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Achieving your goals through Financing

Cooperative Financing Models that
may work for you

Overview Cooperative Financing

- Mortgage programs for Cooperatives
- Overview of current rate environment
- Reasons to seek new financing
- What Lender's look at – How they size your loan and what is important to them



Loan Programs for Cooperatives

- **HUD Section 223(a)(7)**

Refinance of an Existing FHA Insured Loan

Overview: Streamlined FHA program designed to allow borrowers with existing FHA insured loans to lower the interest rate, extend the term, fund project repairs and increase the replacement reserve. For-profit and not-for-profit borrowers may apply for FHA mortgage insurance under this program.

- **HUD Section 223(f)**

Cooperative Refinance Loan

Overview: This loan provides non-recourse, assumable financing for the refinance of existing cooperative properties.

- **HUD Section 213 or 221(d)(4)**

Cooperative New Construction or Substantial Rehabilitation Loan

Overview: This program provides non-recourse, assumable construction and permanent financing for new cooperative or substantial rehabilitation of existing cooperative.

- **Fannie Mae 10 Year Loan Program**

Cooperative Refinance Loan

Overview: This loan provides non-recourse, assumable financing for the refinance of existing cooperative properties.



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Summary of Loan Terms for FHA and Fannie Mae

Underwriting Parameters	FHA 223 (a) (7)	FHA 223 (f)	FHA 221 (d) (4) or 213	Fannie Mae
Term	Current term plus 12 years	35 years	40 years	10 years ⁽¹⁾
Amortization	Current term plus 12 years	35 years	40 years	30
Pre-Payment Penalty	2 year lock-out, declining %	2 year lock-out, declining %	2 year lock-out, declining %	Yield Maintenance for 9.5 years
Minimum owner occupied units	90%	90%	90%	90% ⁽¹⁾
Loan to sell-out value	N/A	55%	N/A	N/A
DSCR	1.11x	1.00x	1.00x - 1.11x ⁽³⁾	1.15x ⁽¹⁾
Loan to Value	N/A	65% ⁽²⁾	83.5% - 97% ⁽³⁾	80% ^{(1) (2)}

- 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. 97% loan to cost is for the 213 program. DSCR on 213 is 1.00x.



Summary of Loan Terms for FHA and Fannie Mae – Loan Costs

Loan Costs	FHA 223 (a) (7)	FHA 223 (f)	FHA 221 (d) (4) or 213	Fannie Mae
Financing Fees	1% to 3.5%	1% to 3.5%	1% to 3.5%	1% to 3%
Engagement Fee	\$5,000	\$5,000	\$5,000-\$15,000	\$5,000 - \$10,000
Appraisal	N/A	\$6,000-\$9,000	\$6,000-\$9,000	\$6,000-\$9,000
Market Study	N/A	N/A	\$8,000	N/A
Phase I	N/A	\$3,500	\$3,500	\$3,500
Engineering	\$3,000-\$7,000	\$3,000-\$7,000	\$15M-\$30M	\$3,000-\$7,000
Survey	N/A	\$5,000-\$8,000	\$5,000-\$8,000	\$5,000-\$8,000
HUD App Fee	0.15% of loan	0.30% of loan	0.30% of loan	N/A
HUD Inspection	Min \$1,500 ⁽¹⁾	Min \$1,500 ⁽¹⁾	0.5% of loan	N/A
MIP	0.45% of loan	1% of loan	0.9% of loan ⁽²⁾	N/A
Lender Legal	\$15,000	\$20M-\$25M	\$25M-\$35M	\$15M-\$25M

- 1) There is a minimum \$1,500 inspection fee if repairs are less than \$100M. If repairs are over \$100M, than the inspection fee is the greater of \$30 per unit or 1% of the total repairs.
- 2) Cost can range from 0.45% to 1.20% of loan amount depending on the length of construction and whether the property is considered affordable or market rate.



Current Interest Rates

- FHA 223 (a) (7) program – around 4.65% plus 0.45% MIP
- FHA 223 (f) program – around 4.65% plus 0.45% MIP
- FHA 221 (d) (4) or 213 program – around 5.70% plus 0.70% MIP
- Fannie Mae – around 5.25%



Current Interest Rates – What will your payment be?

Loan Program	Amount Borrowed	All In Interest Rate	Amortization	Payment
FHA 223 (a) (7)	\$1,000,000	5.10%	25 years	\$5,904/mo
FHA 223 (f)	\$1,000,000	5.10%	35 years	\$5,111/mo
FHA 213/221 (d) (4)	\$1,000,000	6.40%	40 years	\$5,783/mo
Fannie Mae	\$1,000,000	5.30%	30 years	\$5,553/mo

Notes:

Term for 223 (a) (7) is limited to existing remaining term plus 12 years

FHA loan include MIP

Fannie Loan is a 10 year loan with a balloon payment



Reasons to Secure Financing for your Property

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:

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



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

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.



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Debt Service Coverage Ratio – What is it?

- 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.



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Sell-out Value

- 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

- 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.



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Occupancy and Operating History

- 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.



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

- 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

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.



Other Programs for Cooperatives

- FHA 241 Program
- Local Housing Programs
- Local Banks



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About Love Funding

Love Funding is a fully-approved HUD LEAN and MAP lender serving clients across the country from its headquarters in Washington D.C. and offices in Boston, Chicago, Cleveland, Dallas, Denver, Kansas City, Knoxville, New York, Palm Beach, Pittsburgh, Tampa and St. Louis.

The company offers refinance, construction and acquisition financing programs for multifamily, senior housing and healthcare facilities, including hospitals.

Love Funding is one of the Love Companies, a St. Louis-based investment holding company with origins dating back to 1875.



About Love Funding

Last year, Love Funding arranged a record \$1.23 billion of FHA financing around the country, including 107 FHA-insured loans for \$834.2 million, one FHA loan modification of \$361.4 million, and one bridge loan for \$30 million.

As a leading lender in multifamily finance, Love Funding's FHA MAP underwriting expertise simplifies the application process and reduces the time needed to obtain funding. An experienced Love Funding originator can guide you through all of the options and advise on the merits of each.



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As senior director, Hugh Jeffers is responsible for originating new business around the country. He is located in Pittsburgh, PA. Prior to joining Love Funding in August 2013, Mr. Jeffers was senior vice president with Bellwether Enterprise responsible for originating FHA, Fannie Mae and Freddie Mac multifamily and healthcare loans. Before his time at Bellwether Enterprise, Mr. Jeffers was director of FHA financing at Oppenheimer Multifamily Housing and Healthcare Finance, where he was responsible for FHA originations. Mr. Jeffers also spent time at Arbor Commercial Mortgage in New York as the screening director for FHA originations for the entire company. Prior to that, he was manager of the affordable housing group and the FHA multifamily lending operation of NCB Development Corporation in Washington, DC. He has over 15 years of multifamily and healthcare origination and underwriting experience. He has developed a particular expertise in affordable and senior housing. Mr. Jeffers holds a bachelor's degree from Lafayette College in Easton, PA, where he was a double major in Economics and Art. He holds a master's degree from New York University, Stern School of Business.



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