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REAL ESTATE

FINANCIAL INFORMATION TO PASS THE COOP BOARD

If you are interested in purchasing a cooperative, you need to know some basic information about typical coop board financial restrictions. In order to 'pre-qualify' for the purchase of an apartment in a coop, you need to understand the following: a coop board's main concern before official approval is making sure that anyone buying into the building is able to pay their share in a timely manner, without problem.

Before reading any further, it is important to understand that ALL COOP BOARDS ARE DIFFERENT. Each coop board has their own respective house rules and regulations, and their financial requirements may be more/less lenient that the examples below. However, as experienced brokers, we feel that the examples below are typical of the AVERAGE New Your City Coop board.

LIQUID ASSETS
TYPICALLY, a coop board requires AT LEAST 2 years worth of mortgage + maintenance payments in LIQUID ASSETS AFTER CLOSING. Liquid assets include cash in the bank/stocks/securities/IRAs, etc. If an asset is cash, or can be sold IMMEDIATELY for cash, then it is considered liquid. A house, apartment and other real estate assets are typically NOT liquid because they cannot be sold 'immediately'. The more cash that exists, the better!

EXAMPLE:
If the monthly maintenance on an apartment is $1,000 and the monthly mortgage payment on an apartment is $1,500, you have a $2,500/month payment ($1,000+$1,500). Over 2 years, this amounts to $60,000 ($2,500 x 24). This is the minimum amount in liquid assets needed after closing for most coop boards!

If the buyer is putting 20% down on a $500,000 apartment, then the buyer needs $100,000 for the down payment.

In this example, the buyer needs AT LEAST $160,000 prior to closing ($100,000 for the down payment and $60,000 in liquid assets). After closing, the buyer will still have that $60,000 in liquid assets.

WHY:
Regarding liquid assets, most coop boards want to make sure that you have money to cover your mortgage payments in case something goes wrong in the future, such as job loss or health problems.

% OF GROSS ANNUAL INCOME
TYPICALLY, a coop requires NO MORE THAN 28%-30% of your GROSS ANNUAL INCOME to go towards mortgage + maintenance payments.

EXAMPLE:
If the buyer makes $100,000/year salary, then total annual mortgage maintenance payments should not exceed roughly $28,000 over 12 months (year).

WHY:
Coop boards typically avoid applicants that spend MOST of their gross annual income on their monthly mortgage and maintenance. I n such cases, the tenant may end up over-expending on living expenses, and may not have enough for the maintenance or mortgage. Or if other bills or liabilities accrue (such as health care), then the tenant may start missing monthly payments.

LIABILITIES
Understand what your LIABILITIES are in terms of care payments, credit card bills, student loans, alimony payments, child support, etc. Each liability is taken into account when establishing an approximate GROSS ANNUAL INCOME.

EXAMPLE:
If a person has a GROSS ANNUAL INCOME of $100,000, but there is a credit card debt of $15,000 – the ADJUSTED GROSS ANNUAL INCOME is $85,000 ($100,000-$15,000 = $85,000).

WHY:
A cooperative board wants to know a person's true assets. If an applicant has 1 million dollars in the bank but owes 3 million to creditors then said person does not really have income of 1 million that can be counted on as an asset if said applicant needs to dip into their savings. When determining an applicant's assets all cooperative boards look at a person's assets after they have deducted any liabilities owed. Said cooperative board wants to ensure that its shareholders will be able to afford its obligations to the cooperative to avoid financial peril.

IN CONCLUSION
If you review all of the criteria above, then you should be able to determine if you have a 'good shot' at being qualified to pass a coop board.