



## **Job Aid: Split, Bifurcated, and Interest Reduction Payment (IRP) Subsidy Loan Structures**

This product aid is provided to assist the Lender in delivering Split Mortgage Loans, Bifurcated Mortgage Loans, and Interest Reduction Payment (IRP) Subsidy loans in the Multifamily C&D™ system.

### **What is a Split Mortgage Loan?**

A Split Mortgage Loan consists of two Mortgage Loans, a Senior Mortgage Loan and a Subordinate Mortgage Loan, that are underwritten concurrently as a single credit, but documented as two separate Mortgage Loans (i.e., separate Loan Agreements, Notes, and Security Instruments). Each Mortgage Loan in a Split Mortgage Loan may have different loan terms (e.g., Maturity Date, required Prepayment Premium), which permit the Borrower to deleverage a portion of the total debt during the term of the Split Mortgage Loan. Both Mortgage Loans are submitted concurrently for purchase by Fannie Mae. Each Note must be entered separately in C&D. Additional Debt “Yes” must be selected and the other Notes must be entered as separate records in the Additional Debt section. Combined DSCR and LTV should be entered in C&D for both the Senior Mortgage Loan (i.e., the “A Loan”) and the Subordinate Mortgage Loan (i.e., the “B Loan”). Both the A Loan and the B Loan require Additional Disclosure.

### **What is a Bifurcated Mortgage Loan?**

A Bifurcated Mortgage Loan is a single Mortgage Loan where the aggregate amount of the debt is divided among two separate Notes having the same (i.e., *pari passu*) payment priority, with all Notes being secured by a single Security Instrument. A single Mortgage Loan where the aggregate amount of the debt is divided among three separate Notes having the same (i.e., *pari passu*) payment priority and secured by a single Security Instrument would be referred to a “Trifurcated Mortgage Loan”, and so on. Each Note in a Bifurcated Mortgage Loan may have different loan terms (e.g., Maturity Date, required Prepayment Premium), which permits the Borrower to pay off a portion of the total debt during the term of the Bifurcated Mortgage Loan. An example of a Bifurcated Mortgage Loan: one Note is subject to an Interest Reduction Program (IRP) subsidy and the other is not. Each Note must be entered separately in C&D. Because each Note in a Bifurcated Mortgage Loan has the same priority of payment, the Note in the larger amount should be entered in C&D as “Note A1”, and the smaller Note should be entered as “Note A2”. Additional Debt “Yes” must be selected and the other Notes must to be entered as separate records in the Additional Debt section. Combined DSCR and LTV should be entered in C&D for both Note A1 and Note A2 in a Bifurcated Mortgage Loan. A Bifurcated Mortgage Loan also requires Additional Disclosure.

### **What is an Interest Reduction Payment (IRP) Mortgage Loan?**

An Interest Reduction Payment (IRP) Mortgage Loan is a Mortgage Loan to a Borrower with an interest reduction payment on a HUD Section 236 Property that is collateral for the Mortgage Loan. (The payments were initially associated with an FHA Section 236 loan, with the IRP Payment reducing the effective interest rate on the Section 236 loan, hence the name).



IRP payments that have been “de-coupled” from the original Section 236 loan and have additional loan proceeds can be used to support one of the two notes in a Bifurcated Mortgage Loan structure, separate and apart from the other note that is sized based on project Underwritten Net Cash Flow (NCF). If the IRP Mortgage Loan is also a Bifurcated Mortgage Loan, then Underwritten NCF (Project Net Cash Flow plus income from the IRP subsidy) will be used to calculate the combined DSCR for Note A1 and Note A2. The Underwritten NCF, and combined DSCR and LTV should be entered in C&D for Note A1 and Note A2 in the Bifurcated Mortgage Loan structure, which again requires Additional Disclosure.

**Notes:**

- IRP subsidy income will not be included in Underwritten NCF for IRPs where there are no additional loan proceeds. In these cases a Bifurcated Mortgage Loan Structure is not used.
- Only level-payment IRP Mortgage Loans are permitted for all executions. In addition, each IRP Mortgage Loan requires a separate note (i.e., “Note A1” and “Note A2”).



## Instructions for Submitting a Split Mortgage Loan or a Bifurcated Mortgage Loan with an Interest Reduction Payment (IRP) Subsidy Loan in C&D

1. Create a deal.
2. Create two commitments. If a Bifurcated Mortgage Loan (or, if applicable, a Trifurcated Mortgage Loan), create an additional commitment.
  - (a) (Cash, MBS or Credit Enhancement execution). Create first commitment (“*Note A1*” ***the larger loan amount***)
    - (i) Select Fannie Mae Pre-Review Mortgage Loan option.
    - (ii) If an MBS, select “Yes” for Additional Disclosure.
    - (iii) Enter Additional Disclosure Comments to indicate Bifurcated Mortgage Loan structure, IRP, or Split Mortgage Loan, and include language regarding cross-default relationship (with related Commitment number). Enter contact name and contact e-mail.
    - (iv) Additional Debt is “Yes”. Complete additional debt section of the commitment. (**Note:** Use Fannie Mae Commitment number of the related Mortgage Loan or Note until the Mortgage Loan number becomes available.)
    - (v) Indicate “Not a Supplemental – this is a first lien”. Supplemental lien position is “1st”.
    - (vi) Check the “Bifurcated Structure”, Interest Reduction Payment (IRP) Subsidy” or “DUS Split” box in the Other Attributes section of the commitment.
    - (vii) Combined LTV and DSCR values are provided at the time of the confirmation of the Fannie Mae Commitment. (**Note:** For a Bifurcated Mortgage Loan structure that has an IRP, Underwritten NCF (Project Net Cash Flow plus income from the IRP subsidy) will be used to calculate the combined DSCR for Note A1 and Note A2. The Underwritten NCF, and combined DSCR and LTV should be entered in C&D for both Note A1 and Note A2.)
    - (viii) Cross Default/Cross Collateralize Indicators:
      - (A) On the Commitment Tab: Select “Cross Only” (2 way) field in the Commitment Details section.
      - (B) On the Loan Tab: Once the Mortgage Loan is submitted, the Lender must ask its Acquisition Analyst to provide the Fannie Mae Loan Number for Note A2 in the Bifurcated Mortgage Loan. The Lender will need to submit a change request to add the Fannie Mae Loan Number for Note A2 to the Crossing Relationship section on the Loan Tab. This information is necessary to link together Note A1 and Note A2 in the Bifurcated Mortgage Loan structure.
  - (b) Create second commitment for the smaller Note in the Bifurcated Mortgage Loan structure (“*Note A2*”). Related transactions should be associated in the same deal. Associate the second Commitment to the first Commitment. This saves time when using multiple participants and the same Property secures the Bifurcated Mortgage Loan. Find the deal and add the new Commitment to the “commitment” screen.



- (i) Select for Fannie Mae Pre-Review field either Pre-Review Mortgage Loan or Delegated Mortgage Loan option, as applicable for the deal.
  - (ii) If an MBS, select “Yes” for Additional Disclosure.
  - (iii) If an MBS, enter Additional Disclosure Comments to indicate Bifurcated Mortgage Loan structure, IRP, or Split Mortgage Loan and include language re: cross-default relationship (with related Fannie Mae Commitment number). Enter contact name and contact e-mail.
  - (iv) Additional Debt is “Yes”. Complete additional debt section of the Commitment. (**Note:** Use Fannie Mae Commitment number of the related transaction until Mortgage Loan number becomes available).
  - (v) Bifurcated Mortgage Loan structures will indicate a second Commitment “Not a Supplemental – this is a first lien”. Supplemental lien position is 1st.
  - (vi) For Split Mortgage Loan structures:
    - (A) For Supplemental Indicator select “DUS Split 2nd”. Select Supplemental lien Position 2nd, 3rd, 4th or other.
    - (B) Select Supplemental associated with an Assumption (Y/N)
    - (C) Select Exercising Tier Dropping Option (Y/N). Please note prior Lien must be Tier Drop Eligible for “Yes” to be selected
  - (vii) Check the “Bifurcated Structure” or “DUS Split” box in the Other Attributes section of the Commitment. For a Bifurcated Mortgage Loan structure, also select “Interest Reduction payment (IRP) Subsidy” box, if applicable.
  - (viii) Combined LTV and DSCR values are provided at the time of confirmation of the Fannie Mae Commitment. (**Note:** For a Bifurcated Mortgage Loan structure with an IRP, the Underwritten NCF (Project Net Cash Flow plus income from the IRP subsidy) will be used to calculate the combined DSCR for both Note A1 and Note A2.)
  - (ix) Cross Default/Cross Collateralize Indicators:
    - (A) On the Commitment Tab: Select “Cross Default Only” (2 way) field in the “Commitment Details” section.
    - (B) On the Loan Tab: Once the Bifurcated Mortgage Loan is submitted to Fannie Mae for purchase, the Lender needs to ask its Acquisition Analyst to provide the Fannie Mae Loan Number for the larger Note (“Note A1). The Lender will need to submit a change request to add the Fannie Mae Loan Number for Note A1 to the Crossing Relationship section on the Loan Tab. This information is necessary to link together both Note A1 and Note A2 in the Bifurcated Mortgage Loan structure.
3. Submit all Commitments to Fannie Mae for confirmation.
  4. Once the Commitments are confirmed, enter/upload the other data within C&D to deliver the Mortgage Loan.
    - Mortgage Loan (associate Commitment to the Mortgage Loan).
    - Property (associate Property to Mortgage Loan)
    - Participant (associate participant(s) to Mortgage Loan)



- Interest Rate Hedge, if applicable (associate Interest Rate Hedge to Mortgage Loan)
5. Financing Options (Cash Funding, MBS Pool, or Credit Enhancement). Each Mortgage Loan is associated to an individual pool. Both Mortgage Loans in a DUS Split Mortgage Loan structure cannot be associated to the same pool. A Bifurcated Mortgage Loan with an IRP, and certain other Bifurcated Mortgage Loans are subject to this same limitation.
  6. Submit the Mortgage Loan data to Fannie Mae for purchase, securitization, or credit enhancement.
  7. Submit the Loan Documents for the Mortgage Loan to Fannie Mae for certification.
  8. Fannie Mae will certify the Loan Documents. Contact the Multifamily Certification & Custody team for additional information ([multifamcert\\_team@fanniemae.com](mailto:multifamcert_team@fanniemae.com)).
  9. Fannie Mae will purchase (Cash), securitize (MBS) or credit enhance the submitted Mortgage Loans.
  10. Fannie Mae will fund the Mortgage Loan (Cash), issue the MBS, or credit enhance the Bonds.

**Other Reference Materials to consult for Bifurcated (or Trifurcated), IRP, and Spit Mortgage Loan transactions:**

- Multifamily Additional Disclosure Guidance (Form 4098)
- Job Aid: Data Guidance for Cross-Collateralized and Cross-Defaulted Mortgaged Loans