

Subordination Announcement

Subordination-2016-12

December 19, 2016

To: Participating Lenders

The purpose of the City loans and liens are to assist in increasing first-time homeownership affordability for low and moderate-income households. Further, it is the goal of the Mayor's Office of Housing and Community Development to continue the availability of these subsidies through re-use where possible.

MOHCD reserves the right to deny a subordination request.

Net Tangible Benefit Worksheet

The lender is required to determine that there is a net tangible benefit on all applicable rate and term refinance transactions by completing the **Net Tangible Benefit Worksheet** (enclosed in the [Subordination Request Package](#)).

Net tangible benefit is defined as either:

1. A reduction of at least 5% in the mortgage payment and recapture of closing costs within 48 months; or
2. A reduction in the term of the mortgage provided the payment increase is less than 15%.

The Net Tangible Benefit Worksheet shall be used as a tool by the lender for purposes of the reasonable, tangible net benefit analysis.

Miscellaneous Subordination Requirement Updates

1. Refinancing within 12 months after purchase may be approved only on a case by case basis.
2. Repayment of the City's cash loans (e.g. BMR DALP, DALP, FRDALP, TND, PIC, MALP and Rehab) may be required on a refinance with an increase of monthly mortgage payment if: a) the current appraised value of the subject property is sufficient to support a combined 1st and City cash loan, and b) the borrower can obtain an affordable loan from a lender supporting the amount.
3. No cash out transactions: a) Cash back proceeds. All refinance proceeds must be applied as a principal-reduction payment to the new 1st mortgage; and b) Buy-down/impound balances. If the payoff the 1st mortgage has a remaining interest rate buy-down balance or impound balances current in escrow, those monies must be applied to the payoff balance at close of escrow and may not be refunded to the Borrower.
4. A copy of most recent Federal Income Tax Return with all the schedules will be required to ensure full compliance with all occupancy regulations.

Subordination Request Package

MOHCD Subordination Request Package 12/2016 has been updated to require the lenders to submit the Net Tangible Benefit Worksheet on all applicable rate and term refinance transactions, and the other updates stated above.

Effective Date

The Lender is encouraged to implement this policy change immediately; but must implement this change on Subordination applications submitted to DAHLIA system no later than January 3, 2017.

Please contact MOHCD Homeownership Programs at 415-701-5500 with any questions regarding this Announcement.