National Association of Housing Cooperatives
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San Juan, Puerto Rico
Refinance: Yes? No? Maybe? (Dos)

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State of the Real Estate World 2011

Home Foreclosures Continue

2011 Predicted to be Worst Year, Then Stabilize

- 23% or 10.8 Million Homes are Underwater
- 8.44% of All Homes Missed a Payment in the Second Quarter of 2011 (Down from 10%)
- 4.6% of All Homes are in Foreclosure (Estimated to be 3 million - 3.5 million)
- Home Prices Expected to Decline 4% in 2011
- New Home Sales to Increase to 340,000 Homes in 2011 (Up from 320,000 in 2010)

Apartments

- +/- 6% Vacancy (Down from 7.5%)

Shopping Centers, Office Buildings and Industrial Buildings

- Rents Going Down, Vacancies Going Up
- Commercial Property Values Have Declined 42%
- Experts say, “No End In Sight”

Thinking We Are Turning The Corner? Definite Uncertainty Exists
Are We Going Back for a Double Dip Recession? Hope Not!

We Want Good News!

- Coops are Definitely Good News!
State of the Real Estate World 2011

Interest Rates Continue to be Historically Low
  • +/-5% Coop/Apartment Loans

Fannie Mae/Freddie Mac - Industry Standard
  • Federal Conservatorship – What Will Happen to GSE’s (Big Question)
  • U. S. Halting Purchase of Fannie/Freddie Bonds Seems Not to Have Effected Long-Term Mortgage Rates
  • Federal Reserve Finishing Buy Back of $600 Billion Treasury Bills Summer 2011- Rates Were Expected to Rise, But Not Happening
  • Chairman of Federal Reserve Bernanke Promises Low Rates for 2 More Years (August 2011)
  • August 2011, S&P Credit Downgrade Doesn’t Seem to Have Greatly Affected Mortgage Market
  • September 2011 Federal Reserve Recreates Operation Twist & Exchanges $400 Billion Short Term Debt for 6 – 10 Year Long-Term Debt in an Effort to Reduce Borrowing Costs

HUD Loans are Happening in Multifamily

Credit Crunch Goes on For Commercial Real Estate
  • Bank Financing Remain Difficult
  • Conduit/MBS Trying to Restart – Many Problems
  • Life Companies Spotty – Mainly A-Class Properties
As For Us, What to Make of it?

Cooperatives Are a Great Place To Live!!

• High Level of Maintenance & Satisfaction
  • Beautiful Grounds
  • Call Your Maintenance Man
  • Great Quality of Life
  • Coopers 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
Refinance: Yes?  No?  Maybe?

Yes?

- Limit HUD Oversight
- 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 Market Place
  - Must Compete with Newer Apartments & Condominiums
- Take Advantage of 236 Decoupling for “Free” Money
- Extend Flex Loan at 1% for 30 years
Refinance: Yes?  No?  Maybe?

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
• Coopers Happy
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 8 years, we have funded 65+ Coop Mortgages (Over $250 million).
• The circumstances of the loans have been very consistent.
• Coops 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
Forest Hills Cooperative
Ann Arbor, Michigan
306-Unit Coop – July 2011
Case Study
Forest Hills Cooperative
Ann Arbor, Michigan

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
Forest Hills Cooperative
Ann Arbor, Michigan
Closed July 2011

New Loan – FNMA DUS® Program
- $3.7 Million Loan
- 6.8% Interest
- 30 Year Term / 30 Year Amortization
- $60,000 From IRP

Goals Accomplished
- Achieved Long-Term Fixed Rate Loan
- Funded $1.8 Million Capital Improvement Program
- Reasonable Carrying Charge Increase
- Extended $2.447 Million Flex Loan for 30 Years at 1%
- Property Remains Affordable
Nassau Gardens Cooperative
Norwood, Massachusetts
204-Unit Coop – August 2011
Case Study
Nassau Gardens Cooperative
Norwood, Massachusetts

Goals of Refinancing

• Pay-off HUD Loan $2,147,500
• Reduce Current Interest Rate of 7.2% - Payment $29,047 Monthly
• No Change in Loan Term
• No MIP
• No Change in Monthly Carrying Charges
• No Government Oversight / No Use Agreement
• Timely Closing
Nassau Gardens Cooperative
Norwood, Massachusetts
Closed August 2011

New Loan – FNMA DUS® Program

- $2.3 Million Loan
- 4.13% Interest – Monthly Payment Reduced to $28,174
- 8 Year Term / 8 Year Amortization

Goals Accomplished

- Lowered Interest Rate from 7.2% to 4.13%
- Monthly Payment Decrease of $873 Per Month
- No MIP Saves $900 Per Month
- No GOR Account Impound
- Total Savings $3,035 Per Month + Loan Pays Off 2 Months Early
- No Change in Monthly Carrying Charges
- Affordability is Coop’s Option
- No HUD / Government Oversight
- Timely August 2011 (Loan Closed in +/-60 Days from Start to Finish)
Pine Tree Cooperative
Lawrence, Kansas
160-Unit Coop – May 2011
Case Study
Pine Tree Cooperative
Lawrence, Kansas

Goals of Refinancing

• Pay-off Existing HUD Debt - $286,500
• Decouple – Present Value of IRP $127,000
• Timely Closing to Achieve Favorable Rate
• Fund Capital improvement Program - $1.95 Million
  o Electrical Upgrades
  o Exterior Roofs, Gutters & Siding
  o HVAC
    o Unit Upgrades including Kitchens & Baths
• Nominal Monthly Carrying Increase $25 - $50 Per Month
• Preserve Affordability
Pine Tree Cooperative
Lawrence, Kansas
Closed May 2011

New Loan – FNMA DUS® Program
• $2.4 Million Loan Proceeds
• +/- 5.73% Interest
• 10 Year Term /30 Year Amortization

Goals Accomplished
• $1.95 Million Capital Improvement Program Funded
• Received $127,238 Present Value of IRP
• Timely Closing
• HUD Oversight Greatly Diminished
• New Use Agreement Preserving Affordability Until March 2019
Discussion

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