

- Purpose** The purpose of this policy is to provide guidance to staff in reviewing requests for subordinations and to maximize the likelihood that borrowers assisted by the City of Raleigh will successfully sustain homeownership. The City of Raleigh’s Loan Servicing materials can be found on our website here:  
<https://raleighnc.gov/housing/services/loan-servicing>
- Scope** This policy applies to all subordination requests where:
- The refinance mortgage amount exceeds the current balance of the original mortgage amount by more than \$5,000;
  - The refinanced mortgage interest rate exceeds the interest rate on the Note related to the original mortgage;
  - The refinance type is “cash out”; and/or
  - The request includes a change in the City’s lien position.
- Definitions**
- “Refinance mortgage” means the mortgage, deed of trust, or other instrument creating a security interest in real estate given to secure a refinancing.
- “Refinancing” means the replacement of a loan secured by a prior mortgage with a new loan secured by a mortgage, deed of trust or other instrument and the payment in full of the debt owed under the original loan secured by the prior mortgage.
- “Subordinate mortgage” means a mortgage or deed of trust encumbering or conveying an interest in real estate containing not more than one dwelling unit that is subordinate in priority to a mortgage, deed of trust or other security interest in real estate
- “Subordination Agreement” is a legal document that reduces the priority of one lien on a piece of property relative to another.
- Background** This policy has been established because the HOME regulations at 24 CFR 92.254(f) require participating jurisdictions operating HOME-assisted homebuyer programs to develop and implement homebuyer program policies and procedures, including standards for underwriting HOME-assisted homebuyers, responsible lending standards, and standards for refinancing and subordination of HOME liens. To ensure consistency, this policy applies to borrowers who received homebuyer assistance or rehabilitation loans from the City of Raleigh.
- Policy**
- A. The City will not permit re-subordination of the City of Raleigh lien under the following circumstances:
1. Cash-out refinance loans for debt consolidation.
  2. Refinance loans for obtaining a reverse mortgage or HELOC (see potential exception below).
  3. Loans that change the City’s lien position, such as equity lines of credit.
  4. Refinance loans that the City’s borrower is not a party to.
  5. Refinance loans to a person who does not have an ownership interest in the house.

- B. The City may permit refinancing of the homeowner's primary mortgage and re-subordination of the City of Raleigh lien under the following circumstances:
  - 1. Refinance loans to change rate or term. Rate must be less than the original rate and must be fixed. The overall financial impact of the proposed refinance must be financially beneficial to the borrower.
  - 2. Cash-out refinance loans for home improvement (to correct code violations, or other extenuating circumstances, as determined by staff) or economic/medical emergencies.
- C. Refinancing and subordination requests will only be considered once every five (5) years.
- D. The City Raleigh reserves the right to deny requests at its sole discretion.

**General Guidelines**

- 1. Combined loans-to-value shall not exceed 99% of the current appraised value.
- 2. The borrower's loan with the City is current and in good standing.
- 3. Responsible lending standards shall apply to the new loan.
- 4. Ratios should not exceed 32% / 45% to ensure affordability.

**Procedure**

- 1. Lender shall submit the following forms for City staff review:
  - a. Completed Request for Subordination (City form)
  - b. Completed Fannie Mae Form 1003
  - c. Copy of appraisal
  - d. Hardship letter and backup documentation, if refinance involves "cash out" for economic/medical emergencies. Examples include, but are not limited to, paystubs, medical bills, etc.
  - e. Contractor's estimate for home improvements, if refinance involves "cash out" to correct code violations.
- 2. Housing and Community Development (HCD) staff review the request and submit a recommendation to Director, or designee.
- 3. Director, or designee, reviews staff recommendation and completes the preliminary approval or denial. Final approval is determined by the City Manager or designee.
- 4. HCD staff notifies lender of preliminary decision.
- 5. Lender or closing attorney forwards Subordination Agreement to HCD staff.
- 6. HCD staff coordinate with City Attorney's Office or outside counsel to review Subordination Agreement for accuracy. The Subordination Agreement must be approved by the City Attorney's Office or City's outside counsel before it is routed to the City Manager.
- 7. City Manager, or designee, provides final approval or denial of the request. If approved, the City Manager, or designee, signs the Subordination Agreement and signature is notarized.
- 8. HCD staff sends the executed Subordination Agreement to either lender or closing attorney for recording.
- 9. Please allow 10 business days, following the receipt of all required documents, for requests to receive preliminary approval or denial. Please allow an additional 15 business days, from the time HCD staff receive the Subordination Agreement approved by City's counsel, for document execution.

**Exception Requests**

1. If the subordination request is denied at the initial review based on the parameters of this policy, the borrower may submit an exception request.
2. The borrower will send a written exception request to [loanservicing@raleighnc.gov](mailto:loanservicing@raleighnc.gov) outlining the reasons their case should be exempt from the stated policy.
3. The request will be reviewed, and the borrower will receive a written response within 15 business days.