

Conversion of 850 NY Apartments to Condos Requires Lender Creativity

NEW YORK—Doing a single closing can prove to be a difficult experience, especially with all of the last minute problems that can crop up. Now take that single closing and multiply it by 850. That was the problem facing New York Mortgage Co. here.

After a litigation settlement, the Ruppert-Yorkville Towers in Manhattan were being converted from a subsidized Mitchell-Lama rental complex to open-market condominiums. (Mitchell-Lama is a New York state program that funded the construction of multifamily buildings in exchange for the developer following certain regulations. After 20 or 35 years, depending on the circumstances, the developer can pay off the mortgage and pull the property out of the program.)

There are 1,247 units in Ruppert-Yorkville, with 850 residents electing to purchase their unit. NYMC was the lender for approximately 405 units and assumed a lead role in the activities. Jason Madfes, an attorney who is NYMC's vice president and manager of settlement services, oversaw the activity. He worked closely with the sponsor's attorney, Jenkins & Gilchrist Parker Chapin and its lead partner Lee Grundstein, plus Mitchell Hill and Miles Board. Another key player was the firm of Wolf Haldenstein, which had represented the tenants in a lawsuit to stop the conversion; later it handled 250 of the buyers as a result of the ties created.

The closings were in the planning stages since August of 2002. To handle the large amount of transactions that needed to take place in a short period of time, adequate space was needed.

The parties were able to find 10,000 square feet of office space that had previously been leased to a failed dot-com.

They put in 20 separate closing tables and scheduled buyers to come in for "pre-closings" from Jan. 27 until Feb. 14. For 12 hours a day, in two-hour slots, the signings took place.

There were four title companies involved. The lead underwriter was Commonwealth Land Title. The others were First American, Stewart and New York Land Service.

Among the issues that had to be dealt with was the existing underlying mortgage on the property, Mr. Madfes said. To allow the closings to take place on schedule on Feb. 20, Commonwealth had to get \$70 million in escrow to satisfy that lien. NYMC, which is a mortgage banker, was able to wire funds to Commonwealth in order to have the transaction go through. Otherwise it would have taken several days, Mr. Madfes noted.

Other issues that caused problems for some other lenders were taxes (the building will not enter the tax rolls until after the conversion is completed) and sponsor-ownership issues (there have been few conversions of this type as it is only recently the window for Mitchell-Lama conversions opened).

NYMC will close just under \$100 million in loans when all is said and done. Besides the original period, there are approximately 10 borrowers who missed the original deadline for insider purchases who are expected to close early in March.

All four title companies had put temporary offices in the closing location, 450 W. 33rd St., to

handle any problems, as had NYMC. Mr. Madfes said his company had a sales manager, two loan officers and a credit officer on site.

It turned out to be a good thing for several borrowers that the company did.

Problems can occur in normal closing situations, including times when the lender fails to meet a commitment. Mr. Madfes spoke of two situations where the borrowers' lender of choice, which was not NYMC, either backed out entirely or reduced the amount they were willing to fund at the last minute.

In both cases, NYMC was able to step in and the loans closed later on the same day they were scheduled.

Among the arrangements that were made with the sponsor was reduced closing costs for the buyers. In addition, since so many title policies were being purchased at once, the buyers were able to get a bulk rate.

Virtually every type of loan product was used — conforming, nonconforming, jumbos. NYMC even did an interest-only loan linked to Libor, he said. Among the more unusual loans that had to be done was one to the condo's board where the building's superintendent would reside.

There were also investor loans. As part of the settlement that allowed the conversion to go through, existing tenants were able to sell their insider rights to an outside party. One resident purchased his apartment and then five others as an investment.