



Agenda Item Summary

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Submitted By

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Reviewed By

LKS

Agenda Item Title

A Resolution Authorizing Subordination of a Lien for the Property Located at 522 S. Lyman Avenue (FHAP-022)

Overview

The loan recipient is requesting a subordination of a First Time Homebuyer Assistance Program Downpayment/Closing-Cost Loan to a refinance first mortgage. The Village remains secure in a junior position on the title.

Recommendation

Approve the Resolution

Fiscal Impact

The subordination is not a direct cost to the Village's general fund. Staff time in document preparation, which is a regular part of loan portfolio management, is the only cost.

Background

On January 31, 1995, the Village of Oak Park approved an \$8,500 loan to the owner of 522 S. Lyman Avenue. The loan is supported by a trust deed which was recorded against the property. The trust deed was recorded as a second mortgage on the property with the purchase loan mortgage being first. The homeowner is seeking a refinance of the existing purchase mortgage.

Loans made under the First Time Homebuyer Assistance Program provided downpayment /closing-cost loans to low to moderate income families with a dependent child. These 30-year loans are deferred for repayment until conveyance or transfer of any interest in the property. The guidelines were amended in September 2008 to clarify under what circumstances requests for subordination will be granted. The guidelines provide that in cases where former loan recipients wish to refinance mortgage(s), other than the Village's, and request that the Village maintain its subordinate position, the Village will agree to maintain its junior position if all of the following are true:

- A. The terms of new first mortgage are more advantageous to the homeowner and are reasonable under current market conditions; and
- B. There is adequate equity in the property to support the total proposed encumbrance, at least 15% equity (if

necessary, homeowner(s) will submit an appraisal as proof of equity); and
C. The cost of the refinance is the only allowable equity taken out of the property.

In cases of extreme hardship, staff may recommend that the Board consider subordination when the homeowner is requesting cash back from the refinancing and the equity taken out is being used for emergency home repairs. The homeowner shall provide a written statement describing the emergency.

The homeowner is seeking to refinance their current primary mortgage. The current mortgage, which carries a 4.00% interest rate, will be replaced with a new mortgage at 3.99% interest rate. This new loan will provide a Fixed Rate Interest, 30-year mortgage. The amount of the new loan will be \$304,000.00. The new loan is more advantageous than the existing loan as the existing loan is at a lower rate and the monthly payments are lower.

The issuing lender will not make the loan unless the Village's mortgage is the second mortgage lien against the property. The lender is requesting that the Village subordinate its mortgage to their new mortgage. The Village's mortgage was created as a junior mortgage. By agreeing to subordinate, the Village is agreeing to remain in a junior position.

According to bank appraisal, the property has an estimated value of \$389,000. The balance on the new mortgage is \$304,000.00 and the Village's mortgage of \$8,500.00 equal total debt of \$312,500.00, leaving 19.7% equity. Staff believes that there is sufficient equity to protect the Village's investment and is recommending the subordination.

The request complies with the Village guidelines requirements.

Alternatives

The alternative would be to deny the subordination request.

Previous Board Action

N/A

Citizen Advisory Commission Action

N/A

Anticipated Future Actions/Commitments

N/A

Intergovernmental Cooperation Opportunities

N/A