

# **University of California Annual Report on University Employee Housing Assistance Programs**

**Fiscal Year Ended June 30, 2008**

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## Introduction

This Annual Report on University Employee Housing Assistance Programs provides an overview of the activities of the Office of Loan Programs (OLP) for the fiscal year ended June 30, 2008. The President is required to report annually on the program performance and to include information regarding origination volume, portfolio balance, and rate-of-return calculations for the program.

OLP plans, develops, and administers the University's Regentally-approved loan programs for members of the Academic Senate, members of the Senior Management Group, and other designated classes of employees. The housing and loan-related operations of OLP are self-supporting, utilizing service fee revenues and Faculty Housing Programs Reserve Fund earnings.

The main components of the University's Housing Assistance Programs are the Mortgage Origination Program (MOP), the University's major first deed-of-trust lending program, using liquidity from the University's Short-Term Investment Pool (STIP), and the Supplemental Home Loan Program (SHLP), which provides primary and secondary financing, using authorized campus fund sources.

The body of this report provides the following information:

- Loan activity levels, including the number and dollar amount of mortgages initiated in fiscal year 2007-2008;
- Loan portfolio statistics, including the total number and dollar amount of mortgage loans outstanding as of June 30, 2008;
- Program liquidity requirements, including the funding authority for the program, and the percentage of available funds that have been utilized as of June 30, 2008; and
- MOP earnings analysis, including the average rate of return of the MOP portfolio as of June 30, 2008, and the dollar amount of the earnings differential between the MOP portfolio and STIP.

Appendix A contains a description of the active housing assistance programs, and Appendix B contains a summary of loan types requiring additional approval.

## 2007-2008 Housing Assistance Programs Status Report

### Loan Activity Levels

As shown in Table 1, The Office of Loan Programs funded 366 MOP loans in fiscal year 2007-2008, with an aggregate dollar amount of \$211.8 million. This represents a 37.6% year-to-year increase in the number of loans funded, and a 30.6% increase in the total dollar volume funded. In addition, as shown in Table 2, OLP funded 72 SHLP loans, with an aggregate dollar amount of \$6.4 million. This represents a 76% year-to-year increase in the number of loans funded, and a 56% increase in the total dollar volume funded.

The high utilization of MOP and SHLP is attributed, in part, to the tightening of credit availability in the conventional mortgage market, and the degree of difficulty recruiting faculty to high priced real estate markets near the campuses and the Lawrence Berkeley National Laboratory (LBNL). The no lender fee structure and the favorable underwriting terms continue to make the MOP and SHLP loan products a valuable recruitment and retention tool.

Table 1: Mortgage Origination Program (MOP) Statistics by Location  
Fiscal Year 2007-2008

Location	Number Of Loans	Dollar Value Of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	49	\$31,947,100	\$651,982	39	10
Davis	40	18,036,150	450,904	37	3
Irvine	90	37,184,850	413,165	84	6
Los Angeles	48	36,643,150	763,399	25	23
Merced	5	1,666,900	333,380	5	0
Riverside	31	15,059,450	485,789	27	4
San Diego	35	21,756,050	621,601	31	4
San Francisco	26	22,966,650	883,333	19	7
Santa Barbara	13	10,004,950	769,612	11	2
Santa Cruz	22	10,615,400	482,518	13	9
Office of the President	5	4,028,450	805,690	4	1
Lawrence Berkeley National Laboratory	2	1,880,000	940,000	1	1
<b>Totals/Average</b>	366	\$211,789,100	\$578,659	296	70

Table 2: Supplemental Home Loan Program (SHLP) Statistics by Location  
Fiscal Year 2007-2008

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	9	\$ 297,100	\$33,011	8	1
Davis	6	152,750	25,458	6	0
Irvine	24	440,450	18,352	24	0
Los Angeles	3	3,500,000	1,166,667	3	0
Merced	0	0	0	0	0
Riverside	11	248,900	22,627	9	2
San Diego	0	0	0	0	0
San Francisco	7	1,344,000	192,000	7	0
Santa Barbara	0	0	0	0	0
Santa Cruz	12	457,400	38,117	10	2
Office of the President	0	0	0	0	0
Lawrence Berkeley National Laboratory	0	0	0	0	0
<b>Totals/Average</b>	72	\$6,440,600	\$89,453	67	5

## **Cumulative Program Data**

### **Loan Portfolio Statistics**

From program inception in July 1984 through June 30, 2008, OLP has funded 4,284 MOP loans with an aggregate dollar amount of \$1.63 billion. The outstanding servicing portfolio as of June 30, 2008 consists of 2,243 loans with an outstanding portfolio balance of \$944.4 million. Of the outstanding servicing portfolio, 1,054 loans are UC-owned with an aggregate principal balance of \$585.6 million. The remainder of the loan portfolio consists of 1,189 investor-owned loans with an aggregate principal balance of \$358.8 million, and is also serviced by OLP.

As of June 30, 2008 there are 193 UC-owned SHLP loans outstanding with an aggregate principal balance of \$26.0 million. The remainder of the portfolio consists of 78 investor-owned loans with an aggregate principal balance of \$9.2 million. In 2007-2008, the SHLP program experienced a loss of \$9,500 associated with an approved short sale transaction.

### **Program Liquidity Requirements**

The MOP parameters in effect as of June 30, 2008 allow the University to utilize a maximum of 30% of the legally available cash balances of the unrestricted portion of STIP, which has a June 30, 2008 balance of \$4.6 billion. The UC-owned loan portfolio balance of \$585.6 million represents 12.7% of this STIP balance. This percentage falls well within the programmatic requirements and provides additional liquidity for future funding needs.<sup>1</sup>

In order to increase the liquidity of STIP and to make additional funds available for the Mortgage Origination Program, the University sold \$707 million in MOP loans to six investors between July 2002 and February 2005. During the same period of time, SHLP loans totaling \$15.2 million were sold in order to increase the availability of campus funds for the Supplemental Home Loan Program.

### **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 Programs 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 Faculty Housing Programs Reserve.

For the period July 1, 2007 through June 30, 2008, the annual MOP portfolio rate of return underperformed the STIP rate of return by \$292,038. The dollar amount of the shortfall was transferred from the Faculty Housing Programs Reserve to STIP. An additional \$7,500 was transferred to reimburse STIP for a principal loss associated with an approved short sale transaction. The average rate of return of MOP loans outstanding as of June 30, 2008 was 4.73%.

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<sup>1</sup> Prior to November 2008, funding authority for MOP loans was limited to 30% of the legally available cash balances in the unrestricted portion of STIP. In November 2008, the Regents approved a new level of MOP authority, such that the combination of outstanding MOP loans, Medical Center working capital, and Commercial Paper is limited to 40% of the combined balances of STIP and the Total Return Investment Pool (TRIP). This change is expected to provide at least the same level of funding authority for MOP that existed prior to the establishment of TRIP.

## **Appendix A: Program Descriptions**

This Appendix presents a brief description and summary of the parameters of the Mortgage Origination and Supplemental Home Loan Programs.

### **A.1. Mortgage Origination Program**

The Mortgage Origination Program was authorized by The Regents in July 1984 and utilizes funds from the University's Short-Term Investment Pool (STIP) to make first deed-of-trust loans to eligible employees. MOP loans are structured as adjustable interest rate loans with loan-to-value ratios of up to 90% and repayment periods of up to 40 years. 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 \$2.280 billion through June 2008.

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.

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

In November 2001, The Regents approved a variation on the standard MOP loan product. 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 3.00%. 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 2007-2008, 29 represented GP-MOP loans, with a total dollar amount of \$21.2 million.

### **A.3 Interest-Only Mortgage Origination Program (IO-MOP)**

In May 2007, The Regents approved the Interest-Only MOP product. This loan product features an interest-only repayment period of up to ten years, followed by a fully-amortizing period of not less than 30 years. During the interest-only period, the interest-only rate (IO-MOP rate) is calculated as the standard MOP rate, plus an additional fee component of .25%. There is no negative amortization with an IO-MOP loan. Of the MOP loans funded in fiscal year 2007-2008, 31 represented IO-MOP loans, with a total dollar amount of \$18.7 million.

### **A.4. Supplemental Home Loan Program**

The Supplemental Home Loan Program primarily provides second deeds of trust for mortgage financing, but can also be used to secure a first deed of trust on a property being purchased. A total of two million dollars was allocated to the campuses in 1982, to be repaid together with 6% simple interest no later than June 30, 2010. The Los Angeles and Berkeley campuses have repaid their portion of the original loan, and the Irvine campus has made a partial repayment. The Merced campus was granted an allocation of \$250,000 to be repaid together with STIP interest no later than June 30, 2015.

## Appendix B: Loans Requiring Additional Approval

This Appendix presents a description of loans requiring additional approval.

Current Program parameters provide for approval processes to address unusual recruitment or retention needs. Approvals for non-academic appointees with total cash compensation in excess of the Indexed Compensation Level and any position specifically designated by The Regents as requiring Regents' approval for compensation-related matters must be approved by The Regents. 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 loan amounts for greater than the maximum loan amount as approved by the Regents. In May 2007, the Regents approved an increase in the maximum loan amount from \$1.0 million to \$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 Title:** The President is authorized to approve individuals not in the eligible population for MOP or SHLP participation.
- **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 for loans in excess of the current Indexed Program Loan Threshold.

The following table displays a cumulative statistical summary of loans that have been issued under MOP and SHLP that required additional approval.

**Table B.1: Loans Requiring Additional Approval (Statistics as of June 30, 2008)**

<b>MOP Loans</b>					
<b>Category</b>	<b>Number of Loans</b>	<b>Dollar Value of Loans</b>	<b>Average Loan Amount</b>	<b>Recruitment</b>	<b>Retention</b>
Maximum Loan Amount	4	\$5,134,000	\$1,283,500	4	0
GP-MOP Annual Rate Reduction	1	\$1,134,000	\$1,134,000	1	0
GP-MOP Initial Rate Reduction	1	\$1,000,000	\$1,000,000	1	0
GP-MOP Annual Rate Reduction And Initial Rate Reduction	3	\$2,892,500	\$964,167	2	1
Non-Standard Title	44	\$28,891,400	\$656,623	38	6
Indexed Compensation Level	23	\$18,867,350	\$820,320	21	2
<b>SHLP Loans</b>					
<b>Category</b>	<b>Number of Loans</b>	<b>Dollar Value of Loans</b>	<b>Average Loan Amount</b>	<b>Recruitment</b>	<b>Retention</b>
Maximum Loan-to-Value Ratio	3	\$390,750	\$130,250	3	0
Non-Standard Title	42	\$13,357,342	\$318,032	28	14
Indexed Compensation Level	4	\$3,084,700	\$771,175	4	0