



Greater Minnesota Housing Fund Refinance and Subordination Policies

Introduction

If you are a Lender seeking a subordination on an existing homebuyer gap loan from Greater Minnesota Housing Fund, please read and print GMHF's Refinancing and Subordination Policies, below.

After you (Lender) and the Borrower understand these policies and are in agreement, please sign the **New Lender Form** (pg. 3) and fax it back to our office, to the attention of **Lynn Koll, GMHF, at 651.221.1904.**

Please also forward the title information containing the original recorded mortgage document number, and we will prepare and execute the **Subordination Agreement.**

On pg. 4 is the **Borrower/Owner Occupancy Certificate.** The Borrower needs to sign this, indicating he/she still lives in the house and understands all obligations and terms of payment for our existing GMHF Gap Note and Mortgage.

Unless the term of the new first mortgage is shorter than the original first mortgage, the GMHF Gap Note and Mortgage maturity dates do **not** change, and the Borrower is still subject to repayment as of the date signed at the original closing. However, borrowers who refinance to a shorter term will have the term of their gap loan shortened to be co-terminous with the new first mortgage.

If you have additional questions, please contact **Lynn Koll at GMHF, 651.221.1997, or lkoll@gmhf.com.**

Background Information

GMHF loan documents require repayment of our loan at the time of refinance. However, GMHF has typically been willing to subordinate its gap loan (i.e., allow the buyer to retain the existing gap loan in a position subordinate to the new first mortgage) if the buyer is refinancing to a lower rate but getting no cash from the transaction. In the past, we have not allowed a "cash out" refinance, regardless of the use of the proceeds.

Our new subordination policy is intended to provide more options for borrowers who want to use their home equity to finish their starter homes. It allows a buyer to get a "cash out" refinance or home equity loan and retain the subordinate GMHF gap loan, but only if the documented purpose is for home repairs or improvements. Buyers are not allowed to "wrap in" loans for other purposes (e.g., vehicles, credit cards) to the new first mortgage.

General Policies

- 1) "Cash out" requests are defined as any requests in which a homeowner will receive cash proceeds from a loan transaction.
- 2) "Cash out" subordination requests will only be considered if the purpose is for home repairs or improvements.
- 3) Any "cash out" proceeds must be disbursed directly through the HUD-1 with all checks payable into a valid title company or bank repair escrow account managed by an escrow agent of the title company or bank. Under no circumstances will GMHF allow "cash out" disbursements directly to the borrower.

Note: Net to/from borrower as listed on the HUD-1 cannot exceed 1 percent of the new first mortgage amount. This 1 percent amount is allowable only for HUD-1 balancing purposes.

- 4) Written estimates/bids for proposed home improvements must be submitted to the local gap loan administrator and be available for review by GMHF upon request. The local gap loan administrator and/or GMHF have discretion to deny requests for certain "luxury" home improvements.

- 5) Combined loan-to-value of all mortgages may not exceed 100 percent for refinances or home equity loans. Value must be documented in the files and may be determined using one of the following methods:
 - a. Professional appraisal
 - b. Professional appraisal less than one year old plus 50 percent of the value of the proposed improvements
 - c. Estimated Market Value (EMV) as established by the county
 - d. EMV (or purchase price if purchased within the past year) plus 50 percent of the value of proposed improvements
 - e. Bank in-house appraisal committee (if applicable)
- 6) Local gap loan administrators may charge a fee to buyers for processing refinance and subordination loan requests. Buyers are also responsible for paying any fees associated with a repair escrow account, which may be funded from the equity proceeds.
- 7) If the borrower has completed home improvements without using all of the refinance proceeds, the borrower must obtain approval from the administrator or GMHF for further repairs or improvements, or return the balance of the proceeds to be applied to any amounts due under the Gap Note.
- 8) GMHF will only subordinate for each buyer one time.
- 9) Local administrators should allow five working days from the submission of all required documentation to GMHF for processing of subordination requests. All refinancing and subordination requests are subject to final approval by GMHF.

Refinance Policies

- 1) GMHF will not subordinate unless the request is to refinance the first mortgage at prevailing rates/fees. (Proposed rates and fees must be the lowest available for the borrower's risk category).
- 2) No "cash out" to the borrower is allowed unless the purpose is for home repairs or improvements. Requirements for "cash out" requests are described in the general policies.
- 3) No "wrapping in" of other debt to the new first mortgage is allowed.
- 4) In addition to the documentation described in the general policies, a copy of the payoff of the mortgage on the refinance date must be provided.
- 5) Proposed combined loan-to-value ratio may not exceed 100 percent.
- 6) GMHF allows only **one** subordination during the life of the gap loan.

Home Equity Loan Policies

- 1) GMHF will not subordinate unless the purpose of the home equity loan is for home repairs or improvements.
- 2) Proposed combined loan-to-value ratio may not exceed 100 percent.



**First Mortgage Refinance
GMHF Supplemental (Gap) Financing Subordination Program**

NEW LENDER FORM

This form is to be completed by the new lender (or title/escrow company acting on behalf of the new lender) and returned to the Greater Minnesota Housing Fund (GMHF) when the First Mortgage Loan is paid in full through refinancing and the Greater Minnesota Housing Fund Supplemental Financing is not paid in full because of a waiver of repayment by the Greater Minnesota Housing Fund.

Borrower Name and Address:

Type of Greater Minnesota Housing Fund Supplemental Financing:

<u>PRINCIPAL AMOUNT</u>	<u>TYPE</u>	<u>MATURITY DATE</u>
\$ _____	Single-Family Gap Loan	_____

Name and Address of New Lender:

The Borrower may **not** obtain new proceeds or cash equity as a result of the refinancing. The principal amount of the new first mortgage loan cannot be not greater than the sum of the outstanding principal amount and accrued but unpaid interest owed on the first mortgage loan and permitted closing costs. Permitted closing costs are defined as any fees, points or actual closing costs which may be charged to the Borrower as a condition of refinancing. If the Borrower receives any cash equity, the proceeds must be established in an Escrow account and disbursed **only** for home repairs or improvements, according to the GMHF Refinance & Subordination Policies. A HUD-1 Settlement Statement may be requested.

Date: _____, _____ Lender _____

Lender _____ By _____

Loan # _____ Its _____

Upon completion, mail or fax to:

Greater Minnesota Housing Fund
332 Minnesota Street
Suite 1310 East
St. Paul, MN 55101
main 651.221.1997
fax 651.221.1904



**Greater Minnesota Housing Fund
Borrower/Owner Occupancy Certification**

This certificate is to be completed by the Borrower and returned to the Greater Minnesota Housing Fund when the First Mortgage Loan is paid in full through refinancing and the Greater Minnesota Housing Fund Supplemental Financing is not paid because of a waiver of repayment by the Greater Minnesota Housing Fund.

I/[We] _____ certify that I/[we] own and occupy the Property located at: _____, which is subject to the following Greater Minnesota Housing Fund Gap loan(s):

<u>PRINCIPAL AMOUNT</u>	<u>TYPE</u>	<u>MATURITY DATE</u>
\$ _____	Single-Family Gap Loan	_____

We understand that repayment of Greater Minnesota Housing Fund loan is due as stated above. If before that date we sell the Property or move to another residence, we understand that the Greater Minnesota Housing Fund loan must be paid at that time. We understand that no other debt is wrapped in to our new first mortgage, and we have not received any cash back as a result of the refinancing. We also understand that GMHF will only subordinate once during the life of the loan.

Borrower(s):

Date: _____, _____

Date: _____, _____

Loan # _____

Lender _____

Upon completion, mail or fax to:

Greater Minnesota Housing Fund
332 Minnesota Street
Suite 1310 East
St. Paul, MN 55101

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fax 651.221.1904