



AT ACADEMY:
*Refinancing the
Building's Loan*

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Always exceed expectations through teamwork and excellent client service.

Introduction

- **Share loan v. building's loan**
- **Why have a loan at all?**
 - Capital Needs
 - Local Law 11 (FISP)
 - Improve terms
 - Refinance at maturity of current loan (balloon loan)
 - Boost reserves
 - Reduce debt
- **Coop v. Condo Loans**
 - Coop: Underlying mortgage secured by building, personal property plus the right to collect maintenance
 - Decision made by Board alone
 - Condo: Secured by right to collect common charges
 - Typically requires approval of unit owners
 - Note: capital projects typically require approval of unit owners
- **Not every bank is a coop/condo lender**

Types of Loans

▪ Self-Amortizing Loan

- Payments stay flat every month
- At maturity, loan is totally paid off
- Typically 20-30 years
 - Increases potential pre-payment or subordinate financing

▪ Balloon Loan

- Same as self-amortizing, but it matures before the loan is totally paid off
 - Example: 10-year loan, with a 30-year schedule

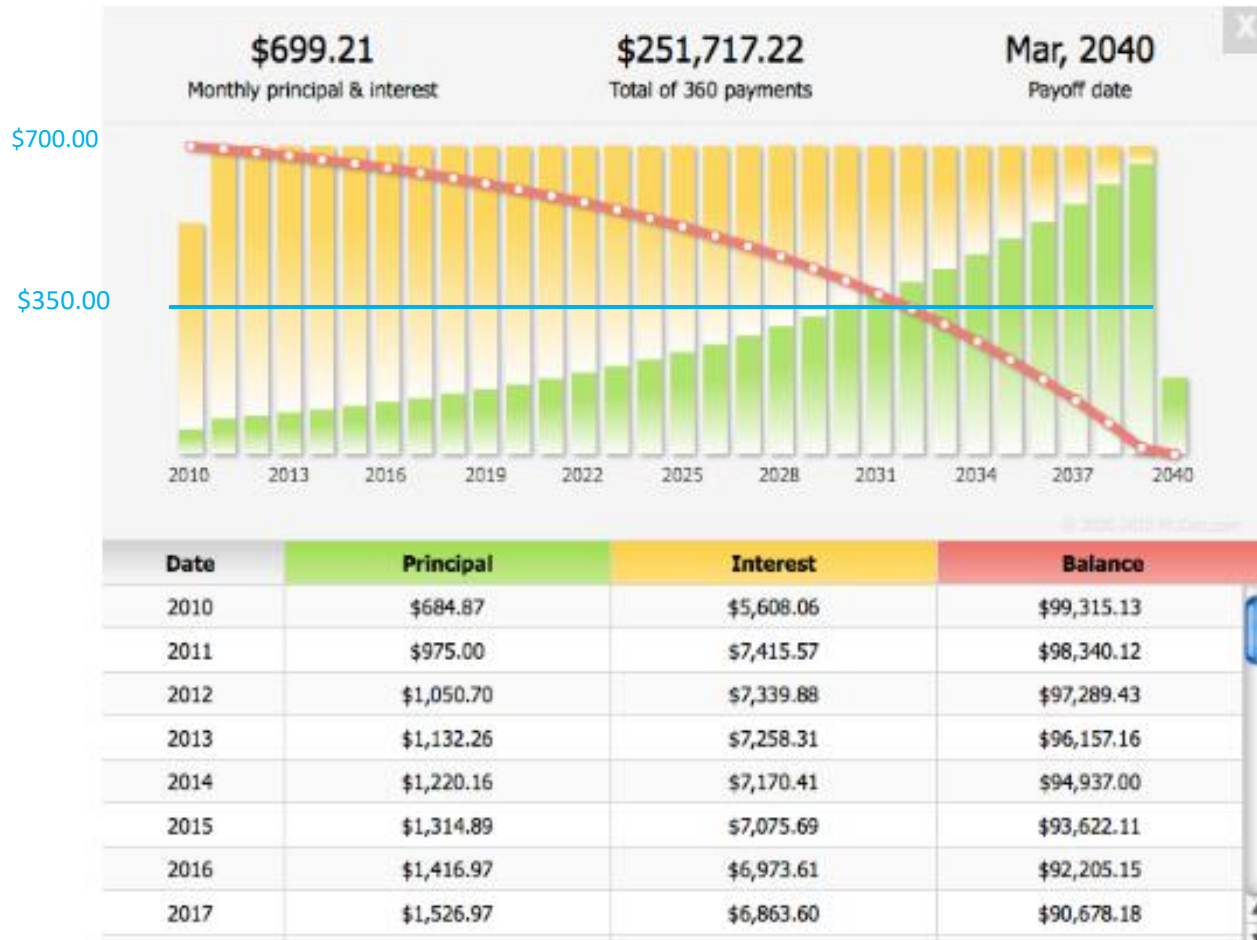
▪ Interest Only

▪ Line of Credit

- Typically “revolving”

Example of Self-Amortizing Loan

EX: \$100,000 Mortgage 7.5% 30 Years



Process

- **Broker?**
- **Pre-application (a.k.a. advance planning)**
 - Will the process go smoothly?
 - How much is really needed? Get accountant involved!
 - Are there too many arrears?
 - Are there too many unsold shares or investors
 - Environmental issues
 - Litigation
- **Application**
- **Commitment**
 - Contact attorney!
 - Summarizes the deal the lender is willing to make
 - Includes some essential terms

The Work Behind the Scenes

→ Items Handled by Attorney, Broker and Management

- **Order pay-off letter**
- **Order title report**
 - Will disclose problems (violations, liens, etc.)
- **Order due diligence report (if bank requests)**
 - Engineering, environmental, appraisal
- **Contact insurance broker**
- **Obtain governing documents for lender**
- **Prepare resolutions and certificate of incumbency**
- **Obtain checklist from lender's counsel**

Important Issues

- Many are negotiated in the Commitment Letter
- Pay-off v. Assignment
 - Extremely important – savings of tens of thousand of dollars
- Use of insurance proceeds
- Changes in proprietary lease
- Escrow of insurance and real estate taxes
- Pre-payment
- Subordinate financing
- Reserves
- Commercial lease approval (carve out laundry)
- Submission of financials annually/timing of submission
- If engineering or environmental reports require work, ask for ability to walk away
- Requirement to move reserves or all accounts to lender

Condo Issues

- Draw-down period
- Maturity
- Approval of contractor
- Approval of payments to contractor
- Unit owner approval of loan and capital projects
- Unit owner limit on liability
- Release for unit owners upon paying in full

Customary costs

- **Brokerage Fees**
- **Management Fees**
- **Lender Fees (Pre-closing)**
 - Lender's fee
 - Refundable (Good faith deposit)
 - Non-refundable
 - Due diligence reports
- **Lender Fees (at closing)**
- **Attorney Fees**
- **Pay-off Fees**
- **Reserve Minimums**
- **Yearly Fees**
 - Line of credit

Closings

- Remote
- In person
- Be prepared for last minutes issues
- Have patience



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