

What You Need to Know About Cooperative Lending

In the current changing financial environment, buildings need to be aware of the current state of cooperative lending. To that end, we bring you this interview with Mindy Goldstein, Senior Vice-President, NCB, New York, NY.

Chartered by Congress in 1978, National Consumer Cooperative Bank (NCB) provides financial services to cooperative buildings and other organizations. In 1981, NCB became a cooperative itself, and now has more than 2,600 customer-owners and \$7.62 billion in assets under management. It is also the leading lender to cooperative buildings in New York, where it has a branch office. The Bank's headquarters are in Washington, D.C., with additional regional offices in Alaska, California, Ohio, and Virginia.

Because the organization has been serving the cooperative housing community for more than three decades, we turned to Mindy Goldstein, senior vice-president of the New York office, to give us some insight about the changing landscape of cooperative lending and what building owners and shareholders need to know now.

What advantages does NCB offer building owners and shareholders?

Because NCB specializes in lending to housing coops, including first mortgages, second mortgages, and lines of credit, as well as providing loans to individual unit owners, we understand their unique needs. In addition, NCB's charter makes our loans exempt from mortgage recording tax, which is 2.05 percent on loans of \$500,000 or less and 2.8 percent on loans over \$500,000. Instead, borrowers invest the equivalent of one percent of the loan amount in NCB stock and are exempt from the tax. The savings can be significant. For example, if a building had no other debt and borrowed one million dollars, the co-op would make a \$10,000 NCB stock investment and be exempt from \$28,000 in mortgage recording tax.

What do building owners and shareholders need to know about the lending process in the current economy?

In this environment, banks are taking a much closer look at the building's overall financial condition and want to see a break-even cash flow. Since co-ops are designed to run at a break-even level, it's easy for them to operate at a deficit. Lenders also want to see payables, receivables and reserves at reasonable levels. They want audited reports on time. They also want to see that the building has good practices in place to deal immediately with shareholders late in paying maintenance or other fees.

The good news is that if buildings have good practices in place and a good financial history, banks are lending money. Many of these details not emphasized before have new importance now.

Are there things that buildings can do to improve their financial conditions?

First, deal with arrears immediately. You want to communicate with shareholders on the 31st day that fees are overdue, not after 90 days.

When it comes to operating expenses, the board needs to actively ensure that the money coming in covers the true cost. Many boards are afraid to raise maintenance fees, even when it's necessary. For instance, instead of raising the fee a necessary six percent, they'll only raise it three percent. That may mean the building doesn't cover its expenses, runs a deficit, and maintenance fees need to go up 10 percent the next year. Your board must have a good understanding of what the building needs to run and then ensure the money comes in to cover it.

Lastly, the co-op needs to have a healthy reserve fund for future capital expenses. At an absolute minimum, the co-op should have 10 percent of their annual maintenance charges in reserves.

What are some of the mistakes you see coop boards making?

A bank wants to deal with one point person. It could be the managing agent, broker, attorney, board member, or accountant. When you have different people calling, miscommunications can occur. One board member may tell the bank representative that he wants a 10-year loan while a second board member may express a preference for a 15-year loan. That undermines the banker's ability to look at the building's finances and goals and make the best recommendation based on her financial expertise. With one point person, the board must reach consensus before the banker is involved.

Once a decision about financing is made, it's very important to assemble a complete loan package. When documentation and applications are received piecemeal, it's harder for the bank to get a true financial picture and make recommendations and approve the loan.

The most important thing is to know that there are lending options out there for buildings and shareholders who are being prudent about their finances, planning accordingly, and paying attention to the lender's requirements.

NCB is dedicated to strengthening communities nationwide through the delivery of banking and financial services, complemented by a special focus on cooperative expansion and economic development. Headquartered in Washington, DC, NCB also has offices in Alaska, California, New York and Virginia. In addition, NCB has a growing community banking network in southwestern Ohio. To learn more about NCB, visit www.ncb.coop.