

University of California Annual Report on University Employee Housing Assistance Programs

Fiscal Year Ended June 30, 2010

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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, 2010. 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. In addition, OLP is required to report the number, total dollar amount, and average loan amount of loans made to members of the Senior Management Group.

This report also includes data related to portfolio loan sales completed during the fiscal year pursuant to the Mortgage Origination Program Portfolio Sale 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 2009-2010, and a comparison to loan activity levels for fiscal year 2008-2009.
- Loan portfolio statistics, including the total number and dollar amount of mortgage loans outstanding as of June 30, 2010.
- Program liquidity requirements, including the funding authority for the program, and the percentage of available funds that have been utilized as of June 30, 2010.
- MOP earnings analysis, including the average rate of return of the MOP portfolio as of June 30, 2010, 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.
- Status of MOP Portfolio Loan Sales.

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

2009-2010 Housing Assistance Programs Status Report

Mortgage Origination Program

During fiscal year 2009-2010, the Office of Loan Programs funded 354 MOP loans, with an aggregate dollar amount of \$207.2 million (see Table 1). This represents a 2.8% year-to-year decrease (ten fewer loans than the previous fiscal year) in the number of loans funded, but a .09% increase in the total dollar volume funded.

The continued high utilization of MOP is attributed to the favorable MOP rate and the on-going difficulty in recruiting faculty to the 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 loan product a valuable recruitment and retention tool.

Table 1: Mortgage Origination Program (MOP) Statistics by Location
Fiscal Year 2009-2010

Location	Number Of Loans	Dollar Value Of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	56	\$37,710,500	\$673,402	44	12
Davis	34	13,364,950	393,087	21	13
Irvine	47	18,343,900	390,296	31	16
Los Angeles	58	48,005,950	827,689	43	15
Merced	9	2,061,900	229,100	9	0
Riverside	18	5,507,950	305,997	12	6
San Diego	45	27,204,050	604,534	43	2
San Francisco	29	24,138,200	832,352	25	4
Santa Barbara	30	17,976,250	599,208	30	0
Santa Cruz	23	9,745,300	423,709	19	4
Office of the President	4	2,475,350	618,838	3	1
Lawrence Berkeley National Laboratory	1	666,750	666,750	0	1
Totals/Average	354	\$207,201,050	\$585,314	280	74

Supplemental Home Loan Program

OLP funded 41 SHLP loans in fiscal year 2009-2010, with an aggregate dollar amount of \$3.48 million. This represents a 52.3% year-to-year decrease in the number of loans funded, and a 56.8% decrease in the total dollar volume funded. The significant decrease in the number of SHLP loans funded is due to a lack of campus resources available for SHLP loans. Table 2 provides a breakdown by campus of the total number and dollar amount of loans funded.

Table 2: Supplemental Home Loan Program (SHLP) Statistics by Location
Fiscal Year 2009-2010

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	4	\$ 129,600	\$32,400	4	0
Davis	6	148,950	24,825	5	1
Irvine	10	183,700	18,370	10	0
Los Angeles	4	1,066,950	266,738	2	2
Merced	0	0	0	0	0
Riverside	1	11,000	11,000	1	0
San Diego	1	25,000	25,000	1	0
San Francisco	7	1,596,500	228,071	6	1
Santa Barbara	0	0	0	0	0
Santa Cruz	8	316,700	39,588	5	3
Office of the President	0	0	0	0	0
Lawrence Berkeley National Laboratory	0	0	0	0	0
Totals/Average	41	\$3,478,400	\$84,839	34	7

Loan Activity Level Comparisons

Table 3 presents a comparison of the number and dollar amount of MOP loans made in fiscal year 2009-2010 to the activity levels for fiscal year 2008-2009. Table 4 presents the same data for SHLP loans. The reductions in loan volume at the Irvine and Santa Cruz campuses reflect the completion of sales of units in the most recent phases of the For-Sale Housing developments.

Table 3: Mortgage Origination Program (MOP) Activity Levels by Location
Fiscal Year 2009-2010

Location	Comparison of 2008-2009 and 2009-2010 Totals					
	<u>2008-2009</u>		<u>2009-2010</u>		<u>% Change</u>	
	Number of Loans	Dollar Value of Loans	Number of Loans	Dollar Value of Loans	Number of Loans	Dollar Value of Loans
Berkeley	40	\$27,146,700	56	\$37,710,500	40%	39%
Davis	38	18,135,000	34	13,364,950	-11%	-26%
Irvine	72	27,589,350	47	18,343,900	-35%	-34%
Los Angeles	46	37,938,100	58	48,005,950	26%	27%
Merced	5	1,180,450	9	2,061,900	80%	75%
Riverside	26	8,869,900	18	5,507,950	-31%	-38%
San Diego	39	24,818,350	45	27,204,050	15%	10%
San Francisco	23	19,673,700	29	24,138,200	26%	23%
Santa Barbara	21	14,097,000	30	17,976,250	43%	28%
Santa Cruz	50	21,823,600	23	9,745,300	-54%	-55%
UCOP	2	1,780,750	4	2,475,350	100%	39%
Lawrence Berkeley National Laboratory	2	2,213,150	1	666,750	n/a	n/a
Totals	364	\$205,266,050	354	\$207,201,050	-3%	1%

Table 4: Supplemental Home Loan Program (SHLP) Activity Levels by Location
Fiscal Year 2009-2010

Comparison of 2008-2009 and 2009-2010 Totals						
Location	<u>2008-2009</u>		<u>2009-2010</u>		<u>% Change</u>	
	Number of Loans	Dollar Value of Loans	Number of Loans	Dollar Value of Loans	Number of Loans	Dollar Value of Loans
Berkeley	7	\$626,950	4	\$129,600	-43%	-79%
Davis	8	166,700	6	148,950	-25%	-11%
Irvine	14	292,100	10	183,700	-29%	-37%
Los Angeles	6	3,606,300	4	1,066,950	-33%	-70%
Merced	0	0	0	0	n/a	n/a
Riverside	3	42,500	1	11,000	-67%	-74%
San Diego	2	55,500	1	25,000	-50%	-55%
San Francisco	7	1,267,500	7	1,596,500	0%	26%
Santa Barbara	1	54,500	0	0	-100%	-100%
Santa Cruz	38	1,932,450	8	316,700	-79%	-84%
UCOP	0	0	0	0	n/a	n/a
Lawrence Berkeley National Laboratory	0	0	0	0	n/a	n/a
Totals	86	\$8,044,500	41	\$3,478,400	-52%	-57%

Senior Management Group Statistics

Tables 5 and 6 display the number, dollar amount, and average loan amount of MOP and SHLP loans made to members of the Senior Management Group for fiscal year 2009-2010.

**Table 5: Mortgage Origination Program Loans made to Senior Management Group
Fiscal Year 2009-2010**

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	0	\$ 0	\$0	0	0
Davis	1	800,000	800,000	1	0
Irvine	1	300,000	300,000	1	0
Los Angeles	2	1,607,450	803,725	1	1
Merced	1	315,000	315,000	1	0
Riverside	1	409,500	409,500	1	0
San Diego	0	0	0	0	0
San Francisco	0	0	0	0	0
Santa Barbara	0	0	0	0	0
Santa Cruz	0	0	0	0	0
Office of the President	4	2,475,350	618,838	3	1
Lawrence Berkeley National Laboratory	0	0	0	0	0
Totals/Average	10	\$5,907,300	\$509,730	8	2

**Table 6: Supplemental Home Loan Program Loans made to Senior Management Group
Fiscal Year 2009-2010**

Location	Number of Loans	Dollar Value of Loans	Average Loan Amount	Recruitment	Retention
Davis	1	\$ 50,000	\$ 50,000	1	0
San Francisco	1	1,237,500	1,237,500	1	0
Totals/Average	2	\$1,287,500	\$509,730	2	0

Cumulative Program Data

Loan Portfolio Statistics

From program inception in July 1984 through June 30, 2010, OLP has funded 5,002 MOP loans with an aggregate dollar amount of \$2.04 billion. The servicing portfolio as of June 30, 2010 consists of 2,632 loans with an outstanding portfolio balance of \$1.19 billion. Of the outstanding servicing portfolio, 1,428 loans are UC-owned with an aggregate principal balance of \$799.4 million. The remainder of the loan portfolio consists of 1,204 investor-owned loans with an aggregate principal balance of \$393.7 million, and is also serviced by OLP. The average rate of return of MOP loans outstanding as of June 30, 2010 is 3.36%.

As of June 30, 2010 there are 290 UC-owned SHLP loans outstanding with an aggregate principal balance of \$34.6 million. The remainder of the portfolio consists of 50 investor-owned loans with an aggregate principal balance of \$5.9 million.

Program Liquidity Requirements

The MOP parameters in effect as of June 30, 2010 state that the combined balance of outstanding MOP loans, Medical Center working capital, and Commercial Paper is limited to 40% of the combined Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) balances. As of June 30, 2010, the combined STIP/TRIP balance was \$10.852 billion. The UC-owned loan portfolio balance of \$799.4 million represents 7.4% of the combined STIP/TRIP balance. The combined balance of MOP loans, plus set asides for Commercial Paper and Medical Center Working Capital represents 27.8% of the STIP/TRIP balance. This percentage falls within the programmatic requirements and provides additional liquidity for future funding needs.

MOP Portfolio Loan Sales

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. In January 2010, the University successfully completed an additional loan sale of 214 MOP loans totaling \$116 million. The sale of these loans resulted in a net to the University of 99.365% of par value. The Faculty Housing Programs Reserve Fund is used to reimburse STIP for the transaction costs associated with loan sales when less than par value is realized by the University.

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. The financial performance of the Reserve is an indicator of the financial health of the overall program. Since the inception of MOP, the Reserve fund balance has grown from \$9.3 million in July 1984 to \$52.5 million as of June 30, 2010.

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, 2009 through June 30, 2010, the annual MOP portfolio rate of return outperformed the STIP rate of return by \$9,340,553. The dollar amount of the overage was transferred to the Faculty Housing Programs Reserve from STIP.

Loan Loss Analysis

The MOP and SHLP portfolios have historically had minimal principal losses associated with loan defaults. Between July 1994 and May 1997, the University suffered principal losses totaling \$1.04 million. Between fiscal years 1998-99 and 2006-07, the Program suffered no principal losses. In 2007-2008, MOP loan losses totaled \$7,500 and in 2008-2009, there were \$246,600 in losses.

In 2009-2010, the MOP program experienced losses associated with three approved short sale transactions. A transfer of \$260,500 was completed from the Faculty Housing Programs Reserve to reimburse STIP for the principal losses associated with these transactions.

Based on an internal analysis of the existing portfolio, approximately 25% - 35% of MOP borrowers owe more than the current value of the property securing the loan. This is an estimate only, as updated appraisals would be required on all loans in the portfolio to increase accuracy. According to CoreLogic, a real estate data firm, as of June 2010, 33.1% of all California homeowners with a mortgage owe more than their property is worth. The University will continue to manage the risk of additional principal loss as the California housing market recovers.

Appendix A: Program Descriptions

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 \$2.580 billion through June 2010. As of June 30, 2010, \$538,723,320 in allocation funding is available for new loans. Effective August 1, 2010, the minimum interest rate on newly funded loans is 3.0%.

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 2009-2010, 19 represented GP-MOP loans, with a total dollar amount of \$17 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 2009-2010, 32 represented IO-MOP loans, with a total dollar amount of \$19.8 million. Effective with the 2010-2012 MOP allocation, the total amount of IO-MOP loans is limited to 15% of the cumulative allocation.

A.4 Supplemental Home Loan Program

The Supplemental Home Loan Program (SHLP) primarily provides second deeds of trust for mortgage financing, but SHLP loans can also be used to secure a first deed of trust on a property being purchased. The underwriting guidelines are similar to those used by the Mortgage Origination Program. This program is administered by OLP pursuant to an agreement with each location.

A total of two million dollars was allocated to the campuses in 1982. These funds were due, together with 6% simple interest, on June 30, 2010. All of the campuses that received a portion of the original allocation have repaid the funds to the Office of the President. In July 2005, the Merced campus was granted an allocation of \$250,000 to be repaid together with STIP interest no later than June 30, 2015.

Each location is authorized to fund SHLP loans from funds available to the Chancellor or LBNL Director. Approved fund sources include Chancellor's discretionary funds and all legally-available fund sources, including unrestricted and restricted gift funds and campus Foundation funds. State funds cannot be used to fund SHLP loans.

Appendix B: 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. Effective August 1, 2010, the maximum loan-to-value ratio for loans exceeding the current Indexed Program Loan Threshold is 85% of the lesser of the sales price or the appraised value of the property.
- 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, to no more than 90%, for loans in excess of the current Indexed Program Loan Threshold.

Table B.1: Loans Requiring Additional Approval (Cumulative Statistics as of June 30, 2010)

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
GP-MOP Annual Rate Reduction	2	\$1,934,000	\$967,000	2	0
GP-MOP Initial Rate Reduction	1	\$1,000,000	\$1,000,000	1	0
GP-MOP Annual Rate Reduction And Initial Rate Reduction	8	\$8,449,000	\$1,056,125	5	3
Non-Standard Title	49	\$32,531,100	\$663,900	41	8
Indexed Compensation Level	37	\$29,609,500	\$800,257	33	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	43	\$14,066,342	\$327,124	29	14
Indexed Compensation Level	7	\$5,081,200	\$25,886	7	0