Memorandum

To: UUA Board of Trustees

From: Andrew McGeorge, Treasurer/CFO

Re: Approval of New Borrowing by UUA for tenant improvements and mortgage refinancing

Date: January 24, 2020

Section 2.7 of the UUA governance manual requires approval of the Board of Trustees for the Association entering into any secured debt over $50,000.

UUA currently owes just under $5.5 million on the mortgage for 24 Farnsworth. At the time this loan was taken out, much of the discussion was about leverage, namely the notion that borrowing money at 3.60%, in the case of our current loan, in order to keep additional cash invested in the endowment, where we have a stated return goal of 6.75%, represented a wise financial decision.

UUA has an extremely strong balance sheet, with this current loan representing the sole bank debt held by the Association. We do have access to a $4 million facility to fund the building loan program, plus an additional $500k line of credit, but there are currently no draws on either of these lines. With net assets of nearly $184 million as of June 30, 2019, our debt position represents only about 3% of our total net assets.

The UUA will have upcoming cash needs to fund the tenant improvement allowances specified in our new leases. We are scheduled to advance almost $2.2 million to WeWork for leasehold improvements, while the lease with DiMella Shaffer has $1.24 million in tenant improvement allowance. Adding in a small cushion for costs that UUA has borne as part of the tenant conversion, we asked Eastern Bank to quote on $3.6 million of total new borrowing.

We should also consider refinancing the existing mortgage as part of the new debt package. As mentioned above, we currently owe just under $5.5 million at a rate of 3.60%. We pay $94,685 per month and the loan matures on 4-1-2022. However, at maturity we will still owe a $3.3 million balloon payment which we will either need to pay off in cash or refinance. I think it makes sense to refinance this amount, and we should consider refinancing it now while rates remain relatively low. This will improve our current cash flow position and also align the repayment of the building-related debt to a longer time scale, a schedule more in line with the long-term nature of the building as an asset.

Between the new borrowing and the mortgage refinancing, we would be entering into a new $9.1 million loan: $5.5 million for the refinancing, plus $3.6 million of new borrowing related to the new leases.

Eastern Bank has given us the option to borrow for 7 years at a rate of 3.96% or for 10 years at 4.13%. They are also very flexible with the amortization schedule we choose. (A longer amortization reduces our payments but creates the balloon payment at the end of the loan like we face now.) Finally, the bank has offered us a 24-month interest only period, which I think we should absolutely take for cash flow reasons.

The table below shows a handful of options from the large number of customizations we could choose. I've presented below 7- and 10-year loans, with 10- and 25-year amortization schedules and with and without the interest only payment. From a budget standpoint, the interest expense line is of most interest. Interest expense is paid from our operating budget, whereas the principal payments on the mortgage are just balance sheet entries where we use our cash to decrease the loan payable on the balance sheet. Our current interest expense is around $260k per year, so we are facing a material increase, but one that is more than offset by higher lease income.

Meanwhile, the current cash required to service our debt is about $1.14 million per year—this represents the sum of our interest expense and principal payments.

Term	Rate	Interest only period	Amortization	Year 1 interest exp.	Year 1 cash flow	Year 3+ cash flow	Terminal Payment
7 years	3.96%	0 mo.	10 yr.	346,455	1,102,673	1,102,673	3,114,242
7 years	3.96%	24 mo.	10 yr.	360,083	360,083	1,328,016	3,750,669
7 years	3.96%	0 mo.	25 yr.	356,156	573,547	573,547	7,374,351
7 years	3.96%	24 mo.	25 yr.	360,083	360,083	602,958	7,752,495
10 years	4.13%	0 mo.	10 yr.	361,449	1,111,501	1,111,501	-
10 years	4.13%	24 mo.	10 yr.	375,541	375,541	1,336,654	-
10 years	4.13%	0 mo.	25 yr.	371,553	583,816	583,816	6,519,704
10 years	4.13%	24 mo.	25 yr.	375,541	375,541	613,039	6,846,053

****Assumes $9.093mm in borrowing taken on Day 1. We will actually borrow around $5.5mm upfront and draw another $3.6mm over the next several months**

I prefer the two highlighted options above. The 10-year amortization period lets us aggressively pay down the debt, and the extra cash required, once we begin making principal payments, is a small enough increase over today that the new leases alone can fund it. The second highlighted option, a 10-year loan, 10-year amortization, with a 24-month interest only period, would leave us debt free in 10 years. The 7-year term offers marginally lower interest expense and loan payments, but we would have to refinance the balloon payment of $3.75 million in 7 years' time. This exposes us to the risk of higher interest rates in the future. And while we would benefit from lower rates in this scenario, this benefit also exists for the 10-year loan, since we have the option to refinance it. **Overall, my recommendation is the 10-year loan, 10-year amortization, with a 24-month interest only period.**

MOTION: The board approves entering into a new $9.1 million mortgage with Eastern Bank that will be secured by 24 Farnsworth Street. The term of the loan shall not exceed 10 years. Further, the board authorizes Andrew McGeorge, Treasurer/CFO, to execute the mortgage on behalf of the UUA.