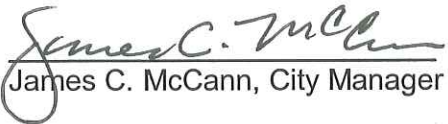


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Susan Sneddon, City Clerk
DATE: September 1, 2009
SUBJECT: Consideration of a Resolution to amend Resolution No. 2003-099 regarding refinancing subordination terms related to homes within the City's Affordable Housing Programs.

APPROVAL FOR FORWARDING:


 James C. McCann, City Manager

1 **ISSUE:** Consideration of a Resolution to amend Resolution No. 2003-099
 2 regarding refinancing subordination terms related to homes within the City's
 3 Affordable Housing Programs.
 4

5 **BACKGROUND:** As part of the City Affordable Housing program the City has
 6 established a number of "silent" second mortgages that to individuals and
 7 families within designated income levels. These mortgages accrue interest and
 8 do not require payments, unless the house is sold. The City has the right of first
 9 refusal when the house is placed on the market by the homeowner. Over the last
 10 several years, there have been a number of homeowners taking advantage of
 11 attractive interest rates to refinance the first or take out a home equity loan. This
 12 requires that the City subordinate the affordable housing mortgage to the new
 13 first mortgage.
 14

15 In 2003 the City adopted Resolution No. 2003-099 (attached) amending the
 16 criteria of subordination of the City second mortgages in the City's Affordable
 17 Housing Program. These amendments allowed the City to subordinate only to a
 18 new first mortgage and retain a second mortgage position, and also to include
 19 recognized institutional lenders (previously only Federally insured lenders were
 20 permitted).
 21
 22

23 On August 5, 2009 the City received a request from Housing Authority of the City
24 of Napa (Housing Authority) to consider an exception to the City's criteria and
25 approve a refinance request. The current criteria require that all loans including
26 City debt and imputed interest/debt on the home shall not exceed 80% of the
27 loan-to-value ratio.

28

29 Mr. and Mrs. Murphy, participants in the City's Affordable Housing Program
30 (2007 High Rocks Drive), have recently requested an exception to the City's
31 criteria of subordination and the approval of refinancing request even though the
32 combined loan to value will exceed the allowable amount of 80%. This request is
33 in order to consolidate their debt as a result of personal financial issues.

34

35 City staff has reviewed this request and recommend amending Resolution No.
36 2003-099 to authorize the City Manager to grant an exception from the 80% of
37 the loan-to-value ratio on a case-by-case basis in consultation with the Housing
38 Authority staff. Attached is a letter from the Housing Authority outlining their
39 recommendations and requesting the City to authorize the refinancing and to
40 agree to subordinate. Staff from the Housing Authority will be available to discuss
41 the recommendations.

42

43 **FISCAL IMPACT:** There would be no fiscal impact from this amendment;
44 requests to utilize the provisions of the amendment would be considered on a
45 case-by-case basis.

46

47 **ATTACHMENTS:**

1. Draft Resolution
2. Resolution 2003-099
3. Napa Valley Housing Authority Letter regarding the request to refinance

RESOLUTION NO. 2009-_____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA, STATE OF CALIFORNIA, AMENDING RESOLUTION 2003- 099 CRITERIA OF SUBORDINATION OF CITY SECOND MORTGAGES IN THE CITY AFFORDABLE HOUSING PROGRAM

1 WHEREAS, the City Council adopted Resolution 2003-099 on August 19, 2003; and

2
3 WHEREAS, said resolution established criteria, which the City will subordinate current second
4 mortgage loans granted under the City's affordable housing program; and

5
6 WHEREAS, the City Council has considered a request to amend the criteria defining
7 subordination of existing City mortgages for affordable housing programs; and

8
9 WHEREAS, the City Council discussed the policy issues and recommendations of City staff and
10 the Napa Valley Housing Authority staff.

11
12 NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Calistoga hereby
13 amends Resolution 2001-094 and adopts the following revised policy for the consideration of
14 requests to subordinate the City's second mortgage on homes, which are in the City's affordable
15 housing program:

- 16
17 1. All loans including City debt and imputed interest/debt on the home shall not exceed
18 80% of the loan-to-value ratio **unless approved by the City Manager on a case-by-**
19 **case basis.**
20 2. The refinancing of an existing first mortgage loan is eligible under this policy.
21 3. The value of the property shall be determined through a formal property appraisal,
22 prepared by a licensed/registered appraiser.
23 4. All taxes and liens shall be current at the time of the subordination.
24 5. A Request for Notice of Default, requiring any mortgage lender to notify the City of any
25 default, shall be recorded at the close of escrow with the County Records Office as a
26 condition of approval of any subordination.
27 6. Only loans from recognized institutional lending organizations or Federally insured
28 institutions will be considered.
29 7. Property owners or applicants must meet debt to income criteria, similar to Federal
30 Home Loan Agency criteria, as developed by the Napa Valley Housing Authority and
31 City, for all outstanding loans.
32 8. The property owner or applicant shall pay all costs incurred with any subordination of a
33 City Loan under this resolution.

34
35 NOW THEREFORE BE IT FURTHER RESOLVED that the City Manager is hereby authorized
36 to act upon subordination requests pursuant to this policy.

37
38 PASSED, APPROVED, AND ADOPTED by the City Council of the City of Calistoga at a regular
39 meeting held this **1st of September 2009** following vote:

40
41 AYES:

42 NOES:

43 ABSTAIN/ABSENT:

44
45 _____
46 JACK GINGLES, Mayor

47 ATTEST:

48
49 _____
50 SUSAN SNEDDON, City Clerk

RESOLUTION NO. 2003-099

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA,
STATE OF CALIFORNIA, AMENDING RESOLUTION 2001- 094 CRITERIA OF
SUBORDINATION OF CITY SECOND MORTGAGES IN THE CITY AFFORDABLE HOUSING
PROGRAM

WHEREAS, the City Council adopted Resolution 2001-094 on September 4, 2001; and

WHEREAS, said resolution established criteria, which the City will subordinate current second mortgage loans granted under the City's affordable housing program; and

WHEREAS, the City Council has considered a request to amend the criteria defining subordination of existing City mortgages for affordable housing programs; and

WHEREAS, the City Council discussed the policy issues and recommendations of City staff and the Napa Valley Housing Authority staff.

NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Calistoga hereby amends Resolution 2001-094 and adopts the following revised policy for the consideration of requests to subordinate the City's second mortgage on homes, which are in the City's affordable housing program:

1. All loans including City debt and imputed interest/debt on the home shall not exceed 80% of the loan-to-value ratio.
2. The refinancing of an existing first mortgage loan is eligible under this policy.
3. The value of the property shall be determined through a formal property appraisal, prepared by a licensed/registered appraiser.
4. All taxes and liens shall be current at the time of the subordination.
5. A Request for Notice of Default, requiring any mortgage lender to notify the City of any default, shall be recorded at the close of escrow with the County Recorders Office as a condition of approval of any subordination.
6. Only loans from recognized institutional lending organizations or Federally insured institutions will be considered.
7. Property owners or applicants must meet debt to income criteria, similar to Federal Home Loan Agency criteria, as developed by the Napa Valley Housing Authority and City, for all outstanding loans.
8. The property owner or applicant shall pay all costs incurred with any subordination of a City Loan under this resolution.

NOW THEREFORE BE IT FURTHER RESOLVED that the City Manager is hereby authorized to act upon subordination requests pursuant to this policy.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Calistoga at a regular meeting held this **19th of August 2003** following vote:

**AYES: Councilmember Sterk, Vice Mayor von Pohle,
Councilmember Slusser, and Mayor Alexander**

NOES: None

ABSENT: Councilmember Gingles

ABSTAIN: None

ATTEST:


ROBERT HAYES, City Clerk


DR. ANDREW ALEXANDER, Mayor



Housing Authority of the City of Napa
P.O. Box 660 Napa, CA 94559-0660
(707) 257-9543 v(707) 257-9239 FAX

MEMORANDUM

TO: Jim McCann, City Manager, City of Calistoga
FROM: Andrea Clark, Administrative Assistant *[Signature]*
DATE: August 5, 2009
SUBJECT: Refinance Request, Leonard and Sonia Murphy,
2007 High Rocks Drive, Calistoga

After reviewing both the Resolution No. 2003-099 and the conventional loan qualifying worksheet submitted on behalf of Mr. and Mrs. Murphy, my recommendation to the City would be to consider approving the refinance request and agree to subordinate to their new first mortgage.

1. Loan to value calculations are as follows:

Original loan amount	\$49,500
Interest rate	X 5%
Annual interest accrual	2,475
10 years of interest	X 10
Imputed interest	\$24,750
Principal balance	\$49,500
Imputed Interest	24,750
Total	\$74,250
1 st Deed of Trust	\$289,800
Imputed Principal & Interest	+ 74,250
Total of 1 st & 2 nd	\$364,050
Loan to Value Ratio	$\frac{\$364,050}{416,000} = 88.0\%$ CLTV
Appraised value	416,000

The combined loan to value of 88% exceeds the allowable 80% as outlined in Resolution 2003-099. The Murphys are requesting that the City make an exception to this portion of the resolution.

2. In May 2004, Mr. and Mrs. Murphy refinanced their first mortgage loan to pay off a \$10,000 line of credit and to reduce their interest rate on the first mortgage. Since that

time, a \$100,000 line of credit has been added to the property in a third lien position. The line of credit was taken out to help pay for medical bills and living expenses.

The Murphys are refinancing to consolidate their first and third mortgages into one loan and take cash out of approximately \$22,000 to payoff other credit card debt. The consolidation of debt will reduce their overall monthly payment by \$294 a month.

3. I have reviewed the appraisal prepared by a state certified licensed appraiser dated July 29, 2009 and in the amount of \$416,000.
4. A preliminary title reported on the property has been reviewed, the property taxes are paid current and there are no other judgments or liens on the property.
5. The first mortgage holder has agreed to notify the City of any default occurrences. The escrow company will be instructed to prepare a Request for Notice of Default for the new indebtedness for the City to execute.
6. The Murphys are obtaining their new first mortgage from a recognized institutional lending organization, Wells Fargo Home Mortgage.
7. The Murphy's loan package as presented indicates a primary housing expense to income ratio of 40.77% and a total debt to income ratio of 47.25%, which is within FHA and Fannie Mae underwriting criteria. A copy of the lender's qualifying worksheet is attached for your review.
8. The property owner shall pay all the costs incurred with the recordation of the subordination agreement and the request for notice of default.

The Housing Authority recommends that the City consider approving the refinance request and subordinate to the new first mortgage even though this transaction does not meet all the criteria of resolution no. 2003-099.

Two years ago Mr. Murphy was in a very serious accident and has been unable to return to work. After the accident, Mrs. Murphy quit her job to care for her husband and assist with his rehabilitation. They took out a \$100,000 line of credit secured against their property to help pay for medical bills and living expenses. Mrs. Murphy reports that she has returned to full time employment however; Mr. Murphy has not even though he has made great strides in his recovery.

The Murphys are requesting that the City make an exception to policy resolution 2003-099 and approve the refinance request even though the combined loan to value will exceed the allowable amount of 80%. The loan consolidation of the first and third mortgages along with the cash out to payoff credit card debt will allow them to have an overall monthly savings of \$294 a month. The monthly savings will ease their financial situation since Mrs. Murphy is the only employed member of the household.

Please contact me with your approval and I will make arrangements to deliver the subordination agreement for execution. If you have any additional questions, please feel free to contact me at 257-9254.