Low Rates Don't Guarantee Easy Refinancing

By Patrick Niland

But these seven steps will help get your loan application approved.

Just because interest rates are at their lowest level in many years doesn't necessarily mean that co-ops can easily refinance their underlying mortgages. First, refinancing is a complex and expensive process--regardless of rates. Second, the financial markets, which have become globalized and increasingly volatile, are in the midst of a significant structural change. Co-ops now face a dizzying array of loan options and overworked loan officers. Third, as shareholders become more sophisticated, board members are under tremendous pressure to reduce costs and make the "right" decision.

To survive in this difficult environment, and to improve the chance of getting a new mortgage that really meets their building's goals, a co-op board needs to follow these steps to keep their refinancing on track.

Step One: Know Your Building

Learn everything about the building's physical and financial condition before making that first phone call to a broker or loan officer. Being able to present the building's profile in complete detail is vital to establishing a positive first impression. The board should prepare a fact sheet showing the building's address, location, block and lot number, lot dimensions, number of units, number of floors and elevators, type of heating system and fuel, and any other important physical information. Also, assemble copies of the offering plan and all amendments (especially the most recent sponsor disclosure statement, if applicable), all relevant sponsor information (number of units, rent vs. maintenance cash flow, etc.), current shareholder maintenance rolls and arrears reports, a list of sublet units and rents plus a description of the building's sublet policy, information about the building's current mortgage, three years of audited financial statements, and any other important documents.

Step Two: Plan for the Future

Before contacting any mortgage broker or loan officer, call a meeting of all of the co-op's professional advisors (managing agent, attorney, accountant, and engineer) to prepare a comprehensive plan of the building's current and future (at least five years out) financial needs. Don't forget to add a contingency for unexpected repairs--at least an extra 10 percent of the loan amount for a short-term loan (5 to 7 years) and 15 percent to 20 percent additional for a long-term loan (10 years or longer).

Step Three: Do Your Homework

Mortgage brokers and loan officers respect borrowers who know their building, their needs, and the market. To learn the market, read industry journals like NY Habitat and The NY Cooperator; business publications like The Wall Street Journal, Barron's, Fortune, Forbes, and Business Week; and newspapers like The New York Times. Talk to other co-op boards who have refinanced recently to learn what problems they encountered. And certainly attend co-op conferences, like those presented by The Council of New York Cooperatives, The Federation of New York Housing Cooperatives, and other organizations. Armed with all of this information, board members should then reflect on their building's specific situation and decide what type of loan, amount, and term would be most appropriate for them.

Step Four: Pick a Contact
Whether the board decides to use a mortgage broker or to refinance directly with a lending institution, they should appoint one person to interface with the outside world. A single point of contact will prevent conflicting information from reaching the market and provide a consistent relay of information to and from the lending community. Other people can help gather documents and research answers to lender questions, but all communications with the financial community should be funneled through one spokesperson.

Step Five: Hit the Phones
Now that the board is fully informed, organized, and prepared, they are ready to contact the financial community. Now also is the time for the board to decide whether to employ the professional services of a mortgage broker or to attempt the refinancing on their own.

To select a broker, the board should get recommendations from their professional advisors, interview two or three brokers, and check their references. *Never* hire more than one broker. The best deal comes from competition among *lenders*, not brokers. One good broker is all you need.

With or without a broker, the board should submit a complete package so the broker and/or loan officer can be a strong and effective advocate for the co-op's application before the lender's loan approval committee.

Step Six: Be Nice, Be Honest
It may sound simple, but treating brokers and loan officers with respect and courtesy will yield dramatically better results than unrealistic demands and frequent confrontations. Always be up-front and honest about any problems that the building might have, as well as any planned solutions. All lenders appreciate full disclosure; they hate surprises.

Step Seven: Stay Focused
Make it easy for the broker or loan officer to keep working on the co-op's loan application straight through to closing. Respond quickly to their requests. Make sure all board members are "on call" for special meetings or phone votes. Always remain aware of where the co-op's application is in the approval process. Keep all board advisors involved, especially the attorney. Getting a jump on the legal work will minimize the risk of last minute glitches. Remember that financial markets move daily, sometimes by significant amounts. So any unnecessary delays could be very costly.

Refinancing an underlying mortgage is the most important task that a co-op board will undertake during its tenure. It effects not only the monthly maintenance, but also the market value of every shareholder's home. Even though the refinancing process can be expensive and time consuming, it is worth every dollar and every minute to plan ahead for the co-op's solid financial health. With the assistance of a good broker or loan officer, and careful attention to these seven steps, any board can complete a successful refinancing in less than 90 days.