



# Request for City Council Committee Action from the Department of Community Planning and Economic Development

**Date:** October 11, 2011

**To:** Lisa Goodman, Chair, Community Development Committee

**Subject:** Change to Subordination Policy and approval of a loan waiver

**Recommendation:** Allow an exception to the City subordination policy to allow City loan to be subordinated.

**Previous Directives:** In February of 2005 the City Council approved a loan asset policy

## Department Information

Prepared by: Mark Anderson, Senior Contract Management Specialist

Approved by: Director, Housing Policy and Development \_\_\_\_\_  
CPED Deputy Director \_\_\_\_\_

Presenters in Committee: Mark Anderson

## Financial Impact *(delete all lines not applicable to your request)*

- No financial impact

## Supporting Information

### Tewinkel waiver request

Renee Bosma purchased the home at 2740 17<sup>th</sup> Avenue South on January 26, 2010 using the Minneapolis Advantage Program. Ms. Bosma subsequently married Jacob Tewinkel and is now known as Renee Tewinkel.

Mr. and Mrs. Tewinkel are seeking to refinance their first mortgage to obtain additional money to complete a number of home repairs and improvements. A summary of that work is attached to this report. In order to complete the refinance transaction, the lender has requested that the City subordinate its second mortgage on the home to the lender's new first mortgage.

The City Subordination Policy requires the lender to add together the City's loan with any other loan financing that is senior to it and compare that total against the value of the home. The proposed new first mortgage will be \$158,813 and the remaining balance of the City's loan is \$7,000 which added together totals \$165,813. The value of the home once the construction is completed has been appraised at \$151,000. The total debt is calculated against the value of the home produces a ratio of 109.8%. According to the current City

policy that ratio cannot exceed 100%. However, staff is recommending that this policy be waived in this case in consideration of the following facts:

- The borrower is not using the extra money to pay off personal debt, but is instead completing repairs and improvements to the home.
- The repairs and improvement to the Tewinkel's home should have a positive effect upon the surrounding properties and may even encourage neighboring homeowners to also complete repairs and improvements.
- The borrower will be reducing the percentage rate on their new loan from 5% to 3.5% allowing them to take advantage of today's lower mortgage interest rates.
- The City's loan is 18 months into a 60 month forgiveness period and at the end of the 60 months the City's loan will be totally forgiven.

#### Change to Residential Loan Subordination Policy

In addition to approval of the above request, staff is recommending that the Residential Loan Subordination Policy be modified to allow the Finance Officer to issue a waiver to the policy like the one above when issuing a waiver meets any of the following criteria:

- It will have no substantive impact of the on the security of the debt; or
- It will not substantively impact future revenue normally derived from these programs; or
- It will provide support for another goal of the City relating to housing.