HABITAT

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There Has Never Been a Better Time for Co-ops to Refinance

By Bill Morris

With COVID-19 infections and deaths rising to terrifying levels across the nation, it's a consolation to co-op boards to know that one number has fallen to historic lows. With interest rates now around 3%, a growing number of co-op boards are approaching banks seeking to refinance their underlying mortgages. But if your board is considering joining the stampede, it needs to know that the lending landscape has changed in ways that go far beyond today's enticing interest rates.

"I am right now in the process of refinancing 23 underlying mortgages out of the 75 co-ops in our portfolio," says Mary Frances Shaughnessy, a managing director at Tudor Realty Services. "That's a huge number. When a co-op's existing mortgage is at a much higher rate, it's a no-brainer. But I'm finding that even when the rate is only slightly higher – and even when there's a pre-payment penalty – it makes sense."

The rush by co-ops to refinance can be explained by several factors in addition to interest rates. When the stock market crashed in February over fears of a looming coronavirus pandemic, banks and other lenders froze, unsure where to price their loans. As lending slowed, demand built up. When New York City went from lockdown to phased reopening, lenders became more willing to lend – and borrowers responded.

"Within the past month to six weeks," Shaughnessy says, "things started to thaw."

But she advises prospective borrowers that the lending landscape has changed, and she cautions co-op boards that they should not view cheap money as a way to cover pandemic-related income shortfalls.

"What boards should know is that this process is not as easy as it used to be," Shaughnessy says. "No more 90-day turnarounds on loans. A lot of people are still working remotely, and the process is taking a lot longer. If your current mortgage is coming due at the end of the year, you'd better get moving right now."

Beyond that, lenders are more demanding than they used to be. "They're asking for much bigger reserves, or deposits," Shaughnessy says, noting that lenders that once asked for a $50,000 deposit might now ask for $150,000. "You have to add that to what you're borrowing. They're being more picky. For instance, if a co-op has a high number of unsold shares – say, 40% or 50% – some banks are walking away. I've seen banks reject co-ops with 10% unsold shares."

And finally, Shaughnessy stresses that boards should refinance their underlying mortgages as a way to pay for looming capital projects – which have not gone away while boards turned their attention to pressing pandemic concerns. "I would never recommend borrowing money to cover an income shortfall," she says. "We've seen almost no falloff in collections of monthly maintenance, but there has been a drastic falloff of rental income from commercial spaces. Nobody knows if those businesses are coming back. For co-ops that own their commercial space, that lost income is going to require a structural change in how they operate."

As challenges raised by the pandemic become less pressing, many boards are waking up to the reality that mandated repairs and upgrades haven't gone away. Many boards will have to install retrofits to reduce their buildings' carbon emissions by 2024 and again by 2030, or face stiff fines under the Climate Mobilization Act. Mandated elevator upgrades in 2027 will probably force boards to replace rather than refurbish older elevators. Costly facade repairs under Local Law 11 will continue to come around every five years. And of course, the city's beloved property taxes show no sign of shrinking anytime soon.

Which brings us back to underlying mortgages and lines of credit. "With interest rates around 3%," Shaughnessy says, "this is the right time to borrow."