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Top Dozen Reasons for Co-op Board Rejections

(And How to Avoid Them)

By Carol E. Levy

Before even beginning the hunt for that perfect co-op, the prospective buyer should be familiar with all the possible ways one's application might be rejected. That familiarity will enable one to focus on the appropriate buildings as well as to make the necessary adjustments so that rejection will not occur. It is also essential that one choose a broker who not only knows the criteria and delicate nature of the co-op boards to which one might apply, but is also capable of creating a fail-safe board package that will be one's passport to a new home. Since boards never reveal the reasons for rejecting a buyer, one must rely upon an experienced broker who understands the delicate nature of purchase applications and the variety of unpublicized reasons why rejections occur. Boards never specifically state reasons for rejecting a buyer, for by doing so, it could open itself to a lawsuit for discrimination. Here are a dozen of the most common reasons why prospective buyers are rejected by co-op boards.

1. Financials

A prospective buyer needs sufficient assets following a closing. Boards focus on the amount of liquid assets one has, and many of the premier buildings require one to have two to four times the value of the purchased apartment after closing. Other building boards may insist that one have two to three years of maintenance and mortgage payments in the bank. And, again, that should be the amount after all closing costs have been paid. A knowledgeable broker will not only be aware of each building's requirements, but will also keep abreast of those changing variables, for when new boards are elected every year, they often change the criteria for new buyers.

If a buyer's income is too low, that buyer may be rejected. The rule of thumb is that co-op boards generally want a buyer to be able to devote 25 percent of one's earnings to the payment of mortgage and maintenance. If those payments for one or more properties exceed more than 25 percent of one's gross annual income, one may very well be turned down.

2. Job History

Most co-op boards will ask to view not only a prospective buyer's earnings from employment, but all of one's job history. They will want a buyer who has demonstrated job stability, rather than someone who hops from job to job. It is not uncommon for prospective buyers who had sufficient assets to be turned down by boards simply because they changed jobs every few years.

3. Bad Credit

Although a prospective buyer may have a good income and plentiful assets, if that buyer has a poor credit history, including a negative track record of paying current maintenance fees or rent, then that prospective buyer will likely be a candidate for the board's rejection. A good broker will examine a client's financial history to make sure that there are no red flags that will invite a board's rejection.

4. Pied-a-Terre

Some boards are entirely amenable to having pied-a-terres. Others make decisions on a case-by-case basis. Still others do not allow them at all. If one is looking for a pied-a-terre, make sure that the broker has a clear understanding of the rules of prospective buildings.

Even if a building will consider the sale of an apartment as a pied-a-terre, the board may reject a part-time tenant who they feel might be spending too little time in the apartment. In such cases, the board may be concerned that the apartment could potentially be used as a hotel for friends and family. I know of a couple who attempted to purchase a small one-bedroom pied-a-terre; but because the couple had three teenage children, the board worried that the apartment was too small for a family of that size, and the children might use it for parties in their parents' absence. If the couple had been represented by a knowledgeable broker, they would not have had to waste time applying to a building that would ultimately reject them.

5. Guarantor

If one requires a guarantor, then one's broker should make sure that all prospective buildings are guarantor friendly. And since so many buildings annually change rules and bylaws, one's broker must be up-to-date on those changes. Even in buildings that permit guarantors, one should qualify the guarantor, for boards will require a couple years of tax returns as well as verification of income and assets.

6. Life Style

While many co-ops accept those who have high public profiles, there are others who do not want any undo attention brought to their buildings. There are still other buildings that do not want those who will disturb the peace, quiet and security of its shareholders. They may, for example, not sell to a paparazzi prone rock star who is known for a flamboyant lifestyle and hosting large, highly publicized parties into the wee hours.

7. Home Work

Most boards will not object to tenants working in their homes, as long as their occupations do not involve a revolving door of client traffic. A writer, for example, is acceptable, but a psychotherapist will most likely be rejected.

8. Failure to Fulfill Additional Requirements

Even after receiving a comprehensive board package from a purchaser, a board may require additional documentation for clarification or a preconditioned escrow deposit, or a change in one's mortgage product, prior to even granting an interview. If the buyer is unable or unwilling to accede to the supplementary demands, then the board will likely reject that buyer.

A fairly common requirement by boards is asking for one to three years of maintenance in escrow. If a board feels that a prospective buyer does not have sufficiently strong financials, the board may decide to approve a purchase, but only if the buyer agrees to the board's demand to put maintenance into an escrow account. After a tenant has a history of meeting financial responsibilities, the escrow account will be dissolved and the funds returned. If a purchaser does not agree to the maintenance escrow, that individual will be rejected.

Another example includes a purchaser who is unable to provide additional verification of projected income, which sometimes occurs when the buyer is self-employed. It may also occur when a buyer is simply unwilling to provide the requisite documentation for every asset. In both cases, a board may reject a buyer's application.

9. Low Purchase Prices

If a shareholder attempts to sell a co-op apartment at a below market price in order to facilitate a rapidly executed deal, the board will object, as such proposed deals diminish the value of all the apartments in the building. For example, I have seen a desperate seller accept an offer on his apartment that was 20 percent below the true market value. The board, of course, rejected the buyer since a greatly reduced price per share would negatively impact the share values of all the owners.

10. Pets

As in so many of the previous cases, this one also requires that a buyer's broker perform the necessary due diligence to learn which buildings are pet friendly. Even if a building permits dogs, a broker must learn if there are limitations on the number of dogs or breeds of dogs one might own. For example, numerous buildings do not permit more than two dogs per apartment and will not permit Pit Bulls, Mastiffs and Rotweillers. Still others will not permit dogs that weigh more than 50 pounds.

11. Noise

A board may reject a buyer, if that buyer has a profession or hobby that might entail making noise that will disturb other shareholders. For example, trumpet players, drummers, opera singers or tap

dancers may all pose noise threats that will cause boards to reject their tenancy. And, if they are approved, their acceptance may be contingent upon sound-proofing their apartments, prior to taking possession.

12. A Poor Interview

A savvy broker will prepare a prospective buyer for the inevitable board interview. Not only should the buyer be on time for the interview and dress appropriately, but the buyer should not ask questions that might arouse concerns or suspicions on the part of even one board member. For example, one should never ask about subletting, or suggest that the building install a gym or a children's playroom. Rather, one should simply answer all questions succinctly and politely with a pleasant demeanor. In fact, the less said the better. Once a purchaser has been accepted by the board, has closed on the apartment and moved in, a shareholder may make as many suggestions to or ask as many questions of the board as desired. Now having become an owner, that shareholder is an exclusive co-op "club member" with the power to have a voice and a vote.

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