Quick Guide - Preparing to Refinance

COOPERATIVE FINANCING MODELS THAT MAY WORK FOR YOU

Cooperative Financing

- Mortgage programs for Cooperatives

- Reasons to seek new financing

- What Lender's look at – How they size your loan and what is important to them

Agency 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. May borrow up to the original mortgage amount

HUD Section 223(f)
Cooperative Refinance Loan

Overview: This loan provides non-recourse, assumable financing for the refinance of existing cooperative properties. Program allows for minor repairs and rehabilitation of approximately $40,000 per unit.

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.

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% (4)	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.

4) Waivable for limited equity and affordable properties

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	$10M

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.

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

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.

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.

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.

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

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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