

**MEMORANDUM**

**TO:** RHCf Members  
**FROM:** Dan Heim, Vice President for Public Policy  
**DATE:** August 5, 2003  
**SUBJECT:** **Mortgage Refinancing Program**  
**ROUTE TO:** Administrator, CFO  
**DOC. ID #** 32208302

ABSTRACT: More information on nursing home mortgage refinancing.

**Introduction**

By now, your facility should have received a July “Dear Administrator” letter from the Department of Health (DOH) regarding mortgage refinancing. DOH’s letter was issued after a NYAHSA memo on the same subject, which you can access by [clicking here](#) or entering Doc. ID #32206305 in the search function on the NYAHSA Web site ([www.nyahsa.org](http://www.nyahsa.org)). NYAHSA had the opportunity to review and comment on the DOH letter before it was issued.

Both of these communications explain an initiative that was included in the final budget for the state fiscal year (SFY) 2003-04 designed to encourage nursing homes to refinance existing mortgages in cases when doing so would be cost effective and otherwise feasible.

This memo will provide members with further information on this subject. **Please also note that we are making available a series of free regional seminars for NYAHSA nursing home members, graciously sponsored by NYAHSA Services, Inc. and hosted by member facilities.** The first seminar was held today in the Hudson Valley, with the remaining seminars being held from 9:00 a.m. to 12:00 noon as follows:

Date	Facility	Address
August 6	The Hebrew Home for the Aged at Riverdale	5901 Palisade Avenue, Bronx
August 7	St. John's Home	150 Highland Avenue, Rochester
August 13	The Eddy	2212 Burdett Avenue, Troy

In these seminars, members will learn about this initiative, how to determine whether their

facility should consider refinancing, and available financing options. For further information and to register, please [click here](#) or enter the NYAHSA Web site ([www.nyahsa.org](http://www.nyahsa.org)) for the program flyer, or contact Holly Smith at (518) 449-2707, ext. 136 or [hsmith@nyahsa.org](mailto:hsmith@nyahsa.org).

## **DOH's "Dear Administrator" Letter**

The "Dear Administrator" letter explains the standardized process that nursing homes need to follow to determine if their mortgages can be refinanced and result in a savings. All facilities -- except those financed under Articles 28-A and 28-B or that do not participate in Medicaid -- are required to review their existing mortgages, and to submit the results of their review along with any needed information on these mortgages to DOH **by September 1, 2003**.

DOH's letter contains the following important clarifications:

1. ***The re-financing has to result in a present value savings.*** The present value of the debt service under the new mortgage (inclusive of any transaction costs being financed) has to be less than the present value of the debt service on the existing mortgage. For this purpose, the discount rate used to determine present value for the new and existing mortgages is: (1) the rate on a new fixed rate mortgage; or (2) 5.5 percent, if the facility is proposing a variable rate loan.
2. ***The re-financing savings has to be "material" in amount.*** For this purpose, DOH will be looking to see that there would be interest savings (inclusive of credit enhancement payments) in each of the first three years of the new loan, and whether the total interest savings over the first three years would exceed the total transaction costs associated with the refinancing.
3. ***The repayment term on the mortgage can exceed the remaining term on the current debt, if a savings would still result.*** The repayment term for a new mortgage can go up to the remaining repayment term on the current mortgage or the remaining depreciable life of the building, whichever period is longer.
4. ***Variable rate mortgage loans can be used, provided the required savings is shown.*** Facilities that currently have or are proposing to use variable rate loans should review the NYAHSA *Mortgage Refinancing Template* (see information below) for the interest rates to use in their analysis.
5. ***The amount of the new mortgage would be limited.*** The maximum loan in a refinancing is the remaining principal amount on the existing loan, plus transaction costs and prepayment penalties, minus any decrease in debt service reserve fund requirements. In other words, facilities will not be permitted to "cash out" by borrowing more than is necessary to complete the refinancing.

## **Additional Resources for Members**

Attachment A to this memo is a listing of the documents that DOH is asking nursing homes to submit, along with their analysis, by September 1. The listing is fairly self-explanatory.

**NYAHSA has also developed a *Mortgage Refinancing Template*, in Excel spreadsheet format, that allows member facilities to enter data and automatically determines whether a refinancing would result in a "material" present value savings under the DOH guidelines.** You can access this handy calculator by clicking on **Attachment #1 ("Mortgage Refinancing Template")** below. Please review the instruction sheet for important information on using the template.

Please contact Patrick Cucinelli at (518) 449-2707, ext. 145 or [pcucinelli@nyahsa.org](mailto:pcucinelli@nyahsa.org) on general questions; or Darius Kirstein at ext. 104 or [dkirstein@nyahsa.org](mailto:dkirstein@nyahsa.org) with questions on

the *Mortgage Refinancing Template*. Questions regarding the mortgage refinancing process can also be directed to Michael Blinstrub at DOH, (518) 473-8910.

## **Attachment A**

### **Mortgage Re-financing Information Requirements\***

- Description of existing debt to include:
  1. Original Principal Amount
  2. Current Principal Amount
  3. Interest Rate
  4. Term To Maturity
  5. Payout Period
  6. Monthly Debt Service Payment
  7. Full Loan Amortization Schedule
  8. Current Debt Service Reserve Fund Balance
  
- Description of re-financing debt to include:
  1. Proposed Principal Amount
  2. Interest Rate
  3. Term To Maturity
  4. Payout Period
  5. Monthly Debt Service Payment
  6. Full Loan Amortization Schedule
  7. Debt Service Reserve Fund Requirement
  
- Itemization of all Transaction Costs to include:
  1. Legal Expenses
  2. Mortgage Banking Fees
  3. Credit Enhancement Expenses
  4. HUD Fees
  5. Prepayment Penalties for existing debt retirement
  6. All Other (please itemize)

\* Listing was provided to NYAHSa by the NYS Department of Health.