Achieving your goals through Financing

Cooperative Financing Models that may work for you

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VISION KNOWLEDGE PEOPLE

Overview
Cooperative Financing

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- Overview of the environment
- Interest Rates – Why now is the best time to borrow
- Reasons to seek new financing
- What Lender's look at – How they size your loan and what is important to them
- FHA Mortgage programs for Cooperatives
- Fannie Mae Financing for Cooperatives
- Financing Examples

Current Interest Rates

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Interest Rates for different financing programs:

1. FHA Refinance – 223 (f) - current rates are around 2.85%

2. FHA Construction – 213 or 221 (d) (4) - Current rates are about 3.30%

3. Fannie Mae/Freddie Mac – Current rates are about 4.30%

Reasons to Secure Financing for your Property

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What would you like to do?

1. Improve project cash flow
2. Replenish Replacement Reserves
3. Bring down units back online
4. Enhance the curb appeal of your project
5. Make needed repairs
6. Rehabilitate the project

What Lender's look at:

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Lender's look at a variety of factors to size and approve your loan:

1. Loan to value
2. Debt Service Coverage Value
3. Sell-out value
4. Market Acceptance
5. Property Condition
6. Occupancy and Operating history
7. Carrying charge increases over time
8. Board Evaluation, By-laws review, and credit review

Loan to Value – What it means and why it is important

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Lender's will require an appraisal of your property. This appraisal will provide the following:

- Determine the value of your property. Your property will be valued as if it is a market rate rental property. Value is typically a function of cash flow, sales comparables and replacement cost.
- Determine a sell-out value of the property
- Determine the remaining useful economic life of the property

Lender's will only lend a certain percentage of the value of your property. This is referred to as loan to value.

Debt Service Coverage Ratio – What is it?

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Debt service coverage ratio (DSCR) is defined as the percentage of income that a lender will allow to be used to service debt. If your property net operating income is a $1 million and the DSCR required by your lender is 80% (1.25x), then you will only be able to qualify for a loan that can be supported by $800,000 at current interest rates.

Sell-out Value

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Sell-out Value is the value of your cooperative as if it were sold as a condominium. The appraiser will determine the value of each unit as a condo unit and develop a sell out scenario where the units are absorbed (sold) by the market over a specific period of time. The sum of the value of the units is discounted based on the sell out period and selling expenses are deducted to determine the sell-out value.

Lender's may only lend a percentage of the sell out value.

Physical Condition of your Property

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The physical condition of your property will be evaluated by the lender. The lender wants to insure that the property is safe and in good physical condition. If repairs are needed to maintain the safety and marketing appeal of the project, the lender will require that those repairs be completed.

City Gardens Apartments
Fannie Mae – Green Refinance Plus Loan

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- 10 year term / 30 year amortization
- 1.15 DCR / 85% LTV
- Rehab must included Green Components – upgrades to improve energy and/or water conservation
- PNA Report requires energy audit / annual monitoring
- U/W not depended on projecting energy cost savings
- No cash out – except up to 15% developer fee
- Pricing same as standard affordable
- FHA Risk Share – subsidy layering

Occupancy and Operating History

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Occupancy history is important as it provides a picture of your properties operations and success over a period of time. Lender's typically require that a property be above a certain occupancy percentage over time to qualify for a loan.

Operating history also give the lender information over several periods of time to ensure that expenses and other income are accurate. One year is typically not sufficient evidence of income and expenses to predict future operations.

Carrying Charge Increases – Are you keeping pace with your needs?

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Lender’s will examine the cooperative’s record of increasing carrying charges to address changes in operations, make need repairs and address other financial changes in the market and the property.

Lender’s like to see that cooperative address these issues as necessary. If expenses increase so that additional income is necessary, there should be a corresponding increase in carrying charges to cover additional costs.

Board Evaluation, By-Laws and Credit Review

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Lender's will evaluate the board and by-laws of the cooperative:

- It is positive to have an pro-active board.
- Regular board member training is very important.
- By-laws and coop documents must show the manner in which the corporation is required to be managed and controlled.
- Lender's prefer properties that are professionally managed.

Summary of Loan Terms for FHA and Fannie Mae.

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Underwriting Parameters	Fannie Mae	FHA 223 (f)	FHA 221 (d) (4) or 213
Term	10 years (1)	35 years	40 years
Amortization	30	35 years	40 years
Pre-Payment Penalty	Yield Maintenance for 9.5 years	2 year lock-out, declining %	2 year lock-out, declining %
Minimum owner occupied units	90% (1)	90%	90%
Loan to sell-out value	N/A	55%	N/A
DSCR	1.15x (1)	1.00x	1.11x
Loan to Value	80% (1) (2)	65% (2)	83.5% - 97% (3)

1) Fannie terms and pricing may vary somewhat based on specific circumstances. For instance if you have an actual loan to value of 65% or better and DSCR of 1.35x or better, your interest rate will be better. At those amounts, minimum owner-occupied units is 60%.

2) Loan to value calculation is based on value as a market rate rental property

3) LTV is not applicable, this represent loan to cost.

Other Programs for Cooperatives

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- FHA 213 Program
- FHA 241 Program
- Local Housing Programs
- Local Banks