

Purchase CEMA Guide

Professional Overview for Real Estate and Mortgage Professionals

What is a CEMA?

A Consolidation, Extension and Modification Agreement (CEMA) is a financing tool commonly used in New York State to reduce mortgage recording tax. Rather than recording an entirely new mortgage, an existing mortgage is assigned and consolidated with any new financing, allowing mortgage recording tax to be paid only on the new money portion of the loan.

How a Purchase CEMA Works

In a purchase transaction, the buyer's lender acquires and assigns an existing mortgage and combines it with the new financing being provided. The borrower pays mortgage recording tax only on the additional funds advanced by the lender.

Example

Purchase Price: \$1,000,000
Loan Amount: \$700,000
Seller's Existing Mortgage: \$500,000
New Money: \$200,000

Without CEMA: Mortgage Recording Tax is paid on \$700,000.

With CEMA: Mortgage Recording Tax is paid only on \$200,000.

Types of Purchase CEMAs

Seller-to-Buyer CEMA

The seller's lender assigns the seller's existing mortgage to the buyer's lender. This structure can significantly reduce mortgage recording taxes and closing costs.

Splitter CEMA

Used primarily in larger commercial transactions when the seller's lender is unwilling to cooperate. Existing mortgages may be acquired and assigned from alternative sources.

Commercial Real Estate Example

Purchase Price: \$3,000,000
Loan Amount: \$2,100,000
Assigned Mortgage: \$1,500,000
New Money: \$600,000

Without a CEMA, mortgage recording tax is paid on the full \$2,100,000. With a CEMA, tax is paid only on the \$600,000 new money portion, potentially saving tens of thousands of dollars.

Advantages

For Buyers: Lower closing costs, reduced mortgage recording tax, improved liquidity.

For Sellers: Enhanced marketability and smoother transaction negotiations.

For Lenders: More competitive financing solutions and borrower savings.

Potential Drawbacks

- Longer closing timelines.
- Additional legal and assignment fees.
- Seller's lender may refuse to participate.
- Not all lenders offer Purchase CEMA programs.

Due Diligence Questions

1. Does the seller have an existing mortgage?
2. What is the unpaid principal balance?
3. Is the seller's lender willing to assign the mortgage?
4. Will the buyer's lender accept a Purchase CEMA?

Conclusion

For multifamily, mixed-use, commercial, and investment property acquisitions in New York, a Purchase CEMA can be an effective strategy to reduce mortgage recording tax and preserve capital. Mortgage brokers, real estate brokers, investors, and attorneys should evaluate CEMA opportunities early in the transaction process to maximize savings.