



DOWN PAYMENT ASSISTANCE PROGRAM SUBORDINATION POLICY

September 10, 2012

City Loan

The City will not refinance the City's Loan. The Loan is a one-time assistance product for the purchase of the property.

Subordination

1. All requests for the subordination of the City's loan must be made in writing. The request for subordination must clearly state the reason for the request. The City will only consider requests for subordination for the following reasons:
 - a. To obtain a lower interest rate.
 - b. To refinance from an adjustable-rate mortgage to a fixed-rate mortgage.
 - c. To refinance from a short-term mortgage (less than 30 years) to a 30-year mortgage.
 - d. To repair damage to the home resulting from fire or natural catastrophe in excess of insurance proceeds (provided that the minimum insurance coverage required by the City was in effect).
2. The City **will not** consider requests for subordination for the following reasons:
 - a. To receive cash out.
 - b. To pay-off revolving, automotive, or other consumer debt.
 - c. To pay off loans junior to the City's loan or other debt secured by the property. (The City may make exceptions for CalHFA downpayment/ closing cost assistance loans junior to the City's loan.)
 - d. To pay property taxes, utilities, or assessments.
3. The City will only subordinate under the following conditions:
 - a. Proceeds of the new loan will be used only to refinance a loan that is in senior position and to pay customary and reasonable fees associated with the refinancing transaction. (At the City's discretion, the new loan may also be used to pay off a junior loan, provided it was made by CalHFA for the purposes of downpayment/closing cost assistance.)
 - b. The borrower does not take cash out.
 - c. The new senior loan term does not exceed 30 years.
 - d. The new loan may not be greater than the lesser of:

- (1) 90 percent of the current appraised value;
 - (2) The amount of the original senior Deed of Trust.
- e. The subordination position is either better than or is equal to the City's prior subordination position. No subordination may be approved that worsens the City's position.
 - f. The subordination is subject to the condition that, in the event of a foreclosure or a deed-in-lieu-of-foreclosure, the resulting deed or trustee's deed will be made subject to the City's affordability covenant recorded against the property.
4. The City will only subordinate to a new first Deed of Trust in favor of an institutional lender. (Personal loans are not allowed.)
 5. The City will consider requests to subordinate, but is under no obligation to subordinate and reserves the right to deny any request. The consideration of a request for loan subordination is subject to the terms and conditions of the individual loan made by the City. The terms of an individual loan will prevail if they are more restrictive than those of the City's general subordination policy in effect at the time of the request for subordination.
 6. The borrower is solely responsible for all costs and fees associated with any required documentation relating to the proposed agreement. The City will be reimbursed its actual costs and attorney's fees incurred in drafting or reviewing any required documents.
 7. The City may ask that fees, points, and/or commissions be limited. Reasonable third-party fees (for example, title and recording) will generally be allowed. These costs may be financed as long as the new loan complies with the City's limits on new loan amount.

Approval

Any proposed subordination agreement is not valid until approved by the City Manager or his/her designee, following the recommendation of the Community Development Director and in a format approved by the City Attorney.

Junior Loans

Mortgage loans or equity lines of credit junior in priority to the Deed of Trust are not permitted, unless expressly approved by the City in writing.