

**UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION**

NON-PROSECUTION AGREEMENT

1. This agreement arises out of an investigation by the Division of Enforcement (the "Division") of the United States Securities and Exchange Commission (the "Commission") into possible violations of the federal securities laws by the Federal National Mortgage Association (the "Respondent" or "Fannie Mae") and others that occurred in or about December 2006 through September 6, 2008, arising from, among other things, public statements concerning Fannie Mae's exposure to Subprime and Alt-A mortgages (collectively, the "Investigation"). Prior to a public enforcement action being brought by the Commission against Fannie Mae, without admitting or denying liability, Respondent has offered to accept responsibility for its conduct and to not dispute, contest, or contradict the factual statements set forth in Exhibit A, as specifically provided herein. Accordingly, the Commission and the Respondent enter into this Non-Prosecution Agreement (the "Agreement").

2. The Respondent is a corporation organized and operated under the laws of the United States of America, subject to the ongoing supervision of the Federal Housing Finance Agency ("FHFA"). On September 6, 2008, FHFA placed the Respondent into conservatorship, and as conservator, succeeded to all rights, titles, powers and privileges of the Respondent and its shareholders, officers, and directors with respect to the Respondent and its assets. As conservator, FHFA maintains a continuous on-site presence at the Respondent and provides substantial oversight over the Respondent, including, among other things, with respect to its corporate governance, regulatory compliance and operations. In addition, the United States Treasury has made substantial capital investments in the Respondent and holds senior preferred stock, as well as warrants representing an ownership stake of up to 79.9 percent of the Respondent's common stock.

3. In entering into this Agreement, the Commission recognizes the unique circumstances presented by the Respondent's current status, including the financial support provided to the Respondent by the U.S. Treasury, the role of another government agency (FHFA) as conservator, and the costs that may be imposed on U.S. taxpayers. Based on these circumstances and in consideration of the public interest, subject to the full, truthful, and continuing cooperation of the Respondent as described below and its satisfactory performance of all obligations and undertakings herein, the Commission and Respondent enter into this Agreement with the terms and conditions contained herein.

**COOPERATION**

4. The Respondent agrees to cooperate fully and truthfully in the Investigation and any other related enforcement litigation or proceeding to which the Commission is a party (the "Proceedings"), without regard to the time period in which the cooperation is required ("Cooperation Period"). In addition, the Respondent agrees to cooperate fully and truthfully, when directed by the Division's staff, in any other related official investigation or proceeding by any U.S. federal agency (the "Other Proceedings"). The Respondent acknowledges and

understands that its ongoing cooperation with the Commission is an important and material factor underlying the Commission's decision to enter into this Agreement. The full, truthful, and continuing cooperation of the Respondent shall include, but not be limited to:

- a. identifying, assembling, organizing and producing, in a responsive and prompt manner, all non-privileged, non-attorney work-product documents, information, and other materials (including but not limited to providing reports or analyses of data concerning Respondent's models, credit risk reporting or data systems) to the Commission as requested by the Division's staff, wherever located, in the possession, custody, or control of the Respondent;
- b. providing declarations authenticating all documents, information, and other materials produced to the Commission by Respondent upon request by the Division's staff;
- c. providing declarations, upon request by the Division's staff, certifying that documents, information, and other materials produced to the Commission by Respondent comply with Federal Rule of Evidence 902(11)(A-C);
- d. providing Federal Rule of Civil Procedure 30(b)(6) witnesses, and authenticating documents, for the purpose of establishing the facts set forth in Exhibit A;
- e. using its best efforts to secure the full, truthful, and continuing cooperation, as defined in Paragraph 5, of Fannie Mae's current and former board members, officers, employees and agents, including making these persons available, when requested to do so by the Division's staff, for interviews and the provision of testimony in the investigation, deposition, trial and other judicial proceedings in connection with the Proceedings or Other Proceedings;
- f. authenticating all documents, information, and other materials identified by the Division's staff, to the extent able to do so;
- g. responding to all inquiries, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings;
- h. producing to the Commission, in a responsive and prompt manner, any documents, information and materials not previously produced to the Commission that are provided formally or informally to any party for use in the Proceedings or Other Proceedings at the request of such party or otherwise;
- i. notifying the Division's staff, in a prompt manner, of the receipt and substance of any request for documents, information or materials by a party to the Proceedings or Other Proceedings or the scheduling or facilitation of interviews or meetings between parties to the Proceedings or Other Proceedings (or their counsel) and any of Fannie Mae's current and former board members, officers, employees and agents in connection with the Proceedings or Other Proceedings;
- j. maintaining the confidentiality of communications with the Division's staff relating to the cooperation required under paragraphs a-i above, and refusing to enter into, not entering into, modifying or withdrawing from existing formal or informal joint-defense agreements or arrangements with any person relating to the Proceedings or Other Proceedings to

the extent such agreements limit Respondent's ability to provide or share information with the Commission; *and*,

k. providing appropriate assistance to the Commission to obtain documents or other information necessary for the Commission to assess and respond to defenses raised in the Proceedings or Other Proceedings.

5. The full, truthful, and continuing cooperation of each person described in Paragraph 4(e) above will be subject to the procedures and protections of this Paragraph, and shall include, but not be limited to:

a. producing all non-privileged documents, information, and other materials as requested by the Division's staff;

b. appearing for interviews, at such times and places as requested by the Division's staff;

c. authenticating all documents, information, and other materials identified by the Division's staff, to the extent able to do so;

d. responding to all inquiries, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings; *and*,

e. testifying at deposition, at trial and in other judicial proceedings, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings.

#### STATUTE OF LIMITATIONS

6. The Respondent agrees that the running of any statute of limitations applicable to any action or proceeding against it authorized, instituted, or brought by or on behalf of the Commission arising out of the Investigation (the "Enforcement Proceeding"), including any sanctions or relief that may be imposed therein, is tolled and suspended during the Cooperation Period.

a. The Respondent and any of its attorneys or agents shall not include the Cooperation Period in the calculation of the running of any statute of limitations or for any other time-related defense applicable to the Enforcement Proceeding, including any sanctions or relief that may be imposed therein, in asserting or relying upon any such time-related defense.

b. This agreement shall not affect any applicable statute of limitations defense or any other time-related defense that may be available to Respondent before the commencement of the Cooperation Period or be construed to revive an Enforcement Proceeding that may be barred by any applicable statute of limitations or any other time-related defense before the commencement of the Cooperation Period.

c. The running of any statute of limitations applicable to the Enforcement Proceeding shall commence again after the end of the Cooperation Period, unless there is an extension of the tolling period executed in writing by or on behalf of the parties hereto.

d. This agreement shall not be construed as an admission by the Commission relating to the applicability of any statute of limitations to the Enforcement Proceeding, including any sanctions or relief that may be imposed therein, or to the length of any limitations period that may apply, or to the applicability of any other time-related defense.

#### UNDERTAKINGS

7. During the Cooperation Period, the Respondent understands and agrees to perform the following undertakings:

a. to provide written notification to the Division, within five days, if it has been questioned in the context of an investigation, charged, or convicted of an offense related to the securities laws by any federal, state, or local law enforcement organization or regulatory agency; and

b. to submit a report to the Division detailing its efforts to identify and implement improved disclosure procedures since being placed into conservatorship on September 6, 2008, and, if requested, to meet with the Division's staff to discuss the report and its progress with respect to its obligations pursuant to this Agreement.

#### PUBLIC STATEMENTS

8. The Respondent agrees not to take any action or to make or permit any public statement through present or future attorneys, employees, agents, or other persons authorized to speak for it ("Related Person"), except in legal proceedings in which the Commission is not a party, denying, directly or indirectly, any aspect of this Agreement or creating the impression that the statements in Exhibit A to this Agreement are without factual basis. This paragraph is not intended to apply to any statement made by an individual in the course of any criminal, civil, or regulatory proceeding initiated by the government or self-regulatory organization against such individual, unless such individual is speaking on behalf of the Respondent.<sup>1</sup> If it is determined by the Commission that a public statement by the Respondent or any Related Person contradicts in whole or in part this Agreement, at its sole discretion, the Commission may bring an enforcement action in accordance with Paragraphs 15 through 18, but only provided that Respondent does not cure the statement by promptly making appropriate public statements or court filings satisfactory to the Commission after a reasonable opportunity to do so by the Commission.

9. Prior to issuing any press release concerning this Agreement, the Respondent agrees to have the text of the release approved by the staff of the Division.

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<sup>1</sup> Nothing in this Agreement affects Respondent's and Related Person's (i) testimonial obligations or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Commission is not a party.

## SERVICE

10. The Respondent agrees to serve by hand delivery or by next-day mail all written notices and correspondence required by or related to this Agreement to Charles Cain, Assistant Director, 100 F Street, N.E., Washington, D.C. 20549 ((202) 551-4911), unless otherwise directed in writing by the staff of the Division.

## VIOLATION OF AGREEMENT

11. The Respondent understands and agrees that it shall be a violation of this Agreement if it knowingly provides false or misleading information or materials in connection with the Proceedings or Other Proceedings. In the event of such misconduct, the Division will advise the Commission of the Respondent's misconduct and may make a criminal referral for providing false information (18 U.S.C. § 1001), contempt (18 U.S.C. §§ 401-402) and/or obstructing justice (18 U.S.C. § 1503 *et seq.*).

12. The Respondent understands and agrees that should the Division determine that the Respondent has failed materially to comply with any term or condition of this Agreement, the Division will notify the Respondent or its counsel of the fact and provide an opportunity for the Respondent to make a Wells submission pursuant to the Securities Act of 1933 Release No. 5310. Under these circumstances, the Division may, in its sole discretion and not subject to judicial review, recommend to the Commission an enforcement action against the Respondent for any securities law violations, including, but not limited to, the substantive offenses relating to the Investigation.

13. The Respondent understands and agrees that in any future enforcement action resulting from its violation of the Agreement, any documents, statements, information, testimony, or evidence provided by it during the Investigation, Proceedings or Other Proceedings, and any leads derived there from, may be used against it in future legal proceedings.

14. In the event it breaches this Agreement, the Respondent agrees not to dispute, contest, or contradict the factual statements contained in Exhibit A, or their admissibility, in any future Commission enforcement action against it.

## COMPLIANCE WITH AGREEMENT

15. Subject to the full, truthful, and continuing cooperation of the Respondent, as described in Paragraphs 4 and 5, and compliance by Respondent with all obligations and undertakings in this Agreement, the Commission agrees not to bring any enforcement action or proceeding against the Respondent arising from the Investigation. This Agreement should not, however, be deemed to exonerate the Respondent or be construed as a finding by the Commission that violations of the federal securities laws have not occurred.

16. The Respondent understands and agrees that this Agreement does not bind other U.S. federal, state or self-regulatory organizations, but the Commission may, at its discretion, issue a letter to these organizations detailing the fact, manner, and extent of its cooperation during the Proceedings or Other Proceedings, upon the written request of the Respondent.

17. The Respondent understands and agrees that if it sells, merges, or transfers all or substantially all of its business operations as they exist as of the date of this Agreement, whether such a sale is structured as a stock or asset sale, merger, or transfer during the Cooperation Period, it shall include in any contract for sale, merger, or transfer a provision binding the purchaser or successor in interest to the obligations set forth in this Agreement.

18. The Respondent understands and agrees that the Agreement only provides protection against enforcement actions arising from the Investigation and does not relate to any other violations, or to any individual or entity other than the Respondent.

#### VOLUNTARY AGREEMENT

19. The Respondent's decision to enter into this Agreement is freely and voluntarily made and is not the result of force, threats, assurances, promises, or representations other than those contained in this Agreement.

20. The Respondent has read and understands this Agreement. Furthermore, the Respondent has reviewed all legal and factual aspects of this matter with its attorney and is fully satisfied with its attorney's legal representation. The Respondent has thoroughly reviewed this Agreement with its attorney and has received satisfactory explanations concerning each paragraph of the Agreement. After conferring with its attorney and considering all available alternatives, the Respondent has made a knowing decision to enter into the Agreement.

21. The Respondent represents that its Board of Directors has duly authorized, in the resolution attached as Exhibit B to this Agreement, the execution and delivery of this Agreement, and that the person signing this Agreement has authority to bind the Respondent.

#### ENTIRETY OF AGREEMENT

22. This Agreement constitutes the entire agreement between the Commission and the Respondent, and supersedes all prior understandings, if any, whether oral or written, relating to the subject matter herein.

23. This Agreement cannot be modified except in writing, signed by the Respondent and an authorized representative of the Commission.

24. This agreement may be executed in counterparts.

25. In the event an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring the Commission or the Respondent by virtue of the authorship of any of the provisions of the Agreement.

The signatories below acknowledge acceptance of the foregoing terms and conditions.

RESPONDENT:

<u>December 13, 2011</u> Date	<u>Michael J. Williams</u> Michael J. Williams President and CEO, Fannie Mae 3900 Wisconsin Avenue NW Washington, DC 20016
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Attached hereto is the Certificate of the Secretary to the Board of Directors of Federal National Mortgage Association, certifying that Michael J. Williams is, and at the time of the signing and delivery of the Agreement was, the duly appointed, qualified and acting Chief Executive Officer of Fannie Mae and duly authorized to execute the Agreement on behalf of Fannie Mae, and that the signature of Michael J. Williams appearing on the Agreement is his genuine signature.

RESPONDENT'S COUNSEL:

Approved as to form:

<u>December 13, 2011</u> Date	<u>Harry J. Weiss</u> Harry J. Weiss, Esq. WilmerHale 1875 Pennsylvania Avenue NW Washington, D.C. 20006
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SECURITIES AND EXCHANGE COMMISSION  
DIVISION OF ENFORCEMENT:

<u>December 15, 2011</u> Date	<u>Robert Khuzami</u> Robert Khuzami Director, Enforcement Division United States Securities and Exchange Commission 100 F Street, N.E. Washington, D.C. 20549
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## EXHIBIT A

### STATEMENT OF FACTS

#### *Fannie Mae*

1. Federal National Mortgage Association (“Fannie Mae”) is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Fannie Mae provides market liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae mortgage-backed securities (“MBS”), known as Fannie Mae MBS, and purchasing mortgage loans and mortgage-related securities in the secondary market for its mortgage portfolio. In or about February 2008, Fannie Mae began reporting billion-dollar credit losses resulting from its portfolio of mortgage-related assets and guaranty contracts. For the period January 1, 2007 through March 31, 2011, Fannie Mae reported cumulative net losses of \$153.2 billion.
2. From 1992 until July 30, 2008, Fannie Mae’s primary regulator was the Office of Federal Housing Enterprise Oversight (“OFHEO”).
3. On July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008, the Federal Housing Finance Agency (“FHFA”) became Fannie Mae’s primary regulator. On September 6, 2008, FHFA placed Fannie Mae into conservatorship, and as conservator succeeded to all rights, titles, powers and privileges of Fannie Mae, its shareholders, and the officers or directors of Fannie Mae with respect to the company and its assets.
4. On July 8, 2010, Fannie Mae’s common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange. Fannie Mae’s common stock currently is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol “FNMA.” Fannie Mae’s debt securities are actively traded in the over-the-counter market.
5. From December 6, 2006 through November 10, 2008 (the “Relevant Period”), Fannie Mae provided mortgage credit risk disclosures in its periodic filings and other filings with the Securities and Exchange Commission (the “Commission”) relating to Fannie Mae’s single-family mortgage credit book of business, which consisted of whole single-family mortgage loans and Fannie Mae MBS backed by single-family mortgage loans (whether held in its portfolio or by third parties).
6. During the Relevant Period, Fannie Mae provided disclosures regarding its exposure to Alt-A and subprime mortgage loans in its single-family mortgage credit book of business.

## *Subprime Disclosures*

7. On February 27, 2007 Fannie Mae provided its first public quantitative disclosure of its exposure to subprime mortgage loans in a 12b-25 filing with the Commission (the “February 2007 12b-25 Filing”).
8. The February 2007 12b-25 Filing stated that “[a]lthough there is no uniform definition for sub-prime and Alt-A loans across the mortgage industry, Alt-A loans are generally defined as loans with lower or alternative documentation requirements, while sub-prime loans typically are made to borrowers with weaker credit histories.” The February 2007 12b-25 Filing further stated:
  - “We estimate that approximately 0.2% of our single-family mortgage credit book of business as of December 31, 2006 consisted of sub-prime mortgage loans or structured Fannie Mae MBS backed by sub-prime mortgage loans.”
  - “We estimate that approximately 2% of our single-family mortgage credit book of business as of December 31, 2006 consisted of private-label mortgage-related securities backed by sub-prime mortgage loans and, to a lesser extent, resecuritizations of private-label mortgage-related securities backed by sub-prime mortgage loans.”
9. During the Relevant Period, one of Fannie Mae’s primary mortgage loan products targeted towards borrowers with weaker credit histories was called Expanded Approval/Timely Payment Rewards (“EA”). As of December 31, 2006, the percentage of EA loans held on Fannie Mae’ book of business was 1.8%.
10. The Unpaid Principal Balance (“UPB”) of EA loans owned or securitized by Fannie Mae in its single-family mortgage credit book of business was \$39.7 billion as of December 31, 2005, \$43.3 billion as of December 31, 2006, and \$55.6 billion as of December 31, 2007. The UPB of loans Fannie Mae classified and disclosed as subprime, which it owned or securitized in its single-family mortgage credit book of business, was \$2.3 billion as of December 31, 2005, \$4.8 billion as of December 31, 2006, and \$8.3 billion as of December 31, 2007. In addition to EA, Fannie Mae had other mortgage loan programs, such as My Community Mortgage (“MCM”) that served low-to-moderate income borrowers, including borrowers with weaker credit histories.
11. In anticipation of communications with investors in March, 2004, Fannie Mae’s then-Chief Executive Officer (“CEO”) received a document listing questions and answers (“Q&A”) relating to Fannie Mae’s business. That document stated in part: “.... Delinquencies in the subprime market have been rising. What is Fannie Mae’s exposure to subprime loans? Does subprime include Alt-A loans? ANSWER [:] Our strong risk management tools and practices have enabled expansion of Fannie Mae’s product offerings to include products targeted to borrowers with minor credit blemishes. The most notable product line for reaching these borrowers, Expanded Approval with Timely

Payment Rewards, has grown in volume but represents less than two percent of Single Family credit portfolio.” Further, in March of 2005, Fannie Mae’s CEO was provided with a Q&A that stated in part: “... Delinquencies in the subprime market have been rising. What is Fannie Mae’s exposure to subprime loans? Does subprime include Alt-A loans? ANSWER [:] Fannie Mae’s subprime exposure primarily consists of our own product line for serving credit-impaired borrowers—the Expanded Approval with Timely Payment Rewards product, and mortgage related securities backed by subprime loans that we hold in our mortgage portfolio ...”

12. Prior to the February 2007 12b-25 Filing, in April 2005 and April 2006, in response to requests for information on Fannie Mae single-family subprime loans, Fannie Mae provided OFHEO with data and information on mortgage loan purchases and mortgage loan securities under its EA program and described the EA loans as its “most significant initiative to serve credit-impaired borrowers.”
13. EA loans were not included in Fannie Mae’s calculation or quantification of its subprime mortgage loans or other subprime exposure set forth in Fannie Mae’s February 2007 12b-25 Filing.
14. In its February 2007 12b-25 Filing, Fannie Mae publicly disclosed that its subprime exposure as of December 31, 2006 was approximately 2.2% of its single-family mortgage credit book of business, of which approximately 0.2% (\$4.8 billion) consisted of subprime mortgage loans or structured Fannie Mae MBS backed by subprime mortgage loans. Fannie Mae’s exposure to EA loans in its single-family mortgage credit book of business was approximately \$43.3 billion as of December 31, 2006.
15. During the Relevant Period, Fannie Mae tracked the serious delinquency rate (“SDQ Rate”) of its mortgage loan products in order to measure the credit risk of its loan portfolio. Fannie Mae defined SDQ as a loan that is 90 days or more past due and loans that are in the process of foreclosure. Generally, the higher the SDQ Rate of loans, the higher the credit risk of those loans. As Fannie Mae stated in its 2004 Form 10-K: “The SDQ is an indicator of potential future foreclosures, although most loan that become seriously delinquent do not result in foreclosure. The rate at which new loans become seriously delinquent and the rate at which existing seriously delinquent loans are resolved significantly affect the level of future credit losses.”
16. Internal reports show that Fannie Mae’s publicly disclosed subprime loans had an SDQ rate of 4.72% as of December 31, 2006, and Fannie Mae’s EA loans had an SDQ rate of 5.57% as of December 31, 2006.
17. During the Relevant Period, information described in paragraphs 7-16 above was provided and/or available to senior executives, including Fannie Mae’s CEO, Fannie Mae’s Executive Vice President for its Single Family business (“Single Family EVP”), and its Chief Risk Officer (“CRO”) through internal reports, presentations, and briefings.

18. The CEO, the Single Family EVP and the CRO each reviewed and approved the February 2007 12b-25 Filing.
19. On May 2, 2007, Fannie Mae filed its 2005 Form 10-K with the Commission (the “May 2, 2007 10-K Filing”). This filing stated “‘Subprime mortgage’ generally refers to a mortgage loan made to a borrower with a weaker credit profile than that of a prime borrower. As a result of the weaker credit profile, subprime borrowers have a higher likelihood of default than prime borrowers. Subprime mortgage loans are often originated by lenders specializing in this type of business, using processes unique to subprime loans. In reporting our subprime exposure, we have classified mortgage loans as subprime if the mortgage loans are originated by one of these specialty lenders or, for the original or resecuritized private-label, mortgage-related securities that we hold in our portfolio, if the securities were labeled as subprime when sold.”
20. In the May 2, 2007 10-K Filing, Fannie Mae also stated that “subprime loans represented approximately 2.2% of our single-family mortgage credit book of business as of December 31, 2006, of which approximately 0.2% consisted of subprime mortgage loans or structured Fannie Mae MBS backed by subprime mortgage loans and approximately 2% consisted of private-label mortgage-related securities backed by subprime mortgage loans and, to a lesser extent, resecuritizations of private-label mortgage-related securities backed by subprime mortgage loans.”
21. The calculation and quantification of Fannie Mae’s subprime mortgage loans or other subprime exposure set forth in the May 2, 2007 10-K Filing did not include Fannie Mae’s exposure to EA loans. As of December 31, 2006, the percentage of EA loans held on Fannie Mae’s single-family mortgage credit book of business was 1.8%.
22. During the Relevant Period, the Department of Housing and Urban Development provided a list of lenders specializing in the subprime business (the “HUD Subprime Lender List”). As of December 31, 2006, the HUD Subprime Lender List consisted of 210 subprime lenders.
23. In calculating and quantifying its subprime loans and other subprime exposure as disclosed in the May 2, 2007 10-K Filing, Fannie Mae did not use the HUD Subprime Lender List to identify lenders “specializing in this type of business” and included loans only from fifteen loan originators. Fannie Mae did not publicly disclose that loans from only fifteen originators were considered when calculating its subprime exposure or the names of those originators.
24. During the Relevant Period, Fannie Mae purchased and securitized loans from lenders on the HUD Subprime Lender List but did not include those loans when calculating or quantifying its subprime loans.
25. On May 2, 2007, Fannie Mae’s CEO certified the May 2, 2007 10-K Filing. The certification stated, among other things:

- a. [T]his report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
  - b. [T]he financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
26. The Single Family EVP and the CRO signed sub-certifications for the May 2, 2007 10-K Filing. Those sub-certifications stated, among other things:
  - a. [T]he Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Report.
  - b. [T]he financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the business segments for which I am responsible as of, and for, the periods presented in the Report.
27. On August 16, 2007, Fannie Mae provided a virtually identical subprime definition and the same subprime quantitative exposure amounts in its 2006 Form 10-K filed with the Commission (the "August 2007 10-K Filing") as it did in its May 2, 2007 10-K Filing.
28. Fannie Mae's calculation and quantification of its subprime loans or other subprime exposure set forth in the August 2007 10-K Filing did not include its EA loans.
29. On August 16, 2007, simultaneous with filing its 2006 10-K, Fannie Mae filed an 8-K credit supplement (the "August 2007 Credit Supplement Filing"), which disclosed that, as of June 30, 2007, 1% of its single family mortgage credit book of business consisted of loans with both a FICO Score below 620 and Original-Loan-To-Value ("OLTV") Greater than 90% (the "Low FICO/High OLTV Loans").
30. As of June 30, 2007, only 15.5% of the EA loans had both a FICO score below 620 and an OLTV greater than 90%.
31. During the Relevant Period, information described in paragraphs 19-30 was provided and/or available to the CEO, the Single Family EVP and the CRO through internal reports, presentations, and briefings.
32. The CEO certified the August 2007 10-K Filing and reviewed and approved the August 2007 Credit Supplement Filing. The certification was substantially similar to the representations set forth above in Paragraph 25.
33. The Single Family EVP and the CRO sub-certified the August 2007 10-K Filing. Those sub-certifications were substantially similar to the representations set forth above in

Paragraph 26. The Single Family EVP and the CRO reviewed and approved the August 2007 Credit Supplement Filing.

34. On November 9, 2007, Fannie Mae simultaneously filed its first, second, and third quarter 2007 Form 10-Q filings with the Commission (the "November 2007 10-Q Filings").
35. Each of the November 2007 10-Q Filings stated: "A subprime mortgage loan generally refers to a mortgage loan made to a borrower with a weaker credit profile than that of a prime borrower. As a result of the weaker credit profile, subprime borrowers have a higher likelihood of default than prime borrowers. Subprime mortgage loans are typically originated by lenders specializing in this type of business or by subprime divisions of large lenders, using processes unique to subprime loans. In reporting our subprime exposure, we have classified mortgage loans as subprime if the mortgage loans are originated by one of these specialty lenders or a subprime division of a large lender."
36. During the Relevant Period, Fannie Mae did not keep separate statistical reports or otherwise track loans made by the subprime division of originators. It therefore could not quantify the number of loans it acquired or securitized that were originated by the subprime division of a large lender.
37. Throughout most of the Relevant Period, Fannie Mae's largest customer was Countrywide Financial Corporation. Countrywide's retail subprime lending division was known as Full Spectrum Lending.
38. Records indicate that Fannie Mae purchased or securitized \$7.7 billion worth of loans originated by Full Spectrum Lending in 2006, \$13.2 billion in 2007, and \$7.6 billion in 2008.
39. During the Relevant Period, Fannie Mae purchased or securitized loans from other subprime divisions of large lenders.
40. In the November 2007 10-Q Filings, Fannie Mae stated that approximately 0.2% of its total single-family mortgage credit book of business as of March 31, 2007 and June 30, 2007 consisted of subprime mortgage loans or Fannie Mae MBS backed by subprime mortgage loans and that this percentage increased to approximately 0.3% as of September 30, 2007. Fannie Mae also disclosed that less than 1% of its single-family business volume for the nine months ended September 30, 2007 consisted of subprime mortgage loans or Fannie Mae MBS backed by subprime mortgage loans.
41. In Fannie Mae's single family mortgage credit book of business, the dollar amount of the subprime loans and other subprime exposure as disclosed in each of Fannie Mae's February 2007 12b-25 Filing, May 2, 2007 10-K Filing, August 2007 10-K Filing or November 2007 10-Q Filings did not exceed \$8.3 billion.

42. Fannie Mae's quantitative subprime disclosure in the November 2007 10-Q Filings did not include its exposure to EA loans. Fannie Mae's quantitative exposure to EA loans for the periods covered by the Form 10-Qs was at least \$43 billion.
43. On November 9, 2007, Fannie Mae provided disclosure of its exposure to loans that were both Low FICO/High OLTV in its Form 8-K Credit Supplement that it filed concurrent with its November 2007 10-Q Filings with the Commission (the "November 2007 8-K Filings").
44. Fannie Mae's calculation and quantification of its exposure to loans that were both Low FICO/High OLTV in the November 2007 8-K Filings did not include all of its EA loans.
45. During the Relevant Period, members of Fannie Mae's senior management were provided with information indicating that Fannie Mae purchased and securitized loans from subprime divisions of large lenders such as Countrywide's Full Spectrum Lending. For example, in a February 2007 meeting, the then-CEO received a presentation on the volume of agency-eligible loans from each of Countrywide's four lending divisions, including Full Spectrum Lending.
46. The CEO certified the November 2007 10-Q Filings and reviewed and approved the November 2007 8-K Filings. The Single Family EVP and the CRO sub-certified the November 2007 10-Q Filings. The Single Family EVP and the CRO reviewed and approved the November 2007 8-K Filings.
47. Post-conservatorship, on November 10, 2008, in its third quarter Form 10-Q ("November 2008 10-Q Filing"), Fannie Mae disclosed for the first time that certain loans with features similar to subprime loans were not included in the calculation or quantification of Fannie Mae's subprime exposure. The November 2008 10-Q Filing stated in part: "We have classified mortgage loans as subprime if the mortgage loan is originated by a lender specializing in subprime business or by subprime divisions of large lenders. We apply these classification criteria in order to determine our ... subprime loan exposures; however, we have other loans with some features that are similar to ... subprime loans that we have not classified as ... subprime because they do not meet our classification criteria."
48. On February 24, 2011, in its Form 10-K for the fiscal year 2010, Fannie Mae stated for the first time: "We exclude from the subprime classification loans originated by these lenders if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter system."

### *Alt-A Disclosures*

49. In its February 2007 12b-25 Filing, Fannie Mae stated that Alt-A loans “are generally defined as loans with lower or alternative documentation requirements.”
50. Prior to May 2, 2007, Fannie Mae did not quantify its exposure to Alt-A loans in its public filings with the SEC or in other disclosures provided to investors.
51. Fannie Mae increased its acquisition of reduced documentation loans in its conventional single family mortgage guarantee business from at least 17.8% percent of new acquisitions in 2004 to at least 27.8% of new acquisitions in 2006.
52. From December 6, 2006 through May 31, 2008, according to internal Fannie Mae loan acquisition data reports, at least 25% of Fannie Mae’s loan acquisitions in its conventional single family mortgage guarantee business were reduced documentation loans.
53. On May 9, 2007, for the first time in a public filing, Fannie Mae quantified its exposure to Alt-A loans in a 12b-25 filed with the Commission (the “May 9, 2007 12b-25 Filing”).
54. In the May 9, 2007 12b-25 Filing, Fannie Mae stated that in reporting “Alt-A exposure, we have classified mortgage loans as Alt-A if the lenders that deliver the mortgage loans to us have classified the loans as Alt-A based on documentation or other product features, or, for the original or resecuritized private-label, mortgage-related securities that we hold in our portfolio, if the securities were labeled as Alt-A when sold. We estimate that approximately 11% of our total single-family mortgage credit book of business as of both March 31, 2007 and December 31, 2006 consisted of Alt-A mortgage loans or structured Fannie Mae MBS backed by Alt-A mortgage loans.”
55. Fannie Mae had a coding system to identify the loan characteristics for certain mortgages (“Special Feature Codes”). Loan sellers in the lender channel were instructed by Fannie Mae to use certain Special Feature Codes in delivering loans to Fannie Mae. Thus, Fannie Mae’s coding system determined those loans that such sellers classified as Alt-A.
56. In calculating its Alt-A exposure, Fannie Mae excluded what it classified as lender-selected loans (“Lender-Selected Reduced Documentation Loans”).
57. During the Relevant Period, Fannie Mae did not publicly disclose that it excluded Lender-Selected Reduced Documentation Loans from its reported Alt-A exposure.
58. At times during the Relevant Period, Lender-Selected Reduced Documentation Loans had an SDQ Rate that was on average 1.4 times higher than Fannie Mae’s full documentation loans with a similar credit risk profile.

59. As of March 31, 2007, at least 17.9% of Fannie Mae's total conventional single-family mortgage guarantee business consisted of reduced documentation mortgage loans or structured Fannie Mae MBS backed by reduced documentation mortgage loans.
60. During the Relevant Period, information described in paragraphs 49-59 was provided and/or available to the CEO, the Single Family EVP and the CRO through internal reports, presentations, and/or briefings.
61. Fannie Mae's CEO certified periodic filings during the Relevant Period that included Fannie Mae's Alt-A disclosures. Those certifications were substantially similar to the representations set forth above in Paragraph 25.
62. The Single Family EVP and Fannie Mae's CRO sub-certified periodic filings during the Relevant Period that included Fannie Mae's Alt-A disclosures. Those sub-certifications were substantially similar to the representations set forth above in Paragraph 26.
63. Fannie Mae's CEO, its Single Family EVP and its CRO reviewed and approved Alt-A disclosures contained in Fannie Mae's 12b-25 filings during the Relevant Period.
64. Post-conservatorship, in its November 2008 10-Q Filing, Fannie Mae disclosed for the first time that it excluded certain loans with features similar to Alt-A loans from its calculation and quantification of its Alt-A exposure. The November 2008 10-Q Filing stated in part: "We have classified mortgage loans as Alt-A if the lender that delivers the mortgage to us has classified the loans as Alt-A based on documentation or other features; however, we have other loans with some features that are similar to ... Alt-A loans that we have not classified as ... Alt-A because they do not meet our classification criteria."