SMALL BUILDING CHALLENGES

By Patrick Niland

In addition to all of the regular requirements, small co-ops...those with fewer than, say, 10 units...face special challenges when refinancing.

First, in this segment of the market, there is a very limited group of lenders. In fact, if a building has fewer than 5 units, there may be only three, or perhaps four, lenders willing to do a loan. When dealing with such a small universe of lenders, smaller co-ops are in a very poor negotiating position.

The second challenge is cost. Because underlying mortgages are commercial loans, lenders typically require the same documentation for small loans as they do for big ones. That means a full commercial appraisal (which is much more extensive than the one- or two-page report that individual apartment buyers may have seen), an engineering report of the building's physical condition, and an environmental risk assessment. Then, there are legal fees...the borrower's ***and*** the lender's, title insurance, a survey update, and searches of the public records for liens and violations. And, of course, if the co-op is increasing the total amount of debt on their building, there is mortgage recording tax.

The third challenge is the interest rate. Prior to 2009, there was a fairly active secondary market for small co-op loans which kept rates low. Unfortunately, that market evaporated in the subsequent financial collapse. So, now, smaller co-op loans get interest rates that usually are between 2.00% and 4.00% higher than those on bigger loans.

You might have noted that I answered this question in terms of small *co-op* buildings. That was intentional because, in an interesting market dichotomy, small condo buildings experience few of these challenges.