Summary of the Litigation: *In re Fannie Mae Securities Litigation,* Consolidated Civil Action No. 1:04-CV-01639, U. S. District Court, District of Columbia (Judge Richard Leon)

Nature of Action. It is a securities fraud class action for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5. The defendants are: Fannie Mae, Franklin Raines (former COB and CEO), Timothy Howard (former CFO), Leanne Spencer (former Controller), and KPMG LLP (former auditor of Fannie).

Defendants engaged in the largest financial fraud in U.S. corporate history. Fannie filed a financial restatement in December 2006, in which it admitted to overstating its income by $10.3 billion during the class period and violating generally accepted accounting principles (GAAP) and other accounting rules in at least *30 different areas,* to hide its true earnings volatility from investors and to maximize the compensation of Defendants Raines, Howard and Spencer. For example, Raines received total compensation of $91 million from 1998 through 2003.

Lead Plaintiffs and Counsel. The Court appointed Lead Plaintiffs Ohio Public Employees Retirement System (OPERS) and State Teachers Retirement System of Ohio (STRS) as Class Representatives and Waite, Schneider Bayless & Chesley Co., L.P.A. as Lead Class Counsel and Bernstein Liebhard & Lifshitz LLP as Co-Lead Class Counsel.

Class. The Court certified as a class the purchasers of the publicly traded common stock and call options of Fannie Mae, and sellers of Fannie Mae publicly traded put options, during the period from 4/17/01 through 12/22/04 (the "Class Period") who suffered damages thereby, excluding defendants and certain of their family members and affiliates. There are approximately **958,697** class members, comprised mainly of the nation's public and private pension funds whose members include active and retired firemen, policemen, teachers, health care providers, transportation workers, public safety workers, and other public service employees. These pension funds, in turn, represent over 30 million pensioners in almost all 50 states.

Liability Found in Rudman and OFHEO Investigations. Fannie Mae hired former Senator Warren Rudman and the law firm of Paul, Weiss, Rifkind, Wharton & Garrison to conduct an internal investigation. Senator Rudman ultimately found that Fannie Mae's accounting practices in many areas were not consistent with GAAP and aspects of Fannie Mae's accounting were *designed* to show stable earnings growth and achieve forecasted earnings.

Fannie Mae's regulator, the Office of Federal Housing Oversight ("OFHEO") also found that defendants had applied accounting methods and practices that did not comply with GAAP and that "management sought to misapply and ignore accounting principles for the purposes of meeting investment analysts expectations" and thereby maximizing the compensation of Raines, Howard and Spencer.

SEC and OFHEO Settlements. The Securities and Exchange Commission ("SEC") also filed a lawsuit against Fannie Mae for securities fraud. The SEC and OFHEO settled their claims against Fannie Mae in May 2006 in exchange for Fannie Mae paying a $400 million civil penalty ($50 million went to OFHEO and $350 million went to a SEC fair fund that was distributed to certain investors in Fannie Mae, including some class members). OFHEO subsequently entered into following settlements with individuals: Raines - $24.7 million; Howard - $6.4 million; Spencer - $275,000.