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Real Estate Q&A

Expert Advice for Owners and Renters



When a Co-op Files for Bankruptcy

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Q. *The finances of our co-op building are in poor shape, and we are worried the co-op corporation may end up in bankruptcy. If this occurs, what happens to the shareholders, most of whom still have outstanding mortgages?*

A. “**Leonard H. Ritz**, a Manhattan real estate lawyer, said that the bankruptcy of a co-op corporation could have a dire impact on shareholders. “The major financial obligations of the co-op corporation, aside from the cost of operating the building, are the real estate taxes and payment of the underlying mortgage on the building,” **Mr. Ritz** said. If the co-op was unable to make those payments, the building could be sold in foreclosure. The person who bought the building would be the new owner, and the shareholders would become month-to-month tenants and lose their rights under the proprietary lease. At the same time, he said, they would still be required to pay off any share-loans on their apartments. Therefore, the co-op board should do everything in its power to pay off debts — including imposing special assessments or increasing maintenance fees — to avoid the possibility of bankruptcy.