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Top Reasons for Co-op Board Rejections

So you want to buy a co-op and you've done all the leg work and you're gearing up to take on the co-op board. The bad news is that co-op boards in New York City can operate with complete impunity. Unless a board violates the city's Human Rights Law (which prohibits rejections for reasons of race, sex, age, etc.), the board can reject you for whatever reason it wants. Oh, and the board has no obligation to tell you why. Here are the top reasons why potential buyers are rejected by co-op boards.

Bad Financials

First and foremost, if the board believes that you don't have enough liquid assets in reserve after closing costs, or if they think you've been dishonest about your financial situation, they will reject you. Generally, boards require buyers to show 1-2 years of "post-closing liquidity" to cover mortgage and maintenance payments. In rare cases, if a board feels there is some financial risk, it will ask a buyer to put a year's worth of maintenance fees in escrow. A general rule of thumb is for buyers to spend up to 25 percent of their earnings on mortgage and maintenance fees. Any higher and the board gets nervous.

"From experience, the most common cause for board rejections is due to buyers not being prepared or transparent," said CORE real estate agent Martin Eiden. "Let's take the latter first. Purchase applications for both co-ops and condos require full financial disclosure as well as background checks (credit, criminal and personal references). For incomplete packages, condos will sit on the application until it is complete. Co-ops will just reject the applicant and move on."

Boards also generally become suspicious if your income fluctuates wildly, or if you had a recent huge influx in cash, suggesting a parent or some other guardian angel is helping you out financially. If you need a guarantor, make sure your broker only applies to co-ops that are guarantor-friendly. In those cases, boards often require years of tax returns and verification of income and assets from your guarantor. Unfortunately, it goes without saying that bad credit and heavy debt are big red flags for co-op boards.

You Want to Use It As a Pied-à-Terre

Boards often are skeptical of buyers who plan to use their property as a pied-à-terre. If you are not planning to use this apartment as your primary residence, make sure your broker only shows you co-ops where the board is OK with this.

Erratic Employment History

Boards love stability. Red flags pop up if you've changed jobs frequently in recent years, if your income has varied wildly, or if you've moved apartments often (suggesting potential disputes with former landlords). Make sure to explain in your application the truthful reasons for any instability in your life and how it absolutely will not affect your ability to afford this apartment.

Your Lifestyle

Unfair though it may seem, lifestyle concerns are often a major point of contention. If the board believes that, as a neighbor, you will bring undue stress and annoyance into their lives (you play a loud instrument, you are frequently the target of paparazzi, you have a ton of really big dogs, you're known as a hard partying rock star...), you will be given the red light quickly.

A Bad Board Package

Don't underestimate the power of a neat, thorough and truthful board package. Ideally, you'll have a broker who has made deals with this co-op before, and understands the quirks of this particular board. It's also helpful to have your broker work closely with the selling broker to make the board application as airtight as possible. Co-op members sitting on the board have busy lives, and generally are not interested in a lot of back and forth with potential buyers. If your board package brings up a lot of questions or loose ends, you'll probably just end up rejected outright.

Poor Board Interview

Last, but certainly not least, is the No. 1 rule of thumb during the interview: Don't be too chatty. Don't offer up more information than necessary. Be polite, professional, charming – and save all your ideas for renovations or building improvements for when you're a full-fledged board member yourself.

“Prospective buyers must be prepared when they go to a board interview and dress professionally,” said Eiden. “If they have nuances in their finances or unconventional careers, they need to have answers. Also, it helps if they know about the building and neighborhood. All experienced brokers will have a do's and don'ts conversation with their buyers before a board interview.”