

RISK RETENTION LETTER

Federal National Mortgage Association
3900 Wisconsin Avenue, NW
Washington, DC 20016

May 10, 2017

Wells Fargo Bank, N.A.
Corporate Trust Operations
MAC N9300-070
600 South Fourth Street, 7th Floor
Minneapolis, Minnesota 55479
Attention: Corporate Trust Services — CONN-AVE 2017-C03

Re: FANNIE MAE CONNECTICUT AVENUE SECURITIES, SERIES 2017-C03, US \$568,164,000 Class 1M-1 Notes, US \$607,347,000 Class 1M-2 Notes, US \$199,837,000 Class 1M-2A Notes, US \$199,837,000 Class 1A-I1 Notes, US \$199,837,000 Class 1A-I2 Notes, US \$199,837,000 Class 1A-I3 Notes, US \$199,837,000 Class 1A-I4 Notes, US \$199,837,000 Class 1E-A1 Notes, US \$199,837,000 Class 1E-A2 Notes, US \$199,837,000 Class 1E-A3 Notes, US \$199,837,000 Class 1E-A4 Notes, US \$203,755,000 Class 1M-2B Notes, US \$203,755,000 Class 1B-I1 Notes, US \$203,755,000 Class 1B-I2 Notes, US \$203,755,000 Class 1B-I3 Notes, US \$203,755,000 Class 1B-I4 Notes, US \$203,755,000 Class 1E-B1 Notes, US \$203,755,000 Class 1E-B2 Notes, US \$203,755,000 Class 1E-B3 Notes, US \$203,755,000 Class 1E-B4 Notes, US \$199,837,000 Class 1M-2C Notes, US \$199,837,000 Class 1C-I1 Notes, US \$199,837,000 Class 1C-I2 Notes, US \$199,837,000 Class 1C-I3 Notes, US \$199,837,000 Class 1C-I4 Notes, US \$199,837,000 Class 1E-C1 Notes, US \$199,837,000 Class 1E-C2 Notes, US \$199,837,000 Class 1E-C3 Notes, US \$199,837,000 Class 1E-C4 Notes, US \$403,592,000 Class 1E-D1 Notes, US \$403,592,000 Class 1E-D2 Notes, US \$403,592,000 Class 1E-D3 Notes, US \$403,592,000 Class 1E-D4 Notes, US \$403,592,000 Class 1E-D5 Notes, US \$407,510,000 Class 1E-F1 Notes, US \$403,592,000 Class 1E-F2 Notes, US \$407,510,000 Class 1E-F3 Notes, US \$407,510,000 Class 1E-F4 Notes, US \$407,510,000 Class 1E-F5 Notes, US \$403,592,000 Class 1-X1 Notes, US \$403,592,000 Class 1-X2 Notes, US \$403,592,000 Class 1-X3 Notes, US \$403,592,000 Class 1-X4 Notes, US \$407,510,000 Class 1-Y1 Notes, US \$407,510,000 Class 1-Y2 Notes, US \$407,510,000 Class 1-Y3 Notes, US \$407,510,000 Class 1-Y4 Notes and US \$195,918,000 Class 1B-1 Notes (collectively, the “Notes”).

This Risk Retention Letter is being delivered to the addressee on behalf of each Applicable Investor (as defined below) hereof in connection with the issuance by the Federal National Mortgage Association (the “**Issuer**” or **Fannie Mae**”) of the Notes pursuant to (a) a debt agreement dated as of the Closing Date (the “**Debt Agreement**”) between the Issuer and the Holders of the Notes and (b) a global agency agreement dated as of the Closing Date between the Issuer and Wells Fargo Bank, N.A. as global agent (the “**Global Agent**”).

1 DEFINITIONS

All capitalized terms used but not defined herein shall have the meaning given to such terms in the Debt Agreement. The following capitalized term shall have the following meaning:

“**Applicable Investor**” means each Holder of a beneficial interest in any Notes that is (i) an EEA credit institution or investment firm, (ii) an EEA insurer or reinsurer, (iii) an EEA undertaking for collective investment in transferable securities (UCITS) or (iv) an alternative investment fund to which Directive 2011/61/EU applies.

“**EEA**” means the European Economic Area.

2 REPRESENTATIONS

The Issuer represents and warrants to the addressee hereof:

- (a) the Issuer confirms it is a government-sponsored enterprise chartered by an Act of Congress in 1938 pursuant to the Federal National Mortgage Association Charter Act (the “**Charter Act**”), has full power and authority to own its assets and the securities proposed to be owned by it including the Retained Interest and to transact the business in which it is presently engaged;
- (b) the Issuer has full power and authority to execute and deliver this Risk Retention Letter and perform all of its obligations required hereunder and has taken all necessary action to authorize this Risk Retention Letter on the terms and conditions hereof and the execution, delivery and performance of this Risk Retention Letter and the performance of all obligations imposed upon it hereunder. No consent of any other person and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority, other than those that have been or shall be obtained in connection with this Risk Retention Letter, is required by the Issuer in connection with this Risk Retention Letter or the execution, delivery, performance, validity or enforceability of this Risk Retention Letter or the obligations imposed upon it hereunder; and
- (c) this Risk Retention Letter constitutes the legally valid and binding obligations of the Issuer enforceable against the Issuer in accordance with its terms, subject, as to enforcement, to (i) the effect of bankruptcy, examination, insolvency or similar laws affecting generally the enforcement of creditors' rights, as such laws would apply in the event of any bankruptcy, examination, receivership, insolvency or similar event applicable to the Issuer and (ii) general equitable principles (whether enforceability of such principles is considered in a proceeding at law or in equity).

3 COVENANTS

The Issuer hereby agrees, and irrevocably and unconditionally undertakes to the Global Agent, for the benefit of each Applicable Investor, that, in connection with (i) Article 405(1) of EU Regulation 575/2013, technical standards in relation thereto adopted by the European Commission and guidelines and other materials published by the European Banking Authority in relation thereto, (ii) Article 135 of the Solvency II Directive (Directive 2009/138/EC) as supplemented by the requirements in Articles 254 to 257 of the Commission Delegated Regulation (Regulation EU 2015/35), (iii) Article 50a of Directive 2009/65/EC – on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and applicable technical standards in relation thereto and (iv) Article 17 of the EU Alternative Investment Fund Managers Directive (“AIFMD”) and Articles 50 to 56, inclusive, of EU Regulation 231/2013 supplementing the AIFMD (collectively, “**EEA Retention Requirements**”), on an ongoing basis, so long as any Notes remain outstanding:

- (a) it will, as originator (as such term is defined for the purposes of the EEA Retention Requirements), retain a material net economic interest (the “**Retained Interest**”) in the exposure related to the Notes issuance transaction (the “**Transaction**”) of not less than 5%;
- (b) neither it nor its affiliates will sell, hedge or otherwise mitigate its credit risk under or associated with the Retained Interest or the Reference Obligations, except to the extent permitted in accordance with the EEA Retention Requirements; accordingly, neither it nor its affiliates will, through the Transaction or any subsequent transactions, enter into agreements that transfer or hedge more than a 95% *pro rata* share of the credit risk on any of (i) the Class 1A-H Reference Tranche, (ii) the Class 1M-1 and Class 1M-1H Reference Tranches (in the aggregate), (iii) the Class 1M-2 and Class 1M-2H Reference Tranches (in the aggregate), (iv) the Class 1M-2A and Class 1M-AH Reference Tranches (in the aggregate), (v) the Class 1M-2B and Class 1M-BH Reference Tranches (in the aggregate), (vi) the Class 1M-2C and Class 1M-CH Reference Tranches (in the aggregate), (vii) the Class 1B-1 and Class 1B-1H Reference Tranches (in the aggregate) or (viii) the Class 1B-2H Reference Tranche.
- (c) it will, upon written request and further subject to any applicable duty of confidentiality, provide such information in its possession as may reasonably be required to assist the Global Agent, for the benefit of each Applicable Investor, to satisfy the EEA Retention Requirements as of the Closing Date and at any time prior to maturity of the Notes;
- (d) it will confirm to the Global Agent in writing for reporting to Holders of the Notes its continued compliance with the undertakings set forth in paragraphs (a) and (b) above (which confirmation may be by email):
 - (i) on a monthly basis;

- (ii) following its determination that the performance of the Notes or the risk characteristics of the Notes or the Reference Obligations has materially changed; or
 - (iii) following a breach of the obligations included in the Debt Agreement or the Global Agency; and
- (e) it will promptly notify the Global Agent in writing if for any reason:
 - (i) it ceases to hold the Retained Interest in accordance with paragraph (a) above, or
 - (ii) it or any of its affiliates fails to comply with the covenants set out in paragraphs (b) and (c) above in any way.

4 MISCELLANEOUS

4.1 Governing Law

This Risk Retention Letter shall be construed in accordance with and governed by the laws of the United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate the purposes of the Charter Act or any provision of this Risk Retention Letter or the transactions governed thereby, the laws of the State of New York shall be deemed reflective of the laws of the United States.

4.2 Jurisdiction

The Issuer irrevocably submits to the non-exclusive jurisdiction of the United States federal court located in the Borough of Manhattan in the City of New York in any action or proceeding arising out of or relating to this Risk Retention Letter, and hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such federal court.

4.3 Notices

Any notice or demand to be given, made or served for any purposes under this Risk Retention Letter shall be given, made or served by sending the same by pre-paid post (first class if inland, first class airmail if overseas), facsimile transmission or e-mail or by delivering it by hand as follows:

To the Issuer:

Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016
Attention: Vice-President, Structured Transactions, Capital Markets
Telephone: 1-888-266-3457
E-mail: structured_transactions@fanniemae.com

with copies to:

Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016
Attention: Vice President, Deputy General Counsel, Securitization

Very truly yours,

**FEDERAL NATIONAL MORTGAGE
ASSOCIATION**