



# Subordination

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## *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, a Reduced Interest Program (RIP) loan, a Zero Interest Program (ZIP) loan, or any other special loan are recorded as a second, third, fourth or fifth 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.

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. Prior to the close of escrow, Stanford must receive 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. Additionally, the comprehensive general liability

coverage must be at least \$500,000. 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% and the deductible (amount and/or percentage) must be shown on the evidence.

If the home is a condominium or part of a planned unit development, the master insurance policy must be provided. If the master policy covers the entire project and does not include earthquake insurance, the earthquake requirement is waived. The University will also require evidence of a unit owner's insurance policy often referred to as an HO6 policy. The property coverage must equal the value of the improvements, and the comprehensive general liability coverage must be at least \$500,000.

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 Insurance Compliance, P. O. Box 100085-S9 Duluth, GA 30096) as both Mortgagee and Additional Insured (and Mortgagee and Loss Payee on earthquake policies). If the home is located off campus, the evidence must name The Board of Trustees of the Leland Stanford Junior University (c/o Insurance Compliance, P. O. Box 100085-S9 Duluth, GA 30096) as Mortgagee.

#### ELIGIBILITY

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

1. The borrower is an Eligible Person as defined by Stanford University in the Housing Programs Eligibility Criteria available on the website <http://fsh.stanford.edu>.
2. 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.
3. 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 O'Connor Lane, Stanford, California 94305. Alternatively, documentation may be delivered to FSH via emailed attachments to [secure-fshdocuments@lists.stanford.edu](mailto:secure-fshdocuments@lists.stanford.edu). Please include your last name in the subject line for the email.

#### 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 title company must be located within the Qualifying Area as defined by Stanford and available on the FSH website <https://fsh.stanford.edu/buy/qualifying-area>. 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 to 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, the Estimated Settlement Statement, and the certificate of insurance, to FSH for review and approval. 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 \$300.00 for the first request in any calendar year, payable at the time of the recording of the new loan. The fee for subsequent subordination requests for a subordination review in the same calendar year will be \$400.00. 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. The fee must be paid by check, made payable to Stanford University.

If the Stanford loan is not registered with the University's tax service company, a fee of \$95.00 will be collected. The fee must be paid by check, made payable to LERETA, LLC returned to FSH.