First Things First !

By Patrick Niland

If you're thinking of refinancing your building's underlying mortgage, the ***last*** thing you should do is call a few lenders. Refinancing an underlying mortgage is a complex and expensive process that will affect not only your building's monthly maintenance, but also the market value of every shareholder's apartment. In most cases, it will be the most important decision that any board member will make...and they shouldn't make such a decision alone.

Every board has (or should have) a team of professional advisors to help them meet their responsibilities. An accountant, an attorney, and a managing agent would form the nucleus of such a team for most buildings. Depending on the issue under consideration, a board might call upon one or more of these professionals to contribute their expertise to the discussions. Unfortunately, some boards are reluctant to fully utilize their advisors in a misguided effort to control expenses. In doing so, they are shirking their fiduciary responsibility to all shareholders to operate their cooperative in a prudent and business-like manner. Failing to get proper guidance before and during a refinancing can (and usually does) result in serious financial problems in later years.

So, whom should you call first?   (Here's where I make both friends and enemies!) Given that refinancing is primarily a ***financial*** decision, I would suggest that the first call should be to your accountant. Most accountants, though, would want input from your managing agent as to current and future capital needs, among other things. And, before you get too involved, it would be a good idea to tough base with your attorney to make sure that your existing loan documents allow you to refinance and, if yes, the amount of any prepayment penalty. A more efficient way to get all of this input would be to invite all three of these advisors to a special board meeting dedicated solely to this topic.

Notice that I didn't suggest that you also invite a mortgage broker to this confab. That's not because a mortgage broker can't provide valuable input. It's because, at this early stage, you're not ready for that input. You first must determine ***whether*** you can get a new loan (per your attorney). You then must determine ***how much*** money you will need to do what you want (per your managing agent). Lastly, you must decide how big a ***monthly payment*** your budget can tolerate (per your accountant). In many cases, these last two items conflict.

Armed with this information, you are almost ready to start looking for a loan. Almost ready? Yep; ***now*** you call the mortgage broker!