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Subordination

Overview

Subordination is defined as the act or process by which a person's rights or claims are ranked below those of others; e.g. a second mortgagee's. If subordination is requested from Stanford University, the University's and the borrower's rights will be subordinate to those of the first mortgagee. This means that if the University agrees to subordinate to a new loan, the new loan will be recorded in a superior position to any existing Stanford University Deed or Deeds of Trust that are secured to the property.

Typically, when a Stanford borrower purchases a new home, he/she obtains a conventional mortgage loan. This conventional mortgage loan is secured as a first mortgage. The University's housing program mortgage loan or loans such as a Mortgage Assistance Program (MAP) loan, a Down Payment Assistance Program (DPAP) loan, a Fixed Rate Amortizing Mortgage (FARM) loan, a Deferred Interest Program (DIP) loan, or any other special loan are recorded as a second, third, or fourth mortgage loan.

If a Stanford borrower wishes to re-finance his/her first mortgage loan with a new loan in the same amount, he/she must apply to Stanford for a subordination of the existing loans to the new loan. If a Stanford borrower wishes to re-finance his/her first mortgage loan with a new loan, in an amount that is more than the existing loan, to realize cash, consolidate debt or to re-pay a portion of an existing Stanford University mortgage loan, he/she must apply to Stanford for a subordination of the existing loans to the new loan.

Policy

The University will agree to subordinate to a new first mortgage loan if all of the following conditions are met:

COMBINED LOAN TO VALUE RATIO:

The maximum Combined Loan to Value Ratio (CLTV) does not exceed seventy-five (75%) of the current Fair Market Value (FMV), as determined by an appraisal, of the subject property. The property appraisal must be dated not more than ninety days from the time that the subordination agreement is to be recorded. The CLTV includes the total of the principal balance of the new loan, plus the principal balance or balances of all other loans secured to the property, including the Deferred Interest due on the MAP loan and the DIP loan, at the time of the subordination request.

Stanford University will consider an exception to the maximum CLTV only in the case when the borrower is refinancing an existing first mortgage loan to improve the terms by reducing or fixing the existing interest rate and only if the terms of the new loan are more beneficial to the borrower than the existing loan. When the borrower is refinancing with no cash out, the CLTV can only exceed the current CLTV to include closing costs.

An exception will not apply if the borrower requests an additional loan such as a Home Equity Line of Credit (HELOC) or an increase in the existing loan to realize cash or consolidate debt.

NEW LOAN TERMS:

First mortgage loans used together with University Programs:

1. Cannot be interest only;
2. Cannot negatively amortize;
3. Cannot have a term of more than thirty years;
4. Cannot have a "balloon" feature;
5. Cannot have a prepayment penalty; and
6. Will be underwritten using the monthly payment required on the thirteenth month.

UNDERWRITING GUIDELINES:

The maximum debt to income ratio for Stanford approval is thirty-eight percent (38%) of the gross annual income of the borrower or borrowers. This calculation includes the total cost of the principal and interest of the new loan, plus the costs of the remaining loans secured to the property, plus taxes, insurance and any other fixed monthly expenses. All income and expenses must be documented.

INSURANCE:

Evidence of insurance must be provided. Stanford must receive prior to the close of escrow evidence that the subject property is insured against loss by fire and all hazards included within the term "extended coverage" in an amount at least equal to the full replacement cost to repair or rebuild the improvements, without deduction for depreciation. The University also requires evidence that the subject property is insured against loss by an earthquake in an amount which is equal to the value of the buildings and improvements on the property. The earthquake insurance policy cannot have a deductible greater than 15%. If the home is located on the Stanford campus, the evidence must name The Board of Trustees of the Leland Stanford Junior University, (c/o Risk Management, 425 Arguello Way, Stanford, California 94305) as additional insured. If the home is located off campus, the evidence must name The Board of Trustees of the Leland Stanford Junior University, (c/o Risk Management, 425 Arguello Way, Stanford, California 94305) as Mortgagee and as Loss Payee.

ELIGIBILITY:

Those eligible to subordinate their loans are individuals who satisfy all of the following criteria:

- (i) The borrower is an Eligible Person as defined by Stanford University.
- (ii) The property secured by any Stanford University mortgage loan or loans is the primary residence of the Eligible Person and is defined as a Qualifying Residence as defined by Stanford University.
- (iii) No default exists under the terms of a Stanford University mortgage loan or a Stanford University Residential Ground Lease.

*Procedure:***REQUIRED DOCUMENTS:**

The borrower or the borrower's loan agent must provide the following documentation:

1. A copy of the fully executed Residential Loan Application Form 1003. The application can be the original signed application prepared by all borrowers, or a computer generated application prepared by the new lender as long as it is signed by all borrowers.
2. A copy of the two most recent paycheck stubs from all borrowers.
3. Verification of other income to be used for qualification.
4. A copy of a credit report that is less than 60 days old.
5. A copy of a Uniform Residential Appraisal Report form (FNMA Form 1004) or its equivalent for the subject property that is less than 90 days old.
6. A copy of the Preliminary Title Report on the subject property which is less than 90 days old.
7. The loan agent's name, telephone number, and fax number.

8. The amount of the new loan.
9. The type of the new loan.
10. The term of the new loan
11. The interest rate of the new loan.
12. The monthly payment on the new loan.
13. The rate lock confirmation of the new loan.
14. The anticipated date of recording.

The University reserves the right in its sole discretion to require additional documentation, which is necessary to render a decision regarding the requested subordination of a Stanford University mortgage loan. All documents should be sent to Stanford University, Faculty Staff Housing, Owen House, 552 Lane A, Stanford, California 94305.

REVIEW :

After review of the required documentation, Faculty Staff Housing (FSH) will provide approval or denial in writing to the borrower's loan agent.

If the subordination is approved, FSH will prepare an escrow instruction and will send the instruction to the title company. The escrow instruction includes a request to prepare the subordination agreement or agreements, have the subordination agreement or agreements fully executed by the borrower or borrowers, and send the original subordination agreement or agreements together with a copy of the new Promissory Note, the new Deed of Trust, a Request for Notice of Default from the first mortgagee, and the Estimated Settlement Statement to FSH for review. After the review and approval of the required documentation, Stanford will execute the subordination agreement or agreements and return it/them to the title company for recordation together with the new loan.

TIMING :

Stanford University's subordination review process takes ten business days after receipt of all required documentation. If the subordination is approved and an escrow instruction is sent to the title company, Stanford requires seventy two hours after receipt of the required documentation to execute the subordination agreement and return it to the title company.

FEE S :

The fee for Stanford University to review a subordination request is \$250.00 payable at the time of the recording of the new loan. The fee may be paid in advance or will be requested in the escrow instruction to the title company. Stanford University will not execute the Subordination Agreement until the fee is paid or acknowledged by the title company.

If the Stanford loan is not registered with the University's tax service company, a fee of \$67.00 will be collected. The fee must be paid by check, made payable to LPS Property Tax Solutions, and returned to FSH.