HELP IS HERE!

By Patrick Niland

Refinancing an underlying mortgage is a big job. Get help from all of your professional advisors.

Imagine learning that your son or daughter is getting married only when they invite you to the reception. That's how many professional advisors feel when one of their co-op boards decides to refinance its underlying mortgage without even the courtesy of a "heads up" phone call. I frequently talk to attorneys, managing agents, and accountants who find out about a refinancing only when the co-op board asks them to review a commitment letter or appear at the closing. By then, it's usually too late for the advisors to render their most valuable advice.

Co-ops who fail to contact the appropriate professional advisors before and during the refinancing process can cost themselves a lot of time and money. Incidentally, "saving money" is the reason most often cited by co-op boards who get themselves into this kind of "do-it-yourself" trouble. But, as almost always happens in do-it-yourself projects gone awry, the money co-op boards thought they would save ends up costing them tenfold. However, by calling the right advisor at the right time, co-op boards can protect themselves from expensive surprises and make the refinancing process less labor-intensive and more cost-effective.

If your co-op doesn't have professional advisors or needs to hire new ones, your board should get recommendations from your current advisors and/or other boards. These individuals know the industry and can suggest qualified professionals to interview. To get any important activity off to a good start, it always pays to have a full team of professional advisors on your side.

Refinancing is perhaps the single most important decision that any board will make. It affects not only the financial stability of the co-op as a whole but also the monthly maintenance and market value of every shareholder's apartment. Therefore, it is not a step to be taken lightly -- or alone. In the last issue of *Co-op Financing Quarterly* (Issue 1, Volume 2), we discussed the need to develop both short- and long-range plans for your co-op. These plans require the input of your professional advisors, each of whom also has an important role to play in your refinancing.

In the Beginning

When refinancing first comes under serious consideration, the issue should be rescheduled for a future meeting at which the following professional advisors should be prepared to brief your board on issues within their realm of responsibility.

1. **Managing Agent -** Other than your super or perhaps a long-time resident, your property manager usually knows your building better than anyone. They can tell you which repairs or improvements should be considered as well as their approximate cost. They can then help you decide how much money you need in your new loan.

2. **Attorney -** Your attorney should review all of the documentation for your *existing* underlying mortgage to be sure there are no provisions that would either prohibit refinancing outright or result in unaffordable prepayment penalties or other expenses. Assignment and existing lender notice requirements also should be reviewed to prevent expensive delays later in the refinancing process. Your attorney also is the best person to estimate the closing costs for your new loan.

3. **Accountant -** Ask your accountant for a comprehensive report on your building's current financial position as well as a 5-year (or, even better, 10-year) projection of the effects of inflation and other increases on your co-op's budget. To do this, your accountant will have to work closely with your property manager.

4. **Engineer -** Hire a professional engineer to thoroughly inspect your building's major components and then prepare a schedule of repairs and capital improvements over the next ten years, together with estimated costs. The engineer also can help you prioritize projects to make sure the most urgent jobs get done first. These cost estimates and schedules should be added to your accountant's financial plan.

Now's the Time

Once the decision to refinance has been made, another professional should be added to your team of advisors -- a good mortgage broker. Refinancing requires a tremendous amount of data and documentation. A skilled mortgage broker knows exactly what information is needed, how to collect whatever the board doesn't have or can't find, and then how to package it for the most favorable presentation.

Also, since an experienced broker is active in the market every day, he knows what loan products are available, what structures are possible, and which lenders will be most competitive for your new loan. Most importantly, he can help the board evaluate the terms of each loan offer, highlight the often-overlooked "fine print" details, and explain the relative benefits of each lender. Finally, since the broker doesn't get paid until your new loan closes, he has a vested interest in monitoring every aspect of your transaction until the job is done. You could try to do all of this by yourself, but a good broker will do it better, faster, *and cheaper*.