Achieving your goals through Financing

COOPERATIVE FINANCING MODELS THAT MAY WORK FOR YOU

Cooperative Financing

- Mortgage programs for Cooperatives
- Reasons to seek new financing
- A Closer look at the 223 (f) Program
- What Lender's look at – How they size your loan and what is important to them

What is the FHA?

- The Federal Housing Administration was created by the National Housing Act of 1934
- It was created in response to the housing and banking crisis that arose out of the Great Depression
- At the time, it was very difficult to buy a home or to get a loan to build housing.
- The FHA created mortgage insurance programs to help stabilize the market

What is mortgage insurance?

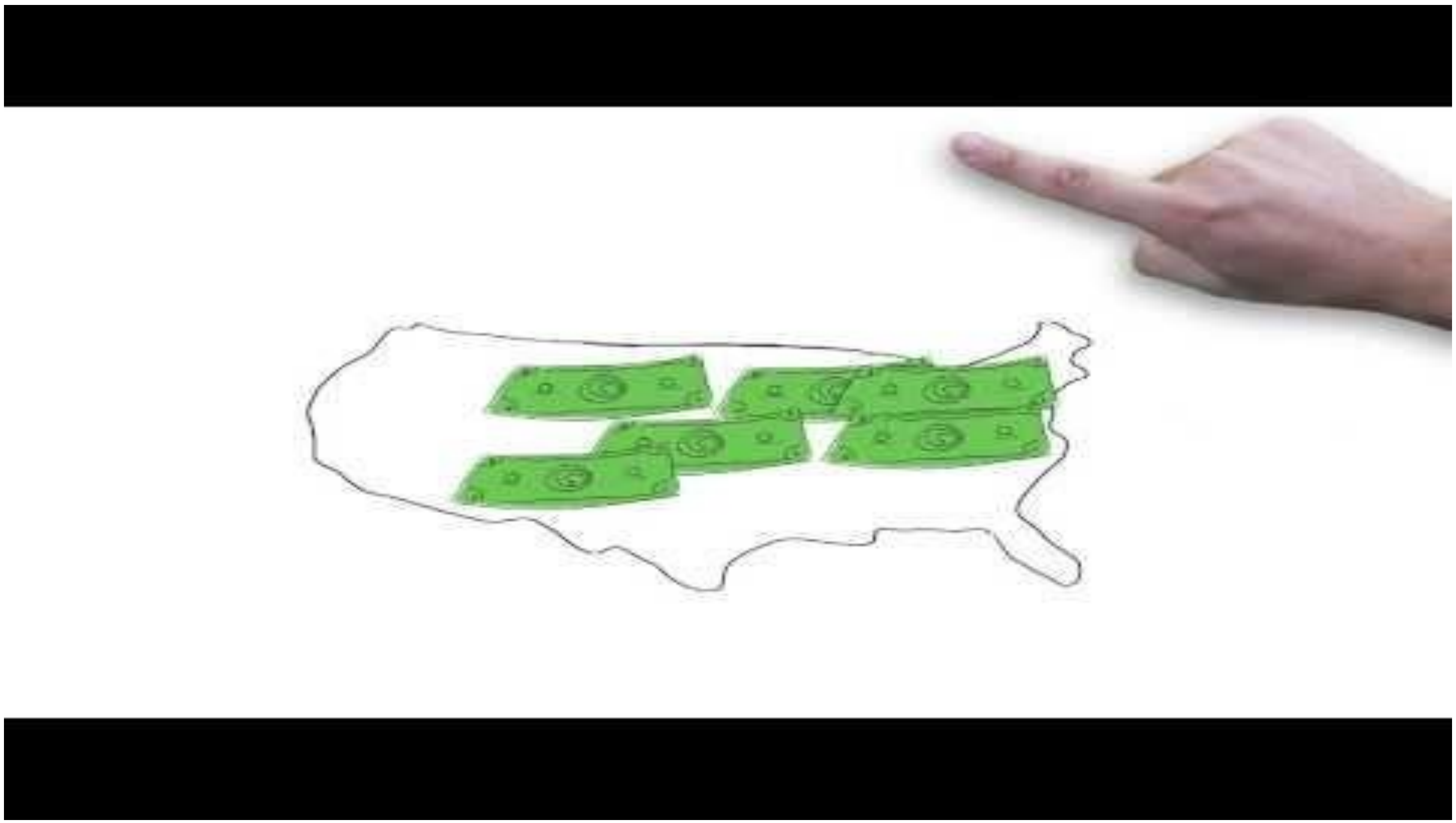
- FHA would insure lenders and banks against loss if a loan defaulted.
- The loans had to conform to a fairly strict underwriting criteria, but it allowed banks to provide terms that were much more beneficial to homeowners and developers.
- It allowed for 30 plus year mortgages and loan to value in excess of 80%
- FHA also created mortgage insurance programs for the Multifamily industry to insure apartments and cooperatives.

What is the Department of Housing and Urban Development

What is Fannie Mae?

- The Federal National Mortgage Association (FNMA) was created in 1938 as part of Roosevelt’s New Deal during the Great Depression.
- It is classified as a Government Sponsored Enterprise or GSE.
- The role of Fannie Mae was to stabilize and enhance the secondary mortgage market by buying mortgages and providing mortgage backed securities to investors.
- This allowed lenders to sell their mortgages to Fannie Mae and reinvest the proceeds for new mortgages, thus enhancing community investment buy bringing private investors into the mortgage market.

Fannie Mae Securitization



Agency Loan Programs for Cooperatives

HUD/FHA 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/FHA 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/FHA 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%	75%	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-$12,000	$3,000-$12,000	$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	1% of loan (2)	N/A
Lender Legal	$15,000	$15M-$25M	$25M-$35M	$7M

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 1.40% of loan amount depending on the length of construction and whether the property is considered affordable or market rate.

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.

Reason you made need financing for your Property

WHAT DO YOU WANT TO DO?

Increase your Bottom Line

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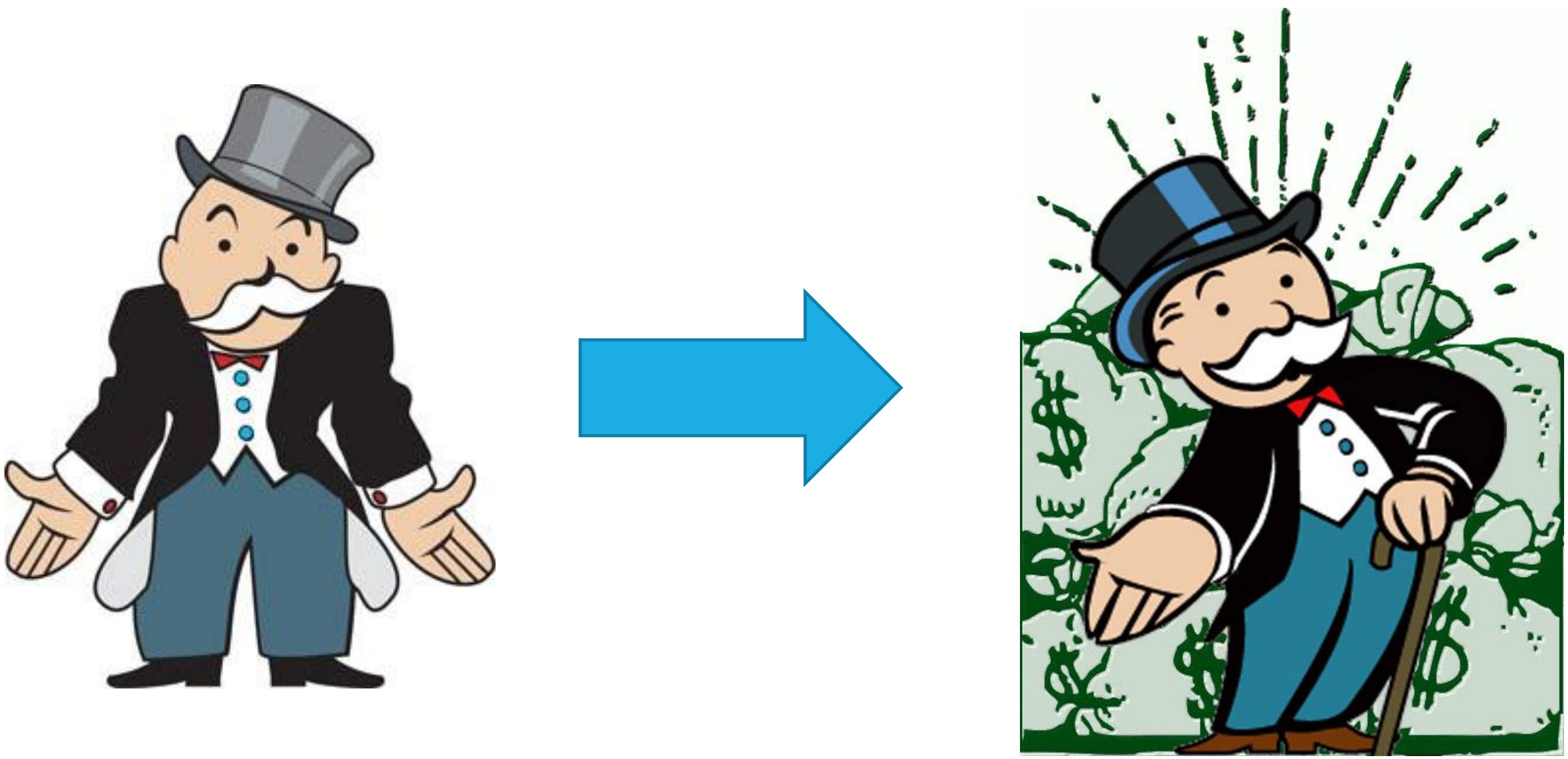
Replenish Replacement Reserves



Bring Down Units back Online

Enhance your Curb Appeal

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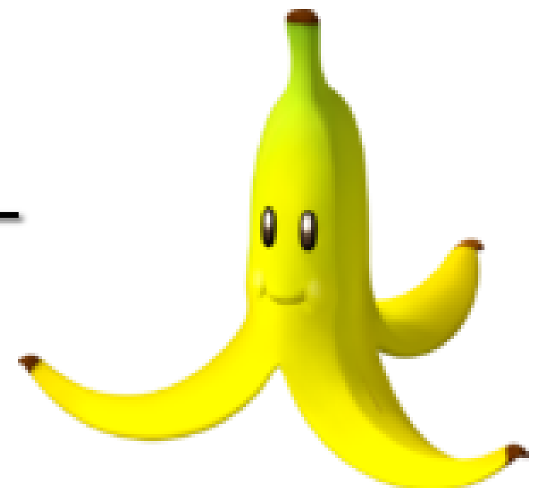
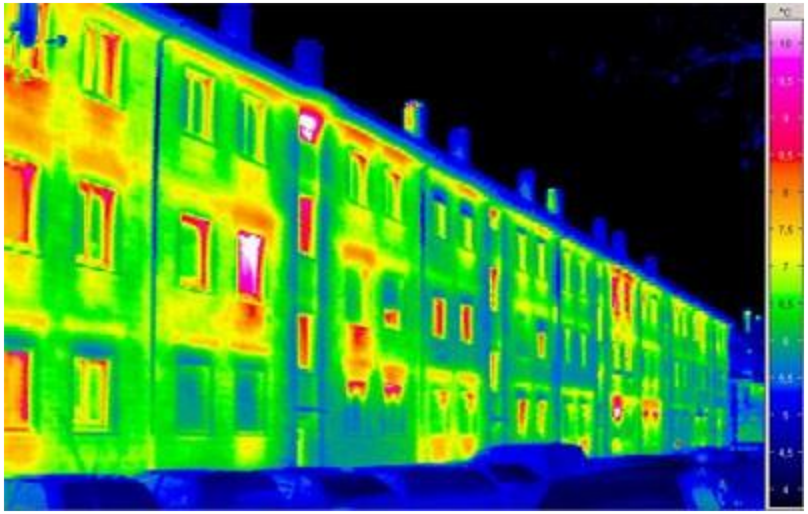
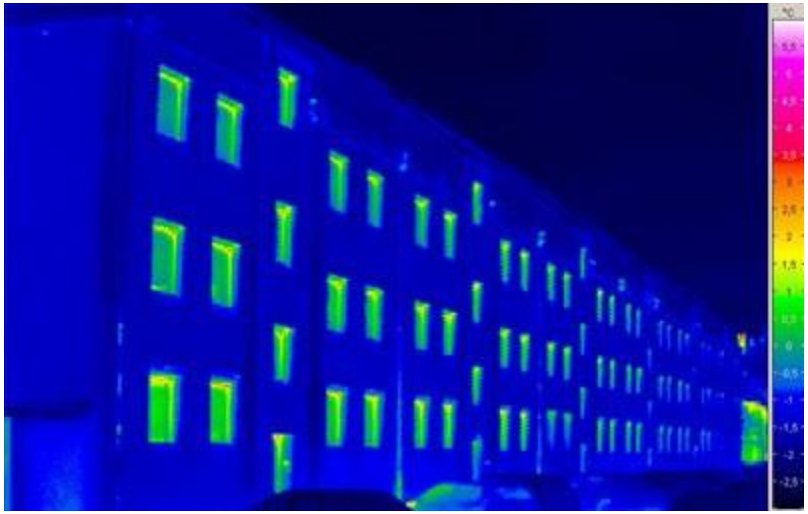


Make needed repairs

Green Retrofit/Efficiency Enhancements





Rehabilitate the propety

A Closer Look at the FHA 223 (f) Program

FHA 223 (f) Program

- 223 (f) Terms and Benefits
- Big improvement for the 223 (f) Program
- What is Davis Bacon and why recent change help you avoid it?

FHA 223 (f) Program

- 223 (f) program allows cooperatives to refinance their current mortgage and provides funds for repairs, property enhancements, and to replenish reserves.
- The program is available to all housing cooperatives, both limited equity and market rate cooperatives.
- You do not currently need to have an FHA loan to qualify for a loan under the 223 (f) program

Underwriting Parameters for the 223 (f) program

- The loan you qualify for is based on the lowest of the following sizing criteria:
  - Based on a Debt Service Coverage Ratio of 1:1x. A cooperative can use 100% of its income to pay for the debt service on its new loan.
  - 65% loan to value as a market rate rental property
  - 55% loan to gross sell out value as a cooperative
  - 100% of the total cost of your refinance. If the loan you need to pay off your existing mortgage, pay for repairs, fund reserves, and pay transaction costs is less than the sizing criteria discussed above, that would be your maximum mortgage.

Underwriting Parameters for the 223 (f) program

- Other requirements:
  - Repairs may be financed with the loan up to $15,000 multiplied by the high cost factor for the market
  - Davis Bacon Wages are not required for repairs
  - HUD requires that the cooperative must maintain an operating reserve. 3% of carrying charges should be deposited annually until reserve is at 15% of total carrying charges. Then 2% until 25% of total carrying charges. No deposits required once reserve is at 25%.
  - HUD requires that a replacement reserve is maintained based on the PCNA completed with application

Underwriting Parameters for the 223 (f) program

- Other requirements:
  - An initial deposit to the replacement reserve may be required
  - At least 75% of the units must be occupied by members of the cooperative. No more than 25% may be owned by investors
  - No more than 20% of the total building area or 20% of the property income may be derived from commercial leases
  - Age restricted properties 62 and older are eligible.

223 (f) – the significant changes in the program

- Significant changes:
  - Increase in allowable repairs – Prior to last year the maximum level repairs was approximately $17,550 per unit. That has now increased to approximately $40,500 per unit. This allows for more repairs and allows the cooperative to avoid paying Davis Bacon Wages to contractors that are required under the FHA 213 and 221(d) (4) Program
  - The Davis Bacon Act of 1931 required the payment of prevailing wages (union wages) on public works projects and other project funded through the federal government. This also applies to construction deals financed through FHA.
  - Davis Bacon could potentially increase project costs 10 to 20 percent for repairs and rehab of multifamily projects.

223 (f) – the significant changes in the program

- Significant changes:
  - HUD is allowing for a waiver of the 55% loan to gross sell out requirement for affordable and limited equity cooperatives.
  - This was a major hurdle for cooperatives that were affordable as it was very difficult to derive enough value in many instances to allow for loans high enough to cover all transaction costs.

223 (f) – Summary

Project Name:	**A Cooperative**	**Number of Units:**	100
Project Location:	123 Smith Lane	**Date Built**	1975
	Anywhere, MI 11111		

Maximum New Mortgage Amount	
Mortgage Amount	$2,188,000
Loan is limited by	Borrower Requested
Proposed Debt Service Ratio	1.72

Proforma NOI				
	'As-Is' NOI		**Market NOI**	
Income		per unit		per unit
Rental Income	$1,003,488	$10,035	$1,220,000	$12,200
Ancillary Income	$14,500	$145	$14,500	$145
Gross Income	$1,017,988	$10,180	$1,234,500	$12,345
Vacancy & Concessions	($50,899)	($509)	($50,899)	($509)
Resid. Eff. Gross Income	$967,089	$9,671	$1,183,601	$11,836
Comm. Gross Income	$0		$0	
Total Effective Income	$967,089		$1,183,601	
Expenses				
Total Operating Expenses	$706,369	$7,064	$652,368	$6,524
Replacement Reserves	$50,500	$505	$50,500	$505
Total Expenses	$756,869	$7,569	$702,868	$7,029
NOI	**$210,220**	**$2,102**	**$480,733**	**$4,807**

Market Value				
NOI	$480,733	@	8.00% Cap Rate	**$4,100,000**
Per Unit Value				$41,000

Proposed Loan	
Centennial's Proposed Loan	**$2,188,000**
Mortgage Rate	**3.75%**
Annual MIP	0.45%
Term (months)	420
Monthly P&I	$9,363
Monthly MIP	$821
Monthly Payment	$10,183
Estimated Closing Date	11/30/2017

HUD Loan Criterion	
Requested Loan Amount	$2,188,000
65% Value Restricted	$2,665,000
Statutory Limits @ 270% High Cost Factor	$19,662,400
Debt Service Constrained 100% of NOI	$3,764,000
80% Value Restricted	$3,280,000

Estimated Sources and Uses of Funds			
Sources			
Centennial's Estimated Loan			$2,188,000
Cash Required			$320
Total Sources			$2,188,320
Uses			
Existing Debt			$1,477,186
Net Increase to Replacement Reserve			$0
Repairs	per unit	$5,500	$550,000
HUD Application Fee		0.30%	$6,564
HUD Initial MIP		1.00%	$21,880
HUD Inspection Fee			$5,500
CMI Financing Fee		2.00%	$43,760
GNMA Placement Fee		1.00%	$21,880
CMI Processing Fee			$0
CMI Legal			$0
Organizational			$0
Borrower Legal			$10,000
Title/Survey			$16,000
Estimated 3rd Party Costs			$35,550
Prepayment Penalty			$0
Total Uses			$2,188,320
Assurance Completions Escrow			$55,000

What the lender looks at…

Things to have ready for your lender

- Written description of your property including date built, rehab if any, problem areas, the work you would like done, share prices, and a list of board members/officers. Also, details on last carrying charge increase.

- Unit Mix

- 3 years of operating statements/audit reports

- YTD Operating Statement

Things to have ready for your lender

- Current Rent Roll

- Occupancy history for the last 3 years

- List of anticipated/needed/desired repairs
 and cost estimate and list of repairs from the last 5 years

- Section 8 Contract, if applicable

- Use agreement, if applicable

- Copy of by-laws, house rules and other coop legal docs

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.

In addition, if you are receiving an FHA loan, you will be required to do utility benchmarking to see if there may be ways to improve efficiency.

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.

Coop documents must lay out the repairs and replacements the coop is responsible for vs. the coop member

Lender’s prefer properties that are professionally managed.

Other Programs for Cooperatives

- National Cooperative Bank
- Freddie Mac
- FHA 241 Program
- FHA 223 (a) (7) program
- Local lenders and banks

Developed by Hugh Jeffers

hjeffers@centennialmortgage.com
202-415-1862

As senior director, Hugh Jeffers is responsible for originating new business around the country. He is located in Pittsburgh, PA. Prior to joining Centennial Mortgage, Mr. Jeffers was senior director with Love Funding. Prior to Love funding, Mr. Jeffers was 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 almost 20 years of multifamily and healthcare origination and underwriting experience. He has developed a particular expertise in affordable and senior housing. He is a board member of the National Association of Housing Cooperatives and chairs the Development and Preservation Committee. 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.