

Should I Refi Today or Wait?

The current rate environment has led many borrowers to consider refinancing existing debt. However, record low rates have caused defeasance and yield maintenance penalties to spike.

This leaves many borrowers wondering: Should I refi now, or wait for the penalty to decrease? If I do wait, how much would rates need to rise before I wish prepaid today?

Pensford can help with that analysis. Let's look at an example.

Existing Debt

Asset	Loan Amount	Note Rate	Maturity Date
Property 1	\$ 12,500,000	3.90%	12/1/2024
Property 2	\$ 6,250,000	3.87%	12/1/2024
Property 3	\$ 5,750,000	4.65%	2/1/2026
Property 4	\$ 3,100,000	4.84%	2/1/2026

This borrower has been offered the following terms, each of which has a 7 year I/O period and 30-year amort.

Asset	Loan Amount	New Rate	Term
Property 1	\$ 22,000,000	2.98%	15 years
Property 2	\$ 9,500,000	2.98%	15 years
Property 3	\$ 8,500,000	2.98%	15 years
Property 4	\$ 4,200,000	2.98%	15 years

All of the properties are financed with Agency debt and thus are subject to defeasance.

On the next page we've outlined the steps taken to determine the point of indifference.

Step 1 – Determine the Prepayment Penalties

We patched in our defeasance team to help generate these cost estimates.

Property 1	\$ 1,946,900
Property 2	\$ 987,894
Property 3	\$ 1,305,414
Property 4	\$ 756,491

Next, we determine how much interest would be saved on the existing loan at the new rate.

Step 2 – Interest Savings

Property 1	\$ 469,748
Property 2	\$ 227,477
Property 3	\$ 454,771
Property 4	\$ 273,245

Now we net the interest savings against the defeasance penalties to determine the net cost to refi.

Step 3 – Net Penalty

Property 1	\$ 1,477,152
Property 2	\$ 760,417
Property 3	\$ 850,643
Property 4	\$ 483,246

Finally, we convert the net penalty into an interest rate to solve for the point of indifference. We've included the present value of each basis point, or PV01, on each loan below to do so.

Step 4 - Solve for Indifference Point

Asset	Net Penalty	PV01	Basis Points	Implied T10
Property 1	\$ 1,477,152	\$ 31,260	0.47%	1.08%
Property 2	\$ 760,417	\$ 13,500	0.56%	1.17%
Property 3	\$ 850,643	\$ 12,080	0.70%	1.31%
Property 4	\$ 483,246	\$ 5,970	0.81%	1.42%

Conclusion

At maturity of the existing loans, if rates are above the implied T10, you would have been better off defeasing today and refinancing.

Please contact us if you'd like assistance quantifying the breakeven points on your assets.

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