

DUNLAP & MAGEE	MAIN OFFICE	BOARD OF DIRECTORS				
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## CONCORD VILLAGE, INC.

*A community owned and operated by its residents*



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### Board of Directors Extended Meeting June 8, 2010

Chip Trujillo, President, called the **meeting to order** at 6:40 p.m with introductions. All Board Directors were present including Wendy Weiske, District Manager for D&M. Also present was Charles K. Ayers of Ayers and Brown, attorney representing Concord Village, and Phillip J. Foti of Centennial Mortgage. The **purpose** of the extended Executive Board Meeting was to review the refinance proposal brought forward by Centennial Mortgage.

Chip: Charlie, we are looking to grab some money out to be able to do capital improvements. We know we do have money that has been set aside for years, but we would rather not use that money. Also, it is not enough to do the capital improvements. HUD has requested that we begin to do some improvements to the property now, rather than waiting to do improvements piecemeal as we have the money. The last two or three REAC inspections have found safety issues that need to be addressed to the units themselves, such as foundations, soffits, and exteriors. The roads also need to be redone.

Wendy: With the capital available without a refinance, we have enough money to do one or the other of these improvements. With the refinance, money will be available to do both projects. HUD is pushing for these improvements.

Chip: Not only are we hearing from HUD, but we are hearing from the membership. They would like the streets to be repaired and the units to look nice. We explain to the membership that there is only so much money to go around. The operation costs cover taking care of the landscaping, the pool, the irrigation, etc. So this is necessary to complete much needed repairs.

One question we want to cover tonight is to make certain that when we execute this document that we will have the same or similar regulatory agreement that we have had since 1995. We want to make certain that it won't have any extra parts that we are not aware of. We would like to make sure that we will have our capital improvements, while retaining our savings and completing the loan in 2027.

Phil: A summary of charges we will be paying: \$5,000 will be going to Centennial for their processing fee. Another \$5,000 is a fee for asbestos testing. That process is required if there is no evidence that this testing has been done before. Wendy has provided me with the lead-based paint document. In terms of asbestos, we still need that document.

Wendy: We have no documented evidence that asbestos testing has ever been done. We deal with asbestos protocol.

Charlie: I am not aware of any asbestos testing, either.

Phil: That would be done in connection with the loan. So to return to your question, the fees involved would be \$10,000.

Wendy: Concerning the asbestos, you talked to me about an O and M Plan.

Phil: As you know, many older properties have asbestos contained in the property. HUD requires the Operations and Maintenance Plan. This plan states that if you disturb any area that contains asbestos, this is the way it will be handled. It outlines clean-up processes.

Wendy: This is what we have already been doing: protocol.

Phil: We have a template which fulfills this requirement which we can give you, which will save you \$500.

Wendy: I assume that this won't be any more restrictive than the County requirements that we currently comply with.

Phil: It's a short and simple document. They want to make sure that if you get a contractor in here that is not used to handling asbestos, this will provide guidelines.

Charlie: Guess there's the question of where's your interest rate.

Phil: We started looking at this deal in the middle of October. Here we are in June. That same question was posed in the middle of October. If we decide to go forward with this today, interest would be around five or five and a quarter. If we were to close today, we would be closer to five than five and a quarter. If we close in nine months, it's anybody's guess.

Wendy: For instance if we signed today, how long would it take to lock in an interest rate?

Phil: It would be 60 to 90 days. It depends on how quickly you can get me the documentation, and how quickly we can package the deal. Centennial Mortgage will move quickly once we have the documentation.

Phil to Charlie: I'm not sure if you're familiar with the program, but this 23 B7 program is basically refinancing HUD insured loans. And this property qualifies for that. HUD has been here; they've done inspections, and they are doing more inspections shortly. They have financial statements on the property. Because all of this is in place, we don't need an appraisal.

Charlie: Assuming your interest rates stay at least under what you have now, you are talking about the same thing that hundreds of thousands of people have done in the past few years. You are basically taking the same amount of money out of your pocket in payments over the same period of time. At the same time you are pulling out money on your equity for improvements.

Gary: If we decide to go ahead with the refi, and the interest rate goes up, what will we lose?

Phil: The \$10,000 you had already paid. And the trend is downward on interest.

Zach: So the worst case scenario is that we would have less capital to spend on our improvements.

Wendy: There is always a risk. You can make an educated guess where it will go, but it's not going to go above your current 8.25%.

Phil: It has been at around 5% for quite awhile.

Wendy: And now there is a possibility that it could go down. But you always take a risk – that would be your \$10,000.

Chip: What else would cause us to forfeit that \$10,000 besides that?

Phil: I've already been to HUD and they said they were willing to do this deal.

Chip: So the only other thing would be if the loan were rejected. And we know that the regulatory agreement is the same other than a few minor changes.

Phil: Concerning the regulatory agreement, when we talked to HUD in January, Stephany said that it will be essentially the same as you have now. This particular form is structured specifically for co-ops.

Chip: So it's the same 1995 regulatory agreement?

Phil: Yes. If I were in your position, the way that I would view this loan is the way that we look at it and the way HUD looks at it, which is basically an interest swap. It's the same property, you are at a maximum loan. When the dust settles on this deal, and you sign the document, the difference that you will see is the interest rate and the equity returned.

Gary: We started talking about this in October. Will the time on the loan be extended now?

Phil: No. It will be the same maturation date in 2027.

Gary: Will there be an option to extend the loan?

Wendy: You basically will be staying with the 2027 date to satisfy the membership. There has been discussion of wanting to pay back the loan early, so you wouldn't want to extend.

Chip: We are in agreement that the money drawn out is to be used for capital improvement. That is a requirement now, right?

Phil: That is the expectation. In the meeting we had with HUD on January 26<sup>th</sup>, they said you come to them with your list of improvements.

Wendy: That will not be a problem. We are already going forward with the bid process for the exterior work.

Zach: If the interest rate goes up, it is possible we would be paying more per month than we do currently. We will automatically be taking that \$400,000.

Consensus of discussion: The interest rate probably won't be going up over 5 and a quarter.

Wendy: I do want to ask about pre-payment policy. What is that policy?

Phil: The standard option is a 5-year, with a 5,4,3,2,1. There is no pre-payment in the first five years. In the sixth year it would be 5%, in the seventh year it would be 4%, etc.

Chip: So there's no other option than what you just presented?

Phil: There are a number of options. There's nothing more liberal in the pre-payment position with a higher interest rate.

Wendy: Realistically, do you see a problem with the 5% loan?

Charlie: You're not likely to see a much lower rate (such as 3%) coming along any time soon.

Chip: It's just more attractive when you are going to the membership, because one of the questions they always have is we do want to pay this down before the 17 years.

Phil: If I were you, I'd say to the membership that we have this loan at 5 and a quarter, rather than the 8 and a quarter we have now. I don't think anyone would object to that.

Discussion: some members wish to be owners of their property (as in condos). Other members are happy to remain status quo, because they are not sure they could afford payments and maintenance if we went to private ownership.

Clarification of asbestos issue. The agreement we enter into is essentially the same process that we do now. It is remediation only of any asbestos that is disturbed. The \$5,000 is paid for asbestos testing, which we have never had. We know that we have asbestos on the property, because it was built in the early 60s. We will continue to remediate if any asbestos is disturbed. The County is the authority that oversees asbestos, so the process will stay the same. Again, talking about any asbestos documentation: Wendy said that D&M does not have any documentation handed down from the prior management, and Charlie said that he didn't know of anyone from his company that was present at the last loan process. So we will need to pay the fee for testing.

Chip: So what is the next step? So what is the next step?

Phil: You sign the engagement letter, and submit the check for \$10,000 and tomorrow is Day 1 in the loan process.

Charlie: This translates your 8 ¼ loan to a 5 ¼ loan. This converts your future interest payments to cash. It's the reason people refinance.

Phil: HUD has put together this mechanism by which you can procure a HUD-insured loan. In terms of a refinance opportunity, in terms of cost you're not going to find anything comparable out there.

Charlie: The numbers are not cast in stone, but I think they are going to be very close to what you have in the loan proposal.

Wendy: And you didn't think there would be any problem translating over the current reserve fund in the current mortgage. I think HUD in the past has required a thousand dollars per unit in the reserve, but we don't have that. But I think HUD has relaxed that to \$500.

Phil: HUD's concern is: does this loan create an additional risk to the insurance fund. When you go from 8 ¼ to 5 it actually decreases the pressure on the life insurance fund.

Chip: So I think we understand about the swap of the interest rate and being able to grab the cash. But our main is that the money we get is not being eaten up with extra charges.

Phil: Let's talk about that. How are you going to use the money?

Chip: For capital improvements. This is in lieu of raising carrying charges.

Phil: My point is, the money is going to be used for capital improvements. Why would HUD come back and increase your reserve requirement if you are using this lump sum money for improvements? If anything, they should lower it.

It was determined that Chip, as president would be the one to sign the document. Discussion being complete, Phil, Charlie and Wendy were dismissed.

**Motion: To move forward with the signing of the letter of intent based on the advice of Charles K. Ayers, lawyer for Concord Village. All questions concerning the refinance were answered to the satisfaction of the board, and we feel that this will be a good move for the corporation. Unanimous Yes.**

**Action: Chip will direct Wendy to bring the letter of intent to be signed. Wendy will provide the check for \$10,000 to pay for the fees involved in the mortgage transaction.**

There being no more business, the meeting concluded at 7:45 pm.

\_\_\_\_\_, Secretary  
Nancy J. Bates