City of Grass Valley
City Council
Agenda Action Sheet

Council Meeting Date: July 26, 2016  Date Prepared: July 21, 2016

Prepared by: Thomas Last, Community Development Director

Title: Consideration of an Appeal by Daniel and Saralyn Crossen of one of the provisions in the City’s Subordination Policy related to the First Time Homebuyer Program and refinancing of existing HOME loans.

Recommended Action: Staff recommends the Council consider the merits of the appeal and authorize the Mayor to sign a subordination agreement to allow the refinancing of an existing HOME loan between the City and Daniel and Saralyn Crossen.

Agenda: Administrative

Background Information: The City approved a $75,000 First Time Homebuyer loan for Daniel and Saralyn Crossen in 2007. The current interest rate with the first mortgage is 5.75%. The Crossen’s wish to refinance the first loan and are requesting the City approve a subordination agreement. The Crossen’s will not get cash out of the refinance and the proposed interest rate with the first would be reduced to 3.875%. If approved, their monthly housing payments would be reduced by 11.5% (or approximately $122/mo.). However, the current combined loan to value ratio is 104%. This exceeds item number 9 in the City’s Subordination Policy, which limits the combined loan to value to 90% for subordinations. The Community Development Director administers these policies; however, the City policy allows an applicant to appeal the terms of the policy to the City Council for consideration on a case-by-case basis. Staff has worked with our consultant that assists with subordination requests to determine level of risk.

Based on the Crossen’s good credit history, length of time in the home, and longevity of continued employment with the Nevada Union High School District, staff believes this subordination would be low risk and supports the appeal. Furthermore, staff notes that home prices in the City are rapidly increasing and current value is also expected to continue to increase.

Reviewed by: City Manager

Attachments:
1. Existing Subordination Policy

Agenda Item # 11-1
City of Grass
Subordination Policy

This policy applies to all current and future Grass Valley Community Development Block Grant Programs, Program Income Programs and/or Home Investment Partnerships Programs (HOME – First Time Homebuyer Program).

The City of Grass Valley will subordinate its loan to a new senior loan only one time and only if the subordination meets the following policy guidelines:

1. No proceeds from the new loan are to be used for debt reduction or debt consolidation. Cash out to the borrower is not allowed. The amount of the new loan may be increased only to pay for all or a portion of the closing costs of the refinace. One exception to the above: If the purpose for the refinace is to pay for health and safety building code violation repairs which have been confirmed by the Grass Valley Building Division, the borrower must meet all of the Subordination Requirements, except that the borrower may increase the amount of the senior loan to make health and safety repairs. The funds used to pay for improvements are to be placed in a supervised escrow account and relevant bills are to be paid out of this account.

2. The new loan must not have balloon or negative amortization features. It must be fully amortized.

3. The new loan must not have an interest rate that is more than three percent (3%) higher than the current market rate for similar loans.

4. As a result of the refinancing, the City loan will not change to a lower position on the chain of mortgages or loans.

5. The borrower must have good credit, which means there have not been any valid liens or judgments for more than $300 filed against the borrower’s home since the City’s loan was approved or within the last three years, nor more than three late payments during the prior three years, and the borrower is not making payments to a collection agency for loans in default during the same time period. If the borrower chooses to submit an explanation of any defaults, the City will review it for consideration to determine whether the reason for the default(s) show a pattern of negligence or simply reflects a short-term financial problem that has been resolved and the outstanding bills have been paid.

6. Borrower agrees to pay a $100.00 Subordination processing fee to the City which can be paid in advance or from loan proceeds.

7. A recent inspection of the property by the City staff shows the property is being well maintained, except for normal wear and tear (i.e. landscaping maintained, exterior paint and roof in general good condition).

8. CDBG programs only - The borrower must not have had more than two delinquent City loan payments in the last two years. The loan to value ratio, including the City’s loan, must not exceed 100% of the current market value of the property.

9. HOME programs only – First Time Homebuyers cannot refinance for the first three years from the initial purchase date. The combined new loan and the FTHB loan cannot exceed 90% loan to value. Borrower’s debt to income ratio cannot exceed 50% for all secured and unsecured debt. New loan must offer a 10% savings in principal and interest monthly payments.

ADMINISTRATION AND APPEAL
This policy is to be administered by the Community Development Department Director or their designee. In the situations that allow the City to subordinate in the event of refinancing, the Mayor is the authorized signatory of the Subordination Agreement. Any appeals to the terms of this policy shall be made to the City Council for consideration on a case-by-case basis.