

University of California
Annual Report on the
University Employee
Housing Assistance Program

Fiscal Year Ended June 30, 2015

University of California
Office of the President
Executive Vice President - Chief Financial Officer
Office of Loan Programs
1111 Franklin Street, 6th Floor
Oakland, CA 94607-5200

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Introduction

This Annual Report on the University Employee Housing Assistance Program (Program) provides an overview of the activities of the Office of Loan Programs (OLP) for the fiscal year that ended on June 30, 2015. The President is required to report annually on Program performance and to include information regarding origination volume, portfolio balance, and rate of return calculations for the Program. In addition, the President is required to report the number, total dollar amount, and average loan amount of loans made to members of the Senior Management Group.

OLP plans, develops, and administers the Program components for members of the Academic Senate, members of the Senior Management Group, and other designated classes of employees, as approved by the Regents in June 1984 and amended from time to time. The housing and loan-related operations of OLP are self-supporting, utilizing service fee revenues and Faculty Housing Program Reserve Fund earnings.

The main Program components are the Mortgage Origination Program (MOP) and the Supplemental Home Loan Program (SHLP). MOP provides first deed of trust mortgage loans, using funds allocated from the University's Short-Term Investment Pool (STIP). SHLP primarily provides secondary financing, using authorized campus fund sources. In limited cases, SHLP provides primary mortgage loan financing. See Appendix A.4 for a full description of available loan products.

Effective February 1, 2014, the residential lending activities of OLP are administered by the University of California Home Loan Program Corporation, a (501)(c)(3) corporation. The corporation was formed to qualify OLP as a Small Creditor with respect to the Consumer Financial Protection Bureau's (CFPB's) Ability-to-Repay rule.

The body of this report provides the following information:

- ❖ Loan activity levels, including the number and dollar volume of mortgages initiated in fiscal year 2014-2015, and a comparison to loan activity levels for the prior fiscal year, 2013-2014.
- ❖ Loan portfolio statistics, including the total number and dollar amount of mortgage loans outstanding as of June 30, 2015.
- ❖ MOP earnings analysis, including the average rate of return of the MOP portfolio as of June 30, 2015 as compared to the STIP rate of return, and the dollar amount of the earnings differential between the MOP portfolio and STIP.
- ❖ Summary report of the loan activity for members of the Senior Management Group.
- ❖ Data related to portfolio loan sales completed during the fiscal year pursuant to the Mortgage Origination Program Portfolio Sale Program.

Appendix A contains a description of the active Program components, and Appendix B contains a summary of loan types requiring additional approval. Appendix C presents a summary of the loan activity for the Corporation since its formation.

2014-2015 Housing Assistance Program Status Report

Loan Activity Levels

As shown in Table 1, OLP funded 241 MOP loans in fiscal year 2014-2015, with an aggregate dollar amount of \$147.3 million. The total number of loans funded represents a 5.2% year-to-year increase (12 more loans than the previous fiscal year), but a corresponding 2% decrease in the total dollar volume funded. No MOP loans were funded at UCOP during the fiscal year.

The increase in the usage of MOP can be partially attributed to the availability of the new 5/1 Mortgage Origination Program loan product (5/1 MOP), which is a fully-amortizing mortgage loan that offers an initial fixed interest rate and payment for the first 5 years of the loan, after which the loan converts to a 1-year adjustable rate mortgage (Standard MOP) for the remaining loan term. Additionally, increasing recruitment levels and a robust housing market have contributed to the increase in annual loan volume. The no lender-fee structure and the availability of favorable underwriting terms continue to make the MOP loan product a valuable recruitment and retention tool.

**Table 1: Mortgage Origination Program (MOP) Statistics by Location
Fiscal Year 2014-2015**

Location	Number Of Loans	Dollar Value Of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	34	\$25,489,400	\$749,688	32	2
Davis	34	19,321,750	568,287	26	8
Irvine	47	23,367,350	497,178	42	5
Los Angeles	23	17,782,550	773,154	13	10
Merced	9	2,493,450	277,050	9	0
Riverside	17	7,756,850	456,285	15	2
San Diego	28	18,018,150	643,505	25	3
San Francisco	15	13,267,250	884,483	14	1
Santa Barbara	7	6,475,400	925,057	4	3
Santa Cruz	26	12,277,600	472,215	18	8
Lawrence Berkeley National Lab	1	1,039,500	1,039,500	1	0
UCOP	0	0	0	0	0
Totals/Average	241	\$147,289,250	\$611,159	199	42

Table 2 displays the annual loan volume statistics for the SHLP program. In fiscal year, 2014-2015, OLP funded 31 SHLP loans, with an aggregate dollar amount of \$1.8 million. There was a 40.9% year-to-year increase in the number of loans funded but a 60.1% decrease in the dollar volume of loans funded. The decrease in dollar volume is primarily due to smaller loans which were funded by the Berkeley and Los Angeles campuses.

No SHLP loans were funded at Merced, Riverside, Santa Barbara, LBNL or UCOP during the fiscal year. These locations have limited or no funding available for SHLP loans.

**Table 2: Supplemental Home Loan Program (SHLP) Statistics by Location
Fiscal Year 2014-2015**

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	1	\$ 26,300	\$26,300	1	0
Davis	3	79,750	26,583	2	1
Irvine	11	232,100	21,100	11	0
Los Angeles	1	20,000	20,000	1	0
Merced	0	0	0	0	0
Riverside	0	0	0	0	0
San Diego	4	138,100	34,525	4	0
San Francisco	6	1,220,000	203,333	5	1
Santa Barbara	0	0	0	0	0
Santa Cruz	5	107,400	21,480	5	0
Lawrence Berkeley National Lab	0	0	0	0	0
UCOP	0	0	0	0	0
Totals/Average	31	\$1,823,650	\$58,827	29	2

Chart 1 presents a comparison of the number and dollar volume of MOP loans made in fiscal year 2014-2015 to the activity levels for fiscal year 2013-2014. Chart 2 presents the same data for SHLP loans.

Chart 1
Mortgage Origination Program Activity Levels by Location
Number and Dollar Volume of Loans
Comparison of 2013-2014 and 2014-2015 Totals

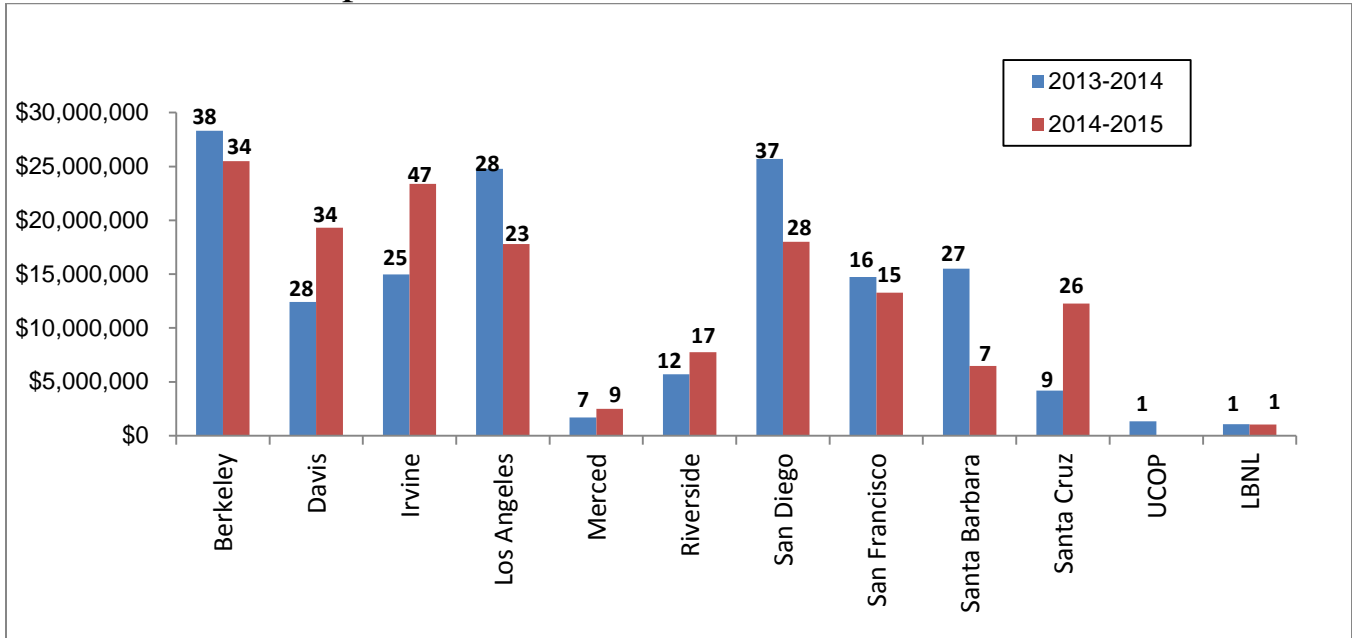
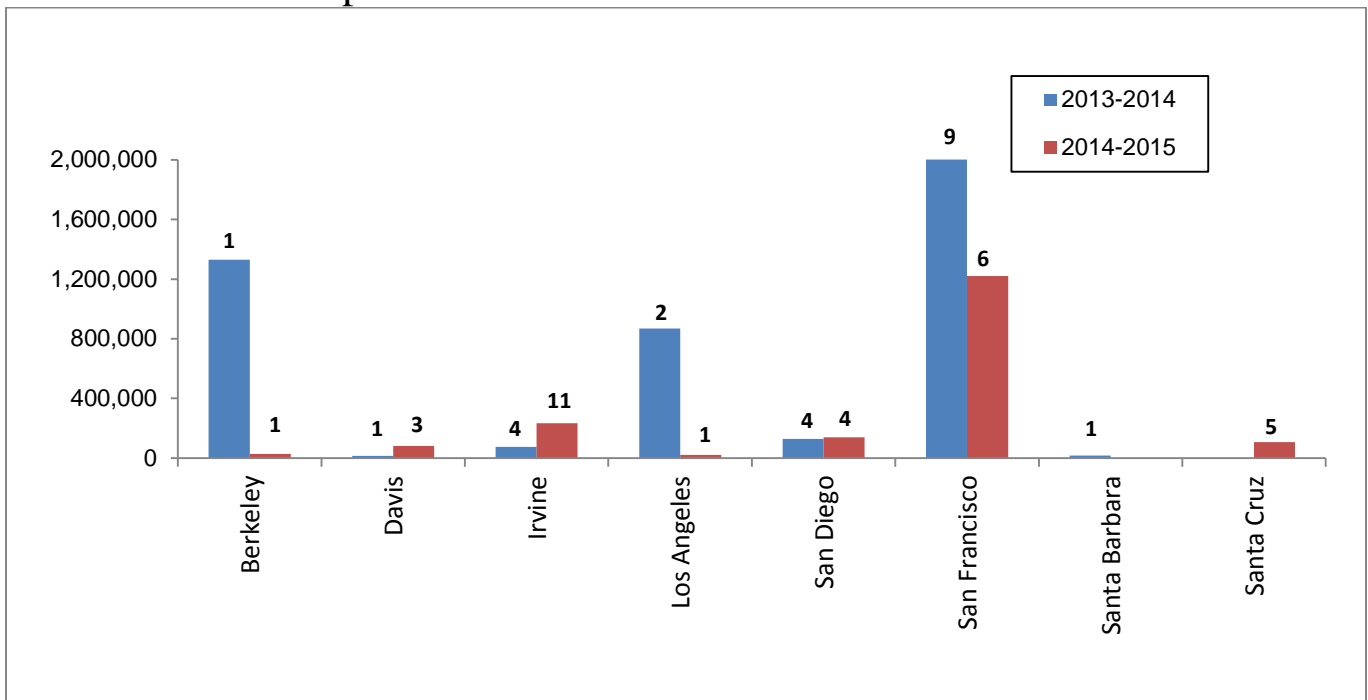


Chart 2
Supplemental Home Loan Program Activity Levels by Location
Number and Dollar Volume of Loans
Comparison of 2013-2014 and 2014-2015 Totals



Senior Management Group Statistics

Table 3 displays the number, dollar amount, and average loan amount of MOP loans made to members of the Senior Management Group (SMG) for fiscal year 2014-2015. There were no SHLP loans made to SMG members in 2014-2015.

**Table 3: Mortgage Origination Program Loans made to SMG Employees
Fiscal Year 2014-2015**

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Davis	3	\$ 2,707,500	\$902,500	2	1
Merced	1	314,900	314,900	1	0
Riverside	1	408,900	408,900	1	0
San Diego	2	1,226,000	613,000	2	0
Totals/Average	7	\$4,657,300	\$665,329	6	1

Cumulative Program Data

Loan Portfolio Statistics

MOP

From program inception in June 1984 through June 30, 2015, OLP has funded 6,077 MOP loans with an aggregate dollar amount of \$2.7 billion. The servicing portfolio as of June 30, 2015 consists of 2,754 loans with an outstanding portfolio balance of \$1.24 billion. Of the outstanding servicing portfolio, 373 loans are held in the University's portfolio (UC-owned) and have an aggregate principal balance of \$224 million. The remainder of the loan portfolio consists of 2,381 loans that have been sold to outside investors (Investor-owned) loans with an aggregate principal balance of \$1.02 billion. These loans are also serviced by OLP.

SHLP

From program inception in March 1993 through June 30, 2015, OLP has funded 1308 SHLP loans with an aggregate dollar amount of \$126.3 million. The servicing portfolio as of June 30, 2015 consists of 294 loans with an outstanding portfolio balance of \$31.5 million. Of the outstanding servicing portfolio, 229 are UC-owned loans and have an aggregate principal balance of \$28.1 million. The remainder of the portfolio consists of 65 Investor-owned loans with an aggregate principal balance of \$3.4 million.

MOP Portfolio Loan Sales

In order to increase the liquidity of STIP and to make additional funds available for new Mortgage Origination Program loans, the University periodically sells loans to outside investors. In fiscal year 2014-2015 the University successfully completed one loan sale for a total of 64 MOP loans and an aggregate outstanding balance of \$41.4 million. The sale of these loans resulted in a net to the University of 102.2% of par value.

MOP Earnings Analysis

When MOP was established, it was determined that any cumulative shortfalls in earnings and any principal losses to the MOP portfolio would be repaid to STIP from the Faculty Housing Program Reserve Fund (Reserve). Conversely, any excess MOP earnings would be transferred from STIP to the Reserve. A comparison of MOP earnings vs. STIP earnings is completed each month, accompanied by transfers of the overage/shortfall in earnings between STIP and the Reserve. The 5/1 MOP loans are considered an alternative investment of STIP and any excess earnings or shortfalls are not included in the monthly MOP/STIP calculations.

In fiscal year 2014-2015, STIP earned a gross rate of return of 1.5% (as published in The Investment Performance Summary prepared by the Office of the Chief Investment Officer). This compares to an average rate of return for UC-Owned MOP loans outstanding as of June 30, 2015 of 2.61%. As a result of the MOP portfolio rate of return outperforming the STIP rate of return, a total dollar amount of \$1,859,331 in excess earnings was transferred to the Reserve from STIP.

In fiscal year 2014-2015, there were no loan losses associated with MOP or SHLP.

Events Subsequent to the Reporting Period

Compliance

Effective October 3, 2015, OLP is subject to new compliance regulations issued by the Consumer Financial Protection Bureau (CFPB) known as the Truth-in-Lending Act/Real Estate Settlement Procedures Act Integrated Disclosure (TRID) rule. TRID was developed to increase transparency to consumers regarding the costs associated with receiving a mortgage loan. Implementation of TRID requirements is complex given the intricacies of the rule that apply to all businesses associated with residential mortgage lending. OLP has implemented all required systems and procedures necessary to ensure adherence to TRID.

Regents Actions

In November 2015, the Regents approved three actions associated with the Housing Assistance Programs:

- (1) MOP and SHLP eligibility requirements were expanded to include UC Hastings College of the Law (UC Hastings) faculty. This change will provide UC Hastings with the ability to offer loan program participation as part of the hiring package for new faculty recruits. Availability of housing assistance will help to offset the high cost of housing in the San Francisco Bay Area.

The projected loan volume for UC Hastings faculty is a maximum of five loans per year, with anticipated loan amounts not to exceed \$1.0 million. The UC Hastings loans will be funded from the UCOP MOP allocation.

- (2) A source of funding was designated for SHLP loans, with an initial allocation of \$5.5 million from the Faculty Housing Programs Reserve Fund. This centrally-funded pool will provide a stable source of funding to provide secondary mortgages to assist loan program participants who have limited downpayment resources.
- (3) The policy that provided a means for utilizing SHLP loans for renovation purposes was rescinded. Due to low utilization and increased regulation of the mortgage industry, this loan option is no longer offered.

Appendix A: Available Loan Products

A.1 Mortgage Origination Program (MOP)

The Mortgage Origination Program utilizes funds from the University's Short-Term Investment Pool (STIP) to make first deed-of-trust loans to eligible employees. The eligible population for participation in MOP is limited to full-time University appointees who are members of the Academic Senate or who hold equivalent academic titles, Acting Assistant Professors, and members of the Senior Management Group.

MOP loans are structured as adjustable interest rate loans with loan-to-value ratios of up to 90.0% and repayment periods of up to 30 years. Campuses and other applicable locations have the option to offer loans with maturities up to 40 years if the Chancellor, LBNL Director or other authorized individual completes a request that includes acceptance of the risk associated with making loans with features of a non-Qualified Mortgage, as defined by the Consumer Financial Protection Bureau.

The standard MOP interest rate is indexed to the most recently available four-quarter average rate-of-return of STIP, plus an administrative fee of one-quarter of one percent. The program has had cumulative allocations of \$3.23 billion through June 2016. As of June 30, 2015, \$561.5 million is available for new loans.

MOP loans funded after August 1, 2010 have a minimum rate of 3.0% and MOP loans funded on or after January 1, 2014 have an interest rate cap of 10.0% above the initial loan interest rate.

A.2 Graduated Payment Mortgage Origination Program (GP-MOP)

The Graduated Payment MOP (GP-MOP) is a loan that provides a lower interest rate to the borrower during the initial years of the loan. The initial rate paid by the borrower is a pre-determined amount less than the standard MOP Rate, with a minimum interest rate of 3.0%. The amount of the borrower's rate reduction (Interest Rate Differential) becomes smaller each year for a set number of years (Rate Differential Period). During the Rate Differential Period, the campus reimburses STIP for any shortfall in earnings that result from the lower Borrower Rate. Of the MOP loans funded in fiscal year 2014-2015, one GP-MOP loan was funded, with a total dollar amount of \$1,330,000.

GP-MOP loans funded on or after January 1, 2014 have an interest rate cap of 10% above the initial Borrower Rate.

A.3 5/1 MOP Mortgage Origination Program (5/1 MOP)

The 5/1 Mortgage Origination Program (5/1 MOP) loan is a fully-amortizing mortgage loan that offers an initial fixed interest rate and payment for the first five years of the loan, after which the loan converts to a 1-year adjustable rate mortgage (Standard MOP) for the remaining loan term. The maximum overall loan term is 30 years. The initial interest rate in effect during the Fixed Rate Period of the loan is comprised of the following three components: the 5-year Treasury Bond Yield, the J.P. Morgan U.S. Liquid Index (JULI Index) and a .25% service fee. The rate to be used for new loans is updated weekly and once a commitment is made to a borrower, the rate is locked for 30 days. The minimum interest rate is set at 3.5%, and drops to 3.0% after the Fixed Rate Period. Of the MOP loans funded in fiscal year 2014-2015, 49 5/1 MOP loans were funded, with a total dollar amount of \$26.9 million.

5/1 MOP loans funded on or after January 1, 2014 have an interest rate cap of 10% above the initial interest rate.

A.4 Supplemental Home Loan Program (SHLP)

The Supplemental Home Loan Program primarily provides second deeds of trust for mortgage financing (a limited number of these loans are used to secure a first deed of trust on a property being purchased). SHLP loans are funded from campus resources (for example, Chancellor's discretionary funds). State funds cannot be used as a funding source.

SHLP loans funded after August 1, 2010 have a minimum rate of 3.0%.

Appendix B: Loans Requiring Additional Approval

Current Program parameters provide for an additional approval process to address unusual recruitment or retention needs. Any position specifically designated by the Regents as requiring Regents approval for compensation-related matters must also receive Regents approval for loan-related matters. All other requests must be supported by a recommendation by the Chancellor or the LBNL Director. Below is a summary of the categories of loans requiring additional approval from either the President and/or the Regents.

- **Maximum Loan Amount:** The President, with concurrence of the Chairman of the Board of Regents and the Chairs of the Committees on Finance and Compensation, may approve MOP and SHLP loan amounts for greater than the maximum loan amount as approved by the Regents. The current maximum loan amount for MOP or SHLP loans is \$1.33 million.
- **GP-MOP Terms:** The President is authorized to approve an initial rate reduction amount greater than 3 percent and/or an annual adjustment to the rate reduction amount outside the standard rate reduction range of 0.25% to 0.50%.
- **Non-Standard Titles:** Effective July 18, 2015, the President executed a Delegation of Authority (DA2587) to certain University officials to provide them with the ability to designate MOP or SHLP participation for University employees with specific non-eligible titles. The President retains the authority to designate MOP or SHLP participation for titles not included in DA2587.
- **Maximum Loan-to-Value (LTV) Ratio:** The President, with concurrence of the Chairman of the Board of Regents and the Chairs of the Committees on Finance and Compensation, may approve an increase to the maximum LTV, to no more than 90.0%, for loans in excess of the current Indexed Program Loan Threshold.

In fiscal year 2014-15, 3 loans were funded that required additional approval. The Berkeley campus received approval for a GP-MOP loan with non-standard terms. The Merced campus and the Lawrence Berkeley National Laboratory each received approval for a loan with a non-standard title. All of these loans were utilized for recruitment purposes.

**Table B.1: Loans Requiring Additional Approval
(Cumulative Statistics: June 1984 - June 2015)**

MOP Loans					
Category	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Maximum Loan Amount	8	\$12,446,500	\$1,555,813	7	1
Non-Standard GP-MOP	15	\$15,323,900	\$1,001,707	10	5
Non-Standard Title	62	\$42,563,700	\$687,045	50	12
Position Requiring Regents Approval	39	\$30,992,300	\$794,674	35	4
SHLP Loans					
Category	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Maximum Loan-to-Value Ratio	3	\$390,750	\$130,250	3	0
Non-Standard Title	44	\$14,346,442	\$326,055	30	14
Position Requiring Regents Approval	7	\$5,081,200	\$25,886	7	0

Appendix C: UC Home Loan Program Corporation Statistics

The University of California Home Loan Program Corporation (UCHLP) was formed to perform the residential lending activities associated with the University's Housing Assistance Programs. UCHLP began making loans effective February 1, 2014.

From the inception of the Corporation to June 30, 2015, UCHLP funded 326 MOP loans with an aggregate dollar amount of \$204,122,850. The outstanding principal balance of Corporation loans is \$197,306,533 as of June 30, 2015.

UCHLP also funded 44 SHLP loans with an aggregate dollar amount of \$5,263,250 and an outstanding principal balance of \$5,038,977 as of June 30, 2015.

Table C.1: Corporation-Funded Mortgage Origination Program Statistics by Location, Cumulative through June 30, 2015

Location	Number Of Loans	Dollar Value Of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	52	\$38,458,850	\$739,593	47	5
Davis	44	24,520,350	557,281	34	10
Irvine	53	26,459,050	499,227	46	7
Los Angeles	33	27,197,850	824,177	19	14
Merced	13	3,487,950	268,304	12	1
Riverside	20	9,165,300	458,265	18	2
San Diego	39	25,371,400	650,549	34	5
San Francisco	22	19,531,750	887,807	18	4
Santa Barbara	17	12,262,000	721,294	8	9
Santa Cruz	30	14,241,100	474,703	21	9
Office of the President	1	1,330,000	1,330,000	0	1
Lawrence Berkeley National Lab	2	2,097,250	1,048,625	1	1
Totals/Average	326	\$204,122,850	\$626,144	258	68

Table C.2: Corporation-Funded Supplemental Home Loan Program Statistics by Location, Cumulative through June 30, 2015

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	2	\$1,356,300	\$678,150	2	0
Davis	4	94,750	23,688	3	1
Irvine	12	262,100	21,842	12	0
Los Angeles	3	887,650	295,883	1	2
San Diego	7	237,450	33,921	6	1
San Francisco	11	2,317,600	210,691	7	4
Santa Cruz	5	107,400	21,480	5	0
Totals/Average	44	\$5,263,250	\$119,619	36	8