



Agenda Item Summary

File #: RES 20-226, **Version:** 1

Submitted By

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Reviewed By

LKS

Agenda Item Title

A Resolution Authorizing Subordination of a Lien for the Property Located at 1027 S. Cuyler Avenue (SFR-084)

Overview

The loan recipient is requesting a subordination of their Single Family Rehabilitation Program (SFR) loan mortgage to a new 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 September 3, 2019, the Village of Oak Park Board of Trustees approved a \$24,999 loan to the owner of 1027 S. Cuyler Avenue. The loan is supported by a mortgage which was recorded against the property. The mortgage was recorded as a junior mortgage on the property with the purchase loan mortgage being in first position.

Loans made under the Single Family Rehabilitation Program are deferred for repayment for 20-years or until transfer of any interest in the property. The program guidelines provide that in cases where former loan recipients wish to refinance mortgages other than the Village's, and request that the Village maintain its subordinate position, the Village will agree to maintain its junior position if:

- 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. Any equity taken out of the property will be reinvested in 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 carry a 3.875% interest rate, will be replaced with a new secondary mortgage at 2.99% interest rate. This new loan will provide a Fixed Rate, 25 year mortgage. The amount of the new loan will be \$221,400.00. The new loan is more advantageous than the existing loan as the new loan is at a lower rate shorter term. The owner indicated that the equity taken out of the property will be used for additional home improvements.

The issuing lender will not make the loan unless that 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 \$308,000. The balance on the new mortgage of \$221,400 and the Village's \$24,999 mortgage equal total debt of \$246,399, leaving 20.0% 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 and requirements

Alternatives

The alternative would be to deny the subordinatin request.

Previous Board Action

On September 3, 2019, the Village of Oak Park Board of Trustees approved a \$24,999 loan to the owner of 1027 S. Cuyler Avenue (RES 19-253).

Citizen Advisory Commission Action

N/A

Anticipated Future Actions/Commitments

N/A

Intergovernmental Cooperation Opportunities

N/A