

Board of Directors
c/o Corporate Secretary
Freddie Mac
8200 Jones Branch Drive MS 200
McLean, Virginia 22102
boardofdirectors@freddiemac.com

RE: Demand for Inspection of Books and Records under Virginia Code Section 13.1-771

Dear Federal Home Loan Mortgage Corporation and Ladies and Gentlemen of the Board:

We represent Timothy J. Pagliara (the "Stockholder"), the beneficial owner of stock in the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Company"). This letter is the Stockholder's demand to inspect the books and records of the Company under the Virginia

Stock Corporation Act (the "VSCA"), specifically Virginia Code Section 13.1-771 (the "Demand").[1] A notarized and sworn statement appointing the undersigned to act on the Stockholder's behalf is attached hereto as Exhibit 1. Verified documentary evidence of the Stockholder's beneficial ownership is attached as Exhibit A to Exhibit 1 hereto, and such documentary evidence is a true and correct copy of what it purports to be.

I. Books and Records to be Inspected

Under Section 13.1-771 of the VSCA, the Stockholder hereby demands that the Company provide the Stockholder, along with the attorneys, representatives, and agents of the Stockholder, designated through the enclosed notarized and sworn statement, the opportunity to inspect the following books and records during the Company's usual business hours, and to make copies and extracts therefrom. The relevant time period for this Demand is from August 17, 2011, through and including the date of the Demand (the "Relevant Time Period"). The information subject to the Demand includes:

(1) All Board Materials concerning the Third Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated August 17, 2012 (the "Net Worth Sweep"), between the United States Department of the Treasury ("Treasury") and the Company, acting through the Federal Housing Finance Agency ("FHFA") as conservator.[2]

(2) All Board Materials concerning the involvement of FHFA and/or Treasury in the management of the business and affairs of the Company and the respective roles

[1] Freddie Mac's Bylaws, amended and restated on July 13, 2015, designate that the VSCA controls for purposes of Freddie Mac's corporate governance practices and procedures. Freddie Mac Bylaws, § 11.3(a).

[2] For purposes of this Demand, the term "Board Materials" means (a) minutes of any meeting, including meetings held in person, telephonically, electronically, or via any other means, (including draft minutes and draft or proposed consents or resolutions) of the Company's board of directors or any committee thereof, (b) meeting agendas for any meeting of the Company's board of directors or any committee thereof, (c) written consents or other written resolutions adopted by the Company's board of directors or any committee thereof, (d) presentations, reports, summaries, analyses, exhibits and other written materials reviewed, considered, provided to, or prepared for the board of directors or any committee thereof in connection with any meeting, written consent, or written resolution, (e) notes or summaries of any meeting (or portion of any meeting) of the Company's board of directors or any committee thereof, and (f) any communications, recommendations or proposals with or to stockholders of the Company in connection with any consents or resolutions adopted by the Board of Directors or any committee thereof.

and responsibilities of FHFA, Treasury, and the Board of Directors of the Company (the "Board" or the "Board of Directors"), including but not limited to:

a) All Board Materials concerning FHFA's and/or Treasury's approval of Company business decisions, transactions, policies, and/or other matters; and

b) All Board Materials concerning FHFA's and/or Treasury's directives and/or instructions to the Company, including "alignment directives," "letters of instruction," "advisory bulletins," and/or "external communication standards."

(3) All FHFA and/or Treasury directives and/or instructions to the Company, including but not limited to "alignment directives," "letters of instruction," "advisory bulletins," and/or "external communication standards."

(4) All Board Materials concerning the declaration and/or payment of dividends to Treasury (as the holder of the Company's senior preferred stock), including but not limited to Board Materials concerning or analyzing the availability of surplus or any other lawful source for payment of any such dividend pursuant to Section 13.1-653 of the VSCA.

(5) All Board Materials concerning the declaration and/or payment of dividends pursuant to the Net Worth Sweep, including but not limited to Board Materials concerning or analyzing any lawful source for payment of any such dividend pursuant to Section 13.1-653 of the VSCA.

(6) All Board Materials concerning any report, analysis, or evaluation of the solvency or insolvency of the Company.

(7) Accounting records sufficient to show the net worth of the Company immediately before and after the payment of the Net Worth Sweep to Treasury for each quarter from August 17, 2012, through the present.

(8) Accounting records sufficient to show the aggregate par value of the issued and outstanding shares of all classes of capital stock of the Company at the times of each payment of the Net Worth Sweep from August 17, 2012, through the present.

(9) All Board Materials pertaining to the Company's outstanding public securities, shareholders, and debtholders, including but not limited to the conduct of the conservatorship as administered by FHFA and/or Treasury, and the impact of decisions made by FHFA and/or Treasury on the Company's outstanding public securities, shareholders and debtholders.

(10) All Board Materials concerning the Company's investment in Common Securitization Solutions, LLC ("CSS") or the Common Securitization Platform

(the "CSP"), whether directly or indirectly, all contracts entered into by the Company regarding CSS or the CSP, all directives, instructions, or other documents received by the Company from FHFA, Treasury, any other Executive Branch personnel (including at the White House), or Legislative Branch personnel relating to the creation and implementation of either CSS or the CSP, and any formal business plans developed by the Company with respect to its investments in CSS or the CSP.

(11) All policies, handbooks, rules, directives, instructions, procedures, or other documents concerning FHFA's and/or Treasury's oversight of the Company's public statements, including the subject matter or content of speeches, interviews, press releases, congressional testimony, and/or the Company's website.

(12) A list of stockholders and a stock ledger.

(13) Books and records sufficient to show whether the Company's directors have been elected by written consent in lieu of an annual meeting in the past 13 months.

(14) Books and records sufficient to show any directors and officers insurance policies maintained for the benefit or protection of the Company's directors.

II. Purposes of the Demand

The purposes of the Demand are:

(a) to investigate potential breaches of fiduciary duty by directors and/or officers of the Company, by FHFA, and/or by Treasury in connection with the matters discussed below;

(b) to investigate FHFA's and/or Treasury's aiding and abetting breaches of fiduciary duty by directors and/or officers of the Company in connection with the matters discussed below;

(c) to investigate mismanagement, waste, wrongdoing, and/or violations of law by directors and/or officers of the Company, by FHFA, and/or by Treasury in connection with the matters discussed below;

(d) to determine the respective roles and responsibilities of FHFA and the Board of Directors in the management of the business and affairs of the Company;

(e) to determine whether FHFA and/or the Board of Directors has improperly disregarded the corporate form of the Company and/or applicable statutes relating to the duties and responsibilities of the Board of Directors of the Company;

(f) to determine the Company's position as to the rights of the Company's stockholders (other than Treasury);

(g) to determine whether dividends have been declared and/or paid by the Company's Board of Directors in accordance with Virginia law;

(h) to determine whether the Company had a lawful source out of which dividends lawfully could be declared and paid at the time of the declaration and payment of dividends pursuant to the Net Worth Sweep for each quarter from August 17, 2012 through the present, and whether the Company's directors could be personally liable for the payment of unlawful dividends under Section 13.1-692 of the VSCA;

(i) to determine whether payments made pursuant to the Net Worth Sweep constitute a fraudulent conveyance or fraudulent transfer under applicable law;

(j) to determine the Company's financial safety and soundness and overall risk management practices, and whether FHFA and/or the Board of Directors is ensuring that the Company operates in a safe and sound manner;

(k) to determine the extent of independence and disinterestedness of the Board of Directors, and whether the Board has acted in good faith and consistent with its duty of loyalty to the Company, in connection with the matters described herein to determine, among other matters, whether a pre-suit demand is necessary or would be excused prior to commencing any derivative action on behalf of the Company;

(l) to communicate with other Company stockholders regarding matters of concern to such stockholders; and

(m) to value the stock held by the Stockholder.

III. The Statutory and Fiduciary Duties of the Board

As you know, Freddie Mac is a federally chartered corporation established pursuant to the Federal Home Loan Mortgage Corporation Act (the "Corporation Act"), and owned by private stockholders, including the Stockholder. The Corporation Act created "a body corporate under the direction of a Board of Directors." 12 U.S.C. § 1452(a)(1); *see also* Freddie Mac Bylaws § 4.1. Under Freddie Mac's Bylaws, Virginia law is the law of decision governing Freddie Mac's "corporate governance practices and procedures." Freddie Mac Bylaws § 11.3.

Under this applicable Virginia law, the Board owes fiduciary duties to Freddie Mac and its stockholders and is therefore required to act in the best interests of Freddie Mac and its stockholders. *See* Va. Code Ann. § 13.1-690; *see also Byelick v. Vivadelli*, 79 F. Supp. 2d 610, 623 (E.D. Va. 1999) ("It is well-settled that '[a] Virginia corporation's directors and officers owe a duty of loyalty both to the corporation and to the corporation's shareholders'") (citations omitted). Under Virginia law, the Board also must comply with the VSCA. *See, e.g., Malon v.*

Franklin Fin. Corp., No. 3:14CV671-HEH, 2014 WL 6791611, at *4, n.4 (E.D. Va. Dec. 2, 2014) ("The decision-making process of the Franklin Board is governed by the Virginia Stock Corporation Act.").

The Board continues to owe these fiduciary and statutory duties despite and irrespective of FHFA's conservatorship. The Housing and Economic Recovery Act of 2008 ("HERA") did not eliminate or alter these duties.[3] Although, under HERA, FHFA succeeded to the rights of Freddie Mac's stockholders, this did not eliminate the Board's duties.[4] Under the governing law, the stockholders did not even possess the power to eliminate the Board's duties.

The Board's statutory and fiduciary duties are similarly unaffected by FHFA's directions that certain corporate actions by the Board must be approved by FHFA or Treasury. The Board is required to exercise its fiduciary duty in the best interest of the corporation, regardless of whether its decision is ultimately subject to the approval of a controlling stockholder or other person.[5] The Board's fiduciary duties may never be delegated away from the Board. Under Virginia law, "the unbending rule is that the director must act in the utmost good faith, and this

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[3] HERA provides Freddie Mac's Board of Directors with immunity from liability only for the decision to consent to the appointment of a conservator. *See* 12 U.S.C.A. § 4617 ("The members of the board of directors of a regulated entity shall not be liable to the shareholders or creditors of the regulated entity for acquiescing in or consenting in good faith to the appointment of the Agency as conservator or receiver for that regulated entity.")

[4] Virginia courts have cited with approval 8 Del. C. Section 102(b)(7), which restricts opportunities for eliminating or limiting personal liability of directors to the corporation or its stockholders. *See* 8 Del. C. § 102(b)(7) (mandating that certificates of incorporation "shall not eliminate or limit the liability of a director: (i) [f]or any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) [f]or acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under § 174 of this title [for unlawful payment of divided or unlawful stock purchase or redemption]; or (iv) for any transaction from which the director derived an improper personal benefit"); *see also Williams v. 5300 Columbia Pike Corp.*, 891 F. Supp. 1169, 1183, n.30 (E.D. Va. 1995) ("a by-law amendment surely cannot eliminate directors' fiduciary duty of loyalty and fairness to shareholders") (citing 8 Del. C. § 102(b)). The applicable law is inflexible with respect to the imposition of these fiduciary duties on all directors.

[5] *See, e.g., Freddie Mac Current Report on Form 10-K/A*, 5 (for fiscal year ended December 31, 2008) ("The Conservator has instructed the Board that it should consult with and obtain the approval of the Conservator before taking action in . . . actions involving capital stock, dividends, the senior preferred stock purchase agreement, or the Purchase Agreement, between [Freddie Mac] and the U.S. Department of the Treasury, or Treasury, increases in risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk . . . .").

good faith forbids placing himself in a position where his individual interest clashes with his duty to his corporation." *Mardel Sec., Inc. v. Alexandria Gazette Corp.*, 183 F. Supp. 7, 14-15 (E.D. Va. 1960) *aff'd*, 320 F.2d 890 (4th Cir. 1963); *see also In re Adams Labs., Inc.*, 3 B.R. 495, 497-98 (Bankr. E.D. Va. 1980) ("A director's fiduciary duty to a corporation has been likened to a position of trust . . . [a director] must conduct himself with the utmost fidelity . . ."). The Board of Freddie Mac continues to owe all the statutory and fiduciary duties provided by Virginia law. Those fiduciary duties require the Board to act to protect the stockholders' interests to the full extent of its power, no matter how constrained that may be.

For the above reasons, any claim asserting that the Board owes fiduciary duties only to FHFA is mistaken, and the Board may not rely upon the assertion. *See, e.g., Smith v. Van Gorkom*, 488 A.2d 858, 888 (Del. 1985) (holding that the trial court "erred in according to the [director] defendants the benefits of the business judgment rule" where "the Board was mistaken as a matter of law regarding its available courses of action" under 8 Del. C. § 251(b) with respect to a merger).

The Board remains exposed to liability on claims for breaches of statutory and fiduciary duties. The statutory prohibition on court actions that restrict or affect the conservator's powers and functions do not bar claims that (a) challenge conduct inconsistent with the conservatorship, (b) seek monetary relief, or (c) are asserted against the Board.[6] Nor does it or any other portion of HERA bar stockholders from asserting claims for decisions or omissions in which FHFA and/or Treasury have a conflict of interest.[7] Finally, to the extent that any claim might possibly be barred by HERA, the bar would cease upon termination of the conservatorship, with the result that the members of the Board would then be newly exposed to liability for breaches that took place *during* the conservatorship.[8] And while the Company's Bylaws purport to limit the

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[6] *See* 12 U.S.C. § 4617(f) ("Except as provided in this section or at the request of the Director [of FHFA], no court may take any action to restrain or affect the exercise of powers or functions of [FHFA] as a conservator or a receiver.").

[7] *See Kellmer v. Raines*, 674 F.3d 848, 850 (D.C. Cir. 2012) (explaining that, if a "manifest conflict of interest by the conservator" had been at issue, HERA would not bar shareholder derivative actions); *First Hartford Sav. Corp. Pension Plan & Trust v. United States*, 194 F.3d 1279, 1295 (Fed. Cir. 1999) (holding, where FDIC's statutory receivership authority includes the right to control prosecution of legal claims on behalf of bank under FDIC receivership, that FDIC could not prohibit a shareholder of the bank under receivership from bringing a derivative suit alleging breach by FDIC of a contract between the government and the bank under receivership, because FDIC had a conflict of interest when it "was asked to decide on behalf of the [bank] in receivership whether it should sue the federal government based upon breach of contract, which, if proven, was caused by the FDIC itself").

[8] Debate in Congress recently confirmed, in connection with approving the Consolidated Appropriations Act, 2016 – Section 702, that the conservatorship has a finite duration, regardless of the Third Amendment and other developments. In discussing provisions in the Consolidated

liability of directors on claims brought by or in the name of the Company or its shareholders, *see* Bylaws § 8.1, neither the Bylaws nor the VSCA allows for the limitation of liability for willful misconduct. Directors who knowingly abdicate their corporate responsibility and allow—quarter after quarter—all of the Company's profits to go to Treasury are certainly risking exposure to claims of willful misconduct.[9]

IV. Breaches of the VSCA and Fiduciary Duties

As detailed below, the Stockholder has a credible basis to believe that the Board of Directors has breached and continues to breach its statutory and fiduciary duties to Freddie Mac and its stockholders, aided and abetted by FHFA and Treasury. The Stockholder also has a credible basis to believe that FHFA and Treasury have also violated statutory and fiduciary duties owed to the Company and its stockholders.

Section 13.1-690. The VSCA requires that "[a]ll corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation managed under the direction of, its board of directors[.]" Va. Code Ann. § 13.1-673B. Likewise, the Corporation Act created "a body corporate under the direction of a Board of Directors." 12 U.S.C. § 1452(a)(1). Section 4.1 of the Freddie Mac Bylaws, as amended and restated on July 13, 2015, provides: "[s]ubject to the limitations of law and regulation, the Board of Directors shall determine the general policies that govern the operations of the Corporation, and the Corporation shall be under the Direction of the Board of Directors."[10]

The VSCA provides the general standards of conduct for the Board of Directors. Va. Code Ann. § 13.1-690. The VSCA's primary command to directors is simple: "[a] director shall

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Appropriations Act concerning Treasury's preferred stock, Senator Minority Leader Harry Reid noted that "As then-Secretary Paulson described, conservatorship was meant to be a 'time out' not an indefinite state of being." Banking Committee Ranking Member Senator Sherrod Brown then added: ". . . the FHFA and Treasury Department could have placed the GSEs into receivership if the intent was to liquidate them. The purpose of a conservatorship is to preserve and conserve the assets of the entities in conservatorship until they are in a safe and solvent condition as determined by their regulator."

[9] Furthermore, the members of the Board cannot knowingly abdicate their fiduciary duties and point to the conservator as the culpable actor. *Colgate v. Disthene Grp., Inc.*, 86 Va. Cir. 218 (Buckingham County Cir. Ct. 2013) ("lack of action" may be actionable under Section 13.1-690); Allen C. Goolsby & Steven M. Haas, *Goolsby & Haas on Virginia Corporations* § 9.7 (director liability under Virginia law "applies not just to actions taken by the directors, but also to any conscious failure to act").

[10] Section 4.1 is designated as a Level 1 Provision and thereby deemed to constitute a provision of the Company's articles of incorporation for purposes of the VSCA. Freddie Mac Bylaws § 11.3(b).

discharge his duties as a director, including his duties as a member of a committee, in accordance with his good faith business judgment of the best interests of the corporation." *Id.*

Virginia law, as incorporated into federal law, also governs the Board's ability to declare and pay dividends. Under Virginia law, dividends are voluntary; declaration and payment of dividends is entrusted to the Board's discretion. *See* Va. Code Ann. § 13.1-653A ("A board of directors *may* authorize and the corporation may make distributions to its shareholders . . .") (emphasis added). Likewise, the Corporation Act states that Freddie Mac may make capital distributions, "as may be declared by the Board of Directors." 12 U.S.C. § 1452(b)(1). Consistent with these statutes, Treasury's Amended and Restated Senior Preferred Stock Certificate, executed after the Freddie Mac Board was reconstituted by FHFA, states that holders of such stock are only entitled to cash dividend payments "when, as and if declared by the Board of Directors, in its sole discretion, out of funds legally available therefor." Freddie Mac Amended and Restated Senior Preferred Stock Certificate of Designation ¶ 2(a). In exercising its discretion to declare and pay dividends, as in all its actions, the Board must follow its good faith business judgment of the best interests of the Company.

Notwithstanding these provisions, in 2012 FHFA and Treasury entered into the Net Worth Sweep, providing for the quarterly distribution, in perpetuity, of ultimately all of the net worth of Freddie Mac to Treasury. FHFA and Treasury have both made clear that the Net Worth Sweep "ensures all [Freddie Mac's] earnings are used to benefit taxpayers."[11] The declaration and payment of such dividends is plainly not action taken based on good faith business judgment of the best interests of the Company or its shareholders.

Section 13.1-653. By approving the Net Worth Sweep, the Board appears to have permitted an inevitable breach of Section 13.1-653 of the VSCA. Under that section, distributions to shareholders cannot be properly authorized if the distribution would result (i) in the corporation becoming unable to pay its debts as due in the usual course of business, or (ii) in the corporation's total assets becoming less than its total liabilities plus the amount needed to satisfy certain shareholders' preferential rights. Va. Code Ann. § 13.1-653C. Freddie Mac has paid out, and continues to pay out, billions of dollars in discretionary cash dividends to Treasury under this Board's administration. At the same time, the contractual restraints on capital preservation imposed by the Senior Preferred Stock have left the Company teetering perilously on the edge of insolvency.

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[11] Federal Housing Finance Agency, Conservatorship, "Senior Preferred Stock Purchase Agreements," available at http://www.fhfa.gov/Conservatorship/Pages/Senior-Preferred-Stock-Purchase-Agreements.aspx; *see also* U.S. Dep't of the Treasury, Press Release, "Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac," (Aug. 17, 2012), available at https://www.treasury.gov/press-center/press-releases/Pages/tg1684.aspx (Net Worth Sweep will "make sure that every dollar of earnings [Freddie Mac] generates is used to benefit taxpayers").

The Net Worth Sweep may already violate Section 13.1-653 of the VSCA—and certainly will violate Section 13.1-653 once the "Applicable Capital Reserve Amount" is reduced to zero beginning on January 1, 2018—because it contemplates payment of dividends to Treasury beyond the restrictions imposed by that section, that is, payment of dividends out of the Company's capital. Stated another way, pursuant to the Net Worth Sweep, the "Dividend Amount" comprises the entire net worth of the Companies—i.e., total assets less total liabilities—plus a decreasing reserve amount. When the decreasing reserve amount is lower than the Company's capital, the Net Worth Sweep appears to contemplate the distribution of the Company's capital in the form of dividends. Because the Net Worth Sweep improperly authorizes payment of dividends, it violates Section 13.1-653 of the VSCA.

Courts applying Virginia law have affirmed that directors may be held personally liable for authorizing a distribution under such circumstances. *See, e.g., In re Heilig-Meyers Co.*, 328 B.R. 471, 489 (E.D. Va. 2005) (citing to Section 13.1-653C of the VSCA) ("Virginia law prohibits a corporation from paying a dividend while insolvent or if the dividend would cause insolvency").

Breach of the Duty of Loyalty from the Company's Investments in CSS/CSP. The Board also appears to have violated its fiduciary duty of loyalty by approving or permitting the Company's investments in CSS and the CSP and pursuit of the single security.

In October 2013 the Company and the Federal National Mortgage Association ("Fannie Mae") established CSS, a jointly owned limited liability company, to develop and eventually operate the CSP. Federal Housing Finance Agency, *An Update on the Common Securitization Platform* (Sept. 15, 2015), at 6. The CSP is intended to eventually replace certain elements of Fannie Mae and Freddie Mac's separate and proprietary systems for securitizing mortgages and related associated back office and administrative functions, as well as to ultimately provide a common platform for other market participants. Fannie Mae Fiscal Year 2014 Form 10-K, at 30. According to FHFA, "[i]nvesting in a single platform to support single-family securitization and the Single Security will benefit *both* Enterprises and taxpayers in the long run" (emphasis added).[12] Moreover, the Company has pursued the single security, which will ultimately replace the Company's securitization and tie the Company's financial future to the fortunes of Fannie Mae. Development of the single security "is supportive of the [FHFA's] statutory obligation to ensure the liquidity of the nation's housing finance markets." Federal Housing Finance Agency, *An Update on the Common Securitization Platform* (May 15, 2015), at 1.

Improving the value and profit of the Company, the necessary goal of this Board's management of the Company, is not identified as a goal of CSS, the CSP, or the single security. The Board would breach its fiduciary duty of loyalty, and could be held personally liable for doing so, if its approval of the Company's investments in CSS, the CSP, and the single security

[12] Federal Housing Finance Agency, Policy, Common Securitization Platform, available at http://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Securitization-Infrasturcture.aspx.

was given for the purpose of furthering FHFA's policy objectives rather than to further the Company's interests.

Further, if the Board's deliberation process included consideration of the CSP's benefit to *both* Fannie Mae and Freddie Mac, that deliberation process would violate the Board's duty of loyalty. The Board owes no fiduciary duties to Fannie Mae or Fannie Mae shareholders. The Board's duty of loyalty runs solely to Freddie Mac and its shareholders. Consideration of the manner in which "both Enterprises" would benefit from the CSP violates that duty of loyalty.

Waste from the Net Worth Sweep. By approving the Net Worth Sweep, and the dividends paid to Treasury pursuant to the Net Worth Sweep, the Board appears to have violated its fiduciary duty not to permit corporate waste. Corporate waste occurs where "the consideration received by the corporation was so inadequate that no person of ordinary sound business judgment" would have approved the transaction. *In re Capital One Derivative S'holder Litig.*, 952 F. Supp. 2d 770, 782 (E.D. Va. 2013) (citing to Delaware law); *see also Giannotti v. Hamway*, 239 Va. 14, 25, 387 S.E.2d 725, 731 (1990) (referencing "abundant, credible evidence . . . that defendants engaged in oppressive conduct and that they misapplied and wasted corporate assets" and finding that "the burden of proof lies upon the persons who fill the position of trust and confidence to show that the transaction has been fair") (citation omitted).

The Company received ***no additional consideration whatsoever*** in exchange for the Net Worth Sweep, pursuant to which the Company has paid more than ***$70 billion*** to Treasury. No business person of ordinary, sound judgment could possibly have concluded that the Company received adequate consideration for this massive expropriation of economic value from the Company to Treasury. As such, the Company's directors appear responsible for corporate waste.

Unfair, Self-Dealing Transaction with Controlling Stockholder. Treasury and the Board appear to have breached fiduciary duties in the Net Worth Sweep and the dividends paid pursuant to the Net Worth Sweep because they are unfair transactions with Freddie Mac's controlling stockholder. Treasury is the controlling stockholder of Freddie Mac because it exercises control over the Company and its Board of Directors independently and through FHFA.

As a controlling stockholder of Freddie Mac, Treasury owed a fiduciary duty of entire fairness to the Company and its minority stockholders, including a duty to exercise good faith and care and a duty to deal fairly. *Parsch v. Massey*, 79 Va. Cir. 446 (City of Charlottesville Cir. Ct. 2009), citing *Brown v. Scott County Tobacco Warehouses,* 5 Va. Cir. 75 (Scott County Cir. Ct. 1983) ("Dominant or controlling shareholders also owe minority shareholders fiduciary duties . . . [they] must exercise good faith and care . . . Any disposition of the corporation or its assets to deprive the minority holders of their just share of it or to gain for themselves at the expense of the holders of the minority of the stock *is* a breach of their duties and of trust") (emphasis in original).

Treasury did not pay a fair price in exchange for the Net Worth Sweep, which was the end result of an unfair process dictated by Treasury and agreed to by the Board. Indeed, the Company and its stockholders other than Treasury received no additional investments or value of *any* sort in exchange for entering into the Net Worth Sweep. Through its absolute control, the government effectively stood on both sides of the decision to implement the Net Worth Sweep, to the benefit of Treasury and the detriment of the Company and all other shareholders. The Net Worth Sweep therefore constituted an unfair, self-dealing transaction with Freddie Mac's controlling stockholder. As such, Treasury and the Board breached their fiduciary duties to the Company and to shareholders other than Treasury in implementing the Net Worth Sweep. FHFA may also be liable, at least for aiding and abetting these breaches of fiduciary duty.

Unlawful Disregard of Corporate Form. The Board, FHFA and Treasury have failed to respect the Company's separate corporate existence, as required under Virginia law. *See Federico v. Lincoln Military Hous., LLC*, No. 2:12CV596, 2015 WL 5123324, at *22 (E.D. Va. Aug. 31, 2015) (noting that, generally, "[a] corporation is a 'legal entity separate and distinct from the stockholders or members who compose it'") (citation omitted). As summarized above, it appears that they have failed to respect the proper role of the Freddie Mac Board and the rights of Freddie Mac's stockholders, have treated Freddie Mac's assets as assets of Treasury and have used Freddie Mac to pursue government policy objectives, without regard to the harm to Freddie Mac. In each case, this conduct can lead to substantial liability for the Company's directors. *See id.* ("a court may in some circumstances disregard the corporate entity and place liability directly on the members . . ."). The Stockholder requires access to the books and records of the Company to investigate this apparent breach of fiduciary duty, as well as to investigate the other apparent breaches described above.

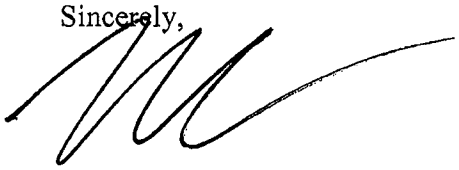
* * *

For purposes of the Demand, the Stockholder requests that the Company provide or otherwise make available all such information as soon as practically possible. In addition, the Stockholder further requests that the Company provide or otherwise make available all additions, changes, and corrections to any of the requested information from the time of this Demand to the time of any inspection.

We believe that this Demand complies with the provisions of Section 13.1-771 in all material respects. If the Company believes otherwise, we request that you contact the undersigned immediately in writing. Such correspondence shall set forth the facts that the Company contends support its position, and shall specify, as appropriate, any additional information believed to be required, so that any purported deficiencies may be addressed promptly. Under Section 13.1-771, if the Company does not respond to this Demand within five business days of the date hereof, the Stockholder will be entitled to seek appropriate relief. In any event, we look forward to discussing this Demand with you (or your counsel) at your earliest convenience.

We look forward to your response.

Sincerely,



N. Thomas Connally, III

Partner
tom.connally@hoganlovells.com
D +1 703 610 6126

Enclosure

cc: Timothy J. Pagliara

EXHIBIT 1

DECLARATION OF TIMOTHY J. PAGLIARA

1. I am over the age of 18 years old and competent to testify to the following facts, of which I have personal knowledge.
2. I submit this Declaration in support of my Demand for Inspection of Books and Records of the Federal Home Loan Mortgage Corporation under Virginia Code Section 13.1-771 (the "Books and Records Demand").
3. A true and correct copy of a 2015 brokerage account statement reflecting my beneficial ownership of stock in the Federal Home Loan Mortgage Corporation is attached hereto as Exhibit A.
4. I hereby appoint N. Thomas Connally, III and the law firm of Hogan Lovells US LLP as my true and lawful attorney, with full power and authority hereby conferred, to do and perform all acts in connection with my Books and Records Demand.

I hereby declare, under the penalty of perjury, that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this 19th day of January, 2016.

Timothy J. Pagliara

Subscribed and sworn to before me this 19th day of January, 2016.

NOTARY PUBLIC

My Commission Expires 10-2-2016

CANDICE MARIE PIERCE
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF WILLIAMSON
MY COMM. EXP. OCT. 02, 2016

EXHIBIT A

CapWealth Investment Services LLC

STERNE AGEE & LEACH INC C/F
TIMOTHY J PAGLIARA SEP IRA

FINANCIAL ADVISOR:
TIMOTHY J PAGLIARA

SIPC

TIMOTHY J PAGLIARA SEP IRA
INVESTMENT ACCOUNT

ACCOUNT NUMBER
Statement Period: 12/01/15 to 12/31/15

STERNE AGEE

STERNE AGEE & LEACH INC C/F
TIMOTHY J PAGLIARA SEP IRA

TOTAL ACCOUNT VALUES

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TIMOTHY J PAGLIARA SEP IRA

INVESTMENT ACCOUNT SUMMARY

Statement Period: 12/01/15 to 12/31/15

ASSET SUMMARY

	This Month	Prior Month
Cash or Cash Alternatives		
Equities		
Options		
Fixed Income Securities		
Total Invested Assets		
Less Debit Balance		
Total Account Value		
Total Combined Value		

CASH ACTIVITY

	This Period

EARNINGS SUMMARY

	This Period	Year-to-Date
Money Fund Earnings		
Dividends		
Total Income		

TIMOTHY J PAGLIARA SEP IRA

Statement Period: 12/01/15 to 12/31/15

SEP-IRA

	This Month	Current Year	Prior Year
Distributions			

IMPORTANT INFORMATION ABOUT YOU

Under Securities and Exchange Rule 17a-3 Books and Records Requirements, the following information * must be presented for your review. Your Broker Dealer makes investment recommendations or suitability determinations based in part on the financial information shown below originally obtained from you upon the occasion of opening your account or through adjustments as directed by you. Please review this data and if you find inaccuracies or incomplete information please call the branch office serving your account indicated on the first page of this statement.

* To prevent possible improper use of certain information (identity theft) we have omitted your social security/tax identification number as well as date of birth as shown on our records.

MESSAGES

Special Notice:

A copy of the full balance sheet of Sterne, Agee & Leach, Inc., is available at no cost by accessing the web site www.sterneagee.com or

TIMOTHY J PAGLIARA SEP IRA — Statement Period: 12/01/15 to 12/31/15

SEP-IRA

MESSAGES

calling the following toll free number:

1-800-778-6257

Net Capital at September 30, 2015: $36,333,821
Required Net Capital at September 30, 2015: $3,285,489

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

PORTFOLIO HOLDINGS - CASH OR CASH ALTERNATIVES

Insured Bank Deposit funds are held by respective banks and therefore the amount related to the FDIC money sweep is an FDIC insured product and is not covered under SIPC insurance. Balances are insured up to the FDIC limit per bank, subject to the combined total of all your deposits at a specific bank including those outside this account.

Amount	Description	Yield	Banks of Deposit	Amount
	STERNE AGEE INSURED / DEPOSIT PROGRAM			

Total Cash or Cash Alternatives

Percentage of Total Invested Assets

PORTFOLIO HOLDINGS - EQUITIES

Common Stocks

Total Shares	Description	Symbol	Price	Current Value	Est. Annual Income	Shares Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

PORTFOLIO HOLDINGS - EQUITIES

Common Stocks

Total Shares	Description	Symbol	Price	Current Value	Est. Annual Income	Shares Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss
Total Common Stocks									
Percentage of Total Equities									

PORTFOLIO HOLDINGS - EQUITIES

Preferred Stock

Total Shares	Description	Symbol	Price	Current Value	Est. Annual Income	Shares Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss
173,300	FEDL HOME LOAN MTG CORP NON-CUML PFD 8.375% PERPTL	FMCKJ	3.40	589,220.00		173,300	1.340	232,234.06	356,985.94

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

PORTFOLIO HOLDINGS - EQUITIES

Preferred Stock

Total Shares	Description	Symbol	Price	Current Value	Est. Annual Income	Shares Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss
173,300	FEDL HOME LOAN MTG CORP SER X 6.02% PFD	FMCKL	2.65	459,245.00		173,300	0.947	164,245.00	295,000.00

Total Preferred Stock

Percentage of Total Equities

Percentage of Total Invested Assets

PORTFOLIO HOLDINGS - OPTIONS

Total Contracts	Description	Underlying Symbol	Price	Current Value	Est. Annual Income	Contracts Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

PORTFOLIO HOLDINGS - OPTIONS

Total Contracts	Description	Underlying Symbol	Price	Current Value	Est. Annual Income	Contracts Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss
Total Options									
Percentage of Total Invested Assets									

Note: The industry recently converted to the new Options Symbology Initiative format where options symbols can contain a combination of up to 22 letters and numbers. We have elected to begin displaying the underlying security symbol along with the standard contract description in lieu of the new variable length option symbol.

PORTFOLIO HOLDINGS - FIXED INCOME - CORPORATE DEBT

Quantity	Description	Price	Current Value	Est. Annual Income	Shares Purchased	Unit Cost	Cost Basis	Unrealized Gain/Loss	Accrued Interest
Total Fixed Income - Corporate Debt									
Percentage of Total Invested Assets									

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

SECURITY TRANSACTION ACTIVITY

Date	Transaction	Quantity	Description	Price	Amount

Total Securities Purchased

Total Securities Sold

ACCOUNT NUMBER

Statement Period: 12/01/15 to 12/31/15

DIVIDENDS

Date	Transaction	Quantity	Description	Amount

Total Dividend Credits

INTEREST

Date	Transaction	Description	Amount

Total Interest Credits

MONEY MARKET ACTIVITY

Date	Transaction	Quantity	Description	Amount

Total Money Market Credits

Total Money Market Debits

Net Money Market

OTHER BOOKKEEPING

Date	Transaction	Quantity	Description	Amount

Total Other Bookkeeping Debits

End of Statement

GENERAL INFORMATION

1) Sterne, Agee & Leach, Inc. ("SALI") carries your account pursuant to a clearing agreement governed by FINRA Rule 4311, for your introducing broker-dealer ("IBD") whose name appears on the front page of this statement. SALI may accept without further inquiry or investigation, any instructions from your IBD relating to transactions in your account, including instructions for the withdrawal or transfer of property to or from your account. SALI is not responsible or liable for any acts or omissions of your IBD or its employees, is not responsible to supervise them, and does not provide investment advice or make suitability determinations for them. Your IBD is responsible to adhere to all applicable securities laws and regulations and for the supervision of its associated persons. Further, your IBD is also responsible for, among other things, approving the opening of accounts and obtaining necessary documents; the acceptance, and in certain instances, the execution of orders; the suitability determination of those orders; providing investment advice and the ongoing relationship it has with you. For additional information regarding the division of responsibilities between your IBD and SALI, please refer to the disclosure document you were provided at account opening.
2) All transactions are subject to the rules and customs of the market or exchange and the clearing house, if any, where such transactions are executed, your account agreement(s), and where appropriate, the Federal Reserve Board, the U.S. Securities and Exchange Commission and of the Financial Industry Regulatory Authority ("FINRA").
3) Whenever you are indebted to SALI for any amount, all securities held by it for you in any account which you have an interest shall secure your liabilities to SALI. SALI may, at its sole discretion and without notice to you, close or reduce any or all of your accounts by public or private sale or purchase of all or any securities carried in such accounts; any balance due remaining shall be promptly paid by you.
4) Cash received or paid and securities received or delivered are shown as-of the date of each transaction, while purchases and sales of securities are shown as-of trade date.
5) If this account is a margin account, this is a combined statement of your general account and special memorandum account maintained for you under Regulation T as issued by the Board of Governors of the Federal Reserve System. The permanent record of your special memorandum account is available for inspection upon your request.
6) A financial statement of SALI is available for your inspection at our offices. A copy will be mailed to you upon your written request or you can view it online at www.sterneagee.com.
7) This statement should be retained for your records.
8) In order for your IBD to make proper recommendations relative to your account, it is incumbent upon you to promptly notify your IBD when your financial situation and/or investment objectives change.
9) SALI is required by federal law to provide you and the Internal Revenue Service with tax reporting information relative to your account. SALI does not provide tax advice. Investors must consult their own tax advisors to make appropriate tax treatment determinations. Your statement is not an official accounting of gains and losses. Please refer to your records, trade confirmations, and your Consolidated Form 1099.

ACCOUNT PROTECTION- SALI is a member of the Securities Investors Protection Corporation ("SIPC"). .The SIPC protects clients of its member firms against the loss of their securities in the event of the member's insolvency and liquidation. Clients are insured up to a maximum of $500,000, including up to $250,000 in cash balances. For more information about SIPC coverage, an explanatory brochure is available at www.sipc.org or call SIPC at 202.371.8300. SALI provides additional coverage through Lloyd's of London for $24.5 million, including up to $900,000 in cash balances, with an aggregate policy limit of $100 million.

CALLABLE SECURITIES- Securities subject to a partial call will be processed utilizing a random lottery procedure designed to allocate called securities fairly and impartially. For further details refer to the "Callable Securities Procedures" disclosure found in the Important Disclosures section of Sterne Agee's public website, www.sterneagee.com. A hard copy of this disclosure will be provided upon your request.

ESTIMATED ANNUAL INCOME- Est. Annual Income reflects the estimated amount you would earn on a security if your current position and its related income remained constant for a year.

CASH MANAGEMENT- SALI may provide you with a variety of ways in which to maintain funds awaiting re-investment, including: Money Market Mutual Funds, FDIC Insured Deposit Accounts, and Free Credit Balances. Please refer to our Cash Sweep Program Disclosure Statement for further information regarding these options. Money Market Mutual Fund and FDIC Insured Deposit balances may be liquidated on your order and proceeds returned to your account or remitted to you. Free Credit balances are payable upon you demand.

Free Credit Balances- SALI may elect to pay interest on certain balances awaiting investment and reserves the right to eliminate or otherwise change the rate or the manner in which interest on credit balances are paid at any time and without notice to you.

Insured Deposit Program ("IDP")- Funds swept to Sterne Agee's IDP are protected by the Federal Deposit Insurance Corporation up to applicable limits and are not protected by SIPC. If you have funds deposited into a participating Program Bank where you already have other deposits (e.g. banks accounts, CDs, etc.) held in the same capacity, all deposits are aggregated by the FDIC for purposes of determining coverage availability. It is your responsibility to monitor your deposits away from the IDP in Program Banks relative to coverage limits, and where necessary, exercise your right to instruct us not to use a particular Program Bank for your IDP deposits. Information regarding FDIC insurance is available upon request, or by visiting www.fdic.gov.

OPEN ORDERS- The Open Orders segment of this statement reflects open or "good until cancelled" orders not executed by the statement cut-off date. Open buy and sell stop orders are reduced by the amount of dividends or rights on ex-dates unless instructed otherwise by you. You are responsible for orders that are executed due to your failure to cancel existing open orders.

OPTIONS CLIENTS- Information regarding commissions and other charges related to options transactions has been included with trade confirmations. A summary of this information is available from your IBD upon your request. Please advise your IBD promptly of any material changes in your investment objectives and/or financial situation.

PAYMENT FOR ORDER FLOW- SALI receives compensation for directing order flow in certain equity and exchange listed options to certain broker-dealers, market centers or exchanges for execution. The source and amount of any such compensation relating to your orders will be furnished upon your written request.

PUBLIC DISCLOSURE PROGRAM- You may obtain an investor brochure that includes information describing the FINRA Regulation Public Disclosure Program that provides certain types of information about FINRA member firms and their associated persons. This information is available at www.finra.org or by calling the FINRA Regulation Public Disclosure Program Hotline at 800.289.9999.

STATEMENT FREQUENCY- Pursuant to the terms of NASD Rule 2340 and NYSE Rule 409, statements will be delivered to you monthly if there have been transactions affecting money balances and/or security positions; otherwise, statements will be delivered quarterly.

VALUATION OF SECURITIES- Pricing information is generally provided by a third party vendor which we believe to be reliable, though we do not guarantee its accuracy.

Fixed Income Securities- Values displayed on your statement are approximations and not actual market bids or offers. Actual secondary market conditions may vary substantially from the price displayed. Pricing estimates provided do not indicate a commitment from SALI or your IBD to buy or sell securities at the prices displayed. Consult your IBD if an actual bid or offer is needed.

Certificates of Deposit (CDs)- When CDs have a maturity of one year or less from issue date, face value will be displayed. CDs with a maturity date from issue of more than one year will displayed at a market value estimate that may not represent the actual price if sold prior to maturity.

Low Priced and/or Illiquid Equity Securities- Prices are derived from a third party pricing sources we believe to be reliable though SALI does not guarantee their accuracy. These prices may be based upon a limited number of transactions or quotes. Such prices are estimates and may not reflect a market price or value.

Alternative Investments- Investments in direct participation programs, to include but not limited to, partnerships, limited liability companies, non-traded real estate investment trusts, private equity, private debt and hedge funds are typically illiquid investments and their current values may be different than your purchase price. Unless otherwise indicated on this statement, the values shown for such investments have been provided by the management, sponsor or administrator of each program or a third-party vendor without independent verification by SALI and represent their estimate of value of the investor's participation in the program as-of a date not 18 months prior to this statement. The estimated values shown may not represent the actual market value or values that might be realized upon liquidation. If an estimated value is not provided, valuation information is not available.

In order to protect your rights under the Securities Investor Protection Act ("SIPA"), you are advised to report any discrepancy or inaccuracy in your account to your IBD at their place of business and SALI at 800.778.6257. Any verbal communications should be re-confirmed in writing to your IBD at their place of business and to SALI at the address below. This statement will otherwise be deemed conclusive unless you notify us in writing by the last business day of the month following the end of the statement period.

Sterne, Agee & Leach, Inc.
2 Perimeter Park S. - Suite 100W
Birmingham, Alabama 35243

Investments carried by SALI are not FDIC insured, unless specifically noted to the contrary, and may lose value.

Connally, N. Thomas, III

From: Connally, N. Thomas, III
Sent: Tuesday, January 19, 2016 4:49 PM
To: boardofdirectors@freddiemac.com
Subject: Books and Records Demand to Freddie Mac
Attachments: 01.19.2016 Books and Records letter to Freddie Mac (with exhibits).pdf

Please see the attached demand for inspection of corporate books and records.

Thank you for your attention to this matter.

Best regards, Tom Connally

N. Thomas Connally
Partner

Hogan Lovells US LLP
Park Place II, Ninth Floor
7930 Jones Branch Drive
McLean, VA 22102-3302

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