

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

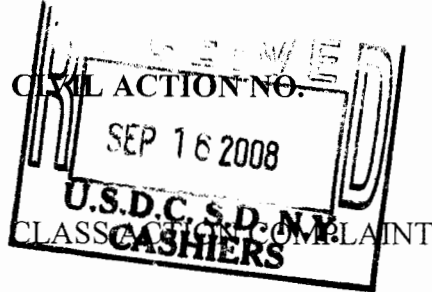
NICHOLAS CRISAFI and STELLA CRISAFI,
TRUSTEES FBO THE CRISAFI INTER VIVOS
TRUST, Individually and On Behalf of All Others
Similarly Situated,

Plaintiffs,

vs.

MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED, CITIGROUP
GLOBAL MARKETS INC., MORGAN
STANLEY & CO. INCORPORATED, UBS
SECURITIES LLC, WACHOVIA CAPITAL
MARKETS LLC, STEPHEN B. ASHLEY,
DANIEL H. MUDD, STEPHEN M. SWAD, and
ROBERT J. LEVIN,

Defendants.



JURY TRIAL DEMANDED

Plaintiffs Nicholas Crisafi and Stella Crisafi, Trustees FBO the Crisafi Inter Vivos Trust ("Plaintiffs"), allege the following based upon the investigation by Plaintiff's counsel, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Federal National Mortgage Association a/k/a Fannie Mae ("Fannie Mae" or the "Company"), securities analysts' reports and advisories about the Company, and information readily available on the Internet, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action arising out of Defendants' material false and misleading statements made in connection with an offering ("Offering") by Fannie Mae of \$2 billion of 8.25% Non-Cumulative Preferred Stock, Series T ("Series T") that took place on or about May 13, 2008.

2. The Offering involved the sale of approximately 80 million shares of non-cumulative, non-convertible, perpetual fixed-rate preferred stock. It was part of Fannie Mae's effort to raise at least \$6 billion in new capital through public offerings of new securities during May, 2008. The new capital was to help shore up the Company's balance sheet so that capital requirements could continue to be satisfied, enhance shareholder value and provide stability to the secondary mortgage market. Fannie Mae's senior officers, defendants here, repeatedly assured the marketplace that this round of capital-raising would put the company on a sound financial footing and that they believed that additional infusions of cash would not be necessary for the foreseeable future.

3. The five Underwriter Defendants were the managing underwriters for the Offering. As such, they participated in the review and drafting of the Offering Circular, which was the official sales document for the Offering, solicited sales of the Offer, and identified themselves, on the cover of the Offering Circular, as the underwriters for the Offering. The Underwriter Defendants purchased 14 million shares each of the Offering, delivered the Offering Circular to prospective investors, and resold those shares to investors in the Offering.

4. The statements defendants made in connection with the offering were materially false and misleading because (a) they grossly overstated Fannie Mae's capitalization, claiming that the Company had a substantial capital surplus when, in fact, it was including on its balance sheet, at full value, about \$36 billion in deferred tax assets that were, in fact, valueless; (b) they failed to

disclose the serious risk that current account changes under consideration by the FASB could force the Company to bring over \$2 trillion of currently off-balance-sheet obligations onto its financial statements, depleting its capital surplus even further, and (c) the individual defendants falsely asserted that management believed that the current securities offerings of the company would be adequate to see the Company through the end of the year.

5. In June, just one month after the Offering, the Federal Government announced that it was skeptical of Fannie Mae's financial position and was actively considering various plans for possibly bailing out Fannie Mae if necessary. Legislation was proposed, and passed, that authorized the Federal Reserve to infuse unlimited amounts of capital into Fannie Mae (and Freddie Mac as well). Simultaneously, the Government commenced a comprehensive review of Fannie Mae's financial condition, to determine exactly what might be needed to shore up its financial position.

6. The Treasury Department and the Federal Reserve reviewed Fannie Mae's books and discovered, among other things, that the deferred tax assets had been improperly accounted for and were, in fact, valueless, rendering Fannie Mae seriously undercapitalized. On September 6, the Secretary of the Treasury, Henry Paulson, announced that the Federal Government would be assuming control of Fannie Mae and putting it into conservatorship, in order to forestall a potentially catastrophic disruption of the mortgage and financial markets.

7. This cataclysmic event destroyed almost all that was left of the value of the Series T Preferred Stock. Offered at \$25 per share just last May, by Friday, September 5, the stock had declined to \$13.70. The takeover was announced the next day, and by the close of trading the following Monday, September 8, the price of the stock had fallen to \$3 and was still dropping. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's preferred shares, Plaintiff and other Class Members have suffered significant

losses and damages.

JURISDICTION AND VENUE

8. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act (15 U.S.C. §§ 78j(b) and 78(t)).

9. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Securities Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

10. Venue is proper in this Judicial District pursuant to Section 27 of the Securities Exchange Act. Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District.

11. In connection with the acts, conduct and other wrongs alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the New York Stock Exchange.

PARTIES

12. Plaintiffs, as set forth in the accompanying certification, incorporated by reference herein, purchased Fannie Mae's preferred stock in the Offering at artificially inflated prices during the Class Period and have been damaged thereby.

13. Non-party Fannie Mae is a government-sponsored enterprise with its principal executive offices located at 3900 Wisconsin Avenue, NW, Washington, District of Columbia. Fannie Mae provides funds to mortgage lenders through the purchase of mortgage assets, and issues and guarantees mortgage-related securities.

14. Defendant Stephen B. Ashley ("Ashley") was, at all relevant times, the Company's

Chairman of the Board of Directors. When the Government took over the Company, it announced that Ashley would be terminated.

15. Defendant Daniel H. Mudd ("Mudd") was, at all relevant times, the Company's President, Chief Executive Officer ("CEO") and a director. When the Government took over the Company, it announced that Mudd would be terminated.

16. Defendant Stephen M. Swad ("Swad") was, at all relevant times, the Company's Chief Financial Officer ("CFO") and Executive Vice President, until his resignation on August 28, 2008.

17. Defendant Robert J. Levin ("Levin") was, at all relevant times, the Company's Chief Business Officer and an Executive Vice President.

18. Defendants Ashley, Mudd, Swad and Levin will be collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Fannie Mae's reports, press releases, documents, and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. Each defendant was provided with copies of the Company's reports, press releases and documents alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

19. Defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"),

a Delaware corporation that is headquartered at 4 World Financial Center, New York, New York 10080. Merrill Lynch was a managing underwriter of the Offering.

20. Defendant Citigroup Global Markets Inc. (“Citigroup”) is a subsidiary of Citigroup Inc., a Delaware corporation that is headquartered at 399 Park Avenue, New York, New York 10043. Citigroup was a managing underwriter of the Offering.

21. Defendant Morgan Stanley & Co. Incorporated (“Morgan Stanley”) is a subsidiary of Morgan Stanley, a Delaware corporation that is headquartered at 1585 Broadway, New York, New York 10036. Morgan Stanley was a managing underwriter of the Offering.

22. Defendant UBS Securities LLC (“UBS”) is a subsidiary of UBS AG, a Swiss corporation headquartered at Bahnhofstrasse 45, Zurich, Switzerland, and Aeschenvorstadt 1, Basel, Switzerland. UBS is headquartered in Stamford, Connecticut. UBS was a managing underwriter of the Offering.

23. Defendant Wachovia Capital Markets, LLC (“Wachovia”) is a subsidiary of Wachovia Corp., a Delaware corporation headquartered at One Wachovia Center, Charlotte, North Carolina 28288. Wachovia was a managing underwriter of the Offering.

24. Defendants Merrill Lynch, Citigroup, Morgan Stanley, UBS and Wachovia are collectively referred to hereinafter as the “Underwriter Defendants.”

SUBSTANTIVE ALLEGATIONS

Background

25. Fannie Mae is the nation’s largest source of financing for home mortgages. The U.S. Congress chartered Fannie Mae in 1968 for the purpose of providing liquidity in the secondary mortgage market in order to increase the availability and affordability of homeownership for low, moderate and middle-income Americans. Although created by Congress,

the U.S. government did not guarantee, directly or indirectly, Fannie Mae's securities or other obligations. Fannie Mae is a private, shareholder-owned company and its common stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "FNM."

26. Congress's central idea behind creating Fannie Mae and Freddie Mac was to encourage home ownership by buying mortgages from banks – freeing up banks' limited capital and therefore allowing the banks to make more loans. The purchase also relieved the banks of both the credit risk (the risk the holder of the loan might default) and the interest rate risk (the risk that the interest rates might rise during the life of the loan). Fannie Mae and Freddie Mac have several advantages over other banks, including that they are exempt from state and local taxes, they have less stringent capital requirements than banks, and the U.S. Treasury was permitted to buy \$2.24 billion of each company's debt in case of possible default. Also, their cost of capital is kept low by the market's belief that the U.S. government would never let them default, even though the U.S. government does not formally guarantee their debt.

27. Fannie Mae operates exclusively in the secondary mortgage market and does not lend money directly to consumers. Fannie Mae makes its money in two major ways. The first and more conservative way is its credit guaranty business. In this part of its business, Fannie Mae gets a fee for guaranteeing the payments on the mortgages it buys, which it then re-sells to investors, usually in the form of mortgage-backed securities ("MBS"), *i.e.*, beneficial interests in pools of mortgage loans or in other mortgage-related securities issued by Fannie Mae. Fannie Mae receives fees for its guaranty of timely payment of principal and interest payments due to certificate holders on the MBS it issues. Fannie Mae typically shares the credit risk on the underlying mortgages with third parties such as the lenders that originated the mortgages and private mortgage insurance companies.

28. The second and more aggressive way that Fannie Mae makes money is its portfolio

investment business. In this part of its business, Fannie Mae holds the mortgage loan and mortgage-related securities and other investments that it purchases from commercial banks, savings and loan associations, mortgage companies, securities dealers and other investors and it also purchases short-term, non-mortgage assets for liquidity and investment purposes. Fannie Mae funds these portfolio purchases by issuing short and long term debt and by selling debt securities to domestic and international capital market investors. Fannie Mae profits to the extent that the yield on the mortgage assets and other investments in its portfolio exceed its low cost of capital (the cost of the debt securities it issued to fund those portfolio investments). Since 1995, Fannie Mae's portfolio has grown an average of 20% a year.

29. Due to the important role Fannie Mae plays in providing liquidity and stability to the secondary mortgage market in the United States, its operations are highly regulated. The Company is subject to strict minimum capital requirements which are imposed by its regulator, the Office of Federal Housing Enterprise Oversight (the "OFHEO"). As the result of previous disclosures of accounting irregularities, OFHEO had superimposed additional capital surplus requirements on Fannie Mae, requiring that it maintain a 30% surplus "cushion" over its minimum capital requirements.

30. A severe decline in the U.S. housing market began in 2006 and continued unabated through 2007. As a result, mortgage defaults rose substantially and Fannie Mae began suffering losses. Accordingly, Fannie Mae's capital position had deteriorated significantly by the end of 2007 and it was in need of raising additional capital, through equity offerings, to comply with regulatory requirements.

31. Had defendants revealed the true extent of Fannie Mae's capital deficiencies, it would have had severe difficulty in raising the amounts truly needed. Accordingly, it put off a series of asset write-offs that were required under GAAP and thereby misrepresented Fannie

Mae's financial position and capital requirements. Those misrepresentations enabled them to mislead the investing public into believing that only a relatively small number of shares would need to be offered, and that those shares would not be vulnerable to dilution from additional efforts to raise more capital.

32. On December 4, 2007, Fannie Mae issued a press release announcing steps to increase capital, which included a plan to issue approximately \$7 billion of non convertible preferred stock in one or more offerings. The press release stated that the "financing will provide the company with additional capital to conservatively manage increased risk in the housing and credit markets, help meet its mission of providing affordability, liquidity and stability, and free up capital to pursue emerging growth opportunities." In addition, Defendant Mudd noted that the Company was taking steps designed to enable Fannie Mae to meet its responsibility to serve the mortgage market "with a comprehensive, conservative plan to serve the market and manage our capital." The Company did, in fact, issue over \$7 billion in securities in December of 2007.

33. On February 27, 2008, Fannie Mae released its 10-K report for 2007, which was incorporated by reference into the Offering Circular. In the accompanying press release, the Company stated in part:

Stockholders Equity and Core Capital

Stockholders' equity was \$44.0 billion as of December 31, 2007, reflecting an increase of \$2.5 billion, or 6 percent, from the December 31, 2006 level of \$41.5 billion.

Core capital was \$45.4 billion as of December 31, 2007, compared to \$42.0 billion as of December 31, 2006. To maintain sufficient capital levels, Fannie Mae undertook several capital management actions in the fourth quarter of 2007. These capital management actions included the issuance of \$7.8 billion in preferred stock, net of fees, managing the size of the balance sheet, and reducing the company's common stock dividend beginning with the first quarter of 2008. In addition, the company made other changes to business practices to reduce losses and expenses. Issuances of preferred stock in 2007 resulted in a material change in the mix and relative cost of Fannie Mae's core capital.

34. This data was included in the 10-K. The 10-K also described its tax-deferred assets of over \$17 billion. These are similar to tax loss carry-forwards, available to offset, for tax purposes, income to be earned in the future. Because this asset only has value of the company earns income in the future, the 10-K stated that this asset was reviewed quarterly by management and by OFHEO to determine whether any portion of it should be written off, in light of the company's earnings prospects. The 10-K represented that no such write-off was deemed necessary at that time.

35. The 10-K also disclosed that there were over \$2.2 trillion in off-balance-sheet obligations which Fannie Mae had transferred to various "Special Purpose Entities". Under the current version of FASB Rule 140, those obligations did not have to be included in Fannie Mae's balance sheet and income statement. This disclosure did not, however, mention that the FASB was considering changes to that rule which would have required Fannie Mae to include these obligations on its financial statements.

36. That same day the Company held an analyst conference call to discuss this earnings report, at which individual defendants made the following statements:

[Mudd]. So turning to slide 14, you can see we ended 2007 with \$45.4 billion in core capital, that's \$13.4 billion above the statutory minimum and \$3.9 billion above the OFHEO-mandated 30% level. In addition, we have got approximately \$50 billion of very short-term maturing assets, mainly bank deposits within our liquid investment portfolio against which we hold \$1.6 billion in capital. We can reduce our capital requirement and thereby increase our capital surplus just by permitting these highly liquid assets to mature without replacement. So the \$3.9 billion of stated access, plus 1.6 in capital applied to short-term assets is \$5.5 billion, which I view as potential capital.

* * *

[Levin] The next subject I would like to talk about is capital. Our operating philosophy for capital is to manage it to protect ourselves against market scenarios more adverse than we expect. It's a conservative approach to managing the capital. In this regard, we are putting more emphasis on the guaranty businesses, both Single Family and Multifamily than on the on-balance sheet portfolio which of all the

businesses consumes the most capital. In January, the portfolio size declined slightly. Clearly by managing the size of our portfolio, including by purchasing fewer mortgage assets than liquidations, the portfolio is a lever to manage our capital, but what is really important here is we will constantly reassess our capital allocation throughout the business, throughout the year, which we expect will have some volatility.

* * * * *

[Mudd] I think there are two things, and I talked about them in my remarks. One is to be conservative in terms of protecting the capital that we have, but the other is to be aware that we are trying to build for the future. I think that investors should expect us through the period of this turmoil to manage our capital account very conservatively, with respect to dividends and buybacks. I think we need to be long capital and well, as I said, stay above those regulatory levels whether the requirements are in place or not. To go back to the numbers, we closed the fourth quarter with \$45.5 billion of capital. That was \$13.5 billion almost above the – the regulatory requirements – the statutory minimum – and about four above the OFHEO requirement.

So as you can see by doing the math there, there's about \$13 billion above the statutory requirement. The 30% OFHEO requirement was put in place against those uncertainties from the restatement in '01 to '04. And I think us being able to apply that capital to both sides of the equation I talked about, fulfilling our role as a guarantor and insurer, and in an environment that's taking losses but at the same time, to be able to provide liquidity to a market that really needs it, you know, is in, really, everybody's interest right now. I'm pleased that we are moving in that direction.

* * * * *

The way I would think about the capital piece of it is – what I try to do is create a number of different levers that we can operate in order to manage the capital account. When it made sense last year to be able to go in and access the preferred market, I think that put us in a good position going through the end of the year and going through the conditions you describe. At the same time, in various of our comments we talked about the liquid investment portfolio, which is above the – well above the required size. There's capital underneath that that could be accessed. If we liquidate at current speeds, Pete, I would say at \$10 or \$11 billion or so per month out of the portfolio. That could be used to generate capital or that could be used to reinvest at an attractive rate. Right now, we see that there are more opportunities that are clearer, and hash out better for us on the guaranty side but we are running both businesses to be conservative through the crisis and successful in the longer term. . . .

[Niculescu]

. . . No, *I think we're in a situation where we have meaningful capital*

surplus and we're intending to maintain that meaningful capital surplus throughout the housing crisis. However long that lasts. And we'll be managing our activities, including our balance sheet in order to maximize returns our investors and maximize our liquid potential given the available capital that we have in the market place now.

* * * * *

[Mudd] ... We have a number of levers that we can – that we can undertake that start with the operational activities that we have undertaken, that start with progress on the discussions around OFHEO and access to that capital that – that continues what I think we're right now in a position where we keep that as a longer term option on the table, but *there are no current plans to go back to the market for capital* because we have all of those other levers that are turned on, producing capital, putting us into an increasingly – into a comfortable position based on where we are in the market right now.

Thus, the Individual Defendants represented to the market in late February that they believed that it would not be necessary in the near future to raise additional capital.

37. However, just two months later, on May 6, 2008, Fannie Mae issued a press release announcing its results for the first quarter, and also that it was planning to raise another \$7 billion in capital:

Fannie Mae today reported financial results for the quarter ended March 31, 2008. The company reported a net loss of (\$2.2 billion), compared with a fourth quarter 2007 net loss of (\$3.6 billion). . . . Core capital totaled \$42.7 billion at the end of the quarter, \$5.1 billion above the company's current regulatory requirements. The company also announced its plan to raise \$6 billion in new capital through public offerings of common stock, non-cumulative mandatory convertible preferred stock and non-cumulative, non-convertible preferred stock. The new capital will enable Fannie Mae to maintain a strong, conservative balance sheet, enhance long-term shareholder value, and provide stability to the secondary mortgage market.

Fannie Mae said that its regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), had lifted the May 2006 Consent Order, and would reduce the current OFHEO-directed requirement from 20 percent capital to 15 percent upon the successful completion of the company's capital-raising plan. The company said OFHEO also indicated its intention to reduce the capital surplus by an additional 5 percentage points to a 10 percent surplus requirement in September 2008, based upon the company's continued maintenance of excess capital well above OFHEO's regulatory requirement, and no material adverse change to the company's ongoing regulatory compliance.

* * *

Mudd added, “The additional capital we’re raising will bolster our “protect and grow” strategy – it will allow us to maintain a strong, conservative balance sheet through the housing correction, pursue growth opportunities to enhance long-term shareholder value, and provide liquidity and stability to the secondary market. Having a larger capital cushion will permit us to operate and grow from a position of strength.”

* * * *

Capital Update

Fannie Mae’s stockholders’ equity was \$38.8 billion as of March 31, 2008, compared with \$44.0 billion as of December 31, 2007.

Core capital as of March 31, 2008 was an estimated \$42.7 billion, compared with \$45.4 billion as of December 31, 2007. The company’s capital exceeded the statutory minimum by \$11.3 billion, or 36.2 percent, and the statutory minimum plus the OFHEO-directed 20 percent surplus by \$5.1 billion, or 13.5 percent.

On March 19, 2008, OFHEO reduced the capital surplus requirement established by Fannie Mae’s May 2006 Consent Order with OFHEO from 30 percent to 20 percent. OFHEO also announced that Fannie Mae was in full compliance with the Consent Order. In addition, OFHEO removed the limitation on the size of Fannie Mae’s mortgage portfolio, effective March 1, 2008. Subsequent actions regarding the capital surplus requirement are described on page one of this release.

Capital-raising plan: Fannie Mae is raising \$6 billion in new capital through underwritten public offerings of new securities. The company commences today two offerings totaling \$4 billion of common stock and non-cumulative mandatory convertible preferred stock. This offering will be followed in the very near future by an offering of non-cumulative, non-convertible preferred stock.

Net proceeds of the offerings will be used for general corporate purposes, including to enable the company to maintain a strong, conservative balance sheet, enhance long-term shareholder value, and provide stability to the secondary mortgage market, as noted on page one of this release.

38. On the same day Fannie Mae held its first quarter earnings conference call. During that call the following statements were made:

[Mudd] [W]e’re commencing the capital raise that has been much discussed recently. A total of \$6 billion raised from a combination of preferred convertible and common, as well as dividend actions plus a continued release of regulatory capital will put us in the position to protect the balance sheet as the housing crisis plays

itself out. And as importantly, it will enable us to attack the full range of market opportunities without capital restrictions.

* * *

Let me now close out on the brief discussion of the capital plan. Our strategy for working through this period is to protect and grow. That means protecting the Company by building and conserving capital and setting aside the right amount of loss reserves as we continue to work to reduce foreclosures and credit losses. This strategy also means growing our business as we help stabilize the market and perform our mission. That also takes capital.

So, today, we're undertaking a plan to raise in total, \$6 billion in new capital. We plan to raise this capital through public offerings of common convertible preferred and perpetual preferred securities. The roadshow for that starts today. Our Board of Directors also intends to reduce our common dividend in the third quarter of this year by 29 percent to \$0.25 a share a quarter. Importantly, as I noted, our regulator, OFHEO, has said that it lifted our May 2006 consent order based on the remediation we've completed, and OFHEO also indicated it would reduce the capital surplus requirement to about half of what it was at year-end, when we complete this capital raise.

So, taking together, all of those factors mean that we will have more capital to protect the balance sheet, to grow the business, and to serve the market. So, all told, including this prospective capital raise that we're undertaking starting today, we will go into the belly of this cycle with about \$48 billion in core capital which is about \$17 billion above our statutory capital level.

We've said before that this is the time to be long capital and this plan firmly gets us there. We plan to harness the capital we're raising for three goals – one, to attain a position of unquestioned capital strength; two, to pursue the best business opportunities we have seen without constricting capital; and three, to step out and play a major role in helping the market recover better and sooner and to the benefit of all investors in housing whether they be consumers or originators or realtors or homebuilders or investors in Fannie Mae.

* * * * *

What the change in terms of the excess capital requirement does is not to reduce the overall level of capital that we're holding. In fact, we are raising capital. As I pointed out in the call, David, we are well above the levels of minimum capital. I think both we and OFHEO and most everybody you would talk to in the market at this point agrees that it's prudent to be long capital. But as you restore that number back toward the original levels of capital, it provides us with additional flexibility to respond to the market on both sides.

* * *

We are raising \$6 billion in capital, reducing the dividend, all to build capital to make sure we get through this belly in really impregnable shape. We will use this capital to protect the balance sheet through the downturn and we will use it to maximize these opportunities. We're happy that the regulator has helped us move back to a position that we've wanted to get to, of being in a more normal posture as a strongly regulated company but out from [under the] consent order and with some more capital to deploy in the market.

The Offering

39. On May 13, 2008, Fannie Mae launched its \$2 billion initial public offering of 80 million shares of Series T non-cumulative, non-convertible, perpetual fixed-rate preferred stock, with an annual dividend of 8.25%, at an offering price of \$25 per share. On the same day it made two other \$2 billion offerings, raising a total of \$6 billion. The offering circular for the series T preferred offering (the "Offering Circular") was drafted and reviewed by both the Individual Defendants and the Underwriter Defendants, and listed the names of the Underwriter Defendants on the cover. Each of the Underwriter Defendants also posted the Offering Circular on its web site.

40. The Offering Circular summarized, and incorporated by reference, the Company's most recent 10-K and 10Q filings, including its statements concerning the company's capitalization. With regard to the Company's risk factors, the Offering Circular, in relevant part, repeated its previous statements concerning its \$17.8 billion deferred tax asset, which was still being carried at full value. It reassured investors that under current conditions it was appropriate to carry this asset at full value:

We must evaluate our ability to realize the tax benefits associated with our deferred tax assets quarterly. In the future, we may be required to record a material expense to establish a valuation allowance against our deferred tax assets, which like would materially adversely affect our earnings, financial condition and capital position.

As of March 31, 2008, we had approximately \$17.8 billion in net deferred tax assets on our consolidated balance sheet that we must evaluate for realization on a quarterly basis under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Deferred tax assets refer to assets on our

consolidated balance sheets that relate to amounts that may be used to reduce any subsequent period's income tax expense. Consequently, our ability to use these deferred tax assets in future periods depends on our ability to generate sufficient taxable income in the future.

If, in a future period, negative evidence regarding our ability to realize our deferred tax assets (such as a reduction in our projected future taxable income) outweighed positive evidence, we could be required to record a material expense to establish a valuation allowance against our deferred tax assets at that time.

41. The Offering Circular Contained a table summarizing the Company's current capitalization situation. In relevant part, it stated:

	As of			
	March 31, 2008	December 31,		
		2007	2006	2005
	(Dollars in Millions)			
<u>Regulatory Capital Data:</u>				
Core capital ⁽⁷⁾	\$42,676	\$45,373	\$41,950	\$39,433
Total Capital ⁽⁸⁾	\$47,666	\$48,658	\$42,703	\$40,091
*	*	*	*	*

(7) The sum of: (a) the stated value of outstanding common stock (common stock less treasury stock); (b) the stated value of outstanding non-cumulative perpetual preferred stock; (c) paid-in-capital; and (d) our retained earnings. Core capital excludes accumulated other comprehensive income (loss).

(8) The sum of (a) core capital and (b) the total allowance for loan losses and reserve for guaranty losses, (c) the specific loss allowance (that is, the allowance required on individually impaired loans).

42. As to the Company's statutory capital requirement, the Offering Circular, in relevant part, stated:

On March 11, 2008, OFHEO announced that we were classified as adequately capitalized as of December 31, 2007 (the most recent date for which results have been published by OFHEO). The table below displays our regulatory capital classification measures as of March 31, 2008 and December 31, 2007 [footnotes omitted].

	As of	
	March 31, 2008	December 31, 2007
	(Dollars in Millions)	
Core capital	\$42,676	\$45,373
Statutory minimum capital	<u>31,335</u>	<u>31,927</u>
Surplus of core capital over statutory minimum capital.....	<u>\$11,341</u>	<u>\$13,446</u>
Surplus of core capital percentage over statutory minimum capital.....	36.2%	42.1%
Core Capital	\$42,676	\$45,373
OFHEO-directed minimum capital	<u>37,602</u>	<u>41,505</u>
Surplus of core capital over OFHEO-directed minimum capital.....	<u>\$5,074</u>	<u>\$3,868</u>
Surplus of core capital percentage over OFHEO-directed minimum capital.....	13.5%	9.3%
Total Capital.....	\$47,666	\$48,658
Statutory risk-based capital	<u>N/A</u>	<u>24,700</u>
Surplus of total capital over statutory risk-based capital.....	N/A	\$23,958
Surplus of total capital percentage over statutory risk-based capital.....	<u>N/A</u>	<u>97.0%</u>
Core Capital.....	\$42,676	\$45,373
Statutory critical capital.....	16,251	16,525
Surplus of core capital over statutory critical capital	<u>\$26,425</u>	<u>\$28,848</u>
Surplus of core capital percentage over statutory critical capital	162.6%	174.6%

43. These statements were materially false and misleading when made. The representations concerning the Company's core capital and total capital were grossly inflated. A substantial part of that inflation is attributable to the continued inclusion, in assets, of the full face value of the deferred tax assets, without any writedown reflecting the near certainty that they would never be useable as an offset to any earnings.

44. A deferred tax asset is reduced by a valuation allowance if "based on the weight of available evidence, it is *more likely than not* . . . that some portion or all of the deferred tax assets will not be realized." SFAS No. 109, ¶17(e) (emphasis in original). A company balances positive and negative evidence to determine whether or not it will generate enough income in the foreseeable future to realize its entire deferred tax asset. In making its determination, a company should

consider the existence of cumulative losses in recent fiscal years, its operating results history, and adverse unsettled circumstances and forecasted future taxable income. “Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years.” SFAS No. 109, ¶23.

45. In addition, the data in the Offering Circular reflected a patently inadequate writedown of the Company’s investments in sub-prime and so-called “Alt-A” mortgages, “liar’s loans” that require little or no documentation or verification of the borrowers’ employment, income or assets. During the peak period in the housing market, 2005 and the first half of 2006, more and more borrowers were resorting to Alt-A and subprime loans, and the Individual Defendants decided that, to maintain Fannie Mae’s market share, it would have to start participating heavily in that segment of the mortgage market for the first time. The default rate on those loans was far greater than for any other type of mortgage loan.

46. By the end of 2007 Fannie Mae was holding about \$74 billion in Alt-A and subprime loans in its investment portfolio, but had written them down by only \$4.6 billion (6%), a far slower rate than other financial institutions were writing down similar loan portfolios. For the first six months of 2008, Fannie Mae recorded only an additional \$714 million charge as a permanent write-down despite the fact that a good portion of Fannie Mae’s portfolio was severely delinquent. Fannie Mae was equally deficient in failing to establish a sufficient reserve for its guarantees of mortgage-backed securities based on subprime and Alt-A loans.

47. Fannie Mae’s inaction was even more indefensible in light of the fact that its biggest loan originator by far was Countrywide Financial, which had generated about 25% of the loans in Fannie Mae’s investment and guaranty portfolios. By the end of 2007, Countrywide was already in dire financial straits as a result of its underwriting practices, and was notorious for its shoddy and, in some cases, shady practices in generating these loans. This should have been

another red flag to Fannie Mae that more aggressive write-downs for these loans were absolutely necessary. As a result, the asset values reported in the Offering Circular, and in the 2007 10K and the first quarter 10Q, which were incorporated by reference into the Offering Circular, drastically overvalued Fannie Mae's portfolio of Alt-A mortgages and related securities.

48. The Offering Circular also failed to disclose the risk that over \$40 billion of additional capital might have to be raised, to meet capital requirements, in the event that FASB implemented changes to FAS Rule 140 that were then in the works. Those changes, once made, would force Fannie Mae to include on its balance sheet over \$2.2 *trillion* in obligations that had been transferred to "special purpose" entities, an amount that would add dramatically to Fannie Mae's capital requirements.

49. Any one of these factors, once realized, would have forced Fannie Mae to raise huge amounts of additional capital – something that might not even be possible. In such an event, the Series T preferred shares would be rendered virtually worthless.

Aftermath of the Offering: The Chickens Come Home to Roost

50. On July 7, 2008, a financial analyst at Lehman Brothers published a report suggesting that, because of the impending change in FASB Rule 140, Fannie Mae might need to raise as much as \$46 billion in additional capital. This report caused the Company's common stock to plummet 16% in a single trading day.

51. Then, on July 11, 2008, *The New York Times* published an article titled "U.S. Weighs Takeover of Two Mortgage Giants," which stated in part:

Alarmed by the growing financial stress at the nation's two largest mortgage finance companies, senior Bush administration officials are considering a plan to have the government take over one or both of the companies and place them in a conservatorship if their problems worsen, people briefed about the plan said on Thursday.

As a result of this disclosure, the Series T preferred stock declined from \$19.03, its closing price

on July 10, to \$17.00, a decline of 10.6%.

52. Despite these growing storm warnings, the Individual Defendants continued their happy talk. On July 11, 2008, the Company released a “Statement by Chuck Greener Senior Vice President; on Fannie Mae’s Capital Adequacy,” which stated in part:

Fannie Mae raised \$7.4 billion of additional capital in May, for a total of more than \$14 billion in new capital since November of 2007. Our capital level is substantially above both our statutory minimum capital and the OFHEO-required 15 percent surplus over minimum capital. In fact, we have more core capital, and a higher surplus over our regulatory requirement, than at any time in this company’s history.

As we work through this tough housing market, we are maintaining a strong capital base, building reserves for our credit losses, and generating solid revenues as our business continues to serve the market. We also have access to ample sources of liquidity, including access to the debt markets. The company issued more than \$24 billion in debt this week alone, including a \$3 billion Benchmark Notes® sale that was oversubscribed. In short, Fannie Mae remains well equipped to fulfill our critical role in the housing finance system, today and in the future. We will provide a full financial update and outlook when we report second-quarter results in early August.

53. The U.S. Government did not agree with this rosy assessment. On July 13, 2008, Treasury Secretary Henry M. Paulson issued the following statement:

[W]e must take steps to address the current situation as we move to a stronger regulatory structure. In recent days, I have consulted with the Federal Reserve, OFHEO, the SEC, Congressional leaders of both parties and with the two companies to develop a three-part plan for immediate action. The President has asked me to work with Congress to act on this plan immediately. First, as a liquidity backstop, the plan includes a temporary increase in the line of credit the GSEs have with Treasury. Treasury would determine the terms and conditions for accessing the line of credit and the amount to be drawn. Second, to ensure the GSEs have access to sufficient capital to continue to serve their mission, the plan includes temporary authority for Treasury to purchase equity in either of the two GSEs if needed. Use of either the line of credit or the equity investment would carry terms and conditions necessary to protect the taxpayer. Third, to protect the financial system from systemic risk going forward, the plan strengthens the GSE regulatory reform legislation currently moving through Congress by giving the Federal Reserve a consultative role in the new GSE regulator’s process for setting capital requirements and other prudential standards. I look forward to working closely with the Congressional leaders to enact this legislation as soon as possible, as one complete package.

54. On July 30, 2008, President Bush signed a bill authorizing a bailout of Fannie Mae by the taxpayers. Specifically, it provided Fannie Mae with an unlimited line of credit at the U.S. Treasury (increased from \$2.25 billion) and authorized the Treasury to purchase shares in Fannie Mae if necessary. Any such investment would necessarily be senior in status to existing investments in the company, and the possibility of action by the Treasury Department depressed the value of existing investments in the Company, including the Series T preferred stock.

55. On August 8, 2008, the Company announced its second quarter 2008 financial results, reporting a net loss of \$2.3 billion, compared to a net income of \$1.95 billion for the same period a year earlier. The primary area for Fannie's loss was an increase of the provision for credit losses of \$5.3 billion, in part due to "a \$3.7 billion addition to our combined loss reserves as well as higher charge-offs." Fannie's combined loss reserves increased to \$8.9 billion to reflect losses that the Company believes it will record over time. In addition, Fannie slashed its dividend from 35 cents to 5 cents to conserve \$1.9 billion in capital through 2009. In an effort to maintain its capital, Fannie also announced that it will cease purchasing newly originated Alt-A loans. The Company noted that over 60% of its losses had come from loans such as Alt-A.

56. Then, on September 7, 2008, *MarketWatch* issued an article entitled "Washington takes over Fannie Mae, Freddie Mac – End of an era comes, as Paulson says equity buy wouldn't have been enough," which stated in part:

In the biggest government bailout in U.S. history, the Treasury said Sunday that regulators are seizing control of home mortgage giants Fannie Mae and Freddie Mac. Under a sweeping plan, the two companies will be run by the government indefinitely, with the two current chief executives to be replaced and the government investing up to \$100 billion in each firm to keep them solvent.

The Treasury said that stock in the company will continue to trade, although powers of stockholders will be suspended until government control ends. In order to improve the availability of mortgages, Treasury will start buying Freddie and

Fannie's mortgaged-backed debt in the open market. The companies will also end all lobbying of the government and eliminate dividends.

* * * * *

Necessary action

The end for Fannie and Freddie's independence came shortly after 11:00 am, when Treasury Secretary Henry Paulson told reporters that a careful review of the two mortgage giant's books made it "necessary to take action."

* * * * *

There were reports that auditors called in by Treasury and FHFA had found accounting irregularities at the two firms and that their capital base was smaller than expected.

At first, Paulson had talked in terms of an equity investment in the two firms. But after the review, a full-scale takeover of the two firms was seen as the only option.

* * * * *

FHFA in charge, CEOs leaving

Technically, the government placed the two companies in conservatorship. The FHFA will assume the power of the board and management.

Paulson said the move won't eliminate Freddie and Fannie's common stock, but "does place common shareholders last in terms of claims on the assets of the enterprises." Preferred stock shareholders will be "second, after the common shareholders, in absorbing losses," he said.

One quirk in the plan is that Treasury will allow Fannie and Freddie to actually increase their mortgage portfolios over the next year.

The move will also replace the chief executives of both Fannies Mae (FNM Fannie Mae and Freddie Mac.

Fannie Mae Chief Executive Daniel Mudd and Freddie Mac CEO Richard Syron will leave their positions after a brief transitional period.

Mudd will be replaced by Herb Allison, the former vice chairman of Merrill Lynch, and the former chairman of the TIAA-CREF teachers' pension funds.

* * * * *

Under the agreement, Treasury will immediately receive warrants to purchase common stock of each company representing 79.9% of the common stock of each firm. Treasury will also receive \$1 billion of senior preferred stock in each firm. All dividends for preferred stockholder has been suspended, a move which prompted S&P to cut its rating on Fannie and Freddie's preferred stock to junk grade. . . .

57. In addition, *The New York Times* ran an article entitled "Mortgage Giant Overstated the Size of Its Capital Base" that stated in part:

Freddie Mac and Fannie Mae have also inflated their financial positions by relying on deferred-tax assets — credits that the companies have built up over the years that can be used to offset future profits. Fannie maintains that its worth is increased by \$36 billion through such credits, and Freddie argues that it has a \$28 billion benefit.

But such credits have no value until the companies generate a profit — something they have failed to do over the last four quarters, and something that is increasingly unlikely within the next year. Moreover, even when the companies' profits soared, such credits were often unusable because the companies also had large numbers of affordable housing tax credits, which themselves offset profits.

One analyst estimates the companies, in the future, would have to collect roughly double the profits of the past five years for the credits to become usable. Most financial institutions are not allowed to count such credits as assets in the manner used by Fannie and Freddie.

Regulators and auditors may question the companies' use of deferred-tax credits because they cannot be sold to anyone else and they would disappear in a receivership. And, if those credits were not counted as assets, both companies would probably fall below the capital threshold they are required to hold.

Finally, regulators are said to be scrutinizing whether the companies were trying to manage their earnings by maneuvering the timing of reserves set aside to offset losses from defaulted loans. Each quarter, both companies have gradually increased their loss reserves — Fannie's reserves today stand at \$8.9 billion, and Freddie's at \$5.8 billion. However, regulators and auditors felt strongly that both companies should have identified larger potential losses immediately, and set aside much more from the beginning.

Other companies, like private mortgage insurers, have identified much larger losses and have set aside much larger amounts of capital. Fannie and Freddie, however, have delayed the recognition of such losses, dribbling out bad news with each quarterly announcement, suggesting a strategy to manage the recognition of losses.

58. On September 9, 2008, an article appeared on Bloomberg News, entitled "Fannie

Mae, Freddie ‘House of Cards’ Prompts Takeover.” The article stated in part:

“Fannie and Freddie's accounting during the housing crisis appears to have been more fantasy than reality,” said Rosner, who first highlighted problems in 2003, before the two companies were forced to restate about \$11.3 billion in earnings.

* * * * *

After looking through the finances, Fed examiners deemed their capital reserves too low, Dallas Fed President Richard Fisher said yesterday.

“We concluded that the capital of these institutions was too low relative to their exposure,” Fisher said in response to an audience question after a speech in Austin, Texas. Further, “that capital in and of itself was of low quality.”

PLAINTIFF'S CLASS ACTION ALLEGATIONS

59. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased or otherwise acquired Fannie Mae’s 8.25% Non-Cumulative Preferred Stock, Series T, pursuant or traceable to the Company’s May 13, 2008, Offering Circular, from May 13, 2008 to September 6, 2008, and who were damaged thereby (the “Class”). Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

60. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Fannie Mae’s Series T preferred stock was actively traded on the New York Stock Exchange (“NYSE”). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Fannie Mae or its transfer agent, and may be notified of the pendency of this action by mail, using the form of

notice similar to that customarily used in securities class actions.

61. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

62. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether defendants violated the federal securities laws by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Fannie Mae; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

63. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

64. As a result of these materially false and misleading statements and failures to disclose, Fannie Mae's preferred stock traded at artificially inflated prices during the Class Period.

Plaintiff and other members of the Class purchased or otherwise acquired Fannie Mae's preferred stock relying upon the integrity of the market price of Fannie Mae's preferred stock and market information relating to Fannie Mae, and have been damaged thereby.

LOSS CAUSATION

65. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Fannie Mae's preferred stocks, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

66. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Fannie Mae's financial well-being, business position, and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Fannie Mae and its financial well-being, business position and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

67. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

68. During the Class Period, Plaintiff and the Class purchased securities of Fannie Mae at artificially inflated prices and were damaged thereby. The price of Fannie Mae's preferred stocks significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE**

69. At all relevant times, the market for Fannie Mae's preferred stock was an efficient market for the following reasons, among others:

(a) Fannie Mae's preferred stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, Fannie Mae filed periodic public reports with the SEC and the NYSE;

(c) Fannie Mae regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Fannie Mae was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

70. As a result of the foregoing, the market for Fannie Mae's preferred stocks promptly digested current information regarding Fannie Mae from all publicly-available sources and reflected such information in Fannie Mae's preferred stocks price. Under these circumstances, all

purchasers of Fannie Mae's preferred stocks during the Class Period suffered similar injury through their purchase of the Company's securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

71. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements, because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Fannie Mae who knew that those statements were false when made.

FIRST CLAIM

Against All Defendants For Violations of §10(b) of the Securities Exchange Act and Rule 10b-5 thereunder

72. Plaintiffs incorporate by reference all the preceding paragraphs.

73. During the Class Period, the Individual Defendants created, disseminated and approved all the false statements specified above, and the Underwriter Defendants created, disseminated and approved the false statements contained in or incorporated by reference into the Offering Circular. They knew or deliberately disregarded that this information was false and misleading and failed to disclose material information.

74. Defendants violated § 10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) employed devices, schemes and artifices to defraud;
- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Fannie Mae publicly traded securities during the Class Period.

75. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Fannie Mae publicly traded securities. Plaintiff and the Class would not have purchased Fannie Mae publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

76. Defendants' misstatements and omissions concerned facts that ultimately caused plaintiffs' losses.

SECOND CLAIM

For Violation of Section 20(a) of The Securities Exchange Act Against The Individual Defendants

77. Plaintiffs incorporate ¶¶ 1-71 by reference.

78. This claim is asserted by Plaintiffs against the Individual Defendants.

79. The Individual Defendants acted as controlling persons of Fannie Mae within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of Fannie Mae stock, the Individual Defendants had the power and authority to cause Fannie Mae to engage in the wrongful conduct complained of herein. By reason of such conduct,

defendants are liable pursuant to §20(a) of the 1934 Act.

80. As a direct and proximate result of defendants' acts and omissions in violation of the Securities Act, the market price of Fannie Mae's preferred stocks sold was artificially inflated, and Plaintiff and the Class suffered substantial damage in connection with their ownership of Fannie Mae's preferred stocks pursuant to the Circular Offering.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- A. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- D. Such other and further relief as the Court may deem just and proper.

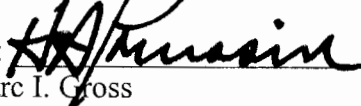
JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: September 16, 2008

Respectfully submitted,

**POMERANTZ HAUDEK BLOCK
GROSSMAN & GROSS LLP**

By: 
Marc I. Gross
H. Adam Prussin
Fei-Lu Qian
100 Park Avenue, 26th Floor
New York, New York 10017
Telephone: 212-661-1100
Facsimile: 212-661-8665

**POMERANTZ HAUDEK BLOCK
GROSSMAN & GROSS LLP**

Patrick V. Dahlstrom
One North LaSalle Street, Suite 2225
Chicago, IL 60602
Telephone: (312) 377-1181
Facsimile: (312) 377-1184

COTCHETT, PITRE & MCCARTHY

By: 
Joseph W. Cotchett, Jr.
840 Malcolm Road, Suite 200
Burlingame, CA 94010
Telephone: (650) 697-6000
Facsimile: (650) 697-0577

Attorneys for Plaintiff

**CERTIFICATION PURSUANT
TO FEDERAL SECURITIES LAWS**

1. I, Nicholas Crisafi and I, Stella Crisafi, Trustees for the Crisafi Intervivos Trust, make this Declaration pursuant to Section 21D(a)(2) of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995.

2. We have reviewed the Complaint against Merrill Lynch, Citigroup, Morgan Stanley and others and authorize a filing of a comparable Complaint on my behalf.

3. We did not purchase the Fannie Mae 8.25% Non-Cumulative Preferred Stock, Series T security at the direction of plaintiffs' counsel or in order to participate in any private action arising under the Securities Exchange Act of 1934.

4. We are willing to serve as representative parties on behalf of a Class as set forth in the Complaint, including providing testimony at deposition and trial, in necessary. We understand that the Court has the authority to select the most adequate lead plaintiff in this action and that the firms of Cotchett Pitre & McCarthy and Pomerantz Haudeck Block and Grossman LLP may exercise their discretion in determining whether to move on our behalf for appointment as lead plaintiff.

5. To the best of our current knowledge, the attached sheet lists all of our transactions in the Fannie Mae 8.25% Non-Cumulative Preferred Stock, Series T security during the Class Period as specified in the Complaint.

6. During the three-year period proceeding the date on which this Certification is signed, we have not sought to serve as a representative party on behalf of a class under the federal securities laws.

7. We agree not to accept any payment for serving as a representative party on

behalf of the class as set forth in the Complaint, beyond our pro rata share of any recovery, except such reasonable costs and expenses directly relating to the representation of the class as ordered or approved by the Court.

8. We declare under penalty of perjury that the foregoing is true and correct.

Executed 9/15/08, at HILLSBOROUGH CA
(Date) (City, State)

Nicholas Crisafi
(Signature)

Nicholas Crisafi
(Type or Print Name)

Stella Crisafi
(Signature)

Stella Crisafi
(Type or Print Name)

