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By Angela Ortiz: Review & refinance: Now is a rare and potentially lucrative time to re-write your current loan terms

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The commercial real estate financing environment is highly attractive at the moment. Interest rates continue to reside at historically low levels and will likely remain that way until at least 2013, as the Federal Reserve will keep them low for at least two more years. There is no question that if you are an owner of income-producing property, particularly of multifamily, mixed-use and cooperative buildings, this is a rare opportunity to review your current loan terms and refinance if it makes sense.

Besen Capital recently refinanced a $40 million portfolio of 20 multifamily and mixed use buildings in the New York metro area. In all instances debt service was substantially reduced when the loan was refinanced at the same amount. Many buildings were refinanced at much higher loan amounts, but the debt service either remained the same, decreased, or increased minimally allowing owners to recapitalize their assets.

In today's interest rate environment we are seeing 10-year fixed rates in the 4.25% to 4.5% range, or 5-year rates in the upper 3s. This is the time to review pre-payment penalties, as well as current and future capital improvement funding needs. While most borrowers tend to prefer 7 or 10-year fixed-rate loans, it is worth noting that 5-year fixed rates are still available in the upper 3% range for quality multifamily and residential cooperative underlying mortgages. This pricing is available for loans based on a 30-year amortization schedule and with zero points to the lender. Rates for mixed-use, retail and other commercial loans are slightly higher depending upon the loan-to-value ratio, the quality of the tenancy, the percentage of commercial-to-total income and the duration of the leases. Acquisition and development financing is still being offered on a selective basis to experienced developers with good track record, strong financials, and liquidity.

Getting Around the

Pre-payment Penalty

While many borrowers may want to take advantage of the low interest rate environment by refinancing, they may quickly realize that they are locked out by a stepped down, (e.g. 5, 4, 3, 2, 1) or yield-maintenance prepayment penalty. Borrowers have to determine whether the savings over the term of the loan is worth paying the pre-payment penalty because the savings can be substantial while allowing for recapitalization.

Otherwise, there is a loophole called a forward commitment. In this instance, the borrower has to determine at what point in time the pre-payment penalty decreases or becomes zero. While a year in advance is too long for this product, about nine months is about the longest forward commitment time frame that makes economic sense. For example, if you can't refinance until the summer of 2012, then now is a good time to consider it and prepare.

It's important to note that while interest rates remain low, banks presently maintain very strict requirements. Borrowers need to be experienced, financially strong, and have good credit scores. Acquisition loans are always prioritized and generally close between 45-90 days depending on the lender. On the refinancing side, borrowers have to meet strict requirements and provide a multitude of information. This process may take six months or more to close.

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