

MEMORANDUM

To: Mayor and City Council Members

Cc: Gregg Mandsager, City Administrator
Steven Boka, Director of Community Development

From: Jim Rudisill, Planning/CD Coordinator

Date: March 5, 2012

Re: **Housing Rehab Project Mortgage Subordination**

INTRODUCTION: A mortgage subordination request was filed with the city today by Central State Bank for 212 Grover Street. A closing and fund transfer has already been scheduled for later this week and next week, respectfully. A delay to the council meeting on March 15 may affect the interest rate the owners will pay; and the bank has requested the council to act as soon as possible to prevent a potentially higher rate for the owners.

BACKGROUND: Matthew and Jacklyn Donath participated in the City of Muscatine's 2006 Housing Fund Rehabilitation Program. The city provided \$24,999 as a five-year, forgivable loan to complete a variety of rehabilitative services on their property at 212 Grover Street. As part of the program, they signed a mortgage agreement with the city that was recorded at the Muscatine County Recorder's office on September 17, 2010 at the Muscatine County Courthouse.

They now wish to refinance the property with Central State Bank to take advantage of lower interest rates.

RECOMMENDATION/RATIONALE: Under the terms of the initial contract between the City of Muscatine and the Iowa Department of Economic Development, the city may consider all Housing Fund mortgages to be secondary to any other property mortgage. Central State Bank is requesting the city provide a formal subordination agreement that will reflect this. The city has provided similar documents for several prior subordination requests.

Attached is a resolution for the council's consideration and the subordination agreement to be signed by the mayor. The staff recommends approval of the resolution and execution of the subordination agreement.

BACKUP INFORMATION:

1. None

RESOLUTION NO. _____

A RESOLUTION AUTHORIZING THE MAYOR TO SIGN A SUBORDINATION AGREEMENT FOR 212 GROVER STREET

WHEREAS, the City of Muscatine, Iowa has entered into a grant agreement with the Iowa Department of Economic Development (IDED) for owner-occupied housing rehabilitation in the Riverbend and 4th Street Park Neighbors neighborhood; and

WHEREAS, said grant agreement will fund up to \$24,999 for housing rehabilitation for each eligible residence through a five-year forgivable loan; and

WHEREAS, a five-year mortgage and lien were attached to each property that received funding assistance through this grant agreement; and,

WHEREAS, under the grant agreement approved between the City of Muscatine and the Iowa Department of Economic Development the city may consider such five-year mortgages to be secondary and subservient to any other mortgages attached to any rehabilitated properties; and,

WHEREAS, a rehabilitation project has been completed at 212 Grover Street that resulted in a five-year mortgage being attached to said property; and,

WHEREAS, the owners of the property at 212 Grover now wish to refinance a prior existing mortgage on their property,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MUSCATINE that the Mayor of The City of Muscatine be authorized to sign an agreement, subordinating the city's five-year Housing Fund mortgage for 212 Grover Street to a mortgage from Central State Bank.

PASSED, APPROVED, AND ADOPTED this 8th day of March 2012.

**BY THE CITY COUNCIL OF THE
CITY OF MUSCATINE, IOWA**

ATTEST:

DeWayne M. Hopkins, Mayor

Gregg Mandsager, City Clerk

Prepared by/Return to: Amy Woods, Central State Bank-301 Iowa Ave.-Muscatine, IA 52761 563-263-3131

SUBORDINATION AGREEMENT

This Agreement is made as of March 8, 2012, by The City of Muscatine ("Lender A"), an Iowa Municipality, in favor of Central State Bank ("Lender B"), an Iowa Corporation.

1. **RECITALS.**

a. Lender A is the present owner and holder of a certain promissory note dated July 2, 2010 in the original principal amount of \$24,999.00 ("Lender A Note"), executed by Matthew C. Donath and Jacklyn Donath, husband and wife, ("Borrowers"), payable to the order of Lender A. Payment of Lender A Note is secured by a mortgage on the real estate described below ("Real Estate") in Muscatine County, Iowa; the mortgage is dated July 2, 2010 and is recorded on September 17, 2010 as Document # 2010-04565 in the Muscatine County Recorder's office ("Lender A Mortgage"):

Lots 9 and 10, in Block 13 of A. Smalley's 3rd Addition to South Muscatine, an Addition to the City of Muscatine, in Muscatine County, Iowa.

b. Lender B is the owner and holder of a certain promissory note dated March 7, 2012, in the original principal amount of \$ 79,600.00 ("Lender B Note"), payment of which is secured by a mortgage on the same real estate recorded as Document No. _____ in the Muscatine County Recorder's office ("Lender B Mortgage").

2. **SUBORDINATION.** For value received, Lender A covenants, stipulates, and agrees with Lender B that all liens, encumbrances, security interests, and assignments of every kind and character created under, renewed, and extended under or existing by virtue of Lender A Mortgage affecting the real property and improvements described therein are expressly subordinated and made secondary and inferior to the liens, mortgages, encumbrances, security interests, and assignments created under, renewed, and extended under or existing by virtue of Lender B Mortgage.

3. **RENEWALS.** This Agreement shall extend to any renewal, extension, or rearrangement of all or any part of Lender B Note, and notice of any such renewal, extension, or rearrangement and the consent thereto of Lender A or any other owner or holder of the Lender A Note shall not be required.

4. **WAIVER.** This Agreement and the covenants and agreements contained herein shall not be impaired, reduced, or affected by the taking of any other security for the Lender B Note or the release, surrender, or loss of any other security or collateral (whether personal or otherwise) for the payment of the Lender B Note or the failure, neglect, or refusal of Lender B to enforce any other security or collateral (whether personal or otherwise) for the payment of the Lender B Note.

5. **EFFECT.** This Agreement shall be binding on Lender A and its successors and assigns, including each and every subsequent owner and holder of the Lender A Note, and the provisions of this Agreement shall inure to the benefit of Lender B, its successors and assigns, including, without limitation, each and every subsequent owner and holder of the Lender A Note or any renewal, extension or rearrangement thereof.

Signed as of the date stated in the introductory paragraph.

City of Muscatine

By _____
DeWayne M. Hopkins

STATE OF IOWA, MUSCATINE COUNTY, ss.

On March ____, 2012, _____ appeared personally before the undersigned Notary Public and, being duly sworn, stated that he/she is the _____ of the corporation which executed the preceding document, (the corporate seal is/is not affixed), and the document was signed on the corporation's behalf by authority of its Board of Directors; and such officer acknowledged the voluntary execution of the document by him/her and by the corporation.

Notary Public in and for
the State of Iowa