



Financial Advisor to Catholic Institutions

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Budgeting Reminder: Adjust Interest Costs on Loans

Fiscal years 1998-99 and 1999-2000 are reported to be two of the top five fiscal years in the Archdiocese for construction of new capital projects. It is estimated that parishes had approximately \$51 million and \$67 million, respectively, in new construction projects for those years. Since this coming year will mark the fifth year anniversary for loans issued for many of those projects, and since loan rates are often fixed for five-year periods, many may now be reaching an interest rate re-set period.

For those of you developing budgets in parishes that completed loans in the 1998-2000 timeframe, examine your loan documents to see if your loan will re-price this coming fiscal year and how the rate is set. You may need to adjust the minimum debt service payment incorporated into your budget. Loans with interest rate adjustments will usually have the rate set to an index and frequently also have a floor for the interest rate. For example, the loan rate may be equal to the prime rate plus 200 basis points, with a floor of 7.00%. The prime rate is currently 4.00%. Adding a 200 basis points margin to that base rate would give you an interest rate of 6.00%. However, if your loan provisions specified a floor of 7.00%, your rate would be at 7.00% for the next five years. If you are trying to estimate where the prime rate will be in FY 2004-05, we would suggest using a minimum of 4.50%.

Along with the periodic adjustment to the interest rate, frequently the loan is also re-amortized on the rate adjustment date for the remaining term of the loan (e.g. for 15 years if the original loan was for 20 years). The re-amortization will be based on the amount of principal you now have outstanding, taking into account any prepayments you have made. This may mean an entirely new minimum payment schedule for the next five years, until you reach the next adjustment date. If you would like help calculating projected new debt payments for your budget, please give us a call.

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