ADDING UP THE TAB

KNOW WHAT YOUR NEW MORTGAGE WILL COST BEFORE YOU APPLY

After going through the long, difficult process of refinancing your building's underlying mortgage, will you have enough money left to do everything you planned? If you don't know about all the costs that chip away at a loan, chances are you won't.

Refinancing expenses come in all shapes and dollar figures. Some are negotiable, others fixed, but all should be calculated into the amount you borrow. The three main categories are: preliminary or "get-ready" costs; fees collected "up front" at the time of application and/or commitment; and closing costs.

GET-READY COSTS

Paying your professionals to do legwork even before you begin shopping for a loan can save thousands at the closing. Just ask the Queens co-op that lost its stock transfer book and share certificates. Its closing was postponed two weeks, which increased its legal expenses. Or look at the East Side Manhattan co-op, where an erroneous recording of state franchise taxes delayed the closing three weeks, during which time the lender raised its interest rates. Or the West Side board that sat through an 11-hour closing – with its attorney's meter running – because its mortgage documents lacked the correct number of mortgage recording tax stamps.

To avoid such expensive mishaps, review your building's immediate and long-term needs with your managing agent, accountant, and other advisors, and have your attorney do a complete review of the co-op's records to uncover potential problems.

UP-FRONT COSTS

There are several kinds:

- *Application fees.* Ranging from $250 to $1000, these are non-refundable and rarely negotiable. Lenders charge them partly in response to the sheer volume of loan applications and partly to discourage casual "shoppers." Generally, the amount are credited toward other loan costs at closing.

- *Good-faith deposits.* To make sure you are serious about taking the loan, most lenders insist that you return one to two percent of the loan amount with the signed application. This requirement has a hidden cost: during the four to six weeks between application and closing, lenders hold the money but do not pay interest. If your new loan will be over $1 million, that lost interest could add up. Therefore, you might attempt to negotiate a lower deposit with the loan officer at application, with the balance paid at closing, but don't expect a warm response.

- *Appraisals.* Virtually every lender will require an independent, third-party valuation of your property. Some use their own "in-house" appraisers (which is usually cheaper), but most hire an outside firm to do this work. The appraiser must have the appropriate professional credentials, most commonly the Member of the Appraisal Institute (MAI) designation.

And of course, you pay for this appraisal. The cost – about $1500 to $6000 – will depend on the size of the loan, the market value of your property, the availability of comparable market date, and the type of appraisal required by your lender. Some institutions collect this fee at time of application; others wait until closing. Co-ops that have had an MAI appraisal that is less than two years old can often save some money by having it updated and recertified to the new lender.

Also be aware that your co-op will be appraised as a rental apartment building – not as a co-op. This is so because, in the event of foreclosure, your building would most probably revert to rental status, with the lender as landlord. Rentals are generally given lower appraisals than co-op buildings.

- *Asbestos surveys and/or environmental audits.* Before 1985, few lenders worried about asbestos and almost none were concerned about environmental contamination. After several notorious legal cases awakened them to the risks, however, all lenders have adopted environmental requirements.

Depending on the location, age, and condition of your building, an asbestos report from a licensed engineer, costing about $1,500 to $3,500, may suffice. You might be able to get away with less or avoid the expense altogether, however, if: (a) you can properly document that your building has never had a problem or has cured one; or (b) your sponsor filed an asbestos survey as an amendment to the offering plan in the past two years (if it is older, you can still save by having the same engineer update and recertify the report).

In most cases, lenders will expect you to carry out the report's recommendations. To make sure that the work gets done, many will withhold between 110 and 125 percent of the total estimated cost of the job at closing. Most lenders will pay interest on this escrow account and give the cooperative six to nine months to complete the work.

Watch out: more and more banks are requiring a full Phase I Environmental Audit. These studies look not only for asbestos, but also for any other contaminant like oil leaking from underground fuel oil tanks. These studies can be more expensive and the solutions to the problems uncovered much more costly. If your building has a buried fuel oil tank, have your managing agent pressure-test it before you start shopping for a loan. The cost of clean-up, a new tank, or changing to gas could dramatically increase the amount you need to borrow.

- *Engineering inspections.* Some lenders will require a full engineering inspection of your building as part of the application process or, in certain cases, as a commitment condition that must be satisfied before closing. In either case, most will withhold enough money from the loan to pay for any repairs the engineer recommends, and will keep the money in an interest-bearing escrow account until the work is completed.

Inspections cost up to $3,500, but they're much cheaper if your lender permits you to use your own engineer. Have the bank approve the engineer's credentials in advance, and order your own report. Lenders' engineers always seem to take the worst-case, ultra-conservative view of needed repairs, increasing the amount you need to borrow and/or tying up a lot of money in an escrow account.

- *Credit checks.* All institutions will check the co-op's credit record. Some charge for this activity separately ($200 to $500), others roll it into the application or commitment fee. Either way, the price is not negotiable.

- *Origination and/or commitment fees.* Most lenders charge for "originating" a loan and issuing a commitment letter. There may be a separate fee for each, but, most commonly, it is a single charge – up to two percent of the loan. Generally, you don't actually "pay" this charge – the lender will simply keep your "good faith" deposit when you accept the commitment. To bind the commitment and fix its terms, you must remit any unpaid portion of the commitment or origination fee when you return the signed commitment letter.

Because commitment fees are, in effect, prepaid interest, they can sometimes be traded against the interest rate. In lieu of a 1 percent commitment fee on a 10 percent loan, for instance, a co-op borrowing $1 million for five years might agree to pay 10.26 percent interest. If this loan had a 10-year term, the cooperative would have to increase the rate to only 10.16 percent. Not all lenders will play this game, but it pays to inquire.

- *Stand-by fees.* Most commitments fix the interest rates and give the borrower 30 to 60 days to close. If closing is delayed, the rate may be adjusted. You may be able to lock in the current rate for a future closing (say, in three to six months), however, by paying a negotiable "stand-by" fee. This amount – usually one to two percent of the loan, compensates the lender for assuming the interest rate risk during the stand-by period. Yet you are also taking a risk – since rates may go down.
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CLOSING COSTS

At long last, the day of closing has arrived. Don't forget your checkbook, and expect more expenses, including:

- *Pay-off letter.* Before the new lender will release one penny, it will demand a "pay-off letter" or "satisfaction piece" from your old lender. This document reports the up-to-the-minute outstanding balance of your existing loan plus any penalties, accruals, or other charges that must be paid before the old lender is satisfied and removes its mortgage lien from your property. A representative from your existing lender will come to the closing with this letter and bill for $100 to $1,000.

- *Prepayment penalty.* Most loans have prepayment penalties of some sort for at least part of the term. If your old loan has one that has not yet expired, it will probably be listed separately in the pay-off letter and must be paid at the closing of your new deal.

- *Title insurance.* No lender will fund a loan until its position is covered by title insurance. This policy will be ordered by either the lender's attorney or your lawyer and you will pay the premium as part of your closing costs. Title insurance premiums range from $500 on a $100,000 loan to almost $24,000 for a $10 million loan.

- *Mortgage recording tax.* Every new mortgage recorded at the county clerk's office must contain the appropriate tax stamps. The price varies with the loan amount. For properties outside of New York city, the tax equals one percent. In the city, the total tax grows to 2 percent on loans under $500,000 and 2.75 percent on those $500,000 or more. Note that the tax on $500,000 is $13,750, while the tax on $499,000 is $9,980 – a difference of $3,770.

Your co-op can save some of this tax by having the new lender agree to take your old mortgage "by assignment." This allows you to avoid the tax on all but the incremental "new" money you are borrowing above the amount of your old loan.

- *Legal fees.* Most lenders will insist that you pay their legal fees. The larger law firms base their fees on the size of the loan, using a formula like .5 percent on the first $500,000 and .25 percent on the rest. If your situation is complex or involves unusual, time-consuming problems, expect to pay more. If the lender uses its own staff or "in house" attorneys, you may pay somewhat less.

A word of caution: never try to save money by not hiring an attorney to represent the cooperative during the refinancing. While hiring your own lawyer can cost up to 60 to 70 percent of what you pay the lender's attorney, it can prevent some expensive mistakes.

- *Survey.* Most lenders will accept an existing, legible survey. Some require that it be recertified by the surveyor to the new lender. If your lender insists on a new survey, however, expect to pay $300 to $3,000.

- *Searches and recordings.* The lender will search the public records for anything that could affect the safety of the proposed loan: unsatisfied mortgages, mechanics' liens, unpaid taxes, judgments, claims, easements, building or fire department violations, or lapsed corporate registrations. It usually pays to have your attorney do this early so you can get started on the solutions.

Every important document executed at closing must be recorded at the county clerk's office. There is a charge of $2 to $3 for each page. The entire search-and-recording process will tack on another $100 to $1,000.

- *Brokerage fee.* If your board retained the services of a mortgage broker, you will pay that fee (about 1 percent of the loan) at the closing.

- *Other stuff*. There will be a host of other small charges that can add up to $100 to $1,000. Your closing, for example, might require messengers, a typist, or other such assistance. In addition, customer dictates you tip the title company representative who attends the closing and processes all of the documents. This can be $20 to $500, depending on the size of the loan, the helpfulness of the agent, and the generosity of your attorney. These final items are negotiable but, once you've come this far, you may just want to pay them and go home.