CEMA Loans:

Everything You Need To Know

What Is CEMA?

A Consolidation, Extension and Modification Agreement, or CEMA, loan is an option available to New Yorkers that can drastically reduce the cost to refinance a mortgage. CEMA loans allow borrowers to pay mortgage recording taxes on only the difference between their current principal balance and their new loan amount.

In New York, taxes are collected for recording any new mortgage with the state. Along with the state tax, New York City, Yonkers and several counties apply an additional local tax on recording a mortgage. In NYC, this tax ranges from 1.8% – 1.925% of the mortgage. If you're refinancing in New York, you could avoid paying mortgage recording tax and save yourself a chunk of money. Let's break down the numbers.
Consolidate debt with a cash-out refinance.

CEMA By The Numbers

Here's an example of how you could save by refinancing with a CEMA loan.

- **Mortgage balance:** $350,000
- **Closing costs:** $17,500
- **Local tax rate:**8%
- **CEMA fees:** $1,400
- Total amount paid in taxes **without CEMA:** $350,000 x 1.8% = $6,300
- Total amount paid in taxes **with CEMA:** $17,500 x 1.8% + $1,400 = $1,508

CEMA loans come with their own set of fees which vary by loan. We'll cover fees further down the page. Despite the fees, the CEMA loan refinance in this example would save you $4,792. Note that, if you were to do a cash-out refinance, increasing your mortgage balance to $400,000 and taking $50,000 in cash, that $50,000 would be subject to the mortgage recording tax. CEMA would still make more sense, with a difference of $4,585.

When Is A CEMA Refinance The Best Choice?

A CEMA refinance makes sense over other traditional mortgage refinances in areas with high mortgage recording. They also make more sense when refinancing loans with a higher remaining balance. Another thing to consider is whether you're switching banks. If that's the case, you may have to pay extra transaction or legal fees to take out the CEMA loan.

CEMA Loan Qualifications

CEMA loans have a few qualifications. First, they're exclusive to the state of New York. While there is a possibility to buy with a CEMA, the majority of CEMA loans are refinanced mortgages. The biggest hurdle you will have to clear is finding a lender that does CEMA loans. It's best if this is your current lender, as changing lenders can cost more and take longer. If you're considering refinancing to a CEMA, speak with your lender about it as soon as possible. Co-ops do not qualify for CEMA because New York doesn't collect mortgage recording tax on co-op ownership. That's because personal shares in a co-op aren't considered real estate.

Important CEMA Mortgage Considerations

There are two key aspects of CEMA mortgage applications to consider. We touched on these earlier, but let's expound on them a bit.

CEMA Fees

There are several fees that can be applied to a CEMA refinance. These heavily depend on your lender. If your lender works with CEMA loans and has agreed to process the loan, your fees will be significantly less.

However, if you're working with a new lender, expect more fees. Your current lender may charge a fee to assign the loan to a new lender. They may also charge a legal fee on top of that. These vary from lender to lender, ranging from a flat fee to a percentage of the loan. On top of CEMA fees, if you're paying more upfront closing costs, you may find a refinance option like a no-closing-cost refinance to be the better one for you.

Time to Completion

The other main thing to consider with a CEMA loan is the time it takes to complete. Not only may you have to go through the process of switching lenders, but New York regulations may slow it down further. It may take 30 – 90 days from application for your CEMA loan to complete. If you're in a situation where you need the refinance sooner, a conventional loan may be a better option.

CEMA CHECKLIST

1. The existing Mortgage(s) must either be the same lender or if a different lender then you will require an Assignment of Mortgage to the current Lender;
2. You must confirm what the unpaid principal balance is of the existing Mortgages;
3. That amount plus the "new money" or "gap" amount is the total Consolidated amount;
4. The "new money" is what the mortgage tax is based on;
5. The Assigning Lender must also provide the Original Note and Mortgage Note making same payable to the new Lender;
6. The Consolidating Lender's attorney must prepare the following:

    a. The New Money/ GAP Mortgage;
    b. 255 Affidavit for the CEMA (stating that Mortgage tax has been already paid);
    c. CEMA—as part of the CEMA you will need to prepare the following exhibits:
    d. 1. Consolidated Mortgage—the total amount of the loan. , 2. Schedule of Mortgages-Exhibit A; 3. Consolidated Note and 4. the property description must be attached.
    e. On the top of the Consolidated Note the following must be recited: "This Note amends and restates in its entirety, and is given in substitution for, the notes described in exhibit A of the New York Consolidation, Extension, Modification Agreement dated the same date as this Note.

7. The Gap Mortgage, 255 Affidavit, Assignment (if necessary), and CEMA with all exhibits are submitted for recording.

A list of all documents:

1. Assignment;
2. 255 Affidavit;
3. Consol Note;
4. Consol Mtg;
5. Schedule of Mortgages;
6. Gap Mortgage;
7. CEMA