The New York Times

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DECEMBER 12, 2008, 12:16 PM

How a Co-op Board Views Credit Lines

By JAY ROMANO

I own a co-op in Queens. Recently, I applied for a line of credit with a bank. The co-op board has informed me that once the line of credit is approved by the lender, I have to submit copies of the agreements and my tax return — along with a $250 processing fee and $45 for a credit check. In addition, before I can sign for the line of credit, the board has to give its approval. This seems very intrusive to me. Is this common among co-op rules and regulations?

"Co-ops usually reserve the right to impose restrictions on the amount borrowed by a shareholder in connection with obtaining financing," said Eric P. Gonchar, a Manhattan co-op and condominium lawyer. "These rules are usually found in the proprietary lease under a section called 'pledge of shares and lease.' "

Mr. Gonchar said that many co-ops do not allow a shareholder's total financing to exceed 80 percent of the value of the apartment. The rationale is that the co-op does not want the repayment of loans to adversely affect the shareholder's ability to pay maintenance charges.

"It is also conceivable that the shareholder's income may have changed since the original acquisition of the apartment," Mr. Gonchar said. "In order for this determination to be made, the shareholder may need to submit a financial statement along with copies of tax returns and paycheck stubs to the co-op."

Moreover, he said, most proprietary leases provide that the co-op has the right to impose a reasonable fee for reviewing documents in connection with such financing.

Finally, it is not unusual for a co-op to insist upon a credit check on the shareholder when the shareholder is seeking additional financing.

"It is wise for all shareholders to check with their board of directors or managing agent as to what is required when refinancing or seeking a line of credit before starting the process," Mr. Gonchar said.