Our bank won't give us a mortgage because of a lawsuit at the co-op building. Why?

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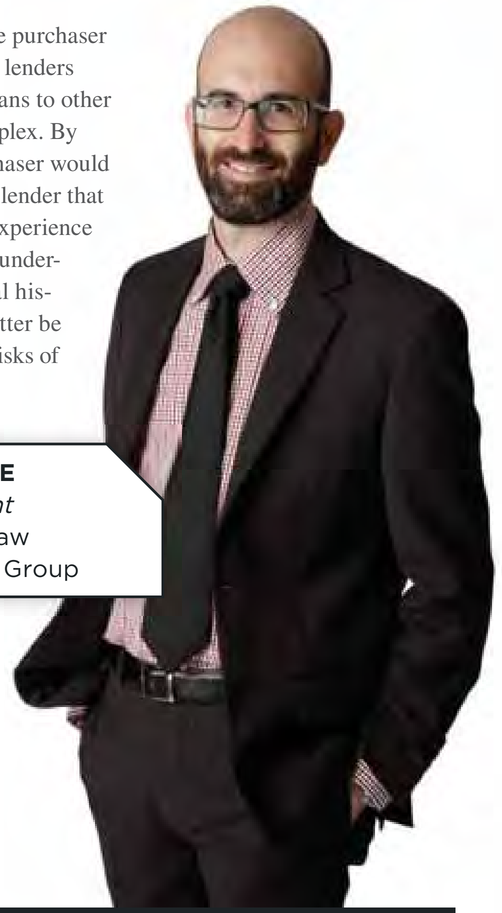
A lender may decide against granting a loan to someone who is seeking to purchase into a building if it is involved in a lawsuit that may not be covered by insurance. In such an event, the lender may consider the lawsuit detrimental to the financial well-being of the complex. It is important to know what the lawsuit is about and the potential financial outcome. If the lender is concerned that a judgment issued against the property would lead to an assessment being passed to offset financial loss, the complex could issue a letter to the lender indemnifying it from liability. However, this would not alleviate the purchaser's requirements to pay his/her portion of any such assessment.

If the lender is concerned about a potential lack of funds to cover any such judgment, the board can take preventive measures to ensure that a sufficient amount of money will be held in its reserve account. For example, the board could determine that it should maintain an amount equal to three months of maintenance or common charges.

Additionally, the purchaser can always look to lenders that have issued loans to other owners in the complex. By doing so, the purchaser would be working with a lender that has had previous experience with the complex, understands the financial history, and would better be able to assess the risks of lending.



MARK LEVINE
Vice President
Excel Bradshaw Management Group

How come a co-op doesn't increase maintenance fees each year? Costs go up, right?

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The board proudly announces to the community, "There will not be a maintenance increase for the coming year!" The members add, "There has not been an increase for several years." Shareholders and owners might ask, "Is this a good thing or a bad thing?"

Shareholders and owners should question why the maintenance has not increased. Did operating expenses decrease? Is there money going into a reserve fund? What capital expenditures are anticipated? Is the budget balanced by drawing down savings?

A fact about property management that never changes is that everything always changes. Buildings start deteriorating from the moment they are constructed. Therefore, given an aging infrastructure and increased operating expenses, how can the maintenance realistically remain the same? No one wants a maintenance increase. If one is required because of an operating deficit, it will not go away the following year.

Imagine what would happen if deficits were allowed to grow over several years as inflation increases two to three percent per year? Meeting the shortfall by drawing down on savings will eventually require a large maintenance increase to balance the budget and to reestablish a reserve fund. Are boards accountable for their financial decisions? The answer is yes, but shareholders and owners also share responsibility since they receive their accountant's annual report.

It is essential that everyone review the accountant's report carefully. In the short run, shareholders and owners may celebrate maintenance remaining the same; over time it is unsustainable.

ALVIN WASSERMAN
Director of Asset Management
Fairfield Properties