National Association of Housing Cooperatives
October 2013 Conference
Seattle, Washington
Refinancing in 2013: Don’t Miss Out

“Welcome to Seattle”

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September 2013 - Housing Starts Rose 7% in August (Census.gov)

2013 Outlook: Upswing in Market

• 23.8% of homes are still underwater as of end 2nd Quarter (Zillow)
• 7.17% of homes have missed a payment (down from 8.44% in 2011) (Los Angeles Times)
• Home foreclosures on track to end 2013 at 6-year Low (Associated Press)
• Sales of new homes advanced in March 2013 to strongest quarter since 2008 (Bloomberg)
• Foreclosed homes devalue neighborhoods

Apartments

• 5.16% vacancy (lowest since 2001) while rents increased by 5% (IRR)
• Delinquency rates for commercial and multifamily mortgage loans declined in the second quarter (MBA)

Shopping Centers, Office Buildings and Industrial Buildings

• Rents have stabilized, vacancies have stabilized – very market specific
• Commercial property values are up from one year ago (CoStar)
• Experts say, “We have bottomed out”

Little Uncertainty in Co-ops – Let Us Show You Why!
Interest Rates Continue to be Historically Low

- +/-5% Co-op/Apartment Loans For 10-Year Fixed Rate
  
  **Fannie Mae/Freddie Mac - Industry Standard**
  
  - Federal Conservatorship – what will happen to GSEs over the next 2 – 4 years?
  - Bonds backed by Fannie/Freddie apartment loans have surged to record values with single-family values coming back – What does it mean?
  - September 2013: “Certainly wouldn’t want to rule out” a reduction in the U. S. central bank’s bond-buying program later this year, adding the Fed expected slower economic growth now than it did in June.
  - New York Fed President William Dudley states “The thing that we really want to emphasize is that it’s driven by data, not by time.” *(Reuters)*
  - The big unknown is when the Fed stops buying bonds

  **Credit Crunch Loosening For Commercial Real Estate**
  
  - Bank financing returns
  - Conduit/MBS definitely a force
  - Life companies competitive – mainly focus on class A Properties
Cooperatives Are a Great Place To Live!!

- Well-maintained & high satisfaction level
  - Beautiful grounds
  - Call your maintenance staff
  - Great quality of life
  - Co-opers look out for neighbors
- Low monthly carrying charge
- Low cost of membership
- Pride of ownership
- Part of a positive movement
- Most importantly, predictable cost of housing
Yes?

- Low interest rate!
- Limit HUD oversight through conventional refinancing
- Capital Improvement Program
  - Roofs
  - Heating & Air Conditioning
  - Repave roads
  - New kitchen & baths
  - Exterior updates
  - Siding, gutters, windows, etc.
- Low Interest Rates
  - May not require carrying charge increase. If so, usually 5% or less.
- Maintain competitive position in marketplace
  - Must compete with newer apartments & condominiums
- Take advantage of 236 Decoupling for “free” money
**Maybe?**

- Not sure of continuing affordability
- Not sure of condo conversion (not happening in today’s world!)
- Hopefully decision is made before rates rise (who knows?)

**No?**

- No existing debt – loan paid off
- No upgrading needed (Yeah, sure!)
- Large reserves
- Co-opers happy just the way they are
Why Refinance in this Market

We generally cannot predict whether interest rates will go up or down; clearly interest rates are historically low right now!

Thesis of our class:

- Over the past 9 years, we have funded 80+ Co-op Mortgages totaling more than $300 million
- The circumstances of the loans have been very consistent
- Co-ops need capital improvements to remain competitive in the market
- Low interest rates keep new carrying charges low
- Take advantage of government programs, such as Decoupling and Flex Loan Extension
- Achieve common goals of decreasing HUD involvement
Rates Are Historically Low & Stable!
Refinance Case Studies
Richmond, Indiana
112-Unit Co-op – March 2013
Goals of Refinancing

- HUD required $1,130,000 Flex-Loan to be paid off
- Parc Lorraine was a Section 236 Property that had paid off its loan in full, thus Flex-Loan was now due to HUD
- Refinance Flex-Loan
- Achieve long-term fixed rate for 30 years
- Timely closing to capture favorable rate
- No carrying charge increase
- Eliminate pressure from HUD to pay off Flex
- Eliminate HUD involvement
- Eliminate debt variable
Richmond, Indiana
112-Unit Co-op – March 2013

New Loan – FNMA DUS® Program
• $1.13 Million loan proceeds
• +/- 5.54% Interest
• 30-Year Term /30-Year Amortization

Goals Accomplished
• HUD Flex Loan paid off, as required
• 5.54% Interest fixed for 30 years
• Reasonable monthly payment – No increase in carrying charge required
• Timely closing
• Co-op can plan for the future, having long-term, fixed-rate debt
• Secondary supplementary financing available
• No HUD oversight
Forest Hills Cooperative

Ann Arbor, Michigan
306-Unit Co-op – July 2011
Goals of Refinancing

• Extend Flex Subsidy Loan of $2.45 Million with HUD at 1% for 30 years; Pay down $911,500 of Flex Principal
• Pay-off existing HUD debt - $130,000
• Capital Improvement Program - $1.8 Million
  • Roofs – 50% of Complex
  • +/- 300 Furnaces & Air Conditioners
  • Asbestos Insulation Removal
New Loan – FNMA DUS® Program

• $3.7 Million loan
• 6.8% Interest; Currently would be +/-6%
• 30-Year Term/30-Year Amortization
• $60,000 from IRP Decoupling

Goals Accomplished

• Achieved long-term, fixed-rate loan
• Funded $1.8 Million Capital Improvement Program
• Reasonable carrying charge increase
• Extended $2.45 Million Flex Loan for 30 Years at 1%
• Property remains affordable
Georgetown Place Cooperative

Taylor, Michigan
199-Unit Co-op – March 2013
Taylor, Michigan
199-Unit Co-op – March 2013

Goals of Refinancing

• Pay off existing Arbor Fannie Mae loan of $2,265,818
• Reduce previous interest rate of 5.78% to 4.16%
• New 10-Year Loan Term – 30-Year Amortization
• Fund new Co-op Club House & New HVAC for Units
• No government oversight/No use agreement
• Timely closing to capture record low interest rate
New Loan – FNMA DUS® Program

- $4.5 Million loan
- 4.16% Interest
- 10-Year Term/30-Year Amortization

Goals Accomplished

- Lowered interest rate from 5.78% to 4.16%
- Provided funds to build new club house & new HVAC for units
- Affordability is Co-op’s option
- No HUD/Government oversight
- Timely March 2013 (Loan closed in +/-60 Days from start to finish)
Discussion

• Credit Crunch
• Rates/Costs
• Decoupling
• Flex Deferral
• Section 8
• Use Agreements
• Affordability
• Loan Terms Available