THE NITTY GRITTY

By Patrick Niland

What actually happens when you apply for a new underlying mortgage?

There are seven phases to refinancing any underlying mortgage:

1. Assemble your team
2. Gather your information
3. Choose a lender
4. Application
5. Underwriting
6. Approval
7. Funding

1. <u>Assembling your team.</u>

   Never fly solo. Get all of your professional advisors involved right from the start. A good mortgage broker will round out your team.

2. <u>Gathering necessary information.</u>

   Lenders need much more than the amount you want to borrow. They will want to know everything about your co-op, its physical condition, its finances, and its ownership profile. Don't go "shopping" for a new loan until you've assembled and reviewed all of this information.

3. <u>Choosing a lender.</u>

   There are more than forty lenders in the underlying mortgage market, and each makes several different types of loans. Sorting through all of the choices takes time. A skilled broker can cut through the crowd and help you find the best deal. With or without a broker, be sure to consult all of your professional advisors.

4. <u>Submitting a formal application.</u>

   This is a very important document. Always review it with your attorney <u>before</u> signing and returning it to the lender.

5. <u>Underwriting.</u>

   This is the lender's process for judging your co-op's creditworthiness. All of the information you included on the application or submitted earlier, plus reports from third-party investigators, will help the lender decide whether to make the loan.

6. <u>Loan Approval.</u>

   If the lender decides to make your loan, they will issue a formal approval in a letter called a "commitment". This letter includes all of the terms and conditions of your new loan. Again, consult your attorney before signing this document.

7. <u>Funding the loan.</u>

   Most commitments contain a few conditions, which must be satisfied before the lender will advance any money. Once these conditions have been met, they will schedule a special meeting (called a "closing") to sign more documents, pay the expenses of closing, and release money to the borrower.

Previous issues have described the first three phases. Some board members think that the hardest part of getting a new mortgage is finding the lender. Others think that once the application's been received, most of the "heavy lifting" has been done and they can just pick up a check. Nothing could be further from the truth. This article explains what actually happens between receiving an application from a lender and getting your money.

The board has voted to refinance its building's underlying mortgage – and it even has chosen a lender who has offered terms that match what the board was looking for. Now what?

Many board members think that finding a lender is the hardest part of refinancing an underlying mortgage. That once a lender has been chosen, most of the hard work, "heavy lifting", has been done and the rest is just paperwork that others will fill out and submit. Nothing could be further from the truth. Now is when the real work begins: taking the lender's promises and board members' expectation and turning them into reality.

There are six stages to completing a refinancing:

1. Choosing representation – the selection of a board member to spearhead the refinancing and, possibly, the hiring of a mortgage broker.

2. Finding the lender – soliciting and evaluating proposals from one or more lenders and then selecting the one offer that best suits the board's goals.

3. Making a formal application to the chosen lender.

4. Underwriting – the lender's formal evaluation of the borrower's creditworthiness.

5. Commitment – the lender's issuance of a contract specifying the exact terms and conditions of the new loan.

6. Closing – the formal signing of all of the new loan documents and the funding of the new loan. However, most commitments have conditions which must be satisfied before the closing can take place – and also require the borrower's attorney to prepare and/or supply a variety of supporting documents.

Previous articles (Six Steps and Play it as It Lays) have described the first two phases of refinancing. This article describes the actual processing and closing of a loan.