Creatively Financing a Massive Renovation

" On behalf of a co op I manage, Mr. Mantell designed and arranged a loan on terms more flexible than we thought possible. Best of all, we could borrow in increments only as needed and could periodically chose between fixed and floating rates almost at will. All of this was accomplished at a time when lenders were not writing unusual debt.

The Board was stunned when they first realized what was being offered, and thrilled with the financing. Because much of the borrowings could be "reserved" until needed, interest costs were reduced and the Board was able to commit to major renovations without first assessing shareholders to accumulate the money."

- Kenneth W. Ludwig, Executive Vice President, Orsid Realty Corp.

The Problem
A co op board decided that an aging apartment building needed a major top to bottom renovation. The estimated cost of the overhaul was daunting: approaching 20 million. To minimize interest costs, the necessary funds would ideally be available in stages as the work progressed over several years. The Managing Agent, despite decades of experience running scores of buildings in New York, felt that due to the complexity of Building's needs a sophisticated advisor would add value in arranging the financing.

The Request
On the recommendation of the Managing Agent, the Co op asked Mantell Advisory to design an optimal loan that would allow the necessary funds to be borrowed on an as needed basis, and then to obtain financing on those terms for the Co-op.

The Analysis
After studying the Co-op's existing financials and the costs and timing of the planned structural enhancements to the Building, we concluded that a refinancing could be structured very creatively. We also advised that the funds could be obtained promptly, despite a general skittishness on the part of lenders to extend credit in the midst of the financial crisis.

However, beyond the financial aspects of the situation, another issue arose: upon learning of the Co op Board's decision to renovate the Building, certain owners began expressing reservations about the scope of the Project. Some pressed the Board to justify its actions. The matter became contentious and a small group of concerned owners challenged Board election results in an effort to assert more control over the process.

CONTINUED >

The Analysis (continued)
Clearly, improved communications between the Co op Board and residents was necessary. But we also concluded that besides clarity concerning the validity of the Election, owners and Board Members would benefit greatly from a better understanding of the role of the Board, particularly the responsibilities it bore, the authority it wielded, and especially the manner in which that authority could properly be exercised.

The Solution
Our solution therefore had to be two-fold: acquiring the financing and addressing the discord.

Regarding the financing, we designed an extraordinarily flexible structure under which 22.5MM would be committed at inception but could be withdrawn in multiple stages when needed. It included the right to borrow at floating rates, but later, at various times in the Co-op's discretion, fix the rate on all or portions of the amounts drawn as of the respective dates when the rates would become locked, and in addition a multi million dollar line of credit that could be repeatedly drawn and repaid. Despite an extremely difficult market environment, in less than 45 days we secured proposals from numerous lenders on those terms and made them compete for the business based upon rate.

To address the discord, besides coordinating the legal analysis establishing that the Election had been properly conducted, we clarified for the Board what it could – and could not – do, in diverse contexts. Our briefing for Board Members included, among other things:

- Obligations imposed under State Law to be "constructively engaged", to maintain confidentiality (and when), to refrain from delegating Board decisions to owners except where specifically required by the co-op's governing documents, to impose systems to assure ethical conduct by the Co op and its agents, etc.
- A detailed briefing on the Co-op's governing documents, as they defined, for example, the role and scope of authority of Committees and the authority of Officers.
- The principles governing private conversations between Board Members and other owners regarding building related matters.
- The proper content of Minutes, and the imperative to avoid using Minutes as a means of shareholder communications.

In addition, we strongly encouraged the Board to create an open dialogue with and among owners regarding the ambitious renovations the Board was proposing, and suggested methods of doing so.

CONTINUED >

The Results

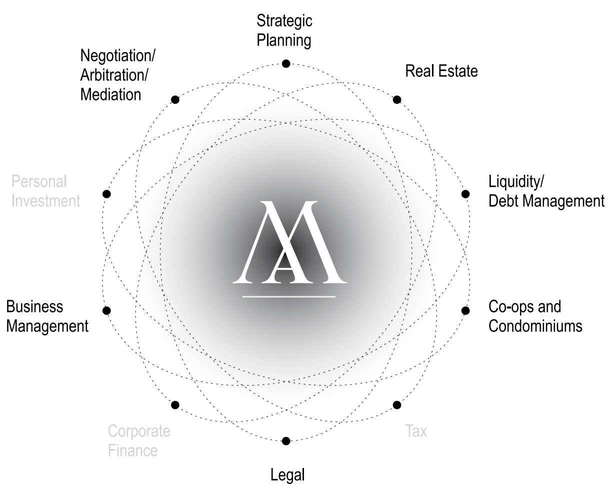
The solutions we devised for the two principal problems – financing and shareholder consensus drove the following results:

The building replaced an existing first mortgage with a three-tiered loan structure. This allowed for:

- An initial fixed draw of capital for immediate projects.
- A construction line of credit allowing periodic draws of capital on an as needed basis with the Borrower enabled to periodically fix rates.
- A multi year revolving line of credit.
- A resulting reduced need for building assessments.
- The Building to responsibly maintain lesser reserves, thus preserving capital in the hands of shareholders.

The Board was able to communicate effectively with residents, challenges to the Election were withdrawn, and broad based support for an agreed scope of the renovation project was established.

Areas of Expertise Applied



Mantell Advisory
1430 Second Avenue, Suite 102
New York, NY 10021
T 212.755.6390
F 212.734.9195
info@mantelladvisory.com