

New York State Attorney General Eric T. Schneiderman

Dear New Yorkers,

Owners of co-op apartments are both shareholders in and tenants of the same corporation. That corporation is governed by a board of directors, elected by its shareholders. It is a unique and sometimes complicated relationship, one that can become difficult when problems arise between neighbors, or between shareholders and board members.



When trying to resolve issues, it's important to understand the role the Board of Directors plays and from where they obtain their authority. This brochure helps shareholders know more about how to handle conflicts and concerns. You can find more information about the laws governing co-ops and condominiums at our website: www.ag.ny.gov/bureau/real-estate-finance-bureau.

Remember, members of co-op boards are other shareholders who are usually serving without pay. They generally want to resolve problems and keep peace in the co-op, and will work to resolve problems.

The Office of the Attorney General works to protect the legal and civil rights of New Yorkers in many capacities. Please contact us if we can be of assistance.

Sincerely,

A handwritten signature in black ink that reads "Eric Schneiderman". The signature is fluid and cursive.

Eric T. Schneiderman



Office of the NYS Attorney General
Real Estate Finance Bureau
120 Broadway, 23rd floor
New York, N.Y. 10271
212-416-8122
www.ag.ny.gov/bureau/real-estate-finance-bureau

RESOURCES

Office of the New York State Attorney General
Real Estate Finance Bureau
120 Broadway, 23rd floor
New York, N.Y. 10271
212-416-8122

www.ag.ny.gov/bureau/real-estate-finance-bureau

National Association of
Housing Cooperatives
1444 I Street, N.W.
Suite 700
Washington, D.C. 20005
202-737 0797
www.coophousing.org

Council of NY Cooperatives
& Condominiums (CNYC)
250 West 57th Street
Suite 730
New York, NY 10107
212-496-7400
www.cnyc.com

Federation of New York
Housing Cooperatives

61-20 Grand Central
Parkway Suite C1100
Forest Hills, NY 11375718-
760-7540
www.fnyhc.org

The Federation of New
York Housing
info@fnyhc.co-op

Urban Homesteading
Assistance Board
120 Wall Street 20th Floor
New York, NY 10005
212-479-3300
www.uhab.org

New York State Bar
Association
1 Elk Street
Albany, NY 12207
www.nysba.org
518-463 3200
Direct Attorney Referrals:
800-342 3661
lr@nysba.org

New York City Bar
Association
42 West 44th Street
New York, NY 10036
www.abcny.org
212-382 6600
Direct Attorney
Referrals:
212 626 7373

BOARDS, BYLAWS AND RULES

Understanding & Dealing With a Co-op Board of Directors



ERIC T. SCHNEIDERMAN
Attorney General

The Role of a Co-op Board

Some background: co-ops are generally established by a sponsor which files an offering plan with the Attorney General's office and then sells co-op shares to the public. A co-op board of directors is elected by the co-op's shareholders, according to its bylaws. In the early phase of a co-op, the sponsor usually owns most of the shares and thus controls the board of directors. In most cases, the Attorney General requires sponsors to give up their control of the board after they sell over fifty percent of the shares, or after five years have passed since the closing, whichever comes first.

A board of directors in a cooperative has two basic, legal obligations:

- It must exercise prudent business judgment in making decisions, just like any other corporate board;
- It must follow the co-op's internal rules (as set forth in the by-laws, the proprietary lease, the certificate of incorporation and the house rules).

By-laws, Leases, House Rules

Copies of the original by-laws and proprietary lease (plus house rules, if any) can be found in the offering plan that was distributed when the building was first converted. It is possible that the offering plan is not current and might not contain an updated version of the co-op's documents, especially if it has been several years since the co-op was formed.

If you do not have a copy of these documents, the board of directors, your managing agent, or another shareholder may provide you with them. The by-laws and proprietary lease will set forth crucial terms, including:

- The timing, conduct and notice of annual shareholder meetings and elections to the board;
- How many seats the sponsor can have on the board of directors and when the sponsor must give up control;
- The ability of shareholders to call special meetings;
- The procedure for amending the by-laws;
- The quorum for voting and whether cumulative voting is allowed;
- Sublet provisions.

Legal Restrictions: Business Corporation Law

The Business Corporation Law (BCL) is the main New York State law which governs how most co-ops must operate, with court decisions providing the case law which interprets the statute. You can find this law online at <http://public.leginfo.state.ny.us>.

Some important provisions of the BCL and the sections in which they are found include:

- Annual meeting of shareholders to elect directors is held. (Section 602(b));
- "Proxy" voting by absent shareholders (Section 609);
- Appointing an election inspector on request (Section 610);
- Ability of shareholders to examine or review minutes of shareholder meetings, record of shareholders, and annual balance sheet and profit and loss statement (Section 624);
- Removal of a director for cause (that is, a good reason), or without cause, if stated in the certificate of incorporation or by-laws (Section 706);
- Ability of shareholders to sue directors and officers for misconduct (Section 720).

If the Board is Not Complying with Bylaws

There are a couple things to keep in mind when approaching the board about noncompliance with the bylaws, proprietary lease or law. First, remember that board members are usually your neighbors who may or may not be fully trained in what is required by the rules and law. A shareholder should tactfully point out a lack of compliance to the board, expressing the expectation that the matter will be corrected. Sometimes that is all that is needed to solve a problem. Second, know that the board must act as a body; individual members cannot speak or act on behalf of the whole.

Put It in Writing

If the board does not respond to an oral request, write a letter. Make it concise, factual and not hostile. Keep copies of any letter or other paperwork you send and notes of telephone conversations (date, time, who called whom, and the gist of the conversation) in case the matter is not quickly resolved.

Strength in Numbers

An attempt to influence the board is always more persuasive if it is

presented by a significant number of shareholders. If your problem is one that will affect others, it is worth organizing the other shareholders. If you do, and the attempt to change the situation is not successful, the organized group can always seek to elect new directors at the next annual meeting.

Hiring a Lawyer

In serious situations in which a board remains unresponsive, shareholders may consider retaining a private attorney. Here are some things to keep in mind:

- Look for someone with experience in handling co-op shareholders' problems. Ask others for recommendations, or you may contact a local bar association for referrals.
- Some lawyers will charge a minimal or no fee for an initial consultation.
- Most lawyers will attempt to resolve any matter through negotiation before considering litigation, since litigation is costly and usually lengthy. It can also be very unpleasant to litigate against one's neighbors.

Important note: Keep in mind that if the board is not addressing serious problems, such as a bank threatening to foreclose on an underlying mortgage or a sponsor's failing to pay maintenance on unsold shares, it is important to act swiftly. Often such problems can be resolved, if shareholders organize and act right away.

The Role of the Attorney General

The Attorney General's office regulates the offer and sale of real estate securities (which includes shares in co-ops) by the sponsor. If the sponsor of the co-op is still controlling the board of directors or is not keeping the commitments which it made in the offering plan, the Attorney General's Real Estate Finance Bureau may have jurisdiction. If you have a question or concern we may be able to help you with, please send a letter to:

Real Estate Finance Bureau
Office of the NYS Attorney General
120 Broadway (23rd Floor)
New York, New York 10271
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We have also included other resources that may be helpful on the back of this brochure.