Share Loan and Underlying Mortgage Financing

Jeremy Morgan, NCB
Larry Mathe, NCB

About NCB

NCB is the premier lender to housing cooperatives nationwide.

- NCB has financed over $6 Billion to housing cooperatives nationwide.
- NCB currently has 42 limited equity cooperative loans totaling $177 million in its portfolio.
- NCB's Real Estate group possesses the most experienced cooperative finance specialists in the nation.
- Only nationwide share loan lender in the country.

Agenda

- Cooperative Project Approval
- Share Loan Financing
- Personal Underwriting Criteria
- Loan Approval Process and Guidelines for Share Loans
- Underlying Mortgage Financing
- Underwriting Criteria and Process for Cooperative Underlying Mortgages

ncb

Cooperative Project Approval for Share Loan Financing

- What is coop project approval and why do banks need it?
- Components of project approval
  - Completed cooperative questionnaire
    - Insurance
    - Financials
    - Organizational documents
  - Agreed Recognition Agreement
    - An agreement that recognizes specific rights of lenders who finance share loans as well as the rights of the borrower and the co-op

Co-op Project Approval Specifics

- Owner Occupancy of at least 30% for NCB Portfolio Financing. 80% required for FNMA Financing
- Sponsor/Investor units not to exceed 10% for FNMA Financing.
- Commercial Space not exceed 45%
- Delinquency- Shareholder Delinquency not to exceed 18%
- Reserves- 5-10% of gross annual income required
- Cash Flow- Not to exceed -5%
- Insurance- $1,000,000 General Liability Required as well as 100% Replacement Cost Coverage

Share Loan Financing

- What is share loan financing?
- What are the types of loans available?
- What is the underwriting criteria?
- How long does it take?

Types of Share Loans

FNMA Loans

- Minimum FICO Score of 620. FICO score 740 or greater required to obtain lowest interest rate.
- Max LTV of 90%. Mortgage Insurance required with any LTV over 80%.
- No set reserve requirement for FNMA Loans.
- DTI Ratio (Debt-to-Income) not to exceed 45%
- Max Loan Size: $417,000 (conforming) $729,000 (Jumbo)
- Loans Available- 30, 20, 15, 10 year Fixed Rate Mortgages. 1/1, 3/1, 5/1, 7/1 ARM's (Adjustable Rate Mortgages)
- Current Rates (For Informational Purposes): 30/20Year Fixed- 4.25%, 15/10 FRM- 3.625%

Types of Share Loans

Bank Portfolio Loans

- Max LTV of 80%
- 680 minimum score
- 6 months reserves required for Portfolio Loans under $417,000.
- DTI Ratio (Debt-to-Income) not to exceed 45%
- Max Loan Size: $1,500,000
- Loans Available- 1/1, 3/1, 5/1, 7/1 ARM's (Adjustable Rate Mortgages)
- Current Rates (For Informational Purposes): 5/1 ARM- 4.5%, 7/1 ARM- 4.75%

Share Loan Process

- Application can be found online at www.ncb.coop/apply
- Process can take 30-45 days

Cooperative Underlying Mortgages

- **Co-op Underlying Mortgage Loans** ("Blanket Loans") are financing transactions to the cooperative housing corporation
- The loans are secured by "real property," a first or second mortgage on the land and buildings, and by an assignment of all leases, receivables, accounts and "personal property" of the co-op
- Not to be confused with co-op apartment unit **Share Loans**, which are loans to individual co-op owners secured by the co-op shares and proprietary lease (not real property)

Why Co-ops Borrow

- To purchase or construct the property
- To refinance an existing loan
  - At maturity
  - To reduce the interest rate
- To fund repairs or capital improvement projects at the cooperative

ncb

Initial Process to Borrow

- Research By-Laws/Governing Docs to Determine Authority
- Empower Individuals/Committee to explore financing options
- After analyzing options, Board must commit to course of action
- Assess capital improvement and maintenance needs at the Cooperative

ncb

Loans to Housing Cooperatives

- **Underlying First Mortgage -** to the Co-op Corporation
  - secured by a first mortgage in land and improvements.
  - generally used to fund long-term capital improvements.
  - typically fixed rate loans; long term (10-20 years to maturity).
- **Line of Credit -** to the Co-op Corporation
  - secured by a second mortgage in land and improvements.
  - generally used to fund future capital improvements.
  - typically floating or adjustable rate loans.

Type of Mortgages

- **Balloon Loan** – loan where the principal balance is not fully paid off by the scheduled monthly payments at maturity.

  At maturity the remaining principal balance ('balloon payment') is generally refinanced by another loan.   Most commercial real estate loans, including the overwhelming majority of co-op mortgages, are balloon loans.

- **Self Amortizing Loan** -   loan with accelerated principal repayment where the entire principal balance is paid off by the scheduled monthly payments at maturity.

  Most consumer loans are structured as self amortizing loans.

ncb

Underlying Mortgage Structure

- **Payments:** Monthly principal & interest payments based upon an amortization period up to 30-40 years (***Note***: If Amortization Term > Loan Term the it is a "Balloon loan").

- **Interest Rate:**
  - 1^{st} mortgages are typically fixed rate loans. Set at a margin above the yield on 10 Year US Treasury bonds.
  - 2^{nd} mortgages can be adjustable rate mortgages ("ARMs") with 3 or 5 year adjustment periods; or floating rate lines of credit (over PRIME or LIBOR).

- **Max LTV:** 65% of the appraised rental value.

ncb

Initial Information Requirements

- Preliminary Application by Cooperative
  - Borrower name and mailing address
  - Amount of financing, use of proceeds
  - Age of building, year of co-op conversion
  - Unit breakdown (i.e. – number of units, types, percentage of units sold)
  - Preliminary market information (rental rates/sale prices)
  - Financial statements
- Bank issues proposal letter outlining general terms of loan

Underwriting Criteria

- Delinquencies
  - Aggregate past due shareholder receivables in excess of 30 days may not exceed 5% of the co-op's annual budgeted maintenance. The number of delinquent units in excess of 30 days at the time of underwriting may not exceed 10% of total units.
- Loan to Value
  - First and Second Mortgages: Loans shall possess a maximum LTV ratio of 65% as a rental property and 55% as a cooperative.
  - Secured Line of Credit: Maximum LTV, inclusive of all debt, of no greater than 65% as a rental.

Underwriting Criteria

- Reserves
  - At the time of closing and throughout the loan term, the cooperative must maintain minimum replacement/capital reserves of 10% of budgeted annual maintenance/assessment charges.
- Debt Service
  - Prior to closing, the approved and certified budget of the cooperative corporation for the current period must demonstrate a Debt Service Coverage Ratio of no less than 1.0X (Total income = Total expenses, inclusive of debt service).

Underwriting Process

- Documents needed to underwrite loan:
  - Three years audited financial statements
  - Current fiscal year budget and YTD operating statements
  - Maintenance schedule/rent roll
  - Description of property (size, location, unit breakdown, % of units sold).
  - Schedule of sublet units
  - List of recent unit sales

Underwriting Process (cont.)

- Delinquency report
- Identification of current mortgage information (amount, rate, maturity, monthly payment, name of lender, etc.)
- Identification of capital improvement work to be undertaken (sources/uses)
- Organizational documents
- Insurance Certificate

• *Typical Underwriting Time = 2 weeks*

ncb

Underwriting Process

- Collect Application fee of $12,000 to cover 3rd party report expenses
- 3rd party reports:
  - Appraisal
  - Property Condition Report
  - Phase I Environmental Report

Closing Process

- Once a Commitment Letter is received, the Co-op will move to the closing process
  - Loan Documents contain key provisions outlining specific requirements and restrictions of the loan

Post-Closing Process

- Debt Service Coverage Ratio (DSCR) = 1.0X
  - Income = Operating Expenses + Debt Service
- Cash and Reserves
  - Maintain at least 10% of gross annual income in a cash or reserve account
  - Example: $1,000,000 Income; requirement of $100,000 in cash and reserves
- Delinquencies of no more than 5% of the gross annual income

Post-Closing Process (cont.)

- Annual Insurance Certificates
- Annual Site Inspection Reports

Questions?