

SECTION 1 SUMMARY

A co-op share loan must be a lien that has priority over all other liens against the borrower's interest in the property, except that the lien may be subordinated to:

- That portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents:
 - The *pro rata* share of the co-op corporation's payments for the blanket mortgage,
 - The current year's real estate taxes, and
 - Any special assessments.
- Any assignment of rents or maintenance expenses in any:
 - Mortgage or deed of trust that is secured by the co-op project,
 - Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

Note: The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.

PROGRAM MATRICES

Standard Conforming Fixed Rate Purchase and Rate & Term Refinance ¹						
	Primary Residences		Second Homes		Investments	
Property Type	LTV	Credit Score ²	LTV	Credit Score ²	LTV	Credit Score ²
Co-Op	95	Per DO/DU	90	Per DO/DU	N/A	N/A

Standard Conforming Fixed Rate Cash Out Refinance ¹						
	Primary Residences		Second Homes		Investments	
Property Type	LTV/CLTV	Credit Score	LTV/CLTV	Credit Score	LTV	Credit Score
Co-Op	80	Per DO/DU	75	Per DO/DU	N/A	N/A

High Balance Fixed Rate ³ Purchase and Rate & Term Refinance						
	Primary Residences		Second Homes		Investments	
Property Type	LTV	Credit Score ²	LTV	Credit Score ²	LTV	Credit Score ²
Co-Op	90	Per DO/DU	N/A	Per DO/DU	N/A	N/A

High Balance Fixed Rate ³ Cash Out Refinance						
	Primary Residences		Second Homes		Investments	
Property Type	LTV	Credit Score	LTV	Credit Score ²	LTV	Credit Score ²
Co-Op	60	740	N/A	N/A	N/A	N/A

1. When Subordinate Financing is present:
 - a. Purchase and Rate/Term - LTV/CLTV is limited to 90%
 - b. Cash Out Refinance – LTV/CLTV is limited to 80% for Primary Residence and 75% on Second Homes.
2. The minimum credit score is determined by DU/DO but must not be less than 620.
3. Subordinate Financing not allowed on High Balance Co-Op transactions.

SECTION 2 | PROGRAMS/GUIDELINES

Available Programs

- Conforming Fixed DU and DU High Balance programs are eligible.
- Fixed Rate terms only.

Guidelines - Loans must meet all published guidelines, in addition to the requirements specified below.

Underwriting - Prior project review required.

All loans require a completed **Co-Op Intake Form**, and a **Co-Op Certification Questionnaire**.

SECTION 3 | MARKETS & GENERAL ELIGIBILITY

Available Markets

- The state of New York
- New Jersey *counties* of:
 - Bergen
 - Essex
 - Hudson
 - Middlesex
 - Monmouth
 - Morris
 - Passaic
 - Union
- Certain transactions detailed in these guidelines are allowed in New York City only. New York City is defined as:
 - New York City Boroughs:
 - Bronx
 - Brooklyn
 - Staten Island
 - Manhattan
 - Queens
 - New York City Counties:
 - Nassau
 - Rockland
 - Suffolk
 - Westchester

General Eligibility Requirements

- Subordinate financing allowed. Note: Not allowed on High-Balance transactions.
- Owner Occupied and Second Home only. Investment Properties are not eligible.
- Cash Out refinances on Second Homes are not eligible.
- The co-op share loan must be secured by stock or shares in the co-op corporation (or by a membership certificate or other contractual agreement evidencing ownership) and the accompanying exclusive occupancy rights related to a single-family dwelling in the project.
- The tenant-stockholder (borrower) must have a right to occupy the unit for a period that extends at least to the maturity date of the share loan although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation.
- The tenant-stockholder must own stock, shares, or membership certificates in the co-op housing corporation.
- If Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount that would otherwise be available for a co-op share loan from that project must be reduced by the portion of the unpaid principal balance of the blanket mortgage that is attributable to the share loan.

SECTION 4 PROJECT ELIGIBILITY

Eligibility Projects

- New construction and new conversion projects allowed in New York City only.^{1,2}
- Existing construction allowed in New York and New Jersey.
- Minimum of five units in projects located outside of New York City.
- 3-4 Unit Cooperative Projects - Eligible only in New York City.
 - Projects must be 100% owner occupied.
 - Only one unit in the project may be financed by WesLend.
 - Appraisal requirements: See appraisal requirements within this document.
- Cooperative maintenance fee must be included in the Borrower's housing expense for qualifying. Maintenance fees must be paid and current at closing date.
- Project must be complete and not subject to additional phasing or annexation.
- Financing to combine two co-op units into one unit is not allowed.
 1. New construction cooperatives are defined as projects and units that have not been turned over to the cooperative board or the units have never been occupied.
 2. New conversion cooperatives are defined as projects and units that are being converted to a cooperatives form of ownership and the cooperative board has not been in existence for more than three years.

Ineligible Projects

- Projects composed of single family detached units.
- Cooperative hotels or time share, fractured, fragmented or segmented ownership projects.
- Houseboat projects.
- Land owned by community land trusts.
- Any project where the builder, developer or property seller is offering contributions that may affect the value of property such as rent backs or lease backs, payment of PITI and undisclosed contributions. Follow published seller contribution requirements.
- Cooperative Share Mortgages in Cooperative Projects with units that are subject to resale restrictions are not allowed.
- A tax-sheltered syndicate leasing to a Cooperative or "leasing" Cooperatives, i.e., projects that involve the leasing of the land and improvements to the Cooperative corporation, even if the Cooperative corporation owns part of the building.
- Cooperative projects that are subject to leasehold estates or ground rent are not allowed outside of New York City. This is not a reference to the Proprietary Lease which gives the Borrower the right to occupy the unit.
- Multi-dwelling unit Cooperatives, i.e., projects that permit an individual or entity to hold individual stock ownership and the accompanying occupancy rights for more than one dwelling unit, with ownership of all of his shares financed by a single share Loan.
- Limited equity Cooperatives AKA Mitchell Lama-projects in which the Cooperative corporation places a limit on the amount of return that can be received when stock or shares are sold.
- Cooperative projects in which the developer or Sponsor has an ownership interest or other rights in the project real estate or facilities, other than the interest or rights it has in relation to any unsold units.
- Cooperative projects that represent a legal, but non-conforming use of the land, when zoning regulations prohibit the rebuilding of the improvements to their current density in the event of their partial or full destruction.

- Cooperative projects in New Jersey created (new construction or conversions) after May 9, 1988.
- Any project identified with a pooled insurance policy is ineligible. A pooled insurance policy may include: Blanket policy that covers multiple unaffiliated associations or projects

Project Review Requirements

Pre-Sale and Owner Occupancy

No more than 10% of the stock shares/occupancy rights may be owned by any single entity other than the Sponsor or Holder of unsold shares.

New York City Cooperatives

51% percent of the total units in the project must be:

- New construction – must be under bona fide contract for sale to primary residence purchasers.
- Existing – must be sold and conveyed to primary residence purchasers

Outside of New York City

71% of the total number of units in the project must be sold and conveyed to principal residence or second home purchasers provided 51% of the total units are sold to owner occupants.

Leaseholds Allowed in New York City Only

- The lessee must be the cooperative board not the sponsor/developer and must not be a commercial entity.
- The ground and proprietary lease expiration must be at least five years longer than the term of the mortgage being requested.
- The original ground lease terms can be no less than 60 years with at least one option to renew for a term not less than the original term.
- The ground lease provides that the cooperative blanket mortgagee shall receive notice of any monetary or non-monetary default by the cooperative and grants the mortgagee the right to cure any such monetary or non-monetary default on behalf of the cooperative.
- The cooperative may assign or transfer its interest in the ground lease.
- If an increase in the cooperatives obligation to pay annual ground rent, over and above any other payments to be made by the cooperative, is scheduled to occur on or before the second anniversary of the date of the Loan delivery, the amount of increase cannot exceed 10% of the cooperatives annual operating budget, as disclosed in the cooperatives fiscal year-end financial statements. The increase must be included in the monthly expense to income ratio.
- If the cooperatives blanket mortgage is a balloon mortgage with a remaining term of less than three years but not less than two years, or if the mortgage provides for interest rate adjustments, those increases in debt obligations and any ground rent increases do not cause the borrower's monthly assessment to be increased by more than 10% at the time the loan is underwritten.
- The enforceability of the terms and conditions of the ground lease has been duly and diligently investigated.
- The existence of monetary and non-monetary defaults under the terms and conditions of the ground lease has been duly and diligently investigated.

Commercial Use

Cooperative projects with commercial units should not exceed 25% of the project's total square footage. Additionally the following should be considered:

- The presence of commercial units should not negatively impact the marketability of the project.
- The project should not be unique in its market.
- The intended use of the commercial units should be considered, as this can affect the viability of the cooperative project. For example, retail use *may* cause more traffic and impede parking availability more than a doctor's or dentist's office

Common Elements

The unit owners must be the sole owners of and have right to the use of the projects facilities, common elements and limited common elements.

Facilities related to the project such as parking, recreational facilities, etc., must be owned by the coop corporation. The developer or sponsor may not retain an ownership interest in any of them.

Cond-ops

A cond-op is a condominium project consisting of multiple condominium units, one of which would be the residential condominium (cooperative) and the others being non-residential.

Because the commercial portion of the project impacts the financial viability of the residential cooperative units, the financial statements of the condominium must be obtained and reviewed in conjunction with the review of the financial statements for the cooperative. The underwriter should look for any indication that one of the entities has a Loan with

the other entity or is in arrears on any obligations. Both the cooperative corporation and condominium association must be financially viable.

If the legal relationship between the cooperative corporation and condominium association cannot be determined from the financial statements, a review of the cooperative offering statement may be required. In addition, the underwriter must determine that the commercial use does not adversely impact the marketability of the residential units.

New Construction and New Conversion Project Requirements

Offering Plan or Prospectus

The entire Offering Plan and all amendments must be obtained for all new construction and new conversion cooperative projects. The areas of focus for review are listed below but should not be limited to the below:

1. **Special Risk Section** - The *Special Risk* section should be reviewed in its entirety. Any information that is not acceptable, requires additional clarification, or is of concern should be addressed or followed up on. Some examples of items that may be of concern are:

- Litigation
- Sponsor's length of control of project (if less than 75% sold, recommend up to five years, no date may be of concern or over 5 years, recommend modification of offering plan).
- Responsibility for payment of transfer taxes (typically borrowers cost).
- Sponsor's unconditional right to rent rather than sell. The sponsor is to at least provide assurance of the intent to sell. 30% is the typical max limit on units held for rent.
- Lot line windows. Need to identify if any concerns with future window restrictions as may impact future value of unit as this may restrict the number of legal bedrooms, for example.
- Summary of any ground leases, if applicable.
- Summary of Proprietary Lease
 - Resale restrictions
 - Expiration date, double check Fannie requirements.
- Existence of tax exemption or tax abatement program.
- Rights and Obligations of the Sponsor, board and owners.

2. Introduction Section

Budget

Schedule of purchase prices and share allocations.

- Identity of parties –who's involved in the transactions.
- Procedures to purchase including Closing costs, penalties and fees.
- Terms of Underlying Mortgage if one exists.

Architect or Engineering Report

Project conversions that do not involve gut rehabilitation must be reviewed to:

- Verify that all necessary repairs are complete.
- Replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project.
- If the conversion was legally created during the past three years, the report must comment favorably on the:
 - Structural integrity of the project
 - Condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.
- All rehabilitation work involved in a cooperative conversion must be completed in a professional manner.

Note: A gut rehab refers to the renovation of a property down to the shell of the structure, including replacement of all HVAC and electrical components.

Marketing Plan

For new construction and conversion projects, information on the number of units sold should be obtained. Typical documentation or information can be obtained from a "late stage sellout verification" and statement from sponsor on the outside marketing company being used.

Developer Resume

Obtain a developer resume for new construction and conversion projects. Complete a due diligence review into the Developer and their previous experience via a web search.

SECTION 5 | INSURANCE

General Requirements

The cooperative corporation must maintain hazard, liability, fidelity, flood (if building is in a flood zone), and business income insurance with the following coverage from an insurance company with minimum rating of at least:

- AM Best - General policy holder rating = "A" and financial size category V, or
- Standard & Poor's insurer financial strength rating = BBB, or
- Demotech hazard insurance financial stability rating = A.

Hazard Insurance

100% of the insurable replacement cost of the project improvements, including cooperative units. Additional coverage for mechanical breakdown or equipment failure must be equal to, at minimum, the lesser of 100% of the insurable replacement cost of the building housing the property or \$2 million. The policy must show the cooperative as the named insured.

Deductible

Unless a higher maximum is required by state law, the maximum deductible is 5% of the policy face amount.

Liability Insurance

\$1 million for any single occurrence of bodily injury and property damage for any single occurrence

Fidelity Insurance

The policy must name the cooperative as the insured and premiums must be paid as a common expense by the cooperative apportioned to each shareholder.

The cooperative must carry fidelity or employee dishonesty covering loss resulting from dishonest or fraudulent acts committed by the cooperatives directors, managers, trustees, employees or volunteers who manage the funds collected and held for benefit of the cooperative. A professional management firm must be insured to the same extent as the cooperative. The management firm must submit evidence of such coverage.

- Directors and Officers Insurance is not the same as Fidelity insurance
- Crime alone is not the same as Fidelity
- Employee Dishonesty is the same as Fidelity

Coverage Requirements

- Required if the cooperative project has more than 20 units
- The amount of coverage must be equal to the greater of either three months of assessments/maintenance fees of all units in the project **or** the sum of all cash and reserve fund monies that are in the custody of the cooperative corporation or its management agent
- If the cooperative project is professionally managed and is more than 20 units, proof of Managing Agent Bond is also required, either through a rider to the cooperative's policy or a separate policy covering the Managing Agent

Reduced Coverage Requirements

If the "greater of" is the sum of all cash reserves but the fidelity insurance coverage is at least equal to three months maintenance fees, the three months coverage may be acceptable if the project's legal documents require the cooperative corporation and any management company to adhere to certain financial controls listed below.

Financial Controls

Reduced fidelity insurance coverage may be acceptable (three months coverage) only when the financial controls take one or more of the following forms:

- The cooperative corporation or the management company maintains separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the cooperative corporation;
- The management company maintains separate records and bank accounts for each cooperative corporation that uses its services and the management company does not have the authority to draw checks on—or to transfer funds from—the cooperative corporation's reserve account; or
- Two members of the Board of Directors must sign any checks written on the reserve account.

Flood Insurance

If any part of the cooperative project's improvements are in a Special Flood Hazard Area, the cooperative corporation must maintain flood insurance equal to the replacement value of the building, up to a maximum of:

- \$250,000 on any one building, with less than five units.

- \$500,000 on any one building, with five or more units.
- Maximum deductible of \$25,000 is required on any one building regardless of the number of units.

Business Income Insurance (Rent Loss / Business Continuation)

The Cooperative Corporation is not required to maintain business income insurance of lost Cooperative Unit maintenance fees if the Cooperative Project is at least 70% owner occupied.

If the Cooperative Project is less than 70% owner occupied, the Cooperative Corporation must maintain business income insurance as follows:

- If the Cooperative Project is located in a building that is three stories tall or less, the Cooperative Corporation must maintain at least six months of business insurance – calculated based upon the total number of rented units in the project, or
- If the Cooperative Project is located in a building that is more than three stories tall, the Cooperative Corporation must maintain at least 12 months business insurance – calculated based upon the total number of rented units in the project.

SECTION 6 OTHER PROGRAM REQUIREMENTS

Recognition Agreement

Right to Cure Borrower's Default. In the event of a default by the Borrower, the Cooperative Corporation must permit servicer to cure the Borrower's default to the Cooperative Corporation.

Litigation

If the Cooperative is involved in any litigation, arbitration, mediation or other dispute resolution process, obtain the details from the Cooperative Board and evaluate the risk. This information should be verified with a letter from the attorney for the cooperative board or, if new construction or conversion, a sponsor's or an attorney's letter, insurance information, structural engineer's report, or other documentation as appropriate.

The following are some examples of types of litigation that generally pose little risk to the project and are typically acceptable:

- Board is suing individual owners for unpaid dues.
- Cooperative is being sued for a "slip and fall" liability issue and project has adequate liability insurance to cover the damages being sought by the plaintiff.
- Other suits filed by the Cooperative that do not impact the value or livability of the project.
- Project is involved in a minor matter described below:
 - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
 - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or
 - The cooperative board is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners association dues.

The following are some examples of types of litigation or threatened litigation that may impact the project's marketability and are not acceptable:

- Lawsuit against the sponsor/developer for construction defects or other property deficiencies that impact health and safety. The project may be acceptable if the defects have been corrected and the project is financially sound and marketable or adequate insurance coverage exists.
- Suits filed against the Cooperative in which the damages exceed or are not covered by insurance.

Projects involved in threatened litigation (lawsuit has not yet been filed), excluding structural defects or property deficiencies that impact health and safety, may be approved when the risk to the project is assessed and it is determined that:

- Cooperative's insurance will cover potential damages, OR
- Project is in a position to benefit from the lawsuit.

Subsidies / Tax Abatements

- **New York City** – Allowed

Any subsidies, tax abatements, or similar benefits that will terminate in whole, or in part, within three years must be added to the borrower's monthly housing expense for qualifying. Use the portion of such subsidies or benefits that will be in effect on the third underwriting anniversary.

- **New Jersey** – The project may not be the recipient of any subsidies or similar benefits such as tax or assessment abatements that will terminate partially or fully within the next three years.

Maximum Exposure

Mortgage maximum exposure in any project should not exceed 30%. Exposure is calculated as the number of WesLend Loans in the cooperative divided by the total number of units in the cooperative.

Exposure is contingent upon daily Loan production and verified at the time of approval.

If the 30 percent exposure is exceeded during the project review process, the loan will not be eligible. The project review process includes the time frame after the **Cooperative (Co-op) Project Approval and Validation Request Form** is submitted by the Seller until the time the project approval is provided to the Seller.

The 30% exposure limit can only be exceeded if:

- The exposure is less than 30% and one more Non-Conforming Loans will put the exposure over 30%.
- A Loan is a refinance or a purchase of a current cooperative Loan that will replace a Loan already being used on the current exposure calculation.

Financial Stability

When a project consists of 50 or more units:

- The project documentation must provide for the cooperative to make an audited statement for the preceding fiscal available to the holder, insurer, or guarantor of any cooperative loan for a unit in the project on submission of a written request for it, and
- The documents must further provide the audited financial statement to be available within 120 days of the cooperative's fiscal year-end.

If a project consists of fewer than 50 units and there are no audited statements available, the project documents must allow any share loan holder to have an audited statement prepared at its own expense. Federal tax returns may be requested at the CPAT underwriter discretion.

On existing cooperative projects, the most recent audited financial statements (income and expense statement and balance sheet (including footnotes) must be obtained and reviewed for financial stability. The most recent New York Attorney General's Disclosure Statement, which includes the financial statements and operating budget for the Cooperative, is acceptable in addition to the financial statements from the Cooperative Corporation.

The underwriter must determine that:

- Maintenance fees are adequate to cover the expenses of the cooperative corporation.
- No more than 15% of owners (shareholders) are more than 30 days delinquent in any obligation to the cooperative corporation.
- If rent from unsold units does not support the portion of maintenance fees related to those units, the negative cash flow from the unsold units will not cause the Borrower's maintenance fees to increase by more than 20%.
- Reserves are adequate when considered in relation to the age and condition of the building(s).
- The Sponsor (or Holder of unsold shares) is current and has been current on maintenance fees and any other obligations to the cooperative corporation for the previous 12 months. This can be verified with a written certification from the Cooperative Board or in the New York Attorney General's Financial Disclosure Amendment.
- The Sponsor (or Holder of unsold shares) is current on all financial obligations relating to other projects in which the Sponsor (or Holder of unsold shares) has at least a 10% interest. This can be verified with a written certification from the accountant for the Sponsor (or Holder of unsold shares) or in the New York Attorney General's Financial Disclosure Amendment.

Current Operating Budget

On cooperative projects with low pro-rata shares, positive cash flows, good reserves, consistent information between the financial statements and the appraisal (with nothing adverse noted), the operating budget may be waived.

Information found in the current operating budget can help the underwriter determine whether there are enough funds budgeted for expenses and reserves. The operating budget may also provide information regarding special assessments, major repairs, and pending lawsuits.

The operating budget is generally attached to current financials and not needed unless:

- The financial statements are more than 16 months old, or
- The information provided by the appraiser is significantly different than that found in the financial statements, or
- The financial statements show a significant negative cash flow.

Note: It is always within the underwriter's discretion to require the current operating budget to review for a full financial picture of a project.

Underlying Blanket Mortgage

- The amount and terms of the underlying blanket Mortgage must be verified by the appraiser and on the financial

statements for the project.

- Any blanket Mortgage for the project may be a balloon Mortgage with a remaining term of less than three years but not less than six months.
- If the balloon Mortgage incorporates an adjustable rate feature, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.

Transfer Fees (Flip Taxes / Waiver Fee)

A flip tax is a fee paid by a seller or buyer on a housing cooperative transaction typically in New York City. It is not a tax, and not deductible as a property tax. It is a transfer fee payable upon the sale of a unit to the cooperative.

Eligibility

- The cooperative project's legal documents must indicate that that a flip tax is allowed and provide for one of the following:
 - Exemption for lenders from paying the flip tax if the property is taken back in foreclosure, deed in lieu, etc., or
 - Flip tax is only payable when the unit is being sold for a profit, or
 - Flip tax is calculated based on *one* of the following and does not exceed 5%:
 - Flat fee or
 - Fee per share or
 - Percentage of the appraised value or sales price or
 - Dollar amount per room.
- Transfer fees are generally found in the sales contract and may be noted by the appraiser.
- A project is ineligible for financing if it has a transfer fee (flip tax) that does not have a stated value or if the value will be established by the cooperative board at a later date.

Note: If the transfer fee is to be paid by the borrower at the time of purchase, that amount needs to be calculated into the cash to close.

Pro Rata Share

Calculate the pro rata share of the underlying mortgage as follows:

$$\frac{[(\text{Underlying blanket mortgage balance} \div \text{total number of outstanding shares in Cooperative Corporation} \times \text{subject shares}) \div (\text{appraised value} + \text{subject share of underlying blanket mortgage})]$$

The pro rata share should not exceed 35%. A higher ratio (not to exceed 40%) may be used when there are fully documented compensating factors that justify using the higher ratio.

Refer to the **Appraisal Requirements**, in this section, for pro rata share requirements when the property is outside of New York City.

Proprietary Lease / Occupancy Agreement

The borrower must have a right to occupy the unit for a period that extends at least to the maturity date of the Loan.

Must also prohibit the coop from imposing unreasonable limitations on the borrower's ability to sell, transfer or convey membership, or to sublease unit.

Appraisal Requirements

The appraisal must demonstrate market acceptance for the cooperative form of ownership by the availability of similar comparables sales for cooperative units in the market area.

- For areas outside of New York City, the appraisal must report the value of the cooperative interest excluding its pro rata share of the blanket mortgage.
 - Appraisers must certify in the appraisal report that the pro rata share of the blanket mortgage on the real estate has not been included in the opinion of the market value of the cooperative interest.
- Appraisal must reflect that three and four unit coop projects are located in an area with a demonstrated market acceptance for such projects.
 - Appraisal should provide similar comparable sales from other three and four unit coops located in the subject coop market area
 - If there is a lack of comparables from other three and four unit coops in the subject market area, the appraiser may provide a list of three and four unit coops in the subject market area to support that three and four unit coops are common and customary in the market.