



# MEMORANDUM

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"...meeting community needs...enhancing quality of life."

TO: Community and Economic Development Committee  
FROM: Laura Bonnet  
DATE: October 24, 2013  
RE: Appeal to Current Subordination Policy

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In October 2013, the City of Appleton denied a subordination request from Douglas and Lori Sultze for their Rental Rehabilitation Loan. The request was denied for the following reasons based on the City's current Subordination Policy (see attached):

- A. Property is not owner occupied (Item B4 in the policy)
- B. Property owner does not meet the Homeowner Rehabilitation Loan Program's current income requirements (Item B2 in the policy). The property owner's 2012 income is over twice the current income limit of \$57,750 for a family of four.

The Sultze's are appealing the denial because they currently have an adjustable rate mortgage (ARM) and the interest rate could go up if they are unable to refinance their loan. The following is a statement from Lori Sultze:

I currently have a loan with the City of Appleton on one of my investment properties at 806 W Washington St, Appleton, WI. My primary mortgage on the property is on an adjustable rate mortgage with Chase Bank. I am attempting to convert this loan to a fixed interest loan (no cash out); however, I understand the City has declined the request to subordinate. I would like the committee/council to reconsider its decision on this issue. I have discussed with Chase and they are unwilling to refinance for the full amount as that would put the loan at 123% to value and they are only willing to go up to 85% maximum. Also, I do not have the funds to pay off the loan; therefore, my only option is to appeal because my interest rate could go as high as 12% because the primary mortgage is on an ARM and I am only attempting to refinance it to a fixed rate (no cash out) to keep the mortgage payments reasonable.

Based on the Mortgage Note for Rental Rehabilitation Program, it states:

**FOR VALUE RECEIVED**, the undersigned, hereafter, also referred to as "Owner", promises to pay to the order of the City of Appleton, at City Hall, Appleton, Wisconsin, the principal sum of Twenty-Nine Thousand Six Hundred Ninety-six and 50/100 Dollars (\$29,696.50), immediately due and payable upon the sale, transfer death of the property owner(s), or upon vacation of the property by the owner(s) subject to the mortgage securing this note.

Principal shall bear no interest so long as the property's use remains consistent with the Covenants signed by the owner and the property remains insured according to the terms set forth in the Mortgage securing this Note. Should owner(s) breach any applicable Covenant, vacate the property, or upon death of the owner(s), the principal shall bear interest at the rate of ten percent (10%) per annum, commencing thirty (30) days after the breach of the Covenant, owner's death, or the date the property is vacated.

Should owner(s) sell or transfer the property to any third party, the principal shall, commencing at the time of sale on transfer, bear interest at the rate of ten percent (10%) per annum.

In the event Owner(s) fail to comply with the insurance requirements as set forth in the Mortgage, the

*principal shall bear interest at the rate of the ten percent (10%) per annum commencing thirty (30) days after the mailing of a notice of non-compliance to the Owner(s).*

We are not selling or transferring the property and obviously, this is not a result of a death. The vacation of the property clause does not apply as this is a rental rehabilitation mortgage note, and we have never occupied the property, even at the time of the signing of this Note. It has always been a rental investment and will continue to be a rental investment, which complies with the clause of the "property's use remains consistent." In addition, insurance has continuously been maintained on the property. Therefore, I do not believe we have broken any of the Covenants of the Note, and just ask that we be able to refinance the primary loan with Chase Bank in order to keep the interest rate reasonable, which will then allow us to keep the rent reasonable.

Thank you for your consideration.  
Lori Sultze

## **RECOMMENDATION:**

The Committee uphold the current Subordination Policy and not approve the request for subordination on the Rental Rehabilitation Loan for Douglas and Lori Sultze.