

Lien Subordination Policy

Effective Date:

January 23, 2013

Applicable Programs:

HOME, CDBG, AHP, NSP

Approved by:

Community Development Commission

Background

In many cases, property owners will seek to refinance other loans for their property outside of the Lake County Community Development funds. In those cases, the County must execute a subordination of its lien in order to allow the refinancing to occur. The Community Development Commission has adopted a policy for situations in which that subordination is permissible.

Policy

There are three programs for which this policy shall apply: Homeowner Rehab, Homeownership, and Rental Housing.

Homeowner Rehab Program

Subordination of County liens under the Housing Rehabilitation Program will be permitted in cases involving refinancing of a homeowner's first mortgage only when the following conditions are met:

- The borrower takes out no cash.
- The refinancing is for a lower interest rate than the existing first mortgage.
- The borrower's new monthly mortgage payment (including principal and interest) will be less than the current monthly payment. At staff's discretion, exceptions may be considered for homeowners refinancing out of an adjustable rate mortgage or into a lower term mortgage.
- The borrower's new loan amount will be less than the current loan amount.
- The new mortgage must be for a fixed interest loan. The County will not subordinate to an adjustable rate mortgage (ARM).

Homeownership Programs

Subordination of County liens under the Home Investment Partnerships (HOME), Community Development Block Grant (CDBG), Lake County Affordable Housing Program (LCAHP), and Neighborhood Stabilization Program (NSP) Homeownership Programs will be permitted in cases involving refinancing of a homeowner's first mortgage only when the following conditions are met:

- The borrower takes out no cash.
- The refinancing is for a lower interest rate than the existing first mortgage.

- The borrower's new monthly mortgage payment (including principal and interest) will be less than the current monthly payment. At staff's discretion, exceptions may be considered for homeowners refinancing out of an adjustable rate mortgage or into a lower term mortgage.
- The borrower's new loan amount will be less than the current loan amount.
- The new mortgage must be for a fixed interest loan. The County will not subordinate to an adjustable rate mortgage (ARM).

Rental Housing Programs

Subordination of County liens under Rental Housing Programs will be permitted in cases involving refinancing of a borrower's first mortgage only when the following conditions are met:

- The borrower takes out no cash.
- The refinancing is for a lower interest rate than the existing first mortgage.
- The borrower's new monthly mortgage payment (including principal and interest) will be less than the current monthly payment. At staff's discretion, exceptions may be considered for homeowners refinancing out of an adjustable rate mortgage or into a lower term mortgage.
- The borrower's new loan amount will be less than the current loan amount.
- The new mortgage must be for a fixed interest loan. The County will not subordinate to an adjustable rate mortgage (ARM).
- Proper background documentation is submitted to the County (see list below).

Documents Required for Subordination of Lien on Refinancing

(NOTE: These documents must be submitted at least two weeks before scheduled closing in order to allow sufficient time for review and processing.)

1. Letter of request from party requesting subordination
2. Payoff letter from current 1st mortgagee
3. Mortgage loan commitment from new lender
4. Good Faith Estimate
5. Appraisal report
6. Statement showing existing monthly payment and interest rate
7. Name and address of title company handling the closing on the refinancing

Exceptions for Streamlined Refinancing

In cases of streamlined refinancing by a superior lender, submission of the Appraisal is not required.