

CITY OF RICHFIELD, MINNESOTA

TUESDAY, FEBRUARY 22, 2011

SPECIAL HOUSING AND REDEVELOPMENT AUTHORITY MEETING

**RICHFIELD CITY HALL COUNCIL CHAMBERS
6700 PORTLAND AVENUE**

5:45 P.M.

AGENDA

Call to order

Roll call

1. HRA approval of agenda

2. Consideration of request for subordination of HRA First Time Advantage Home Loan at 6620 Vincent Avenue

Staff Report No. 9

Notes:

3. Claims and payroll

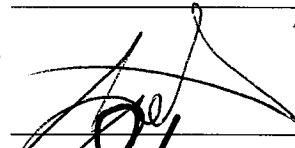
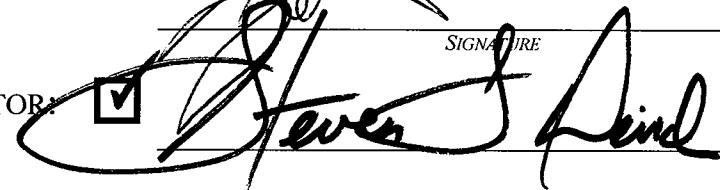
Adjournment

Auxiliary aids for individuals with disabilities are available upon request. Requests must be made at least 96 hours in advance to the City Clerk at 612-861-9738.



STAFF REPORT

HOUSING AND REDEVELOPMENT AUTHORITY MEETING FEBRUARY 22, 2011

REPORT PREPARED BY:	MICHELLE LEWIS, HOUSING SPECIALIST <hr/> <small>NAME, TITLE</small>
REPORT PRESENTER:	KAREN BARTON, ASSISTANT COMMUNITY DEVELOPMENT DIRECTOR <hr/> <small>NAME, TITLE</small>
DEPARTMENT DIRECTOR REVIEW:	<input checked="" type="checkbox"/>  <hr/> <small>SIGNATURE</small>
REVIEWED BY EXECUTIVE DIRECTOR:	<input checked="" type="checkbox"/> 

ITEM FOR HRA CONSIDERATION:
Consideration of a request for a subordination of a Housing and Redevelopment Authority First Time Advantage loan at 6620 Vincent Avenue.

I. RECOMMENDED ACTION:
By Motion: Approve or deny the request for a subordination of a Housing and Redevelopment Authority First Time Advantage Home Loan at 6620 Vincent Avenue.

II. BACKGROUND

Eric and Rebecca Patenaude have requested a subordination of a \$9,936 First Time Advantage loan received on June 29, 2005. At 100 percent, the loan-to-value ratio exceeds the Housing and Redevelopment Authority's (HRA) Subordination and Satisfaction Policy limit of 80 percent.

The HRA's First Time Advantage loan is currently in first place ahead of the primary mortgage of \$159,364. The Patenaude's are proposing to refinance their primary mortgage into a new mortgage of \$164,554 lowering their interest rate from 6.125 percent to 4.25 percent. By refinancing, the Patenaudes will reduce their monthly payment by \$194 a month.

The 2010 Tax Assessed Value is \$167,000, down 6.6% from 2009. This qualifies the Patenaude's for the federal Home Affordable Refinance Program (HARP). HARP is a streamlined refinance program that allows homeowners who currently have an FHA-insured mortgage and are impacted by decreased property values, the opportunity to refinance mortgages to secure better terms in order to help stabilize the housing markets in the United States.

While the Patenaude's have expressed interest in repaying the HRA loan, HARP guidelines do not allow them to do so in the midst of the refinance. The Patenaude's also stated that they would be willing to repay the HRA loan after refinancing. However, staff consulted legal counsel and found that there is no viable method to obligate the borrowers to repay the HRA loan after the refinance is complete. Additionally, any contingencies on the Subordination Agreement would disqualify the Patenaude's from refinancing under the federal HARP requirements.

III. BASIS OF RECOMMENDATION

A. POLICY

According to the HRA Subordination and Satisfaction Policy:

- "The total debt secured by the property, including the HRA lien and all superior mortgages, shall not exceed 80 percent of the documented market value of the property." A staff-authorized appeal of the Policy can be granted if the loan-to-value ratio does not exceed 85 percent and all other requirements of the Policy are met.
 - The Patenaude's request does not meet either of these rules.
- "The overall value of superior debt must not be increased by more than 50%."
 - The Superior debt is increasing because the HRA's loan is currently in first position. The Patenaudes refinanced in January 2008, but the lender did not request a subordination.
- "Closing costs are reasonable. Generally this shall mean that the sum of all discount points, origination fees, and lender ancillary fees shall not exceed 3 percent of the new first mortgage amount."
 - Closing costs are 3.8 percent.
- The following are the other staff-authorized appeal requirements that are satisfied:
 - Payment terms are within the financial means of the borrower.
 - No equity is being removed.
 - Property taxes are current.
 - The HRA has not granted any previous subordinations to the loan.

B. CRITICAL ISSUES

- The combined loan-to-value ratio is 100 percent.
- The amount of debt in front of the HRA lien is increasing from \$0 to \$164,554.

- The refinance is a streamlined process that does not require an appraisal. The property value is estimated by an Automatic Valuation Model to save the borrower money on the refinance.
- The refinancing will lower the primary loan's interest rate and will reduce the amount of the Patenaude's monthly payments.

C. FINANCIAL

- The amount of debt in front of the HRA lien is increased with the refinancing.
- There are closing costs associated with the refinance equal 3.8 percent of the mortgage amount.
- Payment has been received for the subordination request and appeal.

D. LEGAL

- N/A

IV. ALTERNATIVE RECOMMENDATION(S)

- Deny the subordination request.

V. ATTACHMENTS

- Letter from homeowner,

VI. PRINCIPAL PARTIES EXPECTED AT MEETING

- Eric Patenaude

1/13/2011

Eric Patenaude
6620 Vincent Ave S

Attn: Housing Specialist
6700 Portland Avenue
Richfield, MN 55423

Hello,

I am writing in order to request the Richfield HRA be willing to subordinate their lien on my home at 6620 Vincent Ave S. I ask this because with the historically low rates, in conjunction with the HARP Freddie Mac loan program refinancing my current 30 year mortgage from the current 6.125 percent down to 4.25 percent will save our family \$200 dollars per month, in addition to over \$30,000 in interest over the life of the loan.

We were intending on paying off the loan in full with monies from my parents, but were informed tonight from Wells Fargo that this goes against the policy of the HARP program, quote:

Existing subordinate financing must be re-subordinated or paid off with borrowers' own funds.
Downpayment Assistance Programs (DAPs) are eligible to be re-subordinated. New subordinate financing or replacement subordinate financing is not allowed.

Surely we can come to a compromise in this situation in which all parties are satisfied. We certainly would be willing to sign a contract that states we will pay off the balance of the loan once the refinance is complete since my parents have lent it to me.

Please respond to me as soon as you are able, as my window of time with Wells Fargo and the rate that is locked in ends at the end of business Friday

Sincerely,



Eric Patenaude
6620 Vincent Ave S