

## **CITY OF MADISON COMMUNITY DEVELOPMENT OFFICE HOMEOWNER LOAN SUBORDINATION POLICY**

### **Mission:**

This loan subordination policy is designed to remain consistent with the CD Office's Affordable Housing mission.

### **Guidelines:**

The City of Madison CD Office will consider a loan subordination request from an individual borrower who has a loan with the CD Office where the subordination results in one of the following:

1. Simple refinancing such as interest rate reduction and/or there is a mortgage loan product change (when a balloon or ARM matures and the client switches to a fixed product).
2. Cash out refinancing where the homeowner seeks to use a portion of their appreciated home equity for other purposes.

### **The following are a list of subordination requirements:**

#### **Simple Refinancing:**

1. A non-refundable fee of \$150.00 will be submitted with the subordination request (a check made payable to the City of Madison).
2. The new first mortgage loan cannot exceed the current mortgage loan balance secured ahead of the CD Office loan (excluding reasonable lenders fees).
3. Lender fees may be rolled into the new loan.
4. The CD Office loan shall be in no less than second position.
5. The following documents are required at the time of the request:
  - a. Letter from the borrower (this letter must be signed by the borrower) requesting the subordination and explaining why they want to refinance. This letter should state that the borrower understands all loan terms including all loan amounts, interest rates/terms, and the new loan product.
  - b. The lender will submit a mortgage commitment, specifically detailing the terms and conditions of the new loan, total loan amount, interest rate, and loan product. They will also state in the cover letter that they understand the City of Madison mortgage will remain in no less than second position and that an escrow for taxes and insurance must be included in the loan. If there is a land use restriction on the property the letter from the lender must also state that they understand that the land use restriction will remain in place until the period of affordability is completed.
  - c. A copy of the title commitment, HUD1 – US Dept. of Housing and Urban Development Draft Settlement Statement, and appraisal must accompany the letter requesting the subordination.
  - d. The CD Office will require a minimum of 10 working days to review the documents and make a determination.
  - e. The CD Office will agree to subordination for a simple refinance no more than once in any 12-month period.

### **Cash Out Refinancing:**

1. A non-refundable fee of \$250.00 will be submitted with the subordination request (a check made payable to the City of Madison).
2. Lender fees may be rolled into the new loan.
3. The loan to value ratio of the original CD Office loan, as specified in the terms of the original Promissory note from the borrower to the City, shall remain constant in any refinance situation requiring subordination from the CD Office.
4. The new total loan-to-value ratio for the home cannot exceed 95%, including loans from all sources.
5. The new loan must have a fixed term and a fixed interest rate.
6. Debt to income ratios cannot exceed acceptable standards. Acceptable standard debt-to-income ratios are 30% for debt related to the home purchase (PITI) and 36% for all debt. Expanded ratios of 33% and 40% may be allowed with strong compensating factors such as good savings history, history of comparable rent expense, excellent credit history, etc.
7. The CD Office loan shall be in no less than second position.
8. The following documents are required at the time of the request:
  - a. Letter from the borrower (this letter must be signed by the borrower) requesting the subordination and explaining why they want to refinance and include a description explaining the cash out amount needed. This letter should state that the borrower understands all loan terms including all loan amounts, interest rates/terms, and the new loan product.
  - b. The lender will submit a mortgage commitment specifically detailing the terms and conditions of the new loan, total loan amount, interest rate, and loan product. The information should include information on the current debt ratios of the borrower. They will also state in the cover letter that they understand the City of Madison mortgage must be in no less than second position and that an escrow for taxes and insurance must be included as part of the terms of their loan. If there is a land use restriction on the property the letter from the lender must state that they understand the restriction will remain in place until the period of affordability has been completed.
  - c. A copy of the title commitment, HUD1 – US Dept. of Housing and Urban Development Draft Settlement Statement, and a current appraisal must accompany the letter requesting the subordination.
  - d. The CD Office will require a minimum of 15 working days to review the documents and make a determination.
  - e. The CD Office will agree to a subordination for a cash-out no more than once in any 24-month period.

NOTE: Changes to this policy will be subject to review and approval by the CDBG Commission.