

Purchasing  
Process  
Demystified

**Buyer's Guide**



Let's begin by outlining the different forms of ownership available to real estate property buyers in Brooklyn. Those forms are Cooperative, Condominium, Cond-op, and Townhouse (single or multi-family).

**Cooperative**

In this form of home ownership, one owns shares of stock in a corporation that owns the building. These shares are considered "personal property." Typically, any mortgage interest incurred by an owner is considered tax deductible. The corporation (Coop) issues to each shareholder a "proprietary lease," giving the shareholder the right to occupy their specific apartment. Owner pays to the Coop a maintenance fee, which pays for items such as the building's Real Estate Taxes, underlying mortgage, payroll, management fees, supplies and general maintenance. In addition, many coops accrue a contingency budget for future capital repairs.

**Condominium**

In this form of home ownership, one owns "Real Property." The main difference between owning a "condo" and a (town)"house" is that the owner also owns a small percentage of the "common elements" of the building such as the halls, stairwells, basement. Each owner pays a "common charge" to the Condominium association to pay for such items as: payroll, building maintenance and supplies, management fees, and building repairs.

**Cond-Op**

Cond-op is a residential Cooperative where the ground floor is converted into a separate "Condominium" which is either owned by an outside investor, or the original sponsor of the building. In short, although the residential units are a coop, the commercial units are owned as a condominium by an entity other than the coop.

**Townhouse**

This form of ownership provides the owner with a "fee simple" ownership of Real Property. The owner is responsible for payment of all Real Estate Taxes, maintenance and repairs of the property. The sale of the property may be conveyed to any party without prior approval by anyone other than the homeowner.



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Preparation

**Pre-approval** Obtain a written pre-approval or a loan (consult your mortgage lender/broker) This step helps you determine your purchasing power, and enables you to act expeditiously when you identify the property you would like to purchase. A pre-approval also assures the seller that you are qualified, providing you with an advantage when bidding on a home.

**Deposit** The customary upon executing a contract of sale is 10% of the purchase price. Ideally, be prepared to have those funds liquid when you begin your search. The balance of the down payment will be due upon closing. For Coop purchases, your total annual housing costs should not exceed 25-30% of your gross reported income, and your total debt should not exceed 35-40% (except in the case of substantial liquid assets). Housing costs include: mortgage interest, coop maintenance, secondary residences and any other mortgage in which your name appears.

**Financial information** In certain forms of ownership, offers are not only accepted based upon price, but upon the financial strength of the potential buyer. Therefore, be prepared to have your net worth statement with substantiating documentation (bank statements, brokerage statements & other financial documentation) available. In many cases sellers require you to provide this with your offer. Regardless of the outcome this information will be required for most purchases and financial institutions so having it prepared will also save you time in the future.

**Credit worthiness** Review your credit report. If possible, remove any and all disputed claims and clear up any debt, and particularly any outstanding credit card balances.



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Finding Your New Home

**Search parameters** Define your search parameters. Consider your desired price range, location, size, type of ownership and building amenities (if applicable).

**Choose an agent** Choose an agent you feel comfortable working with. Working with one broker allows you to efficiently schedule appointments to see only those properties that meet your needs. In addition, working with more than one broker may actually prolong your search by having the same properties shown to you by multiple brokers or by having multiple brokers confuse other brokers by making appointments at different times for the same customer. Since property in Brooklyn tends to sell rather quickly, prolonging the process may in fact hinder you from seeing the property that best meets your needs. Lastly, by creating a good relationship with your broker, you assure that you are the first person they call when a new listing arrives on the market.

When scheduling appointments, try to be available during the week. By avoiding weekend and open house showings you allow yourself to view properties without fighting crowds of people (competition).

The Search Is Over: The Purchase

**The Offer** As soon as you identify the property, submit a verbal offer through your agent. Your agent will then follow it up in writing. Once your offer is verbally "accepted" by the seller, your broker will notify the seller's attorney who in turn will draw up and send to your attorney the initial contract.

Keep in mind that sellers are allowed to hear all (including any subsequent) offers while your contract is negotiated. A seller may accept another buyer's offer up to the point of a fully signed, executed and returned contract. Therefore, instruct your attorney to proceed expeditiously. Your attorney will review with you the contract, perform a "due diligence," and ask you to execute the contract and put forward a 10% deposit to be held in escrow until closing. The seller signs will then sign the contract, and your attorney will deliver one original to you and one to your mortgage broker/bank.



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The Search Is Over

**Mortgage: Obtaining the Loan** Apply for a mortgage immediately. Your agent will work with your mortgage broker/bank to coordinate the appraisal of the property and provide the bank with requested information. The loan process typically involves several steps from application to appraisal and finally approval. This process may take up to 45 days to complete.

**Board Package** While awaiting your mortgage commitment work with your broker to complete your board package (not applicable for townhouse purchases). Your broker will provide an application to be completed by you and returned to your broker within 10 days of receipt of the fully executed contract, or 3 days for the date a bank commitment letter is received, whichever applies. A typical cooperative board package requires at the minimum, the following:

- Personal and Business Reference Letters
- Employment Verification Letters and/or Pay Stubs
- Bank Verification and Brokerage Statements
- Net Worth Statement
- Two previous years' tax returns
- The mortgage loan application and commitment

All questions and requests for documentation must be complied with. Both the application form and the Net Worth Statement should be typed and the package should provide a clear and concise assessment of your qualifications to purchase.

**Interview** Upon review of your board package, the board will schedule an interview to meet with you. After the interview, the board's decision is given to you or your agent within 72 hours (although some boards reserve the right to take longer.)



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The Closing

**You're Approved!** Upon board approval, notify your attorney who in turn will coordinate the closing date. A typical closing can take up to two weeks to schedule.

**The Inspection** The day before or the morning of the closing (but usually after the seller has vacated the property), your agent will accompany you on an appointment to inspect that the property is in the same condition or promised condition as stated in the contract.

**The Closing** Be sure to bring with you your driver's license or passport, your checkbook for any last minute adjustments, and all certified checks as previously discussed with your attorney.

**Cooperatives and Condops:** The closing is ordinarily held at the office of the management company. The closing is attended by you, your attorney, the seller, the seller's attorney, the lender's attorney, a representative from the management's transfer department, and the agent(s) involved in the transaction. At the closing you will first sign documents necessary to complete the loan transaction inclusive of a Security Agreement, Promissory Note, Stock Power, and an Assignment of Lease. Thereafter, you will sign all documents to convey the apartment and secure interest in the apartment such as Stock Certificate, Proprietary Lease and Consent and Checks representing the balance of the purchase price and adjustments are exchanged for the keys to the apartment.

**Condominiums and Townhouses:** The closing is typically held at the office of the seller or lender's attorney. The closing is attended by you, your attorney, the seller, the seller's attorney, the lender's attorney, the title company closer and the real estate agent(s) involved in the transaction. At the closing you will first sign all documents necessary to complete the loan transaction inclusive of a mortgage and promissory note. Thereafter, you will sign all documents to convey the condo apartment to you including a Deed, Title Report, and Unit Power of Attorney. Checks representing the balance of the purchase price and adjustments are exchanged for the keys to the apartment or house.