

## **CEDA Refinance Program Creates Big Savings for Nonprofits**

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The current economic environment has created both challenges and opportunities for nonprofit organizations. While donor funds and community financial support have been harder to come by, historic low interest rates caused by the recession have increased the focus on mortgage refinancing options to realize immediate savings and reduce long-term costs.

To help take advantage of this window of opportunity, the California Enterprise Development Authority (CEDA) is providing nonprofits with tax-exempt refinancing options at below-market interest rates that generate significant savings and boost cash flow to support programs and services. For qualified nonprofit borrowers, a tax-exempt refinancing can result in significant annual interest rate savings...often 30% to 40%.

Nonprofit organizations are unique in the tax-exempt financing world in that they can refinance existing mortgage debt on a tax-exempt basis if the transaction meets several qualifications:

- (1) the mortgage being repaid was originally incurred to pay for the acquisition or development of capital asset (i.e. land, buildings, improvements, equipment, etc.);
- (2) the capital assets further the charitable purposes of the nonprofit; and
- (3) has the financial strength to obtain credit from a financial institution or institutional investor to support the tax-exempt financing.

Such was the case for Atascadero Christian Home (ACH) located in the Central Coast region of California. ACH operates an independent and assisted living facility for seniors and a convalescent care hospital. In April 2012, ACH closed a \$4.0 million tax-exempt bank loan through CEDA that helped the organization achieve two critical goals. First, the tax-exempt refinancing reduced the interest rate on ACH's mortgage debt by nearly 40% when compared to their conventional mortgage. Second, additional funds were made available for the upgrading of their facilities, while keeping the debt service on the larger tax-exempt financing lower than the payments on their old, conventional debt. The financing was a win-win for ACH.

Increasingly CEDA's nonprofit borrowers have been using a simplified tax-exempt bank "loan" structure to access the benefits of the below-market interest rates associated with tax-exempt financings. This loan structure eliminates many of the complicated and costly elements associated with traditional tax-exempt "bond" issues and can be offered by regional and community banks to help local nonprofit organizations. Further, tax-exempt loan transactions as small as \$1.5 million can be completed on a cost effective basis and deliver the same savings to nonprofit borrowers.

For detailed information on tax-exempt refinancing options for nonprofit organizations, contact Michelle Stephens, CEDA's program manager, at (916) 448-8252, Ext. 12.