

## Insights

# APRIL INTEREST RATES PROVIDE REFINANCING OPPORTUNITY FOR INTRA-FAMILY LOANS

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The IRS recently announced the Applicable Federal Rates (“AFR”) for April 2020:

- the “short-term” rate is 0.91%;
- the “mid-term” rate is 0.99%;
- the “long-term” rate is 1.44%.

This means that a loan for a term of up to 3 years must charge interest of at least 0.91%, a loan for a term of between 3 years and up to 9 years must charge interest of at least 0.99%, and a loan for a term of 9 years or more must charge interest of at least 1.44%. If a rate lower than the appropriate AFR is charged, the foregone interest for the entire term of the loan will be considered an upfront gift from the lender to the borrower.

This low interest rate environment presents an estate planning opportunity for creating new intra-family loans, as well as refinancing existing private loans to the appropriate current AFR. Please note that generally, loan interest will be considered taxable income to the lender in the year that it is received from the borrower.

In order to refinance an existing loan, the terms of the loan should allow the borrower to “prepay” the outstanding principal. The borrower would essentially renegotiate the balance of the existing loan to be payable with the new loan. In a refinanced loan, the term could be extended, which may be beneficial to the borrower. In addition, the lower interest payments would benefit the borrower, whose payments (whether monthly, annually, or at the end of the term) would be reduced. In order to provide some consideration to the lender for these benefits, the borrower should be prepared to make a down-payment of the outstanding principal amount, either at closing or pro-rated throughout the term of the loan.

In order to create a new intra-family loan or refinance an existing loan, you should consult an estate planning attorney to help you determine if this strategy is appropriate for your situation, and to draft the necessary documents. We are happy to answer questions you may have regarding intra-

family loans or refinances, or to explore other wealth-transfer strategies that may be available to you.

## RELATED CAPABILITIES

- Private Client

## MEET THE TEAM



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