JS 44C/SDNY
REV. 12/2005

CIVIL COVER SHEET 08 CIV 8491

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for use of the Clerk of Court for the purpose of initiating the civil docket sheet.

PLAINTIFFS
Brian Jarmain

DEFENDANTS
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

ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER
Entwistle & Cappucci LLP, Vincent R. Cappucci, Esq.
280 Park Avenue, 26th Floor West, New York,NY 10017
Tele: (212) 894-7200

ATTORNEYS (IF KNOWN)

CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE A BRIEF STATEMENT OF CAUSE)
This is a securities class action alleging claims under Section 12(a)(2) of the Securities Act of 1933, §15 U.S.C. 771(a)(2), Section 10(b) of the Securities Exchange Act of 1934, 15 U.S.C. §78j(b) and Securities Exchange Commission Rule 10b-5, see C.F.R.§ 240.10b-5 and Section 20(a) of the Exchange Act.

Has this or a similar case been previously filed in SDNY at any time? No☐ Yes? ☒ Judge Previously Assigned Judge Gerald E. Lynch and [redacted] (see below)

If yes, was this case Vol.☐ Invol. ☐ Dismissed. No☒ Yes ☐ If yes, give date _____ & Case No. _____

(PLACE AN [x] IN ONE BOX ONLY) NATURE OF SUIT

CONTRACT
[ ] 110 INSURANCE
[ ] 120 MARINE
[ ] 130 MILLER ACT
[ ] 140 NEGOTIABLE INSTRUMENT
[ ] 150 RECOVERY OF OVERPAYMENT & ENFORCEMENT OF JUDGMENT
[ ] 151 MEDICARE ACT
[ ] 152 RECOVERY OF DEFAULTED STUDENT LOANS (EXCL VETERANS)
[ ] 153 RECOVERY OF OVERPAYMENT OF VETERAN'S BENEFITS
[ ] 160 STOCKHOLDERS SUITS
[ ] 190 OTHER CONTRACT
[ ] 195 CONTRACT PRODUCT LIABILITY
[ ] 196 FRANCHISE

REAL PROPERTY
[ ] 210 LAND CONDEMNATION
[ ] 220 FORECLOSURE
[ ] 230 RENT LEASE & EJECTMENT
[ ] 240 TORTS TO LAND
[ ] 246 TORT PRODUCT LIABILITY
[ ] 290 ALL OTHER REAL PROPERTY

TORTS

PERSONAL INJURY
[ ] 310 AIRPLANE
[ ] 315 AIRPLANE PRODUCT LIABILITY
[ ] 320 ASSAULT, LIBEL & SLANDER
[ ] 330 FEDERAL EMPLOYERS' LIABILITY
[ ] 340 MARINE
[ ] 345 MARINE PRODUCT LIABILITY
[ ] 350 MOTOR VEHICLE
[ ] 355 MOTOR VEHICLE PRODUCT LIABILITY
[ ] 360 OTHER PERSONAL INJURY

PERSONAL INJURY
[ ] 362 PERSONAL INJURY - MED MALPRACTICE
[ ] 365 PERSONAL INJURY PRODUCT LIABILITY
[ ] 368 ASBESTOS PERSONAL INJURY PRODUCT LIABILITY

PERSONAL PROPERTY
[ ] 370 OTHER FRAUD
[ ] 371 TRUTH IN LENDING
[ ] 380 OTHER PERSONAL PROPERTY DAMAGE
[ ] 385 PROPERTY DAMAGE PRODUCT LIABILITY

ACTIONS UNDER STATUTES

CIVIL RIGHTS
[ ] 441 VOTING
[ ] 442 EMPLOYMENT
[ ] 443 HOUSING ACCOMMODATIONS
[ ] 444 WELFARE
[ ] 445 AMERICANS WITH DISABILITIES - EMPLOYMENT
[ ] 446 AMERICANS WITH DISABILITIES -OTHER
[ ] 440 OTHER CIVIL RIGHTS

PRISONER PETITIONS
[ ] 510 MOTIONS TO VACATE SENTENCE 28 USC 2255
[ ] 530 HABEAS CORPUS
[ ] 535 DEATH PENALTY
[ ] 540 MANDAMUS & OTHER
[ ] 550 CIVIL RIGHTS
[ ] 555 PRISON CONDITION

FORFEITURE/PENALTY
[ ] 610 AGRICULTURE
[ ] 620 FOOD & DRUG
[ ] 625 DRUG RELATED SEIZURE OF PROPERTY 21 USC 881
[ ] 630 LIQUOR LAWS
[ ] 640 RR & TRUCK
[ ] 650 AIRLINE REGS
[ ] 660 OCCUPATIONAL SAFETY/HEALTH
[ ] 690 OTHER

LABOR
[ ] 710 FAIR LABOR STANDARDS ACT
[ ] 720 LABOR/MGMT RELATIONS
[ ] 730 LABOR/MGMT REPORTING & DISCLOSURE ACT
[ ] 740 RAILWAY LABOR ACT
[ ] 790 OTHER LABOR LITIGATION
[ ] 791 EMPL RET INC SECURITY ACT

BANKRUPTCY
[ ] 422 APPEAL 28 USC 158
[ ] 423 WITHDRAWAL 28 USC 157

PROPERTY RIGHTS
[ ] 820 COPYRIGHTS
[ ] 830 PATENT
[ ] 840 TRADEMARK

SOCIAL SECURITY
[ ] 861 HIA (1395FF)
[ ] 862 BLACK LUNG (923)
[ ] 863 DIWC (405(g))
[ ] 863 DIWW (405(g))
[ ] 864 SSID TITLE XVI
[ ] 865 RSI (405(g))

FEDERAL TAX SUITS
[ ] 870 TAXES
[ ] 871 IRS-THIRD PARTY 20 USC 7609

OTHER STATUTES
[ ] 400 STATE REAPPORTIONMENT
[ ] 410 ANTITRUST
[ ] 430 BANKS & BANKING
[ ] 450 COMMERCE/ICC RATES/ETC
[ ] 460 DEPORTATION
[ ] 470 RACKETEER INFLUENCED & CORRUPT ORGANIZATION ACT (RICO)
[ ] 480 CONSUMER CREDIT
[ ] 490 CABLE/SATELLITE TV
[ ] 810 SELECTIVE SERVICE
[X] 850 SECURITIES/ COMMODITIES/ EXCHANGE
[ ] 875 CUSTOMER CHALLENGE 12 USC 3410
[ ] 891 AGRICULTURE ACTS
[ ] 892 ECONOMIC STABILIZATION ACT
[ ] 893 ENVIRONMENTAL MATTERS
[ ] 894 ENERGY ALLOCATION ACT
[ ] 895 FREEDOM OF INFORMATION ACT
[ ] 900 APPEAL OF FEE DETERMINATION UNDER EQUAL ACCESS TO JUSTICE
[ ] 950 CONSTITUTIONALITY OF STATE STATUTES
[ ] 890 OTHER STATUTORY ACTIONS

6/04/24

Check if demanded in complaint:

CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23 X

DEMAND $_____ OTHER _____

Check YES only if demanded in complaint
JURY DEMAND: ☒ YES ☐ NO

DO YOU CLAIM THIS CASE IS RELATED TO A CIVIL CASE NOW PENDING IN S.D.N.Y.?
IF SO, STATE:

JUDGE [redacted] Judge Gerald E. Lynch

DOCKET NUMBER [redacted] 08-cv-7831 and [redacted]

NOTE: Please submit at the time of filing an explanation of why cases are deemed related.
Please see attached Statement of Relatedness

(SEE REVERSE)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BRIAN JARMAIN, Individually and On Behalf of All Others Similarly Situated, Plaintiff, 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.	08 CIV 8491 **CIVIL ACTION NO.** "ECF CASE" CLASS ACTION COMPLAINT **JURY TRIAL DEMANDED**

Plaintiff Brian Jarmain ("Plaintiff"), by his undersigned attorneys, for his Class Action Complaint (the "Complaint"), makes the following allegations against Defendants (as defined below) based upon the investigation conducted by and under the supervision of counsel for Plaintiff, which has included, among other things, review and analyses of: (i) the offering circular, dated May 13, 2008 (the "Offering Circular"), issued by the Federal National Mortgage Association ("Fannie Mae" or the "Company") in connection with the offering ("Offering") of Fannie Mae 8.25% Non-Cumulative Preferred Stock, Series T ("Series T Preferred Stock"); (ii) Fannie Mae's filings with the United States Securities and Exchange Commission ("SEC"); (iii) press releases and other public statements issued by Fannie Mae and the Individual Defendants (defined below); (iv) news articles and analyst reports concerning Fannie Mae; (v) transcripts from conference calls Fannie Mae held with securities analysts; (vi) industry statistics and

publications; (vii) official records of regulatory actions taken by government agencies with respect to Fannie Mae and/or the Individual Defendants named herein; and (xiii) official records in other relevant actions. Allegations as to Plaintiff's own acts are based upon Plaintiff's personal knowledge. Plaintiff believes that substantial additional evidentiary support exists for the allegations set forth herein and will be uncovered after a reasonable opportunity for discovery.

SUMMARY OF THE ACTION

1. Plaintiff brings this action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of himself and all similarly situated persons and entities (collectively, the "Class") who purchased Fannie Mae Series T Preferred Stock, issued pursuant to the Offering Circular, from May 13, 2008 through September 6, 2008, inclusive (the "Class Period") (subject to the exclusions described in paragraph 64 below), and who were damaged thereby.

2. Fannie Mae is a private, stockholder-owned corporation chartered by Congress in 1968 for the purpose of increasing the availability and affordability of homeownership for low, moderate and middle-income Americans. Fannie Mae does not lend money directly to consumers, but rather operates exclusively in the secondary mortgage market. Through the purchase of mortgage assets, Fannie Mae provides funds to mortgage lenders and issues and guarantees mortgage-related securities. Its common stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "FNM." The Company's Series T Preferred Stock is publicly traded on the NYSE under the symbol "FNM T."

3. Throughout the Class period, Defendants concealed and misrepresented to the Company's public investors the adequacy of the Company's capital, which had dramatically diminished as a result of its mortgage-related losses, poor underwriting standards and risk management procedures. Such misrepresentations and omissions were contained in the

Company's information statements, quarterly and annual reports and Offering Circular, which was issued to investors in connection with the Series T Preferred Stock Offering.

4. As reported in an August 5, 2008 *New York Times* article, in 2007, U.S. Treasury Secretary Henry Paulson, Jr. ("Paulson") and Federal Reserve Chairman Ben S. Bernanke ("Bernanke") urged Fannie Mae to raise more money and bolster its balance sheet in order to comply with existing and impending regulations. Accordingly, Fannie Mae embarked upon a capital raising campaign, which was designed to reinforce the Company's balance sheet for: (i) continued satisfaction of capital requirements, thus allowing the Company to continue purchasing mortgages from banks nationwide; (ii) to increase shareholder value; and (iii) to provide stability to the secondary mortgage market. Defendants repeatedly assured the marketplace that the capital-raising would place the Company on a solid financial footing and that additional infusions of cash would not be necessary for the near future.

5. The Series T Preferred Stock Offering, which was part of the Company's capital raising campaign, involved the sale of approximately 80 million shares, or $2 billion, of Series T Preferred Stock. The Offering Circular, issued in connection with the Offering, as well as the Company's SEC filings and press releases, failed to disclose that the Company grossly overstated its capital cushion and failed to warn investors that Fannie Mae could be required to raise another $46 billion in capital in order to be considered adequately capitalized under new accounting rules being considered at the time of the Offering. According to a September 7, 2008 *The New York Times* article, entitled "Mortgage Giant Overstated Size of Capital Base," Fannie Mae's accounting methods overstated the Company's capital cushion through the use of questionable accounting methods which exposed the Company to enormous risk. In this regard, the Company inflated its financial position by relying on approximately $36 billion in deferred-

tax credits which the Company sought to offset profits. Moreover, by falsely asserting that the current securities offerings of the Company would be sufficient to carry it through the end of the year, the Company blatantly mischaracterized its financial health.

6. The Company's actual financial condition was partially disclosed in a July 11, 2008 *New York Times* article, entitled "U.S. Weighs Takeover of Two Mortgage Giants," which stated the federal government was considering taking over Fannie Mae and placing it in a conservatorship due to growing financial stress on the Company. As a result of this announcement, the Company's Series T Preferred Stock declined $2.03 per share, or 10.6%, from $19.03 per share on July 10, 2008 to $17.00 per share on July 11, 2008. Thereafter, on August 8, 2008, the Company announced a net loss of $2.3 billion for the second quarter 2008, compared to net income of $1.95 billion for the same period a year earlier. In response to this announcement, the Company's Series T Preferred Stock dropped an additional $.95 per share, or 5%, from $17.30 per share on August 8, 2008 to $16.35 per share on August 11, 2008. On August 20, 2008, *The New York Times* reported in an article, entitled "Some Investors Say U.S. Bailout of Housing Giants Is Inevitable," that a government bailout was increasingly likely. On this news, shares of the Company's Series T Preferred Stock dropped an additional $2.79 per share, or 20%, from $13.78 per share on August 19, 2008 to close at $10.99 per share on August 20, 2008.

7. On September 7, 2008, the United States Treasury Department announced that the Federal Housing Finance Agency ("FHFA") had been appointed as conservator of Fannie Mae in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. An FHFA fact sheet describing the conservatorship stated that it was "intended to preserve and conserve [Fannie

Mae's] assets and property and to put the Company in a sound and solvent condition."

8. The Treasury Department's announcement of the takeover plan revealed Fannie Mae's inadequate capital management and gross capital inflation, thereby causing the price of the Company's Series T Preferred Stock to drop $10.70 per share, or 78% from $13.70 per share on September 5, 2008 to $3.00 per share on September 8, 2008. Thus, since the original Offering on May 13, 2008, the value of the Company's T Series Preferred Stock declined $22 per share, or 88%, from an initial offering price of $25 per share on May 13, 2008 to $3 per share on September 8, 2008.

9. As a result of the Defendants' wrongful acts and omissions, Plaintiff and other members of the Class have suffered enormous damages.

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78j(b) and 78(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5, as well as Section 12(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 771(a)(2).

11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337 and Section 27 of the Securities Exchange Act, 15 U.S.C. § 78aa.

12. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts and practices complained of herein occurred in substantial part in this District and the Company's securities trade on the NYSE, which is located in the District.

13. In connection with the acts 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 national

securities markets.

PARTIES

14. Plaintiff purchased Fannie Mae's Series T Preferred Stock on the Offering at artificially inflated prices during the Class Period and, as set forth in the accompanying certification, which is incorporated by reference herein, has been damaged thereby.

15. Defendant Stephen B. Ashley ("Ashley") was, at all relevant times, the Company's Chairman of the Board of Directors.

16. Defendant Daniel H. Mudd ("Mudd") was, at all relevant times, as the Company's President, Chief Executive Officer ("CEO") and a director.

17. Defendant Stephen M. Swad ("Swad") was, at all relevant times, the Company's Chief Financial Officer ("CFO") and Executive Vice President.

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

19. Defendants Ashley, Mudd, Swad and Levin are collectively referred to herein as the "Individual Defendants."

20. As officers of a publicly-held company traded on the NYSE, the Individual Defendants possessed the power and authority to control the contents of Fannie Mae's statements and reports made in press releases, conference calls, news articles and/or other public forums. Each Individual Defendant had a duty to disseminate accurate and truthful information with respect to the Company's financial condition, liabilities, interests, earnings and present and future business prospects, and to correct any previously issued statements that were erroneous.

21. The Individual Defendants, because of their positions as officers and/or directors of the Company, were able to, and did, control the content of the various reports, press releases, documents and other Company statements as detailed herein during the Class Period. Because of

their positions at Fannie Mae and their unfettered access to material non-public information, each of the Individual 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 that were being made were thus materially false and misleading.

22. As a result of the foregoing, each of the Individual Defendants was and is responsible for the accuracy of the contents of Fannie Mae's reports, press releases, documents and other Company statements as detailed herein, which were the result of the collective actions of the Individual Defendants, and are personally liable for the misrepresentations and omissions contained herein.

23. Defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is an investment banking firm, incorporated in Delaware, which maintains its principal office at 4 World Financial Center, New York, New York 10080. Merrill Lynch served as a managing underwriter of the Offering.

24. 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 served as a managing underwriter of the Offering.

25. 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 served as a managing underwriter of the Offering.

26. 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 served as a managing

underwriter of the Offering.

27. 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 served as a managing underwriter of the Offering.

28. Defendants Merrill Lynch, Citigroup, Morgan Stanley, UBS and Wachovia are collectively referred to herein as the "Underwriter Defendants."

SUBSTANTIVE ALLEGATIONS

A. Background

29. Congress established Fannie Mae in 1968 with the purpose of increasing the availability and affordability of homeownership for low, moderate and middle-income Americans. Fannie Mae does not lend money directly to consumers but rather operates exclusively in the secondary mortgage market. The Company purchases residential mortgages and mortgage-backed securities in the secondary mortgage market, and is one of the largest purchasers of mortgages in the U.S. By buying mortgages from banks, Fannie Mae serves to free up banks' limited capital, which in turn would allow the banks to make more loans.

30. Fannie Mae is organized into three complimentary business segments: (1) Single-Family Credit Guaranty; (2) Housing and Community Development; and (3) Capital Markets.

31. The Single-Family Credit Guaranty works with the Company's lender customers to securitize single-family mortgage loans into Fannie Mae Mortgage Backed Securities ("MBS") and to facilitate the purchase of single-family mortgage loans for its mortgage portfolio. Revenues in this segment are derived primarily from: (i) guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS and on the single family mortgage loans held in the Company's portfolio; and (ii) trust management income, a fee derived from interest earned on cash flows between the date of the

remittance of mortgage payments and the date of distribution of these payments to MBS certificate holders.

32. The Housing and Community Development segment also works with the Company's lender customers to securitize multifamily mortgage loans into Fannie Mae MBS and to facilitate the purchase of multifamily mortgage loans for the mortgage portfolio. In addition, this segment makes debt and equity investments to increase the supply of affordable housing. Revenues in this segment are derived from guaranty fees for assuming credit risk on the mortgage loans, transaction fees, and bond credit enhancement fees.

33. The Capital Markets Group segment is responsible for managing the Company's investment activity in mortgage loans, mortgage-related securities and other investments, debt financing activity and its liquidity and capital positions. The Company primarily funds its investments through proceeds generated from the issuance of debt securities. Revenues are generated from the difference between the interest earned on mortgage assets and the interest paid on the debt issued to fund these assets.

34. As a government sponsored enterprise ("GSE"), Fannie Mae is also subject to mandatory capital requirements and must maintain a capital surplus as required by the Office of Federal Housing Enterprise Oversight ("OFHEO"). Previous disclosures of accounting irregularities resulted in the OFHEO's imposition of further capital surplus requirements on Fannie Mae, requiring that it maintain a 30% surplus buffer over its minimum capital requirements.

B. The Decline In The Housing Market And Its Effect On The Company

35. The U.S. housing market began to severely decline in 2006 and continued to decrease steadily throughout 2007. As a result, mortgage defaults rose substantially and Fannie Mae began suffering losses. Consequently, by the end of 2007, Fannie Mae's capital position

had depreciated extensively. To remain in compliance with the regulatory requirements, the Company needed to raise additional capital through equity offerings.

36. The true extent of Fannie Mae's capital deficiencies, if revealed by the Defendants, would have severely hindered the Company's ability to raise the true amounts of capital actually needed. Accordingly, Fannie Mae misrepresented the Company's financial position and capital requirements by postponing a series of asset write-offs that were mandated under Generally Accepted Accounting Principles ("GAAP"). Those misrepresentations misled the investing public into believing that only a small number of shares would need to be offered, and that those shares would not be subject to dilution from additional efforts to raise more capital.

37. In a press release issued by Fannie Mae on December 4, 2007, the Company announced a capital raising campaign, which included a proposal to issue approximately $7 billion of non convertible preferred stock in one or more offerings. In relevant part, 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." Defendant Mudd further noted that the Company was pursuing a plan that would enable Fannie Mae to uphold its obligation to serve the mortgage market "with a comprehensive, conservative plan to serve the market and manage our capital."

38. On February 27, 2008, the Company released its Form 10-K report for 2007 ("2007 10-K"). The 2007 10-K was incorporated by reference into the Offering Circular. Specifically, the Company stated in the accompanying press release:

> 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.

(Emphasis added)

39. The 2007 10-K included the foregoing data, along with a description of its tax-deferred assets of over $17 billion. This asset only has value if the Company earns income in the future. Thus, the 2007 10-K stated that this asset was reviewed quarterly by management and by the OFHEO to determine whether any portion of it should be written off, in light of the Company's earnings prospects. Pursuant to the representations in the 2007 10-K, no such write-off was deemed necessary at that time.

40. Also disclosed in the 2007 10-K were over $2.2 trillion in off-balance-sheet obligations which Fannie Mae had moved to an assortment of "Special Purpose Entities." The current version of the Financial Accounting Standards Board ("FASB") Rule 140 permitted the exclusion of those obligations from Fannie Mae's balance sheet and income statement. Significantly, however, this disclosure did not mention that the FASB was considering changes to that rule which would have required Fannie Mae to include these obligations on its financial statements.

41. Defendants issued the following statements on a conference call concerning the earnings report between the Company and an analyst on February 27, 2008:

[Defendant Mudd:]

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 million above the OFHEO-mandated 30% level.

> 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.
>
> [Defendant Levin:]
>
> 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 . . . 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.
>
> [Defendant Mudd:]
>
> We have a number of levers that we can - that we can undertake that start with the operational activities that we have undertaken . . . **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.

(Emphasis added)

42. Accordingly, the Individual Defendants assured the market in late February that it would be unnecessary to raise additional capital in the near future. In spite of these assurances, on May 6, 2008, Fannie Mae announced its first quarter results for 2008 and the filing of its quarterly report on Form 10-Q, along with its plan to raise an additional $6 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.

> Defendant 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."

(Emphasis added)

C. The Offering

43. Through the Offering Circular dated May 13, 2008, Fannie Mae launched its $2 billion initial public offering of 80 million shares of the Series T Preferred Stock, at an offering price of $25 per share. In addition, Fannie Mae made two other $2 billion offerings that same day, raising a total of $6 billion.

44. The Company's most recent 10-K and 10-Q filings, along with statements concerning the Company's capitalization, were summarized and incorporated by reference into the Offering Circular.

45. While calling attention to the Company's risk factors, the Offering Circular, in pertinent part, reiterated Defendants' previous statements concerning the Company's $17.8 billion deferred tax asset, which was still being carried at full value. The Offering Circular also reassured investors of the appropriateness of carrying this asset at full value in light of the current conditions:

> 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.

46. The statements contained in the Offering Circular and the documents incorporated

by reference therein were materially false and misleading. Specifically, the Defendants' representations concerning both the Company's core capital and total capital were grossly inflated. A considerable part of that inflation was attributable to the Company's decision to continually include, as part of its assets, the full face value of the deferred tax assets, without any write-down to accurately reflect the almost certainty that they would never be utilized as an offset to any earnings.

47. The information in the Offering Circular also included a clearly inadequate write down of the Company's investments in sub-prime and "Alt-A" mortgages. As these "Alt-A" loans required minimal or no verification of the borrowers' employment, income or assets, they became the loan of choice for an increasing number of borrowers. In an effort to preserve its market share, Fannie Mae began participating heavily in this part of the market. Due to the virtually non-existent borrower vetting, the default rates on these subprime and Alt-A loans was extremely high. By the end of 2007, Fannie Mae was holding close to $74 billion in Alt-A and subprime loans but had written them down by only $4.6 billion.

48. In addition, the Offering Circular neglected to disclose the risk that, in the event the FASB implemented changes to FAS Rule 140 that were then in the making, over $40 billion of additional capital might have to be raised to meet the additional capital requirements. Once instituted, those changes would dramatically increase Fannie Mae's capital requirements by forcing the Company to include on its balance sheet over $2.2 trillion in obligations that had been reassigned to "special purpose" entities.

49. Once realized, any one of these factors alone would have compelled Fannie Mae to raise enormous amounts of additional capital, a feat that might not even be possible. The Series T Preferred Stock would be rendered virtually worthless in such an event.

D. The Truth is Partially Disclosed

50. On July 11, 2008, *The New York Times* published an article, entitled "U.S. Weighs Takeover of Two Mortgage Giants," stating:

> 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.

(Emphasis added)

This disclosure caused the Series T preferred stock to decline 10.6% from its closing price on July 10, 2008 of $19.03 down to $17.00.

51. In spite of this negative news, the Defendants continued to tout their overly optimistic statements. In this regard, the Company released the following statement, "Statement by Chuck Greener Senior Vice President; on Fannie Mae's Capital Adequacy," which stated in part: "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 . . . In short, Fannie Mae remains well equipped to fulfill our critical role in the housing finance system, today and in the future."

52. On July 13, 2008, Treasury Secretary Paulson issued a statement, reflecting the U.S. Government's disagreement with the Individual Defendant's positive assessment :

> We must take steps to address the current situation as we move to a stronger regulatory structure . . . The President has asked me to work with Congress to act on this plan immediately. First, as a liquidity backstop . . . Second, to ensure the GSEs have access to sufficient capital to continue to serve their mission . . . Third, to protect the financial system from systemic risk going forward . . . I look forward to working closely with the Congressional leaders to enact this legislation as soon as possible, as one complete package.

53. On July 30, 2008, a bill authorizing the bailout of Fannie Mae by the taxpayers was signed by President Bush. In particular, the bill gave Fannie Mae access to an unlimited line of credit at the U.S. Treasury and authorized the Treasury to purchase shares in Fannie Mae if necessary.

54. An August 5, 2008 *New York Times* article, entitled "At Freddie Mac, Chief Discarded Warning Signs," revealed that the financial troubles at both Fannie Mae and its counterpart, Freddie Mac, went as far back as early 2007, when Paulson and Bernanke privately urged both companies to raise more money. At one point, Bernanke went so far as to threaten to publicly reprimand the companies if they did not raise more cash.

55. Just over a week later, on August 8, 2008, the Company announced a net loss of $2.3 billion for its second quarter 2008 financial results, compared to net income of $1.95 billion for the same period a year earlier. Fannie Mae's loss was primarily attributable to 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." Notably, the Company's combined loss reserves increased to $8.9 billion to reflect losses that the Company believed it would record over time. To conserve $1.9 billion in capital through 2009, Fannie Mae also slashed its dividend from 35 cents to 5 cents. The Company then announced that it would cease purchasing newly originated Alt-A loans as part of an additional effort to maintain its capital, noting that over 60% of its losses had come from Alt-A and subprime loans. In response to this announcement, the Company's Series T Preferred Stock dropped an additional $.95 per share, or 5%, from $17.30 per share on August 8, 2008 to $16.35 per share on August 11, 2008.

56. An August 20, 2008 *New York Times* article, entitled "Some Investors Say U.S. Bailout of Housing Giants is Inevitable," revealed the investing public's growing concern that

the Company would need a bailout from the federal government, noting a 25% drop in shares of the Company. The article quoted William H. Gross, the chief investment officer of Pimco, one of the nation's largest money management firms, as saying: "At some point, investors are going to say these companies are too big a risk to buy their debt, and that precipitates a self-fulfilling prophecy that ends up with the government having to step in." In spite of this warning, the Company continued to assert that such government intervention would not be necessary.

57. On September 7, 2008, an article issued by *Market Watch,* entitled "Washington takes over Fannie Mae, Freddie Mac - End of an era comes, as Paulson says equity buy wouldn't have been enough," stated in relevant part:

> 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."
>
> * * *
>
> 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.
>
> * * *
>
> 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.

(Emphasis added)

58. The *New York Times* also published 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 . . . **But such credits have no value until the companies generate a profit, something they have failed to do over the last four quarters** . . . Regulators and auditors may question the companies' use of deferred-tax credits because . . . if those credits were not counted as assets, **both companies would probably fall below the capital threshold they are required to hold.**

(Emphasis added)

59. The Treasury Department's announcement of the takeover plan revealed Fannie Mae's inadequate capital management and gross capital inflation, thereby causing the price of the Company's Series T Preferred Stock to drop $10.70 per share, or 78% from $13.70 per share on September 5, 2008 to $3.00 per share on September 8, 2008. Thus, since the original Offering date on May 13, 2008, the value of the Company's T Series Preferred Stock declined $22 per share, or 88%, from an initial offering price of $25 per share on May 13, 2008 to $3 per share on September 8, 2008.

TRANSACTION AND LOSS CAUSATION

60. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that materially misled the investing public, thereby inflating the price of Fannie Mae's Series T Preferred Stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements not false and misleading. Defendant's failure to disclose material adverse information rendered those statements and omissions materially false and misleading and misrepresented the truth about the Company, its business and operations, as alleged herein.

61. At all relevant times, Defendants' materially false and misleading statements and omissions alleged herein directly or proximately caused the damages suffered by Plaintiff and other Class members. During the Class Period, Defendants made or caused to be made a series

of materially false or misleading statements concerning Fannie Mae's financial well-being, business position, and operations. These material misstatements and omissions created within 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. As a result of Defendants' materially false and misleading statements during the Class Period, Plaintiff and other members of the Class purchased the Company's Series T Preferred Stock at artificially inflated prices, thus causing the damages complained of herein.

62. The price of Fannie Mae's Series T Preferred Stock 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.

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

CLASS ACTION ALLEGATIONS

64. 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 persons 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. 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 or of which the Company is a parent or subsidiary.

65. The members of the Class are located in geographically diverse areas and 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 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 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.

66. Plaintiffs' claims are typical of the claims of the members of the Class as Plaintiff and members of the Class sustained damages arising out of Defendants' wrongful conduct in violation of federal laws as complained herein.

67. 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. Plaintiff has no interests antagonistic to, or in conflict with, those of the Class. 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 Defendants acted knowingly or recklessly in making materially misleading statements and/or omissions during the Class Period;

c. 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;

d. Whether the market prices of the Company's securities during the Class Period were artificially inflated because of Defendants' conduct complained of herein; and

e. To what extent the members of the Class have sustained damages and if so, the proper measure of damages.

68. 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.

FRAUD-ON-THE-MARKET

69. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

a. Defendants failed to disclose material facts during the Class period;

b. Fannie Mae's Series T Preferred Stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

c. Fannie Mae made available periodic public reports concerning its financial results and condition;

d. Fannie Mae regularly communicated with investors via established market communication mechanisms, including through regular dissemination 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;

e. Fannie Mae was followed by securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective brokerage firms. Each of those reports was publicly available and entered into the public marketplace.

f. The misleading statements and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

g. Plaintiff and members of the Class purchased their Company stock between the time Defendants failed to disclose material facts and the time the true facts were disclosed, without knowledge of the omitted facts.

70. As a result of the foregoing, the market for Fannie Mae's securities promptly

digested current information regarding Fannie Mae from all publicly available sources and reflected such information in the price of Fannie Mae's securities. Under those circumstances, all purchasers of Fannie Mae's securities during the Class Period suffered similar injury through their purchase of Fannie Mae's securities at artificially inflated prices, and a presumption of reliance applies.

71. Based on the foregoing, Plaintiff and members of the Class are entitled to a presumption of reliance upon the integrity of the market price for the Company's securities, under the fraud-on-the-market doctrine.

NO SAFE HARBOR

72. The statutory safe harbor under the Private Securities Litigation Reform Act of 1995, which applies to forward-looking statements under certain circumstances, does not apply to any of the allegedly false statements pled in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward-looking, they were not adequately identified as "forward-looking statements" when made, and there was 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 is intended to apply to any forward-looking statements pled 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 had actual knowledge that the particular forward-looking statement was materially false or misleading 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, misleading or omitted necessary information when they were made.

COUNT I
Violations of Section 12(a)(2) of the Securities Act

73. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

74. This count is asserted against all Defendants, each of whom offered and sold Fannie Mae Preferred Stock or solicited the sale of such stock to the Class in the Offering, based upon Section 12(a)(2) of the Securities Act, §15 U.S.C. 771(a)(2).

75. The Offering Circular and Other Materials constitute a "prospectus or oral communication" within the meaning of Section 12(a)(2) of the Securities Act.

76. The Offering Circular and Offering materials omitted to state material facts necessary in order to make the statements, in light of the circumstances in which they were made, not misleading.

77. Plaintiff and the members of the Class did not know, nor could they have known, of the omissions contained in the statements regarding the Offering.

78. Defendants failed to make reasonable investigation or possess reasonable grounds for the belief that the statements were complete in all material respects and that the Offering Circular and other Offering materials did not materially mislead Plaintiff and other members of the Class.

79. This claim has been brought within one year after the discovery of the omissions in the Offering materials and within three years after Fannie Mae Series T Preferred Stock was sold to the Class in connection with the Offering.

80. By reason of the misconduct alleged herein, the Defendants named in this count violated Section 12(a)(2) of the Securities Act and are liable to Plaintiff and the other members if the Class who purchased or acquired Fannie Mae Series T Preferred Stock on or traceable to the

Offering, each of whom has been damaged as a result of such violations.

81. Plaintiff and members of the Class who purchased Fannie Mae Series T Preferred Stock on or traceable to the Offering hereby seek rescission of their purchases and hereby tender to the Defendants named in this count any shares of Series T Preferred Stock, which Plaintiff and other members of the Class continue to own, in return for the consideration paid for those securities, together with interest thereon.

COUNT II
Violations of §10(b)of the Exchange Act and Rule 10b-5 thereunder

82. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

83. This Count is asserted against all Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and SEC Rule 10b-5 promulgated thereunder.

84. During the Class Period, the Individual Defendants, singly and in concert, 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. Defendants, singly and in concert, knew or deliberately disregarded that this information was false and misleading and failed to disclose material information.

85. By reason of the foregoing, Defendants violated § 10(b) of the Exchange Act and Rule 10b-5, thereunder, 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; and/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 Series T Preferred Stock during the Class Period.

86. In reliance on the integrity of the market, Plaintiff and the Class paid artificially inflated prices for publicly traded Fannie Mae Series T Preferred Stock. Had they been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements, Plaintiff and the Class would not have purchased Fannie Mae Series T Preferred Stock at the prices they paid, or at all.

87. Plaintiff and the Class have suffered substantial damages as a result of the wrongs herein alleged in an amount to be proved at trial.

COUNT III
Violations of Section 20(a) of the Exchange Act

88. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

89. This claim is asserted by Plaintiff against the Individual Defendants.

90. The Individual Defendants, by virtue of their positions, stock ownership and/or specific acts described above, were, at the time of the wrongs alleged herein, controlling persons within the meaning of Section 20(a) of the Exchange Act.

91. As a direct and proximate result of the Individual Defendants' acts and omissions in violation of the Exchange Act, the market price of Fannie Mae's Series T Preferred Stock was artificially inflated, and Plaintiff and the Class suffered substantial damage in connection with their purchase of Fannie Mae's Series T Preferred Stock pursuant to the Offering Circular.

WHEREFORE, Plaintiff, on his own behalf and on behalf of the Class, prays for relief and judgment, as follows:

A. Determining that this action is a proper class action and certifying Plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding compensatory damages in favor of Plaintiff and the other members of the Class against all Defendants, jointly and severally, for all of the damages sustained as a result of the wrongdoings of Defendants, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class the fees and expenses incurred in this action including reasonable allowance of fees for Plaintiff's attorneys and experts;

D. Granting extraordinary equitable and/or injunctive relief as permitted by law, equity and federal and state statutory provisions sued hereunder; and

E. Granting such other and further relief as the Court may deem just and proper.

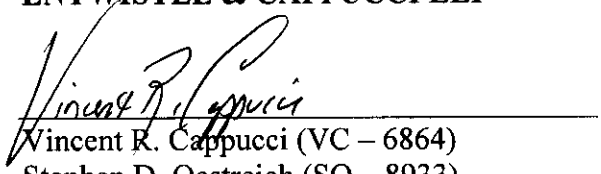
JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: October 3, 2008

Respectfully Submitted,

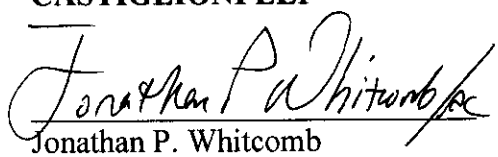
ENTWISTLE & CAPPUCCI LLP



Vincent R. Cappucci (VC – 6864)
Stephen D. Oestreich (SO – 8933)
Robert N. Cappucci (RC – 2193)
Jonathan H. Beemer (JB – 0458)
280 Park Avenue, 26th Floor West
New York, New York 10017

Telephone: (212) 894-7200
Facsimile: (212) 894-7272

DISERIO, MARTIN, O'CONNOR & CASTIGLIONI LLP



Jonathan P. Whitcomb
One Atlantic Street
Stamford, CT 06901
Telephone: (203) 358-0800
Facsimile: (203) 348-2321

Attorneys for Plaintiff

CERTIFICATION OF BRIAN JARMAIN

I, Brian Jarmain, hereby declare that:

1. I have reviewed a copy of the complaint to be filed against Federal National Mortgage Association and related defendants in this matter.

2. I did not acquire any of the relevant securities at the direction of plaintiff's counsel or in order to participate in any private action under the federal securities laws.

3. I am willing to serve as a representative party in this action and I recognize my duties as such, including monitoring and directing the litigation, and providing testimony at deposition and trial, if necessary.

4. I will not accept any payment for serving as a representative party beyond my *pro rata* share of any recovery, except reasonable costs and expenses, such as lost wages and travel expenses, directly related to the class representation, as ordered or approved by the Court pursuant to law.

5. I have not sought to serve or served as a representative party for a class in any action under the federal securities laws within the past three years.

6. My transactions during the proposed class period in Federal National Mortgage Association 8.25% Non-Cumulative Preferred Stock, Series T are described in the chart attached hereto as Schedule A.

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

Executed this 30 day of September, 2008

By: Brian Jarmain
Brian Jarmain

SCHEDULE A

Date	Purchase/Sale	Quantity	Price Per Share
5/14/08	Purchase	2,000	$25.00