

## Thinking of Refinancing? Here are Some Questions to Ask Potential Lenders

Randall A. Pentiuk, Esq.

A large number of Cooperative Boards are presently exploring the option of refinancing their existing mortgage. Whether motivated by a desire to get rid of HUD, to take advantage of relatively low interest rates, a soft market for construction, a need to improve the property, or any combination of these considerations, the Board must do a lot of homework. We have listed some vital questions that should be answered by the prospective lenders before a selection is made.

- \* How is the interest rate on the new loan going to be calculated?
- \* What is the process to lock in the interest rate?
- \* What are the loan term and amortization options available?
- \* What are the costs and fees associated with the loan, including points at closing?
- \* Is a deposit required and, if so, is it refundable if the Cooperative does not close?
- \* What are the loan to value requirements of the lender?
- \* Is a survey required and, if so, is an ALTA survey required?
- \* What types of inspections of the property required?
- \* Will prepayment be permitted?
- \* What types of escrow accounts required?
- \* Will a replacement reserve be required and, if so, in what amount?
- \* Will reserves be required for repairs, capital improvements, or P&I?
- \* Is interest paid on reserves and, if so, how will it be calculated?
- \* What is the process for release of the loan?
- \* Will secondary loans be permitted?
- \* Does the lender have a secondary loan program should further funds be needed in the future?
- \* What are the annual reporting requirements?
- \* Has the lender ever financed a project with an IRP?
- \* What other Cooperatives has the lender financed?

These are a few of the pieces of information that the Board and its Management ought to be gathering in order to make the best decision for the Cooperative. By no means should this list be considered exhaustive, and it is highly recommended that the refinancing process be shepherded by an experienced and competent attorney to make certain that the Cooperative gets the best deal possible.

Moreover, it is important that the Board entertain proposals and ask these questions of a field of prospects. There are a number of lenders now interested in the Cooperative loan business. Inviting some of them to address these questions will help the Board get a clear picture of the competitive differences among them and help lead to an informed and intelligent choice.