KNOW THE ABC'S OF MORTGAGE REFINANCING

By Patrick Niland

With interest rates even now at historically low levels, this may be a good time to refinance your property's mortgage. Since bad real estate loans removed many lenders from the market, those who remain are very cautious and demanding. So, if you're planning to refinance, you'd better know your ABCs.

Assess, Accumulate, and Assign

The most common (and sadly, most costly) mistake that borrowers make when refinancing is failing to fully assess all of their property's future financial needs. Too often they don't (a) borrow enough money to close and/or (b) provide for emergency funding during the term of their new loan. It is essential that owners work with their accountant, managing agent, engineer, and mortgage broker to develop a long-range financial plan for their property. This plan should provide for increased real estate taxes, inflation's impact on operating costs, routine maintenance, minor repairs, and major capital improvements. For example, if your roof will need replacement in six years, you should include one-sixth of the estimated total cost of a new roof in each of the next six year's budgets. Or, alternatively, you should coordinate the due date of your new loan with the expected future need for a new roof, so you can refinance again at that time.

Next, accumulate, in one place, all of the important records for both the property and the borrower. Your refinancing file should contain a complete maintenance roll, unit breakdown, building information, the most recent three months of operating reports, current mortgage documents, recent tax returns, the most recent three years of financial statements, and so on.

Lastly, assign primary responsibility and authority for the refinancing process to one person. Nothing frustrates a lender more than getting conflicting information from different members of the board.

Banks, S & Ls, Insurance Companies, and Brokers

Once you have decided how much to borrow and on what terms, you must find a lender. Banks, savings institutions, some insurance companies, and other lenders make underlying mortgage loans. How do you choose? Many boards ask their property manager or attorney to "shop" the market. There are two main dangers in doing this. First, your helpers may call the wrong person or ask the wrong questions. Second, unless each caller asks the same questions about an identical loan during the same time period, the board may end up comparing apples and oranges. Terms quoted today could be very different by next week.

What about mortgage brokers: should you use one? It depends. If you have extensive experience in the mortgage market and are willing to spend the time (and a lot of it), then you

may not need a broker. On the other hand, a good broker is like any other good professional. They save you a lot of work - and should save you more money than they cost. And, since they don't get paid unless your loan closes, you can be sure of their continued attention.

Commitment, Checklist, and Closing

Once you have identified a lender, you will go through the application process, various levels of approval, and (hopefully) receive a commitment. The commitment includes all of the terms and conditions of your new loan. Once you accept it (and satisfy all of its conditions), the commitment becomes a binding contract between you and the lender. Unfortunately, some boards forget that almost all commitments expire if not closed within 45 to 60 days. They just send a copy of their commitment to their attorney, mistakenly thinking that the job is done. More than one building has lost a favorable rate -- or an entire loan -- by not checking up on their attorney.

There are many activities to be coordinated and many documents to be reviewed before a closing can take place. Wise boards make a checklist of all these items and demand weekly status reports from their attorney, accountant, broker, and other representatives. The time to relax and celebrate is after the closing.

The closing is when all of the many legal documents are signed, your existing loan is paid off, and your new loan is funded. It is also when virtually all of the costs of refinancing get paid, usually out of the proceeds of your new loan.

Good luck!