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Building Refinancing:

A Co-op's Guide

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Refinancing an underlying mortgage of a cooperative corporation is a complex, time consuming and expensive transaction. There are numerous tasks a corporation can do to prepare for a successful closing. The following is an outline of what can be done by Board of Directors to pre-qualify the cooperative corporation for an underlying mortgage with a lender.

Review the current loan documents to determine if the existing lender will allow the underlying mortgage to be refinanced without a prepayment penalty. If there is prepayment penalty, it may be wise to wait until the penalty period expires or until there is a window period. However, there are circumstances in which favorable interest rates and reduced debt service may far outweigh a penalty fee. It may be worthwhile to pay said penalty in order to enhance the co-op's financial stability with a fixed rate mortgage.

Have the managing agent order a violation search to see what violations or liens have been filed against the property. Many lenders will require all violations to be removed of record prior to closing which is a highly time consuming process. In the event violations cannot be satisfied by the time of closing, it is likely that the corporation may have to escrow substantial moneys with the lender to ensure that the violations will be removed.

Prior to approaching a bank for a loan, the corporation should know how much it wants to borrow. The accountant for the co-op should determine if the reserve fund must be increased (generally 3 months of operating expenses is an accepted target). In addition, the corporation must determine if it wants to finance its closing costs.

Discuss with the managing agent what major repairs and capital improvements are needed in the building. It is possible that if a major repair or improvement is needed, the corporation may be able to borrow additional moneys to finance these expenses.

Have all key facts available to the lender (address, block, and lot, age of building, number of units, number of shares, unsold units, sublet apartments, number of apartments vacant and rented, shortfall, whether the unsold shares are used for collateral of other loans). Please refer to the attached checklist.

Know what kind of loan the co-op wants and its term. There are many products being offered in today's market and much time should be devoted to determine what is best for the corporation. For example, there are options to obtain a variable rate or fixed rate mortgage, a 5 year, 10 year, 20 year or 30 year loan interest only or amortized loan. An amortized loan will mean larger monthly installments which may result in an increase in maintenance. An adjustable rate loan may also mean an increase in debt service if the rate increases on an adjustment date also resulting in an increase in maintenance.

Knowing the physical condition of the building can make a great deal of difference in the loan a coop finally obtains. A lender will require an appraisal, an asbestos report and a physical condition report. Take a tour of the building to look for things an inspector may see (for example, loose wires, debris blocking egress, cracked or falling plaster, damp walls, sufficient lighting, leaks). In many cooperatives, repairs are made on an emergency basis as problems arise. Upon refinancing, a co-op may find that non-emergency repairs must be completed either prior to closing or after closing under tight time constraints and with a portion of the loan proceeds. If the inspection reflects a serious anticipated repair, it could delay the closing and may even prevent the closing to be completed.

Consider the services of a mortgage broker. A good broker can save time and money by assembling all relevant documentation, analyzing the loan, preparing timetables and outlining closing costs. The broker can determine which institution and which loan product is the best for a particular co-op. An underlying mortgage expert can help the coop formulate and successfully implement a cohesive long-term financial plan.

Hire an attorney who is experienced in closing underlying mortgages for coops. A seasoned professional can save you time and money by creatively structuring the loan. When it is time to refinance an underlying mortgage, it pays to seek expert advice. Discuss with your attorney how much to borrow and what loan products are best for the corporation. Do not assume that a bank with the lowest interest rate will give the best loan.

Pre - Qualification Checklist

Getting an early start on the legal aspects on refinancing can prevent many last minute problems. Before starting the search for a lender, assemble the following documentation and information:

1- The offering plan and all amendments.
2- The last 3 years financial statements.
3- Copies of statements for reserve funds.
4- Budget for upcoming year.
5- Maintenance roll with each apartment, number of shares, number of rooms, and monthly maintenance.
6- A list of sublet apartments and length of lease.
7- A list of sponsor-owned apartments and rent collected from each tenant.
8- A list of commercial leases and length of lease.
9- A list of resales over the last 3 years.
10- A list of past and intended capital improvements.
11- Block and lot number of property.
12- Copies of recent real estate tax bills.
13- Details of the existing mortgage name of mortgagee, rate, maturity date, etc. ■