

Frequently Asked Questions (FAQ): Taxable Tail for Immediate Funding Bond Executions

Table of Contents

General Information.....	1
Underwriting and Credit	3
Pricing and Fees	3
Committing, Closing, and Delivery	3

Taxable Tail for Immediate Funding Bond Executions

General Information

Q1: What is a Taxable Tail for an immediate funding bond execution?

For an immediate funding bond execution, a Taxable Tail is debt issued in combination with a tax-exempt bonds credit enhanced by Fannie Mae. The Taxable Tail can take the form of (i) an MBS Mortgage Loan originated by a DUS Lender or (ii) a bond issuer originated mortgage loan financed by taxable bonds credit-enhanced by Fannie Mae. In most transactions, the tax-exempt piece and the Taxable Tail are components of one loan, evidenced by one set of loan documents and secured by one mortgage, with two notes with *pari passu* payments. In all transactions, a default under the Taxable Tail is a default under the tax-exempt piece and vice versa.

Q2: When should a Taxable Tail be considered?

A Taxable Tail should be used in instances where the Property net cash flow supports a loan amount higher than the tax-exempt bond allocation. A Taxable Tail narrows and, in some instances, eliminates the gap in funding sources to support affordable housing developments. Here are a few example scenarios where a Taxable Tail may be useful:

- Bond allocation constraints: Tax-exempt bond proceeds are limited by volume-cap or market constraints.
- LIHTC equity gap: Equity pricing or investor demand generates less equity than anticipated.
- Capital stack efficiency: The borrower adds debt at the initial closing and avoids financing costs of future financing.

Q3: What are the primary benefits of using a Taxable Tail?

A Taxable Tail benefits both borrowers and lenders by enhancing flexibility in a bond execution, including:

- Pricing: The Guaranty Fee and Servicing Fee are the same for the Taxable Tail and the tax-exempt piece.
- Timing and Cost Savings: One-time due diligence, legal and closing costs.
- Loan amount: allows a transaction to size to maximum loan amount without being limited to tax exempt bond availability.



Q4: What underwriting considerations apply when using the Taxable Tail?

The Taxable Tail is underwritten using the same sizing parameters as the tax-exempt piece. The same underwriting DSCR (UW DSCR), Loan to Value (LTV) ratios and amortization requirements apply to both pieces. The A piece and the B piece have different all-in rates; therefore, Lenders should calculate a weighted average rate when testing the sizing of the combined loan amount.

The Taxable Tail must have the same loan term and prepayment period as the tax-exempt piece.

Q5: Is a Taxable Tail available as a stand-alone execution?

No. The Taxable Tail is available only in connection with tax-exempt bonds credit-enhanced by Fannie Mae. A Taxable Tail must be originated, rate locked, closed, funded, and delivered concurrently with the tax-exempt piece.

Q6: Is a waiver required for a Taxable Tail?

Yes, a waiver of the Form 4660 to use a Bifurcated Mortgage Loan is necessary and should be submitted to Gateway for these transactions.

Q7: What are the prepayment terms for the Taxable Tail?

The prepayment term for the Taxable Tail must match the term of the prepayment terms of the tax-exempt piece. Both loans must be prepaid simultaneously.

Execution Options: Immediate Funding

Details on terms and conditions are available on the applicable Term Sheet.

Fannie Mae offers two types of tax-exempt **bond credit enhancements for immediate fundings**:

- 1) MBS as Tax-Exempt Bond Collateral (MTEB) and
- 2) Credit Enhancement Instrument (CEI).

These two executions can be paired with a Taxable Tail as shown in the table below.

Execution	Best Use
MTEB + MBS Taxable Tail	Acquisition for affordable housing preservation or acquisition/rehab; New 4% LIHTC syndications with tax-exempt bonds; New 4% LIHTC syndications with refunded tax-exempt bonds; Recycled tax-exempt bonds, no LIHTC.
CEI Tax-Exempt + CEI Taxable Tail	Acquisition for affordable housing preservation or acquisition/rehab; New 4% LIHTC syndications with tax-exempt bonds; New 4% LIHTC syndications with refunded tax-exempt bonds; Recycled tax-exempt bonds, no new LIHTC.



CEI + MBS Taxable Tail	Acquisition/Mod-Rehab for affordable housing; Available for all loan sizes but best fit for large loans with complex structures such as RAD conversions.
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Underwriting and Credit

Q8. Who is eligible to originate a Taxable Tail and what properties qualify?

The execution is available to DUS Lenders approved for Multifamily Affordable Housing (MAH) transactions when Fannie Mae is credit enhancing the tax-exempt piece.

The property must meet the applicable MAH eligibility requirements in the Guide.

Q9: How is a Taxable Tail underwritten and what credit parameters apply?

The Taxable Tail is underwritten in combination with the tax-exempt piece as a single transaction using the same underwriting due diligence, and third-party reports.

Underwritten DSCR, LTV and amortization are the same for the tax-exempt piece and the Taxable Tail and apply to sizing the combined debt. Form 4660 and the DUS Guide govern sizing parameters (e.g., UW DSCR, UW Floor, LTV, and amortization). Both the Tax-exempt piece and the Taxable Tail are supported and secured by the same property collateral.

The interest rates for the tax-exempt piece and Taxable Tail are different; however, the Guaranty Fee and Servicing Fee are the same. Lender must use a weighted average rate to size the combined debt.

Pricing and Fees

Q10. What is the process for engaging Fannie Mae outside counsel for a Taxable Tail?

Fannie Mae engages outside counsel for all bond credit enhancement transactions, including those with a Taxable Tail. Legal fees are based on the specific structure of each transaction. Submit Fannie Mae Counsel Designation Request Form 4625.b to begin the outside counsel engagement process.

Q11. How are these types of transactions priced?

Lenders should follow the pricing available in the current Pricing Memorandum. For specific pricing questions on Taxable Tail transactions, contact your Fannie Mae deal team.

Committing, Closing, and Delivery

Q12: How should Taxable Tails be entered in DUS Gateway?

The lender must submit three (3) loan options in DUS Gateway, one for tax-exempt piece, one for the Taxable Tail, and one option for the combined debt. All three loan options should reflect the same loan terms, Underwritten Net Cash Flow and Underwriting Value. The combined loan option should reflect the weighted average interest rate of the tax-exempt piece and the Taxable Tail.



Q13: When must the Taxable Tail be underwritten, rate-locked, closed, and delivered?

The Taxable Tail must be underwritten, rate-locked, closed, and delivered simultaneously with the tax-exempt piece.

Q14. How are the tax-exempt bonds and the Taxable Tail documented and secured?

Execution	Documentation
MTEB + MBS Taxable Tail	One loan with one mortgage and one set of loan documents, but two notes with pari passu payments.
CEI Tax Exempt + CEI Taxable Tail	One loan with one mortgage and one set of loan documents, but two notes with pari passu payments.
CEI + MBS Taxable Tail	Two loans, cross-defaulted. Two mortgages and two notes. The same collateral secures both mortgages. Certain additional riders are required. Discuss lien and payment priority with Fannie Mae deal team due to potential third-party requirements.

Q15: What are the mechanics of committing and delivering a tax-exempt bond credit enhancement with a Taxable Tail?

At Rate Lock, Lenders must request two Commitments in C&D: a Commitment for the tax-exempt bond credit enhancement and a separate Commitment for the Taxable Tail. For details on the Committing and Delivering process, please review the Data Guidance for Cross Defaulted and Cross Collateralized Mortgage Loans Job Aid or contact your Fannie Mae Customer Engagement Representative.

Q16: How do you apply any excess Loan proceeds at Rate Lock?

The 5% Rate Lock tolerance in the Summary of Loan Terms in the Quote applies to the combined debt. Any excess Loan proceeds are allocated to the Taxable Tail.

Note: All financing is subject to applicable Fannie Mae Multifamily Guide requirements, underwriting standards, eligibility criteria, and approval. Loan terms, pricing, fees, and transaction structures may vary based on the applicable execution. The availability of Taxable Tail financing does not guarantee loan approval, additional proceeds, or reduced transaction costs.