

Subordination Policy

Community Development Block Grant (CDBG) Program
City of O'Fallon

Background:

The purpose of the First Time Home Owner program is to provide low-to-moderate income homeowners with federal funds to purchase their homes. When a request to subordinate a First Time Home Buyer loan is received, the CDBG Administrator must determine whether the request affects the security of the loan, whether the request protects the homeowner against predatory lending, and whether the new loan is in their best interest. The First Time Home Buyer Deed of Trust will only be subordinated under one of the following two conditions:

Conditions:

1. The senior mortgage that is being refinanced was structured as a balloon note and it has reached its maturity AND:
 - a. The new loan amount does not exceed the current balance of the existing mortgage (principal, interest and all amounts advanced by the lender under its loan documents, e.g. insurance, taxes, etc.) AND
 - b. Refinancing costs and points do not exceed 5% of the loan balance AND
 - c. The property value is equal to or exceeds the amount of the new loan plus the outstanding balance of the HI Deed of Trust.
- OR-**
2. The interest rate on the senior mortgage is being reduced by at least 1% AND:
 - a. The new loan amount does not exceed the current balance of the existing mortgage (principal, interest and all amounts advanced by the lender under its loan documents, e.g. insurance, taxes, etc.) AND
 - b. Refinancing costs and points do not exceed 5% of the loan balance AND
 - c. The property value is equal to or exceeds the amount of the new loan plus the outstanding balance of the HI Deed of Trust.

Timeframe:

Please allow up to two weeks for the subordination agreement to reach the homeowner.

Documentation:

The following documentation must be received by the City of O'Fallon in order to evaluate the eligibility under the subordination policy:

1. "Request to the City of O'Fallon for Subordination of the First Time Home Buyer program" signed by the Homeowner(s),
2. "Subordination Worksheet" completed by the Lender,
3. "Document Submittal Worksheet" completed by the Lender,
4. First two pages of the appraisal,
5. A projected settlement statement (HUD-1) for refinance, estimating all closing costs,
6. Loan commitment letter from new lender stipulating rate and term of the new loan.