

**CITY OF MADISON
INTER-DEPARTMENTAL
CORRESPONDENCE**

To: CDA

From: Terri Goldbin, Economic Development Division

Date: October 15, 2008

Subject: James & Karen Hubbard Subordination request – 1605 Homberg Lane

The following summary is being provided to the CDA so it may consider the request from James & Karen Hubbard (1605 Homberg Lane) to grant an exception to the CDA Loan Subordination Policy.

Original Loan information:

Purchased 1/2005 \$169,400
After Rehab Value \$194,500

\$135,000 1st mortgage @ 9.75% (Adjustable rate)
(Rate: Max 13.75% / Min 7.25%)
\$ 34,100 2nd mortgage @ 11.25% (Adjustable 15 year Balloon)
\$169,100
\$ 17,000 City 3rd mortgage, Deferred Loan
\$186,100 Total Debt (Combined loan-to-value (CLTV) 95.7%)

\$1,575 original PITI
\$1,994 current PITI, per lender

Proposed New Loan information:

Appraised value \$218,000
Assessed Value \$186,700

\$188,079 Proposed new 1st mortgage –
fixed rate, 7%, 30 years. (86.3%LTV)
\$ 17,000 City 2nd Deferred Loan (dated 3/2006)
\$205,079 (CLTV 94.1%)
\$ 8,000 3rd mortgage Project Home/County,
five year forgivable (dated 5/2006)
\$213,079 Total Debt (CLTV 97.7%)

\$1,743 Proposed new PITI . Reduces housing
payment approx \$250/month.
(According to lender borrower will be
able to take a deduction on tax return
for FHA Mortgage Insurance Premium,
which is approx \$77/month.)

An exception is being requested as the combined loan-to-value (CLTV) exceeds the 85% subordination policy limit. The original loan also had an exception due to a high CLTV. Ratios are high, however, ratios were high when we did the original loan. City LTV will decrease slightly from the original loan-to-value.

If the CDA does not grant this exception, it is highly likely the borrowers will lose their home. The likelihood of foreclosure is high due to the increasing payments on the adjustable rate mortgages and due to the delinquent real estate taxes. This refinance will decrease the borrower's monthly housing expense by approx \$250/month, plus will provide a year-end tax deduction on the paid FHA mortgage insurance premium (per the Lender). Taxes and hazard insurance will be escrowed by the lender. This loans closing fees are higher than loans we normally see coming through our programs. These higher fees may be associated to the lender being an out-of state lender, the new loan is an FHA and this loan would not meet many lenders' current standard underwriting criteria.

With some reservations, I recommend the subordination of this loan. The customer should be made aware this is the last time staff will recommend an exception be granted on this City loan.

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Staff recommends approval of the Hubbard Subordination request subject to the following:

- Real Estate taxes must be brought current.
- Lender must escrow taxes and hazard insurance.
- Project Home/County loan must be subordinate to City loan.
- City to be provided a copy of the new Note and Mortgage reflecting fixed rate loan not to exceed 7%, term 30 years, loan amount not to exceed \$188,079.
- Copy of Closing Statement.

Respectfully submitted,

Terri Goldbin
Housing Rehabilitation Specialist