

## CEMA LOAN FAQ

Question: What is a CEM loan?

Answer: CEM stands for “Consolidation Extension and Modification”

Question: What is the purpose of doing a CEMA?

Answer: To avoid paying part or all of the New York Mortgage Tax.

Question: Are there any disadvantages to a CEMA?

Answer: In order to start the process, borrowers must pay a fee to their existing lender.

Question: When should I try to do a CEMA ?

Answer: When you will save the borrowers substantial amount of money.

Questions: How do I know figure out how much money I can save?

Answer: The net amount a borrower can save is based on three things:

1. Tax Rate (Each County Has Its Own Rate)
  1. 1.8 in NYC less than 500,000
  2. 1.925 in NYC more than 500,000
  3. 1.05 in Westchester, Rockland & Ulster
  4. .8% all other Counties
2. Principal Unpaid Balance On Existing (payoff) Loan
  1. Estimate using credit report, mortgage statement, 1003
3. Fees Borrower Will Incur In Obtaining The Assignment.
  1. Differs by Bank. Usually less than \$1,000.00.
  2. Some banks will not agree to provide an assignment.

Question: Can you give me a formula for calculating the tax savings with a CEMA loan?

Answer: I'll show you how to do the math two different ways. The first method involves a four-step process. The second method is only two steps.

### 1. Net CEMA Savings (4 Steps)

Step 1: Figure mortgage tax without a CEMA: Mortgage tax =  
( new loan amount times the tax rate)

Step 2: Figure mortgage tax with CEMA: Mortgage tax = (new loan amount minus principal unpaid balance of old loan) times the mort tax rate

Step 3: Subtract Line 2 from Line 1 and that is your gross tax savings.

Step 4: Subtract any bank fees (each banks sets its own fee) and recording charges incurred by the CEMA and that gives you the total savings from the CEMA.

## 2. New CEMA Savings (2 Steps)

### **Step 1: Take The PUB From Loan To Be Paid Off. Multiply That Figure By The County Tax Rate.**

Step 2: Subtract Bank And Recording Fees

This shortcut works because the purpose of a CEMA is to give borrowers a credit for mortgage taxes paid but not "used" as represented by the PUB of a mortgage at the time of payoff. Imagine that you have a borrower who wants to take a loan for 250,000. Imagine further that the borrower's prior mortgage was recorded in the amount of 200,000 and that they paid the full tax on that mortgage. But imagine that at the time they refinance, there is exactly 192,153.35 left on the mortgage as the pub. A CEM loan allows the borrowers a tax exemption in the amount of 192,153.35. So that's why the shortcut works, because the more direct way to derive the tax savings is with the pub, which is referred to as the old money.

Question: How does the process work exactly?

Answer: The mortgage tax is assessed at the time a mortgage is recorded. In most refinance transactions, the existing loan is paid in full and that payoff bank in turn provides a satisfaction of mortgage. This sometimes called a discharge of mortgage or release of mortgage.

In NY, if you satisfy a loan on payoff and then record the new mortgage, you will incur the mortgage tax. But if you get the existing lender to give you an assignment of the existing mortgage, you don't need to record a new mortgage. You only need to record a mortgage for the difference between the loan amount and the old money/ PUB. So if the loan amount is 300,000.00 and the PUB on the

payoff is 274,535.50, then you will only need to record (and pay tax on) a gap mortgage in the amount on 25,464.50.

So while the tax on a Mortgage in Queens County would have been  $300,000 \times 1.8\%$  or

Instead it is  $25,464.50 \times 1.8\%$  or

Reduces tax burden by

Question: Why does the process require extra time?

Answer: When the bank receives an assignment request, they retrieve the borrowers servicing file which would include the original signed mortgage and note. Once they locate these documents, they send them to a local NY attorney of their choosing. At closing, that attorney comes to our office IN PERSON to pick up a check (the payoff check) and to drop off the following documents:

1. Original recorded mortgage'
2. Assi'
3. 3)
4. note
6. allonge

Questions: When should I start the process?

Answer: EARLY! Try to order your CEMA when the appraisal is ordered.

Question: How should I start the process?

Answer: Call us

Question: What does old money and new money?

Answer: The "old money" is the PUB on the existing loan  
The "new money" is the PUB and the

So I Have The OLD MONEY. Remember The New Loan Amount Is 250,000. I Subtract The Old Money From The New Loan Amount And That Gives Me My NEW MONEY. In This Instance, My NEW MONEY Would Be 57,846.65.

The Old Money Is Secured By The Existing Mortgage Which Gets Assigned Over To The New Lender.

The New Money Is Secured By A Gap Mortgage, Which Must Be Recorded And Incurs The Tax.

The Old Money Debt Instrument Is The Existing Note, Which Gets Endorsed To The New Lender (Called An "Endorsement" Or An "Allonge")  
The New Money Debt Instrument Is A Gap Note, Which Is Signed By The Borrower At Closing.

All The Mortgages Are Then Combined To Form A Single Lien Through A CEMA Or Consolidation Extension Modification Agreement.

Question: The Words "Consolidation Extension and Modification" Refer to What?

Answer:

Consolidation: Because You Have Two Separate Mortgages (Gap And Existing) Which Are Consolidated To Form A Single Lien

Extension: Because The Existing Debt And Security Instruments Are Extended To 30 Years, To Match The New Instruments

Modification: The Terms Of The New Loan Apply- The Old Note And Mortgage Are Modified To Conform To The Terms Of The New Loan.

Question: What is the lender's quarter point?

Answer: In addition to the borrower's mortgage taxes listed above, the bank is taxed .25 percent on any mortgage. The bank pays it through the title company. You may see it on a title bill, but it does not affect the borrower.

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\* Mortgage Tax Rates Can Be Found Online At [www.Judicialtitle.Com](http://www.Judicialtitle.Com)

\*\* Helocs Are Generally Not Assignable (Exception Is Jpmchase)

\*\*\* Negative Amortization Loans Alter The Calculus Somewhat