

## Tenant In Common (TIC) Financing

---

### **1. How long does it take to close a TIC loan?**

The loan process (escrow period) usually is longer than that of non-TIC properties. Some sellers prefer to close all units at once, which could indicate a longer escrow period. Every seller's situation is different, and if you are representing a buyer, it is important to have clarity around this issue. In #4 below, I address the issue of a more closing process.

### **2. Are the Closing Costs Higher for TICs?**

TIC properties generally have higher closing costs for a number of reasons. There is no rebate pricing available, so origination fees must be charged, and there are attorney fees for providing and reviewing the TIC documents. TIC agreements are often customized to a certain degree for each transaction. Therefore legal reviews are necessary as certain language is often inserted to make it compliant with both the bank and the title insurance company, and to address any particular needs of the TIC group. Also, the appraisal process involves additional steps and information. These costs will be outlined in the Good Faith Estimate.

### **3. What is the cost differential between a TIC unit and a condo?**

There is no standard in this area. There are multiple factors to consider when comparing condos to TIC's. If you could make a side by side comparison of a condo to a TIC unit, where both properties are exact carbon copies of each other in every respect (location, layout, view, finish, amenities, # of units in the building, operating costs and every other variable imaginable, etc.) then the TIC unit should cost less...but how much less?

Assuming that you could make such a carbon copy comparison of a TIC unit to a condo, and you hold constant the buyer's out-of-pocket expenses (down payment amount and monthly mortgage expenditure), then the increase in buying power provided by the lower cost conventional FNMA financing must be taken into account. A 10 to 15% differential has been typical. If the TIC property is a better product and is being sold at a lower price point, then it is arguably a value-added proposition.

Another factor to consider is Market Acceptance. In San Francisco, CA, there is very high market acceptance of TIC's. As you move away from San Francisco, the familiarity of TIC's to buyers, real estate professionals, appraisers, and lenders diminishes, and thus their market acceptance declines, indicating a larger discount of TIC to Condo price in these areas. As familiarity and acceptance increases, the differential in price should decrease.

### **4. When can you close TIC sales one unit at a time (sequentially)?**

Closing fractional loans one by one (vs. simultaneously) is known as 'sequential' closing. If Circle Bank has made a loan in first position to the TIC Converter, then the seller can close buyers one at a time. In this case, we 'partially release' our blanket loan and it moves from encumbering all units to collateralizing the remaining unsold units as the loan is progressively reduced with sales. This is the only circumstance by which a blanket loan and an individual loan can co-exist on the same APN, as the individual buyers are not obligated on the blanket loan.

When Circle Bank does not hold the first loan on the TIC building, then the first closing occurs when there are enough units in escrow to sell and provide sufficient net proceeds for paying off the underlying debt. Otherwise the escrow is delayed unless the seller is capable and willing to come in with cash to close.

### **5. When can individual TIC sales not close sequentially?**

If a TIC Converter has underlying financing from a lender other than Circle Bank, then the seller must have a simultaneous closing with as many buyers as it takes to provide enough net proceeds to pay off that loan.

### **6. What if a TIC Converter has minimal debt on a property?**

If a seller does not need a loan from Circle Bank, the TIC Converter must have an agreement in place with The Bank so as to accommodate the Seller with sequential closings (call for more details).

**7. Do all TIC properties have to be approved by the Department of Real Estate?**

No. Our understanding is that any property consisting of 4 units or less is not subject to the subdivision laws. However, all properties consisting of 5 or more units (including commercial and residential units) are possibly subject to the subdivision laws and therefore require a public report, or a waiver letter signed by an official from the DRE. Please contact a TIC attorney for more information.

**8. Can any appraiser be used?**

No. There is a short list of approved appraisers. Please call for a reference.

**9. Can any title company and escrow officer be used?**

No. There is a short list of approved title companies, and not all escrow agents within those title companies are schooled in TIC transactions.

**10. What are the general guidelines for qualifying a Borrower for Fractional and Group TIC Loans?**

Borrowers must prove that they have sufficient down payment, liquid reserves, and good credit history (middle credit score above 680). The total debt-to income ratio guideline is 45%, but can be higher case by case. In a group loan, all borrowers must demonstrate their ability to make their respective payments, though buyers with an excellent credit and poor cash flow or low liquidity are mutually helpful to those with lots of cash but poor credit, etc.

**11. What is the minimum down payment required when buying a TIC unit with a Fractional loan?**

10% of the purchase price, but this requires a private 2nd note equal to 10% of the purchase price.

**12. What is the maximum Loan To Value on a Fractional Loan?**

85% of the purchase price, with a 15% down payment

**13. Are 'Stated Income' Fractional loans available?**

Yes, for self employed borrowers only. The maximum LTV is 70%, and the maximum Combined Loan To Value (CLTV) = 90%.

**14. Can a TIC loan be refinanced?**

Yes. If the debt is a group loan, the refinance is a group decision, and a group process...all must participate. However all members of the TIC must sign any changes made to the TIC agreement. For individual/fractional TIC loans, the owners can refinance whenever they want, without involving their co-tenants.

**15. Can one TIC owner refinance his/her portion of a group loan into an individual loan while the other Co-Tenants keep the remainder of the group loan?**

No! TIC lending is an all-or-none experience. A group loan from one lender cannot co-exist with a fractional loan from another lender.

**16. Does CircleBLoans offer Fractional loans for Commercial units?**

Yes, but we decrease the LTV and increase the rate (call for details).

**17. Where will CircleBLoans make TIC loans?**

We prefer a call to discuss your TIC project.

**18. Are TIC's legal?**

A 2004 legal ruling known as the Tom Decision said that municipalities can not dictate how people hold title to properties. Please consult with a knowledgeable TIC Attorney for any legal questions. Call for a reference.

**Notes**

---

---

---

---