



POST-PURCHASE LOAN POLICIES AND SUBORDINATION GUIDELINES

GENERAL SUBORDINATION GUIDELINES

The City of Alexandria will consider a loan subordination request from an individual borrower who has a loan with the City when 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 an Adjustable-rate Mortgage matures and the client switches to a fixed product).
2. **Cash out refinancing** in which the homeowner seeks to use a portion of their appreciated home equity for documented home improvement or other eligible purposes.

Assisted borrowers should consider the goals and intent of City assistance when requesting a loan subordination. If it is within the borrower's ability to repay the assistance so that funds may be used to assist other low and moderate-income, first-time homebuyers, then borrowers are strongly encouraged to do so. Additional guidelines include:

- The subject property must be owner-occupied at all times.
- Lender fees, such as closing costs, may be rolled into the new loan.
- Refinancing costs and points do not exceed 5 percent of the loan balance.
- Combined loan-to-value (CLTV) of all mortgages may not exceed 90 percent.
- Reverse mortgages will be considered on a case-by-case basis.
- **Ineligible New First Lien Loans types include** Limited documentation, A-minus or subprime, Interest-only or Potential Negative Amortization loans, Balloon payment provisions, and privately held mortgages

PROCESSING TIME / FEE

- All requests are processed in the order in which the complete subordination package is received. If the subordination packet is complete and meets the guidelines outlined above, it will be processed within approximately three weeks from the date the subordination packet is received.
- A processing fee of \$125 for each subordination request will be charged to the borrower. The fee is to be paid by the borrower when the request for subordination is made.
- **Send Subordination Request Packet to:**

City of Alexandria - Office of Housing
Attention: Gypsy Roberts
421 King Street, Suite 215
Alexandria, Virginia 22314
gypsy.roberts@alexandriava.gov

AUTOMATIC REFINANCING SUBORDINATION REQUIREMENTS

- An automatic refinancing subordination **DOES NOT apply** to a City loan if:
 - The document was recorded on or after July 1, 2003.
 - The document states on the first page thereof in bold or capitalized letters: "THIS (DEED OF TRUST, MORTGAGE OR OTHER SECURITY INTEREST) SHALL NOT, WITHOUT THE CONSENT OF THE SECURED PARTY HEREUNDER, BE SUBORDINATED UPON THE REFINANCING OF ANY PRIOR MORTGAGE."
- An automatic refinancing subordination **DOES apply** to a City loan if:
 - The real property contains no more than one dwelling unit.
 - The existing subordinate deed of trust does not exceed \$150,000.
 - The refinance mortgage states on the first page thereof in bold or capitalized letters: "THIS IS A REFINANCE OF A (DEED OF TRUST, MORTGAGE OR OTHER SECURITY INTEREST) RECORDED IN THE CLERK'S OFFICE, CIRCUIT COURT OF (NAME OF COUNTY OR CITY), VIRGINIA, IN DEED BOOK ____ , PAGE ____ , IN THE ORIGINAL PRINCIPAL AMOUNT OF _____ , AND WITH THE OUTSTANDING PRINCIPAL BALANCE WHICH IS _____."
 - The principal amount secured by such refinance mortgage does not exceed the outstanding principal balance secured by the prior mortgage plus \$5,000.
 - The interest rate is stated in the refinance mortgage at the time it is recorded and does not exceed the interest rate set forth in the prior mortgage.

DOCUMENTATION CHECKLIST

No documentation is required to be submitted to the City of Alexandria. The governing language is found in Code of Virginia Title 55, Section 55-58.3, "Priority of residential finance mortgage over subordinate mortgage".

SIMPLE REFINANCING SUBORDINATION REQUIREMENTS

A simple refinancing is one in which the new loan amount does not exceed the current mortgage balance secured ahead of the City loan (excluding reasonable lender fees). Additional criteria include:

- Maximum term of 30 years
- The new loan instrument should be more favorable than the current loan instrument (for example, replacing an ARM with a fixed-rate loan or replacing a shorter-term ARM with a longer-term ARM).
- Debt to income (DTI) ratios cannot exceed acceptable standards. Acceptable standard DTI ratios are 32 percent for debt related to the principal, interest, taxes, and insurance (PITI) and 41 percent for all debt. Expanded ratios of up to 34 percent and 43 percent may be allowed with strong compensating factors such as excellent credit history, savings, employment history, etc.

CASH-OUT REFINANCING SUBORDINATION REQUIREMENTS

"Cash-out" requests are defined as any requests in which a homeowner will receive cash proceeds from a loan transaction. Additional criteria include:

- The proposed interest rate does not exceed the existing interest rate on the first mortgage.
- Maximum term of 30 years.
- The new first mortgage is a permanently fixed-rate mortgage (FRM) with no balloon payments and no pre-payment penalty.
- Adjustable-Rate Mortgages (ARMs) will be considered only on a case-by-case basis in limited circumstances.
- The new loan instrument should be more favorable than the current loan instrument (for example, replacing an ARM with a FRM loan).
- DTI cannot exceed acceptable standards. Acceptable standard DTI ratios are 32 percent for debt related to the principal, interest, taxes, and insurance (PITI) and 41 percent for all debt.
- Cash-out subordination requests will only be considered if the purpose is for home repairs or improvements, to reduce the unpaid balance of a second lien, and medical emergencies. Inclusion of consumer debt to the new first mortgage is not allowed. Note: If the second lien is an open-ended loan, the line amount must also be reduced to the new balance after the reduction (i.e., a HELOC).
- The City will not subordinate its loan more than twice over the course of the loan, or more than once in any one-year period.
- Any "cash out" proceeds must be disbursed directly through the CD. The City will not allow "cash out" disbursements directly to the borrower.
- For Homeownership Assistance Program Loans (HAP): Income cannot exceed current Homeownership Assistance Program Income Limits.
- For Moderate Income Homeownership Program Loans (MIHP): Income cannot exceed current Moderate Income Homeownership Program Income Limits

SUBORDINATION DOCUMENTATION CHECKLIST

The following information must be submitted for consideration of a request for a loan subordination. All information must be organized and complete. Missing information will delay the processing of the request.

FROM THE LENDER:

- Uniform Residential Loan Application (1003)
- Uniform Underwriting and Transmittal Summary (1008)
- Loan Estimate
- Credit Disclosure (ARM disclosures must include both annual and lifetime interest rate caps, loan index and margin, etc.)
- Mortgage Credit Report(s) (joint if married or has a co borrower)
- Title Report
- Uniform Residential Appraisal Report (1004)
- Income verification (pay stubs, W-2's, retirement/pension or social security award letters)
- Asset verification (2 months, all pages)
- Rate Lock Agreement (if applicable)
- Proposed settlement date and contact information for settlement company
- Closing Disclosure (CD) to be reviewed prior to closing

FROM THE BORROWER:

- Subordination Request letter from borrower requesting existing city loan be subordinated.
- **For Cash-out Refinancing Requests Only** - Letter of explanation from borrower addressing purpose of proceeds from cash out refinance and supporting documentation (contractor estimates, medical bills, etc.).

REQUESTS FOR SHORT SALE APPROVAL – REQUIREMENTS

Requests for City approval of short sales must be submitted concurrently to the City and the first trust lender. Required documentation includes:

- Borrower's Financial Statement
- Hardship Letter
- 2 consecutive and current paystubs for each household member
- Verification of any other income
- Checking and savings account statements for the last two months
- Tax returns for the last two years

ADDITIONAL INFORMATION

- The real estate agent representing the borrower is responsible for providing timely informational updates to the City on the status of the first trust lender approval, including documentation of the lender's approval reflecting the agreed upon resale price.
- The City will consider the request to allow a short sale and if approved, will issue a Release of Lien and Allonge to Promissory Note outlining the repayment terms of any loan funds not repaid at resale. Any proceeds from the sale of the City-assisted property must be paid to the City at settlement and the Closing Disclosure (CD) settlement statement must be provided no less than 24 hours before the scheduled settlement.
- Any unpaid balance of the City's loan must be repaid on a monthly basis by the borrower over a period not to exceed 10 years. The terms of the loan remain unchanged except in the case of default as outlined in the required "allonge to promissory note."
- In certain circumstances, the City may consider a reduction in the principal of its loan. Such a reduction will only be approved when the borrower can demonstrate a financial hardship that would make full repayment of the City's loan a hardship beyond the means of the borrower. The acceptable repayment amount will be considered in context of the borrower's current income, housing costs and other debt obligations.

POLICIES AND PROCEDURES IN THE EVENT OF FORECLOSURE

Upon notification of a default as defined in the City's deed of trust, including notification of a scheduled foreclosure, staff will attempt to contact the Borrower in writing and by telephone. Staff will try to determine the reasons for the foreclosure action, the borrower's goals and expectations with regard to their housing, the potential negative impact of proceeding with the foreclosure, and will offer foreclosure prevention counseling services.

- If the Borrower states that he/she has no interest or intention to retain the property and does not plan to reinstate their first trust loan, he/she will be encouraged to establish a loan repayment plan with the City that is within his/her financial means to repay.
- Should staff be unsuccessful in forestalling the sale of the property at auction and no efforts are made by the borrower to repay City loan assistance, upon foreclosure, the City will pursue available legal remedies to seek repayment of City loan funds, including judgment and collection actions.