HOUSING LOAN
SUBORDINATION POLICY
Housing Loan Subordination Policy

OBJECTIVE: To provide administrative guidance on processing requests for subordination of City/Agency loans

PURPOSE: In consideration that the City of Redwood City and Successor Agency to the former Redevelopment Agency collectively owns several million dollars in second mortgages on real property, and further that the interest rates are at an all time low and generating refinancings to approximately 75% of the City and Agency’s loan portfolio, this Subordination Policy is intended to standardize the manner in which Subordination Requests are submitted and approved by the City/Agency.

POLICY:

A. The purpose of the City/Agency’s loan shall always accomplish a public benefit purpose and in no way shall subordinate to cash out in order to pay off consumer credit debt not related to affordable housing costs.

Subordination of the City of Redwood City/Agency’s loan in favor of a new loan in the amount of the current balance of the original senior loan plus the costs of refinancing is acceptable as long as:

1. appraisals accepted by the City and or Agency indicate the loan to value ratio standards are not exceeded, and

2. the purpose of the refinance is to lessen the borrower’s monthly financial obligations for housing costs.

B. No subordination will be approved which provides:

- Cash or equity being taken from the property (unless the cash is being used to remediate code violations at the property, or other extenuating circumstances as determined by the Home Improvement Loan Committee for investor owner loans), or
Fees for refinancing costs increases the loan amount to the extent that the "cost" for refinancing do not meet the standard test to “break even” or pay off refinancing costs with savings from the reduced mortgage within 24 months after the new mortgage is recorded.

C. Exceptions

The Home Improvement Loan Committee may choose to consider exceptions to allow:

1. continuation of a deferred Home Improvement Loan for clients who no longer meet the then current income eligibility, or

2. where some risk is determined to exist to City/Agency based on past and current credit history, or the terms of the new financing.

GENERAL OPERATING GUIDELINES:

Purpose of Refinance – The following guidelines shall apply:

A. The indebtedness after the refinance must reduce the homeowner’s housing costs and loan fees for refinancing should “break even” from monthly savings in approximately 24 months after the new mortgage is recorded.

B. In the case of rental properties, the refinance must reduce the operating expenses of the investor owner and facilitate the continuance of affordable rents for households residing in the subject property for the remaining term of the City's loan. The standard for establishing the maximum affordable rent shall be defined as the lower of the following:

   - 25% below "street" or market rent for the property as determined by a survey by three reputable independent real estate agents using the average of the three market rent amounts (adjusted for utilities), or
   - 20% below the most recent Section 8 Fair Housing Market Rent issued for San Mateo County Housing Authority (adjusted for utilities).

C. The applicant must meet the Community Development Block Grant program’s current income eligibility and occupancy requirements, or the Program standards for the program in which the applicant was originally assisted.
D. All recorded indebtedness cannot exceed 80% of the appraised value of the home.

E. The City of Redwood City/Agency's loan must be recorded in second position unless the Home Improvement Loan Committee grants an exception.

F. City staff will review the proposed promissory note, deed, appraisal, estimated buyer’s settlement charges and title report to verify compliance with these criteria prior to execution of a subordination document by City/Agency.

CITY/AGENCY APPROVAL AUTHORITY FOR HANDLING SUBORDINATION REQUESTS:

When City or Redevelopment Agency Loan clients request the City or Agency to subordinate to their new mortgage with a private lender, there shall be two levels of consideration:

- The First level is a review and approval by the CDBG/HOME Administrator, or her Designee, when the proposed subordination will have no impact on the City's loan as stated in Section A of Policy section above.

- The Second level is a review and determination by the City’s Loan Committee when the proposed subordination may increase the City's/Agency's risk as stated in Section B of Policy section above.

- The City/Agency shall be provided with a minimum of 15 working days from the date of City/Agency receipt of Borrower's request to approve and execute a Subordination Agreement (cover letter, Subordination Request Form, Buyer’s Estimated Settlement Charges and original Subordination Form).

HOW TO SUBMIT A REQUEST FOR SUBORDINATION:

Every Request for Subordination shall be submitted by the City/Agency’s Borrower only, and may not be submitted by a realtor, mortgage broker, lender, Title or Escrow Officer nor anyone else on behalf of the Borrower except for the individual(s) who signed the previous loan with the City or Redevelopment Agency and is party to the transaction for which the Subordination request is being made, or has Power of Attorney granted by the Court to act in behalf of the Borrower.

Every request shall be standard and must include the following three items prior to City/Agency executing a Subordination Agreement.
A cover letter with a written request from borrower indicating reason for refinancing and the structure of the refinancing transaction,

A check for $100.00 payable to the City of Redwood City, and

A form provided by City/Agency containing the following information:

- Current mortgage balance(s)
- Current appraised value of the property
- Amount of new loan and terms
- Monthly Payment and estimated reduction in housing costs (or operating expenses if request is from Investor Owner)
- Balance of City/Agency Loan
- Estimated Loan to Value after refinancing
- Estimated settlement fees for new loan (provided by the Title Company prior to loan closing)

HOW SUBORDINATION APPROVALS ARE MADE:

Upon City’s receipt of the above listed information, the City will notify Borrower in writing that a Subordination Request will be approved administratively by City staff, or that Loan Committee approval is required and that a meeting for this purpose has been scheduled for a specified day.

All subordination requests shall be mailed to the City containing original signatures of the Borrowers at the address listed below:

City of Redwood City
Attention: CDBG/HOME Administrator
1017 Middlefield Road
Redwood City, CA 94064

Questions regarding subordination requests should be directed to Housing staff at 650-780-7229.

Borrower is informed at that time that Title Company or Lender for first mortgage must provide subordination document for City to sign. City will not prepare this for the first lender.

Approved Home Improvement Loan Committee 4/12/01
Modified March 1, 2012.
**CITY OF REDWOOD CITY/REDEVELOPMENT AGENCY**  
**REQUEST FOR SUBORDINATION FORM**

1. **Borrower(s) Name:** ________________________________
2. **Property Address:** ________________________________
3. **Day Time Phone #:** ____________
4. **Lending Program (check one)**  
   - Home Improvement Loan Program  
   - Wyndham Place First Time Homebuyer  
   - Redevelopment Agency Silent Loan  
   - Program for First Time Homebuyer
5. **Value of Property at time City/Agency loan was taken:** $__________________________
6. **Current estimated value of property at time of refinancing:** $__________________________

| A1. Name of current First Mortgage holder: | A4. My current loan is for ____________ years at _________ % interest rate. |
| B1. Name of current Second Mortgage holder: | B4. My second loan is for ____________ years at _________ % interest rate. |
| C1. How much did I borrow? | C3. My current loan is for ____________ years at _________ % interest rate. |
| C2. How much do I owe now as of 201___? $_________ | C4. My monthly payment is $_________ each month. |

**My Loan with the City/Redevelopment Agency**

<table>
<thead>
<tr>
<th>C1. How much did I borrow?</th>
</tr>
</thead>
<tbody>
<tr>
<td>$_________</td>
</tr>
</tbody>
</table>

| C2. How much do I owe now as of 201___? $_________ |

| D. Total Existing Mortgages: $__________________________ |
| E1. Name of New First Mortgage: | E3. My new loan will have a term of _______ years at ______% interest and is (check one)  
| | | Fixed or Adjusted  
| E2. How much am I borrowing in my new loan? | E4. My new monthly payment will be  
| | | $______________ each month.  
| E5. Total savings on Housing Cost is  
| | | $____________________ per month$^{1}  

F1. Note to Borrower: Indicate if cash there is cash out.  
| Yes or No  

If cash out is requested, cover letter much address proposed use of funds.

We the undersigned, declare the information shown is true and correct under penalty of perjury, dated this ______ day of ____________________, ________.

_____________________________ ______________________________

To be Completed by City

Loan to Value Before Refinance % _____________ Loan to Value After Refinance % _____________

$^{1} A3 + B6 - E4 = E5
INSTRUCTIONS FOR COMPLETING REQUEST FOR SUBORDINATION

1. Show name(s) of borrower(s) as recorded on City/Agency Loan.
2. Identify property address for which City/Agency loan was made.
3. Provide daytime phone numbers of where you can be contacted.
4. Identify which lending program provided assistance to you. Options are Home Improvement Loan Program, Wyndham Place First Time Homebuyer, or Redevelopment Agency Silent Loan Program for first time homebuyers.
5. Value of property when City/Agency loan was taken.
6. Current estimated value of property at time of refinancing.
A1. Provide name of first mortgage holder – list recorded loans only.
A2. Original loan amount.
A4. Number of year term for current loan and % interest rate.
A5. Your current monthly payment.
B1-B5. Complete the same instructions for A1-A6 but only if you have a second mortgage with another lender.
D. Total the amount of your first and second plus your loan with the City/Agency to determine the total of all records recorded against your property.
E1. List name of new first mortgage lender.
E2. Show the total “new” loan amount you will have after refinancing.
E3. Show terms of new loans - # of years and interest rate and check whether new loan has a Fixed or adjustable interest rate.
E4. Show the amount of your new monthly payment after refinancing.
This form shall provide the disposition of Requests for Subordination for each Borrower.

Dear Borrower:

_____ (1) The City/Agency will approve your Request for Subordination based on the fact that you are not taking cash out of the property. Provide a copy of this Form to your Lender as evidence of our intent to Subordinate. Title Company must provide City/Agency with a copy of the Buyers Estimated Settlement fees and an original Subordination document for our execution. The City/Agency will not prepare this form for you.

_____ (2) The City/Agency will forward your Request for Subordination to the Home Improvement Loan Committee based on the fact that your request involves taking cash out of the property. We have scheduled this matter for Committee review on ________________________________.

_____ (3) The Home Improvement Loan Committee reviewed your Request for Subordination and voted to approve your request. Provide a copy of this Form to your Lender as evidence of our intent to Subordinate. Title Company must provide City/Agency with a copy of the Buyer’s Estimated Settlement fees and an original Subordination document for our execution. The City/Agency will not prepare this form for you.

_____ (4) The Home Improvement Loan Committee reviewed your Request for Subordination and voted to deny your request because your proposal is inconsistent with program policy. We regret we are unable to assist you. If you choose to subordinate without taking cash out, please submit a new request.

________________________________________________________________________  _______________________________________________________________________________
Signature                                                                            Date