

SUBJECT: REFINANCING AND SUBORDINATION POLICY AND PROCEDURES

Policy No.: 1
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Effective: July 1, 2023- June 30, 2024

- Purpose** The purpose of this policy is to provide guidance to staff in reviewing requests for subordinations and to maximize the likelihood that homebuyers assisted with HOME funds will successfully sustain homeownership.
- Scope** This policy applies to all requests where the refinance mortgage amount exceeds the current balance of the original mortgage amount by more than \$5,000, where the refinanced mortgage interest rate exceeds the interest rate on the Note related to the original mortgage, where the refinance type is “cash out” and/or where 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.
- Policy**
- A. The City will not permit re-subordination of the HOME lien under the following circumstances:
1. Cash-out refinance loans for debt consolidation.
 2. Refinance loans for obtaining a reverse mortgage.
 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 HOME 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.
 2. Cash-out refinance loans for home improvement (to correct code violations, or other extenuating circumstances, as determined by staff) or economic/medical emergencies.

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**General
Guidelines**

1. Combined loans-to-value shall not exceed 95% 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 (a City form)
 - b. Completed Fannie Mae Form 1003
 - c. Copy of appraisal
 - d. Copies of disclosures
 - e. Hardship letter and backup documentation, if refinance involves "cash out" for economic/medical emergencies.
 - f. Contractor's estimate for home improvements, if refinance involves "cash out" to correct code violations.
2. Loan Supervisor reviews the request and submits a recommendation to the Director.
3. Director reviews and either approves or denies the request.
4. Loan Supervisor notifies lender of decision.
5. Lender or closing attorney forwards Subordination Agreement to Loan Supervisor who reviews for accuracy.
6. Director signs the Subordination Agreement and signature is notarized.
7. Loan Supervisor sends the executed Subordination Agreement to either lender or closing attorney for recording.