

OFFICE OF LOAN PROGRAMS

1999-2000

Business Assessment Report

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**EXECUTIVE SUMMARY
OFFICE OF LOAN PROGRAMS
1999-2000 BUSINESS ASSESSMENT REPORT**

This bi-annual Business Assessment Report provides an overview of the business operations of the Office of Loan Programs (OLP). The program data for this report includes updates to the historical production and performance results for the two fiscal years since the prior report as well as in-depth analysis of actual cost and production statistics for the University's mortgage lending activities for the 1999-00 fiscal year. During the 1999-00 fiscal year, OLP funded a record 216 new Mortgage Origination Program (MOP) loans with an aggregate original loan amount of \$73.9 million. As of June 30, 2000, the average combined servicing portfolio, consisting of MOP loans, bond-financed loans, and campus second deed-of-trust loans, was valued at \$318.4 million.

This report provides an overview of the design and delivery of the University Housing Programs and addresses five areas of performance:

- 1999-00 Program Accomplishments
- Customer Relations Management
- Business Climate and Performance Management
- Optimizing Human Resources; and
- Financial Results and Industry Benchmarks

1999-00 Program Accomplishments

As stated above, fiscal year 1999-00 was a record year for the Mortgage Origination Program. The Supplemental Home Loan Program, which does not have a central source of funding, was utilized less than in the prior year, but still provided a total of \$3.8 million in assistance to 25 borrowers. Utilization of the Salary Differential Housing Allowance Program, which provides downpayment assistance to faculty, increased by 18% over the prior year to a total of \$3.7 million.

In various combinations, the housing program components continue to meet the needs of many newly recruited faculty and senior level staff (approximately 20% of MOP funds are used for retention purposes). During 1999-00, the number of MOP loans funded equaled approximately 47% of new recruits, which represents an increase in the level of service as a percentage of newly recruited faculty. Historically this annual service level has ranged from 10.4% to 38.1%. Since inception of MOP in 1984, a level of service of 35% has been used to allocate funds for attracting key new faculty and senior staff, while ensuring on-going availability of funding for new loans within the resource allocation limits of the program. As housing costs in California continue to

escalate and the projected level of recruitments increases to keep pace with increasing enrollments of students, the availability of housing programs is becoming even more critical and may require an increase in the level of service for MOP. With normally lower than market-rate interest, easier qualifying standards, lower down payment requirements, and no fees, MOP loans continue to be a strong recruitment tool for the University.

Customer Relations Management

One method for assessing the quality of product and service delivery and the overall performance of OLP is through the use of surveys of direct customers and staff partners at each campus. The following four surveys are conducted to collect data and assess performance:

- Customer Needs Survey – periodic survey of all faculty hired in the most recent 4-year period to collect demographic and housing availability and cost impact information to guide program design and implementation strategies;
- Customer Satisfaction Survey (Origination) – survey of new loan recipients immediately following loan closing designed to assess the effectiveness of program and specific product delivery by OP and campus staff, written materials, and support systems;
- Customer Satisfaction Survey (Servicing) – survey of borrowers who have had a University loan for one year or more to assess the effectiveness of all aspects of loan servicing and related communications; and
- Leadership and Management Survey – survey of campus staff representatives to assess effectiveness of operational support, communications, and training of campus staff working with OLP to deliver the products and services.

The results of these surveys and comments from survey respondents are included as Appendices B, C and D of the report. For the past 3 fiscal years (1997-98, 1998-99, and 1999-00), OLP has received an overall satisfaction rating of Extremely Satisfied or Very Satisfied from 98% of survey respondents. The overall satisfaction rating of campus operational staff for the survey conducted in 1999-00 was 4.7 on a scale of 5.0.

In addition to quantifying performance, the written comments by the various customers have resulted in many changes to processes, program requirements, forms, and methods of communication over the past several years. Some of these changes include the development of:

- 1) A pre-qualification letter and certificate that can be issued within 24 hours of receipt of a complete loan application;
- 2) A loan application checklist that clearly defines required documentation;

- 3) The website that includes answers to Frequently Asked Questions, a quarterly newsletter with topics of interest, and interest rate information; and
- 4) On-line resources for Home Loan Coordinators, including program manuals, a loan qualification program, and a loan application module.

Business Climate and Performance

The report also examines trends that affect the demand for University Housing Programs, and discusses OLP's performance based on internal goal setting and performance measurement. Primary past indicators of demand have included:

- Changing levels of faculty recruitment;
- Supply and Price shifts in the residential real estate market;
- Fluctuations in market interest rates; and
- Relative advantages of University financial product features compared to conventional products and programs offered by competitive institutions.

Future trends impacting demand include:

- Projected enrollment growth of over 60,000 students over the next decade;
- Projected under-supply of new private sector housing leading to continued upward pressure on housing prices in California.

In order to meet the projected demand and to provide outstanding service to customers, OLP strives to continually assess and improve its product and service delivery systems by:

- Updating its Strategic Plan and annual Action Plan;
- Establishing measurable performance goals designed to improve product and service delivery;
- Tracking performance results; and
- Modifying processes and procedures as needed to improve performance.

Optimizing Human Resources

To attract and retain a highly motivated and well-trained staff, OLP focuses on two key elements:

- Work environment - Stresses a team and success-oriented environment. Provides challenging work responsibilities and encourages the sharing of ideas by all staff members.
- Staff Development - Provides opportunities for career growth through internal and external training programs or courses, and encourages personal education.

Financial Results and Industry Benchmarks

Internal Measurement

The operational budget for OLP is supported by loan servicing fees and earnings of the Housing Programs Reserve Fund (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 \$17.6 million as of June 30, 2000. The overall positive performance of the Reserve has provided adequate resources for meeting the business goals of the various University loan programs.

Another measurement of success is the loan portfolio performance. While there have been moderate losses under the loan programs (total MOP losses have been \$1.041 million out of \$482.4 million in lending as of June 30, 2000), the overall delinquency and foreclosure activity has always remained well below industry averages. Even during the recession of the early 1990's, these rates were approximately 30% of the industry average experienced in California.

External Measurement

Another key measurement tool is the comparison of loan production and servicing productivity measures with comparable institutions in the mortgage industry. The Mortgage Bankers Association annually collects and analyzes data to track income, expense, and productivity trends of the lending industry. For fiscal years 1994-95 through 1999-00, OLP's performance has been compared to industry standards (See Appendix G of the full report for a comparison of the data showing the trends for the past 6 years). Industry statistics represent data from groups of firms closest in size to the University's programs, reflecting the specialty nature and intensity of services provided under the University's programs. The comparisons, shown in the table below, are with benchmark data for the most recent year. Those items with a Comp Type of "L" are ones where lower values are better, while those items with a Comp Type of "H" are ones where higher values are better.

Loan Production Benchmarks				
	UC 1999-2000	Comp Type	Industry Benchmarks	
			<600 Loans/Year	<\$100 million Loans/Year
Per Loan Staffing Costs	\$1,092	L	\$2,053	\$1,251
Total Expenses/Loan	\$1,627	L	\$2,979	\$1,921
Ave Loans/Origination Employee	54	H	28	42
Average Loans/Underwriter	161	H	68	97

Loan Servicing Benchmarks				
	UC 1999-2000	Comp Type	Industry Benchmarks	
			<2,500 Loans/Year	<\$250 million Loans/Year
Per Loan Staffing Costs	\$130	L	\$93	\$101
Total Expenses/Loan	\$193	L	\$388	\$237
Fee Income/Loan (with fees)	\$529	H	\$599	\$398
Average Loans/Servicing Employee	404	H	254	310
Net Servicing Income/Loan	\$277	H	\$211	\$161

Generally, OLP’s production benchmark results have met or exceeded industry standards. In the servicing area, staffing costs per loan have declined as the loan portfolio has grown. Servicing fee income per loan is comparable with industry benchmarks, and net servicing income has increased over time.

Conclusion

The continued high levels of customer satisfaction are the result of a long-term commitment to process improvement and adjustments to product design and delivery mechanisms. The reader is encouraged to examine the full report to gain a better understanding of the levels of quality and efficiency of product and service delivery. The compilation of this report, coupled with OLP’s Strategic Plan process, works to ensure that required resources and planning efforts are maintained for successful implementation of these programs.

UNIVERSITY OF CALIFORNIA OFFICE OF LOAN PROGRAMS

1999-2000 BUSINESS ASSESSMENT REPORT

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UNIVERSITY OF CALIFORNIA OFFICE OF LOAN PROGRAMS

1999-2000 BUSINESS ASSESSMENT REPORT

I. Business Overview

The University of California

The University of California is one of the largest and most acclaimed institutions of higher learning in the world. As a public land grant institution, the University's three-part mission consists of teaching, research, and public service. The University was founded in 1868 and currently consists of ten campuses, five medical schools and teaching hospitals, a statewide Division of Agriculture and Natural Resources, and three National Laboratories managed for the Federal Department of Energy. Given this diversity of mission and divisions, the University has program and service presence in all 58 counties in California as well as in New Mexico and Washington, D.C. As of fiscal 1999-00, the University had over 178,000 graduate and undergraduate students, over 140,000 employees, including over 7,000 faculty and an annual budget of \$12.8 billion. A 26 member Board of Regents governs the University and its chief executive officer is the President of the University located in the headquarters office in Oakland, California. The University derives its mission and governance authority from the provisions of Article IX, section 9 of the State Constitution. Funding for its many programs and services comes from State and Federal sources as well as student fees and private contracts and donations.

Office of Loan Programs

The Office of Loan Programs (Office) is an auxiliary enterprise activity located within the Business and Finance Division of the Office of the President, which is headed by one of three Senior Vice Presidents. Furthermore, the Office is part of the Facilities Administration Department, which also includes corporate real estate, building services, environmental services, facilities management, and planning, design and construction functions. The Regents established the Office in July 1984 to develop and manage a comprehensive set of housing programs and services for members of the University's Academic Senate, its senior managers, and other designated classes of employees. This was done in recognition of the importance of affordable housing access to the long-term faculty renewal needs of the institution.

The Office provides the full range of lending services, including marketing, communications, policy formulation, loan processing, approval, funding, and loan servicing and accounting. The current organization chart, attached as Appendix A, displays the functional organization of the Office and its nine full-time employees. The 1999-00 administrative budget is \$1.02 million, with the annual program commitments for loans averaging approximately \$65 million. As of June 30, 2000, the aggregate dollar amount of all loan portfolios being serviced by the Office was \$318.4 million. The service fee revenues from these loans currently produce approximately \$550,000 annually, or approximately 54% of the budgeted administrative expenditures. The balance of the operating expenditures are paid from earnings of investments in the Faculty Housing Programs Reserve Fund established by The Regents in 1984 to pay administrative and certain program related costs for the operations of this enterprise program.

Major Products and Services

With the establishment of the Mortgage Origination Program in July 1984, the University made a major long-term commitment to a system-wide program to provide housing assistance as an integral part of its recruitment and retention efforts. As a result of this new focus, many of the program components as well as the individual program policies and funding levels have changed significantly since the programs began in the late 1970's. However, the guiding principle has remained the same, to provide financial and programmatic tools to assist in the recruitment and retention of key faculty members and other designated employees in order to maintain the University's position of preeminence in the academic community. It was recognized that due to the projected growth in student enrollment and the aging of the then existing faculty, there would be an extraordinary need for renewal and expansion of the faculty at all of the campuses. The University also faced significant competition from other nationally-recognized public and private institutions of higher education for many academic and senior administrative positions. Finally, the programs must be designed to ameliorate the significant differential between the higher housing costs at and near the University's campuses and laboratories when compared to costs of housing at comparable institutions across the country. These issues remain very relevant to the University today and continue to drive the need for the institutional resources for these programs.

The major program components for which the Office has both policy and operational responsibility include the Mortgage Origination Program (MOP), a first deed-of-trust lending program, and three tax-exempt bond financed single-family loan portfolios. In addition to the direct administration of the above-referenced programs, the Office has program policy, coordination, and reporting responsibility for two campus-based programs: (a) for-sale housing developments built on University-owned land at six campuses; and (b) the Supplemental Home Loan Program, which provides primary and secondary financing to assist in home purchases. The Office also manages a relationship with a major conventional lender to provide favorable financing terms to all University employees for purchase and refinancing of personal residences. There is also coordination between the Office and the Division of Academic Affairs on the

Salary Differential Housing Allowance Program - a grant program for housing related expenses. Below is a brief description of these program components.

Mortgage Origination Program (MOP): This program was authorized by The Regents in July 1984 and utilizes funds from the unrestricted portion of the University's Short-Term Investment Pool (STIP) to make first deed-of-trust loans to eligible employees (primarily full-time University appointees who are members of the Academic Senate or are members of the Senior Management Group). Effective September 2000, the President is authorized to make exceptions based upon the essential recruitment and retention needs and goals of the University. MOP provides 30-year variable interest rate loans at up to 90% of the property value, with the interest rate indexed to the most recently available four-quarter average rate of return of STIP, plus a servicing fee of one-quarter of one percent. The maximum annual adjustment of the interest rate for a loan, upward or downward, is one percent.

MOP offers several advantages to borrowers over conventional lending programs, including no fees and more liberal underwriting rules. Monthly mortgage payments may be as high as 40% of gross income as compared to a 28% to 35% ratio for all monthly housing expenses used by most conventional lenders. The program charges no fees to the applicants for processing the loans. Also, for loans of \$350,000 or less, the participant has the option to finance a portion or all of the usual and customary closing costs, as well as designated recurring costs such as first-year insurance premiums, in which case the loan may be approved at up to 92% of value. There is no requirement for mortgage insurance (generally, loans available through conventional lenders require mortgage insurance when the loan amount is in excess of 80% of the value of the home). This saves borrowers up to 0.5% of their loan balance annually.

The program has had cumulative allocations of \$634 million through June 2000. As of June 30, 2000, 1,934 loans in an aggregate amount of \$482.4 million had been made and there were 1,190 loans outstanding with an aggregate portfolio principal balance of \$297.2 million. All program operations, including application processing, approval, funding, and servicing of these loans are done by the Office staff.

Supplemental Home Loan Program (SHLP): This program provides primary and secondary mortgage financing under a more flexible structure than MOP. Each campus is authorized to allocate unrestricted funds available to the Chancellor to provide home loans to further assist the recruitment and retention process. Campuses have flexibility in determining the type of loan to be made including the term, interest rate, and method of repayment. The underwriting and eligibility guidelines are similar to those used by the Mortgage Origination Program. As of June 30, 2000, 640 SHLP loans, in an aggregate amount of \$52.6 million, had been made. The lending activities, including application processing, approval, and funding of these loans are completed directly by the Office for all campuses. One campus retains the servicing function for its loans.

Tax-Exempt Mortgage Revenue Bonds: In 1979, 1985, and 1987, the University issued tax-exempt bonds to provide for fixed rate mortgages for first time homebuyers. Due to its constitutional authority, the University is able to access the capital markets directly for the sale of long-term bonds, subject to federal laws and regulations, to provide 30-year mortgages for first time homebuyers. These three bond issues were used to supplement other University programs and to provide fixed rate loans.

A total of 527 loans in an aggregate amount of \$59.7 million were made under these three bond issues. The Office served as the loan originator and servicer for the last two issues.

For-Sale Housing Developments: The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have developed for-sale housing on University land. The housing units consisting of single-family detached, condominium, and townhouse units are sold to qualified buyers subject to a ground lease. The development process, removal of marketing risk, and the ground rent structure assist in providing housing at sales prices below those of conventional market units. All units have resale restrictions limiting sales prices to adjustments based on changes in either the consumer price index or the faculty salary index. Campuses also retain a first right of refusal to buy the units at the formula price or to refer the seller to a priority list of other qualified University related buyers. These mechanisms retain the units in these developments as long-term affordable housing resources for the recruitment and retention of key faculty and other University employees.

As of June 30, 2000 there were 859 completed units in 6 developments at these 6 campuses. The Office has overall policy coordination for this program and serves as the facilitator for new projects.

North American Mortgage Corporation: In July 1987, The University entered into an agreement with North American Mortgage Company (NAMC) to provide a variety of mortgage loan products to supplement the University's housing assistance programs. The NAMC mortgage loan products, which include first and second deed-of-trust mortgage loans, are offered at reduced fees to all University employees. These loan products may be used for home purchases, refinancing existing debt, and for equity credit lines.

As of June 30, 2000, 5,270 loans in an aggregate amount of \$767.6 million had been made to University employees under this program. The Office manages this third party vendor relationship.

Salary Differential Housing Allowance Program: This program was authorized in 1982 and is funded from appropriate campus resources designated by the Chancellors. The program authorizes the granting of special housing allowances to assist with down payments, mortgage payments, and other housing related costs. The assistance may be paid in one lump sum or over

a period not to exceed five years in equal, unequal, or declining balance amounts. The maximum assistance amount is indexed based upon salary increases for faculty and currently is \$53,000.

As of June 30, 2000, 1,314 housing allowances in an aggregate amount of \$21.4 million had been made.

Office of Loan Programs Mission and Goals

Within the overall framework of the University's mission and organizational structure, the Office has been charged with providing the above described products and services. Some of those products and services are provided in their entirety by the Office, some in collaboration with other operational and policy units at the campuses and/or other system-wide offices, and in some cases the Office serves primarily in a policy making and reporting capacity. Policy coordination in all functional areas takes place at multiple levels of the institution, involving the Board of Regents, senior management for the business and academic divisions of the University, committees of the faculty senate, and campus administrative and academic staff. These groups represent the major internal customer base for these products and services, with the individual faculty borrowers and home purchasers representing the direct customers. Given the combination of the types of services and products being provided and the high level of sensitivity of the customer base, the Office has engaged in on-going strategic planning, goal setting, and performance-based management for a number of years. Summarized below are the Office Mission Statement and key policy drivers.

Mission Statement: To design, deliver and manage housing assistance programs for the recruitment and retention of faculty and senior managers in support of the education, research, and public service mission of the University by continually improving and implementing products and service delivery processes and maintaining a superior level of customer satisfaction.

Several studies in the late 1970's and early 1980's defined the housing issues facing campuses in their recruitment and retention efforts. These studies pointed to the following key policy factors as drivers for the design of proposed University housing assistance programs:

- provision of a predictable source of mortgage financing for recruitment and retention of key faculty members and senior managers at each campus and laboratory;
- provision of financing at short-term rates with qualification standards more liberal than those provided by conventional lenders, coupled with reduced down-payment requirements and no points or origination fees;

- utilization of existing University land and acquisition of additional land, where feasible, to develop for-sale and/or rental housing units to create long-term affordable housing in proximity to work within a broad range of design and pricing;
- continuation of supplements to University and conventional financing via the Supplemental Home Loan Program and Salary Differential Housing Allowance Program; and
- development of programs of a one-time or short-term nature that supplement and/or complement existing University programs.

The balance of this report will focus on the effectiveness and performance of the Office in the delivery of the products and services to its customers and in achieving the goals set forth by its mission and charge.

II. 1999-00 Program Accomplishments

Fiscal 1999-00 was a record year for the Mortgage Origination Program (MOP) both in number of loans (216) and dollar volume (\$73.9 million). In fact, utilization of two of the three active financial assistance programs increased over the prior year. More specifically, the number of MOP loans increased by 107% (more than double the prior year), the number of Supplemental Home Loan Program loans decreased by 24% and the number of Housing Allowances was up by 18%. Overall, the annual dollar volume of these programs increased by \$40.7 million, or 100%, over the prior year. This fiscal year was the second in six years without any losses of loan principal for MOP. This reflects the continued recovery of the California residential real estate market over the past two years.

The following table displays a summary of the magnitude of use of housing related financial assistance programs during the 1999-00 fiscal year.

Program	Number of Loans or Assistance	Dollar Value of Assistance	Average Amount
Mortgage Origination Program	216	\$ 73,880,780	\$ 342,041
Supplemental Home Loan Program	25	3,824,250	152,970
Salary Differential Housing Allowance Program	126	3,687,456	29,266
NAMC Home Loan Program	169	32,357,200	191,463
Totals	536	\$ 113,749,656	N/A

Over the past few years, the Office has streamlined the lending process and implemented performance measures to provide higher levels of customer service to borrowers. The Office has implemented a process that provides a 24-hour turnaround for issuing a pre-approval certificate to applicants. This certificate provides applicants with leverage in the negotiation process of purchasing a home, as it demonstrates that they have already secured the financing. As web-based technology has developed, the Office has designed a program web site that provides information about available programs and assists in educating potential applicants about the home buying process. The website includes an on-line loan application feature. Currently this feature is available to the campus and lab Home Loan Coordinators, but eventually the ability to apply for a mortgage on-line will be available directly to loan applicants.

III. Customer Relations Management

The multiple customer groups served by the Office necessitates active solicitation of information and data in many forums to insure program success measured not only by utilization levels but also by whether or not the program is meeting the needs of the internal and direct customers described earlier. Four separate surveys have been developed to collect information from various groups.

- Customer Needs Survey – periodic survey of all faculty hired in the most recent 4-year period to collect demographic and housing availability and cost impact information to guide program design and implementation strategies;
- Customer Satisfaction Survey (Origination) – survey of new loan recipients immediately following loan closing designed to assess the effectiveness of program and specific product delivery by OP and campus staff, written materials, and support systems;

- Customer Satisfaction Survey (Servicing) – survey of borrowers who have had a University loan for one year or more to assess the effectiveness of all aspects of loan servicing and related communications; and
- Leadership and Management Survey – survey of campus staff representatives to assess effectiveness of operational support, communications, and training of campus staff working with the Office to deliver the products and services.

In many cases, the results of the surveys have directly impacted product design and service delivery. The less formal consultations and networking with the internal customer groups have resulted in changes over time to resource allocation formulas, to methods of communication and distribution of information, and to improved product delivery processes. The tabulated survey results are distributed to all program staff at the campuses and in the Office to provide direct customer feedback on their perceptions of the collective strengths and weaknesses of the Office and the campus personnel.

In addition to the numerical rankings of the standard questions, each survey form provides an opportunity for respondents to add written comments regarding their experience with the program and its procedures. Again, a summary of these comments is distributed to all staff to encourage discussion about how the business interactions are perceived by the customer. Appendices B, C and D include a representative sample of comments from the 1998-99 and 1999-00 Origination and Servicing Surveys, and from the Leadership and Management Survey.

Many changes to processes, program requirements, and forms have been made as a result of the feedback received via these mechanisms. Given the wide dispersion of program customers, not only throughout California, but also throughout the country (over 50% of newly recruited faculty come from outside the state), the Office has been expanding its electronic communication capabilities to meet the needs of customers who are oftentimes not at their campus during much of the time the loan application and closing process is taking place.

Customer Needs Surveys

A survey of recently recruited faculty is conducted periodically in order to gain an in-depth understanding of the prior housing situation, and the current needs and preferences of new faculty hires. The first survey was conducted in 1978, with subsequent surveys in 1981, 1988, and 1995. The next survey will be mailed in early 2001. These surveys are sent to all newly recruited faculty for the most recent four academic years. Many of the survey questions have remained the same to enable detection of trends regarding the household and housing demographics of this important recruitment population group. In addition to demographic information, these surveys measure the impact of program availability and characteristics on the decision to accept an offer of University employment.

A comparison of responses to the most recent two surveys (1988 and 1995) provides insights into the changes occurring with the recently recruited faculty population over time. In terms of household characteristics, there were shifts from 1988 to 1995, with the 1995 respondents being slightly older, less likely to be married, but with a significantly higher percentage of dual wage earner households. This data is very useful in predicting changes in loan size and in providing information impacting for-sale housing project design and pricing decisions.

The surveys also revealed that the 1995 respondents came with a much lower rate of prior home ownership, a general perception that the housing market in their prior location was better than the market near their UC work location, and that the average distance they were living from campus was more than double that of the 1988 respondents. This data means that many borrowers bring fewer assets from the sale of a prior home and must locate further from the campus to find affordable housing. A vast majority indicated that the existence of housing assistance programs influenced their decision to accept a UC job offer and would play an important role in whether they continue to work at UC in the future.

Customer Satisfaction Survey - Loan Origination

Beginning in fiscal year 1995-96, the Office initiated a customer satisfaction survey of all new borrowers. This survey is sent to each borrower following loan closing and is designed to solicit levels of satisfaction with the knowledge and professionalism of staff (at the campuses and at the Office of Loan Programs), clarity of the program requirements and written materials, and the timeliness of the services delivered. While the Office processes and funds all MOP and SHLP loans, the initial introduction to the programs is most often made by a campus representative in the Home Loan Coordinator's office. The campus staff, Office loan processor, and underwriter form a team to bring each application to completion on a time-line dictated by a purchase contract between the borrower and seller of the property being purchased. As there is no formal line of authority between the Office staff and the campus staff, the success of this process and the programs depends a great deal upon the establishment of trust and collegiality as all work toward a common set of goals.

Overall, the results of the survey have been very positive and indicate that there is a high level of satisfaction with the service provided by the staff at the campuses and at the Office of Loan Programs. Appendix B contains four charts displaying a summary of the results of this survey for fiscal years 1997-98 through 1999-00 followed by representative written comments provided by borrowers for the most recent two fiscal years. The quantitative portion of the survey measures each respondent's level of satisfaction on a 5-point scale ranging from Not At All Satisfied (1) to Extremely Satisfied (5). Chart 1 displays the results for Question 1, which asks the borrowers to rank their level of satisfaction with multiple characteristics of their interactions with the campus representatives. The average responses were predominantly in the 4.7 to 4.8 range. Satisfaction levels have been consistently high over the three fiscal years.

Chart 2 displays the results for Question 2, regarding the borrowers' interactions with the Office staff (Office Representative). Again, the results were very favorable and increasing over each of the three years. In 1999-00, all but two categories averaged 4.9, with the other categories averaging 4.8.

Customer satisfaction with the completeness and clarity of the written materials, and the timeliness of the services delivered is also measured. Initially, these scores were relatively low. In response, the Office developed a checklist that is provided to all new applicants that clearly details the documentation needed when applying for a loan, and a pre-approval letter and certificate. As can be seen from the data in Chart 3, these scores have steadily increased over the three fiscal years.

Chart 4 displays the overall satisfaction ranking, which again shows a high level of customer satisfaction that has continued to increase with time.

Other changes that have resulted from Origination Survey comments (see representative sample in Appendix B) include:

- Development of a Frequently Asked Questions section on the Office website that contains information about hazard insurance and property tax payments, and other information helpful to a new borrower;
- More extensive use of e-mail with applicants to improve the communication process;
- Elimination of required 45-day escrows;
- Reduced documentation requirements to expedite loan processing;
- "Things You May Need to Know Letter" sent to borrowers when loan application is received to provide additional communication about the loan process; and
- Development of an on-line loan application (currently used by Home Loan Coordinators).

Customer Satisfaction Survey - Loan Servicing

In 1997 (data collected for calendar year 1996), the Office initiated a second customer satisfaction survey sent to all borrowers whose loans had been closed and serviced by the Office for at least one year (Servicing Survey). The Servicing Survey is designed to solicit levels of satisfaction with the professionalism and knowledge of the Office staff, clarity of the written materials and information provided throughout the year, and the ability of the Office to assist each borrower in the event of special needs or circumstances that may occur relating to their loan and or property (i.e., financial problems, natural disaster or fire damage, or a change in family or employment circumstances). Unlike the loan origination process, nearly all of the servicing interactions occur directly between the borrower and the Office staff. Some of the communication is routine, such as communicating annual changes in interest rates for each loan

and providing the annual mortgage interest statements for tax purposes. Other contacts occur under more stressful conditions, oftentimes dealing with changes in family or employment circumstances or some type of physical disaster situation. Some interactions are simply requests for information or financial analysis to aide a borrower in determining a potential course of action regarding accelerated pay down or refinancing of their loan.

The quantitative portion of the Servicing Survey requests that borrowers rate their level of satisfaction with the Office staff in the following seven areas: Professionalism, Knowledge, Courteous and Helpful [manner], Responsiveness to Requests, Accessibility, Problem Resolution, and their Overall Experience with Office staff. Chart 1 in Appendix C indicates the average level of satisfaction with Office staff in each area for each of the 4 years of the survey. (The rating is based on a 5-point scale, where 5 is Extremely Satisfied and 1 is Not At All Satisfied). The average responses indicate a high level of satisfaction, ranging from 4.3 to 4.6, with a slightly downward trend in scores over the most recent three years. A review of the comments received from respondents during this period of time indicates that the reduction in scores does not relate to the level of service provided by Office staff, but rather to additional programmatic features that respondents desire. Some of these additional features include:

- 1) A fixed rate loan product;
- 2) The ability to refinance a Program loan and take cash out; and
- 3) A cap on the program interest rate.

Chart 2 indicates the level of satisfaction with the 2 annual mailings produced by the Office: the annual Mortgage Interest Statement (IRS Form 1098) and the annual rate change letter sent to each borrower. These mailings also received high scores, with the average responses ranging from 4.18 to 4.44 over the four years of the survey.

The survey also provides space for written comments (see Appendix C for representative examples for the most recent two fiscal years), which are reviewed and acted upon when appropriate to improve customer service levels. Examples of changes that have been implemented in response to survey comments include:

- A welcome letter is now sent to borrowers within 1 week of loan closing to provide information concerning loan servicing;
- A semi-annual payment history statement is sent to each borrower to provide current information on payments and loan balances;

- The format of the 1098 Mortgage Interest Statement and the annual rate change letter was changed to provide clearer information; and
- Interest rate information (both rate history and how the rate is calculated) is available on the Office website.

Leadership and Management Survey

In March 1999, a survey was sent to the staff in the Home Loan Coordinator's Office at each campus to solicit feedback regarding how the Office and its staff are doing in the delivery of services to this group of internal customers. The survey was sent to 12 campus representatives and had a 100% response rate. The quantitative portion of the survey included questions concerning the level of customer service provided by the Office, the frequency and content of Home Loan Coordinator meetings, and the effectiveness of policies and procedures. For each question, a cumulative score was derived using a 5-point scale of responses and multiplying the point value of each response by the number of responses. A maximum of 60 points was available for each question.

Overall, the results were very positive. The Office staff received uniformly high marks across the board with perfect scores in accessibility and near perfect scores in questions regarding providing information, feedback, and policy and processing issues (see Chart 1).

The results displayed in Chart 2 reveal that the campus representatives desire more frequent Home Loan Coordinator meetings. The respondents also indicated a desire for additional training. The Office received strong marks for its systems development and efforts to keep everyone well informed.

Based on the results of the survey, the resources available on the Office web-site and the MOPQUAL spreadsheet were being under-utilized at the time of the survey. Chart 3 indicates that many of the respondents were not familiar with the information available on the Office website. Of those surveyed, 50% rarely accessed the website, and only 50% were using MOPQUAL to pre-qualify applicants (Charts 4-5).

Finally, Chart 6 indicates that 11 of the 12 respondents were either "extremely satisfied" or "very satisfied" with the overall performance of the Office.

As with the other customer surveys, space was provided for written comments (see Appendix D). In response to survey comments, the Office has implemented the following:

- Additional on-line resources for Home Loan Coordinators, including Program manuals and the on-line loan application;

- Training concerning what on-line resources are available;
- Availability of a Powerpoint Presentation to be used as a training tool for the campuses;
- A total revision of the MOP brochure that more fully outlines the advantages of MOP as compared to conventional loan products; and
- Increased communication through the use of e-mail.

In addition to these structured surveys, the Office works with three major internal constituencies to insure that program design and delivery issues are addressed in a way that best serves the recruitment and retention needs of the campuses. These groups are the system-wide Council of Academic Vice Chancellors, the Academic Senate's Welfare Committee, and the Campus and Laboratory Home Loan Coordinators. Each of these groups brings a vital perspective to the program as they either represent the direct customers (borrowers and purchasers) or are the University staff most responsible for the recruitment and retention process at each campus and interface directly with many of the potential program participants. Much of the work with these groups has been through establishing regular communication links, including correspondence and more recently electronic communications such as email and online worldwide web distribution of program information and documents. The Office Director also meets with these groups periodically to discuss issues of common concern, including resource allocation and operational policies and procedures. There is also a formal system-wide meeting of the campus Home Loan Coordinators every 12 to 18 months to bring together all campus and Office staff to discuss issues, work jointly on program improvements, provide training, and provide a mechanism for improving cross-institutional communications.

IV. Business Climate and Performance Measurement

Business Climate

The products and services of the Office are provided within the overall framework of the University's operational environment, which offers both strengths and constraints for this type of enterprise activity. The University's substantial financial resources provide a strong foundation for the program, including access to program funds for lending activities and access to capital markets as needed to raise funds for lending and construction activities associated with the production of new housing developments. On the other hand, the sheer size of the bureaucracy can inhibit certain types of innovation that would be available to a smaller privately owned enterprise. The institutional size can increase decision making time and add to operational and overhead costs. The governmental nature of the personnel and budget processes is not always easily adaptable to the changing internal and external business factors that influence the demand for the products and services offered by the Office. Summarized below are some of the more important factors impacting demand for program products and services.

- **Faculty Recruitment Levels:** Over the first 16 years of the Mortgage Origination Program, a correlation can be observed between overall recruitment levels of new faculty and program demand. Charts 1 and 2 in Appendix E, respectively, display a comparison between recruitment levels and MOP lending levels over this time period. In the earlier years, there was a lag between the changes in recruitment levels and the demand for loans, indicated by the number of MOP loans funded. Since 1994-95, there appears to be little, if any, correlation between recruitment levels and program utilization. The allocation of lending authority overall and its distribution to the campuses is partly based upon projected levels of recruitment. The use of funds also has had some relationship to the number of existing faculty, as approximately 20% of all lending activity has been for retention of existing faculty.
- **Residential Market Shifts:** Changes in median home prices also impacts the demand for products and services, with rapidly increasing prices oftentimes pushing up demand by those wanting to buy before prices get too high. Conversely, the rapid deflation in home prices in California in the early 1990's led to a dramatic downturn in program use. This downturn was most likely influenced by the downturn in the entire economy, resulting in negative impacts on the State's and University's budgets. The resultant low growth, even negative growth, in faculty and staff salaries coupled with the psychological impacts of job uncertainty, lowered demand for program loans, similar to the experience of all lenders in California, for a two to three year period. Beginning in the late 1990's, the recovery in the residential real estate market and the increases to salaries for faculty has led to an upswing in program use.

The continued significantly higher median home prices around the University's campuses, as compared to many institutions with which it competes for faculty, has remained relatively constant over the past 20 years. Chart 3 in Appendix E displays the gap between California and rest of the country as well as the relatively higher cost of housing near UC's campuses within California. Chart 4 displays a comparison between UC's campuses and the comparison 8 institutions, which represent some of its main competitors.

- **Interest Rate Fluctuations:** Prevailing mortgage market interest rates and terms also have an effect on program demand, particularly for borrowers who have more financial resources. Chart 5 in Appendix E displays the MOP rate by quarter compared to average rates for conventional fixed-rate and variable rate mortgages. Over the last 16 years, the MOP rate has generally been lower than those available in the conventional market. The one major exception was in the 1992 through 1994 time period, when conventional variable rate loans were either equal to or lower than MOP. This also coincided with budget and residential real estate market problems in California. This time period saw the lowest program utilization, except for the initial two years, as the program was first being implemented. Despite the lower utilization, MOP proved to be of benefit to the more

junior faculty who still had difficulty qualifying for conventional mortgages, due to limited financial resources and increasing levels of student loan debt.

- **Product Features:** A brief comparison between MOP loan characteristics and conventional loans is essential to understanding on-going benefits and demand associated with the program. MOP provides loans of up to 90% of the value of the house without requiring mortgage insurance, while conventional loans in excess of 80% of value require such insurance. The cost of mortgage insurance can add up to 0.5% to the mortgage rate, and is not tax deductible. No points or application fees are charged on MOP loans. MOP allows borrowers to commit up to 40% of their income to the principal and interest payment, while most conventional financing limits borrowers to a range of 28% to 35% of income for principal, interest, property taxes, and hazard insurance payments. As an example of the impact of this underwriting policy, an Assistant Professor with an annual household income of \$66,000 can afford to purchase a house valued at up to \$367,000 utilizing a MOP loan, but would be limited to a purchase price of approximately \$250,000 utilizing a conventional loan (assuming both loans had an interest rate of 7% and a 90% loan-to-value ratio). This one parameter makes a significant difference in the price of housing that is affordable to UC's faculty, even when the program and private loan interest rates are identical. Finally, a vast majority of UC's loans exceed conforming secondary market size limits (currently \$275,000) and thus would be classified as jumbo loans carrying a rate premium of 0.375% to 0.5%. Each of these factors work to provide a product that often times is superior for many faculty borrowers in a wide range of market conditions.

Future Trends Impacting Demand

The first three factors described above have historically worked to both create and sustain the need for the housing assistance programs designed and managed by the Office. Currently, the University is projecting student enrollment growth of over 60,000 over the next decade that will result in a sustained increase in the number of faculty of approximately 3.0% per year. Together with the historical separation rate of faculty (due to death, retirement and leaving for other work) of nearly 3%, the faculty recruitment rate should continue to grow from its current level of approximately 400 per year to nearly 700 per year by the end of the next 10-year period. The current market outlook for California sees continued increases in housing prices, which serve to maintain the gap between California housing prices and much of the remainder of the country. Assuming short-term borrowing rates remain relatively stable (the current forecast), MOP and the for-sale housing program will continue to serve a very critical recruitment and retention need as the University competes with other prestigious institutions across the country for the top faculty. While there may continue to be cyclical variations in annual demand for products and services, the overall trend should be an increase in demand in the absence of any sustained economic downturns.

Process Performance Measures

Given the above-described program mission and the internal and external business climate, the Office strives to continually assess and improve its product and service delivery systems. A key mechanism for this on-going assessment is the Office Strategic Plan, which sets forth major goals as well as specific performance measures to gauge its success. The Strategic Plan also contains an annual Action Plan with several annual project goals designed to continue innovation relating to program design, service delivery, and systems and technology improvements.

The current Strategic Plan goals are as follows:

- To provide timely, accurate and cost-effective mortgage products and services in compliance with University policy and governmental regulations;
- To evaluate mortgage industry processes and related technological changes to continually improve services;
- To provide staff training and development opportunities;
- To provide initial training and on-going program support for campus lending representatives;
- To provide policy structure and guidance for campus for-sale Housing developments;
- To perform periodic surveys and audits to assess overall success; and
- To provide status and accountability reports to management.

The Office measures 16 specific performance standards associated with these goals. Fiscal years 1998-99 and 1999-00 are the first two years that measurements were tracked and reported. This coincides with the completion of the implementation of the new lending systems and creation of custom fields designed to measure performance against the established standards.

Performance Results

In fiscal year 1998-99, the Office began measuring the performance of the goals that were established in the Strategic Plan. Each goal represents a process that needs to be completed within a particular time frame (usually number of business days). For example, one goal is to enter all new loans into the computerized origination system within two business days of receipt of the loan application. This enables the Office personnel to provide faster loan pre-approvals and commitments to borrowers. A second goal is to activate a new loan on the computerized

servicing system within one business day of loan funding, then to send a welcome letter, customer satisfaction survey and loan servicing information sheet to the borrower. Four charts in Appendix F display the results of performance measurements for indicators key to meeting customer service goals: 1) providing a pre-approval within one business day of receipt of request; 2) entering a new loan on the origination system within two business days of receipt of loan application; 3) activating a new loan on the computerized servicing system within one business day of receipt from origination; and 4) performing a customer satisfaction survey within 14 days of loan funding.

Chart 1, issuing pre-approvals within one business day, shows that the goal was met 100% of the time in fiscal year 98-99 and 92.6% of the time in fiscal year 99-00. The decline in fiscal year 99-00 was due to a four-fold increase in applications over the prior year and a shortage of staff during a peak period of loan applications.

Chart 2, entering a new loan on the origination system within two business days, shows improvement from 96.2% in fiscal year 98-99 to 98.6% in fiscal year 99-00. The availability of the on-line application for use by the campus staff reduced the amount of time needed to enter the loan on the origination system.

Chart 3, activating a new loan on the computerized servicing system within one business day, reflects improvement from 76.9% in fiscal year 98-99 to 98.1% in fiscal year 99-00. Performance in this area was improved by changing internal procedures. By improving performance in this area, the Office now provides each new borrower with a welcome letter, servicing information page and a Customer Satisfaction Survey shortly after loan closing.

Chart 4, perform a customer satisfaction survey within 14 days of loan funding, demonstrates that performance improved from 71.6% in fiscal year 98-99 to 86.1% in fiscal year 99-00. This improvement also resulted from a change in internal procedures.

The other goals that are measured track key operational and/or regulatory requirements to enable on-going evaluation of business processes and procedures. Based upon quarterly results, staff teams may initiate changes designed to improve the effectiveness and quality of services.

Process for Continued Examination

The Office employs a multi-faceted approach of process improvement to insure a meaningful evolution of its core business operations. Within the framework of the Office Strategic Plan, its goals, and performance measures, the Office measures and evaluates its delivery of products and services. An annual action plan is developed to address major action necessary to address performance shortfalls or issues raised in the customer satisfaction surveys. The action items also are based upon external factors affecting the Office's work environment, such as changes in

technology and business practices in the lending industry itself. These factors are tracked through attendance at industry conferences and subscriptions to several lending industry publications and journals. Feedback from internal and direct customers plays a significant role in the examination of how the Office is meeting their needs and often times leads to changes in the business operations of the Office. As will be discussed later in this report, the Office also measures its program performance, productivity, and costs against several industry benchmarks to complete its business evaluation.

V. Optimizing Human Resources

A key ingredient necessary for successful delivery of the financial products and services of the Office is a highly motivated and well-trained staff. Over the years, many of the staff members recruited to the Office have come with private or public sector lending and financial planning experience and training. The Office has also been successful in retaining many employees for a long period, with three of the nine employees being with the Office for over 10 years and three others for 5 to 8 years. Most former employees were with the Office for over 5 years. This retention history has provided stability to program delivery and reflects a high degree of dedication to the goals of the Office and the bigger University institutional goals as well. Two important factors leading to maximization of the human resources of the Office are maintenance of a stimulating and challenging work environment and adequate staff training and support to keep pace with business climate changes over time.

Work Environment

Since 1994, the Office has undergone two major realignments of its work processes, followed by a structural change in staffing and reporting relationships. The first round occurred in response to the University's budget crisis and a major downsizing of many University business operations. Evaluations of all operations were made to determine which processes were essential or added true value to the accomplishment of the business mission of the Office. As a result, many operational components of the Office were either modified or eliminated as a way to continue to serve the direct customers with a reduced staff. This first round also saw an evaluation of the major systems tools being employed by the Office to accomplish its mission. As a result of those evaluations, a three-year replacement and systems upgrade process was implemented. Half way through this upgrade process, and in concert with ever increasing workloads, a second round of process evaluation was conducted, which greatly impacted the decision regarding the final mortgage lending system purchase and its implementation.

The new system and the workload issues led to a second restructuring of the Office staff into focused work teams to provide better continuity with a reduced staff and flexibility to respond to differing workloads in loan processing and servicing throughout the year. The current Office

organization is displayed in Appendix A. What cannot be seen on the chart is the provision of a greater variety of work components to all levels of staff, which has created a challenging, and therefore meaningful, component of each staff member's area of work responsibility.

Furthermore, each member of the Office staff is encouraged to suggest new ways of accomplishing Office goals in a more efficient and customer friendly manner. As part of each employee's annual evaluation, they must develop, in consultation with their supervisor several substantial personal or team goals that will support the Office and Business and Finance Division goals. This process and focus have given each Office staff member personal ownership and pride in the products and services of the Office.

Staff Development

To support the Office staff and the campus Home Loan Coordinator staff in this process of innovation and process improvement, two of the Office's seven strategic planning goals focus on staff development and training. Associated with these two goals are nine objectives designed to foster continued learning by all University staff involved in the programs of the Office and to insure timely distribution of current program information, manuals, and forms to new and long-term employees. One of the objectives is designed to foster communications between program staff at all locations and thus maintain a high level of cross-functional team commitment to excellence. Office staff is encouraged to attend at least two program-related training programs or courses each year and support is given to Office staff desiring to continue their personal education in support of knowledge relating to their work.

VI. Financial Results and Industry Benchmarks

There are several internal and external indicators that are useful in assessing how effective and efficiently the above described products and services are being delivered. In reviewing the financial and productivity factors summarized below, it is useful to keep in mind the high level of customer satisfaction that has been achieved over a multiple year period and the degree of time and staff energy invested in process improvement efforts.

Program Revenues and Reserves

As reported earlier, the operations budget for the Office is supported by earnings of the Housing Programs Reserve Fund (Reserve). The major sources of earnings for the Reserve are from investments of the corpus of the Reserve, loan servicing fees charged on all Program loans since 1991, and any net positive earnings of the MOP loan portfolio compared to the STIP rate of return. This last calculation is based upon a monthly comparison of the MOP loan portfolio rate of return to the rate of return of STIP. This calculation results in transfers to STIP from the Reserve if the MOP portfolio under-performs STIP and retention of the excess earnings in the

Reserve in months in which MOP out-performs STIP. The current annual operating budget totals approximately \$1.02 million, of which approximately \$550,000 is supported through fee income from loans being serviced. Of the total budget, nearly \$97,000 is budgeted for transaction expenses on behalf of borrowers (costs normally borne by borrowers in the conventional lending environment) or for costs of administering real property temporarily owned by the University as the result of a default on a loan obligation. In addition to covering expenses relating to Program operations and maintaining a neutral STIP earning relationship for the funds used for MOP loans, the Reserve also must repay to STIP any losses of principal due to deterioration of market value of the property securing the loans.

Two Charts in Appendix G display Reserve fund performance since inception of MOP in July 1984. Chart 1 displays the growth of the Reserve fund balance from \$9.3 million in June 1984 to \$17.6 million in June 2000. This growth of over \$8.3 million represents the net earnings of the programs, after accounting for all program operation and loan loss expenses, as well as the MOP portfolio rate of return comparison discussed above. Chart 2 displays the ratio of Reserve fund total earnings to total expenses for the same 16-year period. For ten of those years the ratio exceeded 1.5, with only one year (fiscal 1994-95) being less than 1.0. The lower ratios for 1993-94, 1994-95, and 1995-96 fiscal years reflect over \$1 million in loan losses due to the severe recession in California and 20 months when the MOP portfolio under-performed STIP from May 1994 through January 1996.

The results displayed in these two charts indicate that the Reserve mechanism established to provide working capital for the home loan programs has worked well over the past 16 years. The net earnings have fluctuated based upon predictable cycles of events, while the overall performance has been positive, resulting in a continued healthy Reserve balance necessary to support the business goals of the various University loan programs.

Loan Delinquencies and Losses

One key set of mortgage industry indicators regarding loan portfolio performance is delinquency and foreclosure activity as a percentage of total loans being serviced. Charts 3 through 6 in Appendix G display four of these measures for the MOP portfolio compared to the aggregate industry statistics for California lenders. A quick glance at all four charts shows that the University has maintained a much lower level of delinquency and foreclosure activity in all measured intervals than the general industry experience. The industry data displayed represent two categories of data: (1) Calif-All being for all lenders in California including conventional (non-governmental loans) as well as FHA and VA loans; and (2) Calif-Conv being only conventional lenders. These statistics serve to validate the MOP loan parameters and administrative processes as being adequate for protection of the University funds being used for this important program purpose.

Industry Cost and Productivity Benchmarks

This final section presents the results of tracking nine key mortgage industry cost and productivity benchmarks since fiscal 1994-95. The results shown are based upon the University's actual cost, revenue, and production statistics for its mortgage lending activities for each fiscal year compared to similar results for surveyed conventional lenders. The Mortgage Bankers Association annually analyzes major trends in income, expenses, and productivity of the lending industry across the nation. The data used is derived from this survey during the six most recent calendar years. During the most recent fiscal year (1999-00), the Office funded 216 new MOP loans plus 25 SHLP loans, with an aggregate original loan amount of \$77.7 million. For the fiscal year ending June 30, 2000 the average combined servicing portfolio, consisting of MOP loans, bond-financed loans, and campus-funded SHLP loans, was 1,252 loans valued at \$230.2 million.

The comparisons displayed in the charts use benchmark data for those categories of firms closest in annual dollar and loan number volume characteristics to the experience of the University program during the past two years. For loan production, the comparison is with firms making either less than 600 loans per year or less than \$100 million in loans each year. For servicing comparisons, firms with less than 2,500 loans in their portfolio or with less than \$250 million in their portfolio were used. These smaller lenders, much like the University, are more apt to make custom loans and/or service loans for a specialized population, which require a higher level of customer service, resulting in a more labor-intensive process than larger and more production-oriented lenders.

As can be seen from Charts 7 through 10, the University's production benchmark results are generally equal to or better than the industry averages. Charts 7 and 8 indicate that except for fiscal year 1998-99, both staffing costs and overall expenses per loan produced have been less than or equal to both industry groupings over the past six years. Loan volume in 1998-99 was lower than in the other five years, resulting in higher staffing costs and production expenses per loan. The number of loans produced per employee and per loan underwriter (Charts 9 and 10) has also generally exceeded the benchmarks for the industry groups.

The servicing comparisons show that over time, the Office performance has improved as the program has grown. Chart 11 shows that staffing costs per loan have declined as the total number of loans serviced by the Office has increased. Chart 12 indicates that the overall servicing expenses per loan have declined, and are now lower than the benchmarks for the industry, while, in general, service fee income per loan (Chart 13) exceeds the industry benchmarks. The service fee income per loan dropped in 1999-00 due to the transfer of the servicing of 75 SHLP loans from UCLA to the Office of Loan Programs. These loans have much smaller fee income due to the smaller average loan amount. Chart 14 displays that the average number of loans serviced per servicing employee at the Office has been trending upwards, and

for the last fiscal year exceeded the figures for the industry comparisons. Finally, Chart 15 displays that the University's net income per loan continues to exceed that for the industry comparison group.

VII. Conclusion

The financial and productivity results reported above demonstrate the efficacy of the past and current levels of investment of time, resources, and funds in the ongoing efforts to maintain state of the art technology coupled with a well trained and highly motivated staff team. The continued high levels of customer satisfaction are the result of a long-term commitment to process improvement and adjustments to product design and delivery mechanisms. This ability has been maintained over the 16 year life of the Office through hiring and retention of dedicated staff and focusing of adequate financial resources to maintain and develop adequate systems to keep pace with growth and changes in the external environment. The purpose of this report and the Office Strategic Plan is to ensure that those resources and planning efforts are maintained to enable a continuation of this successful program.

APPENDIX A

1999-2000

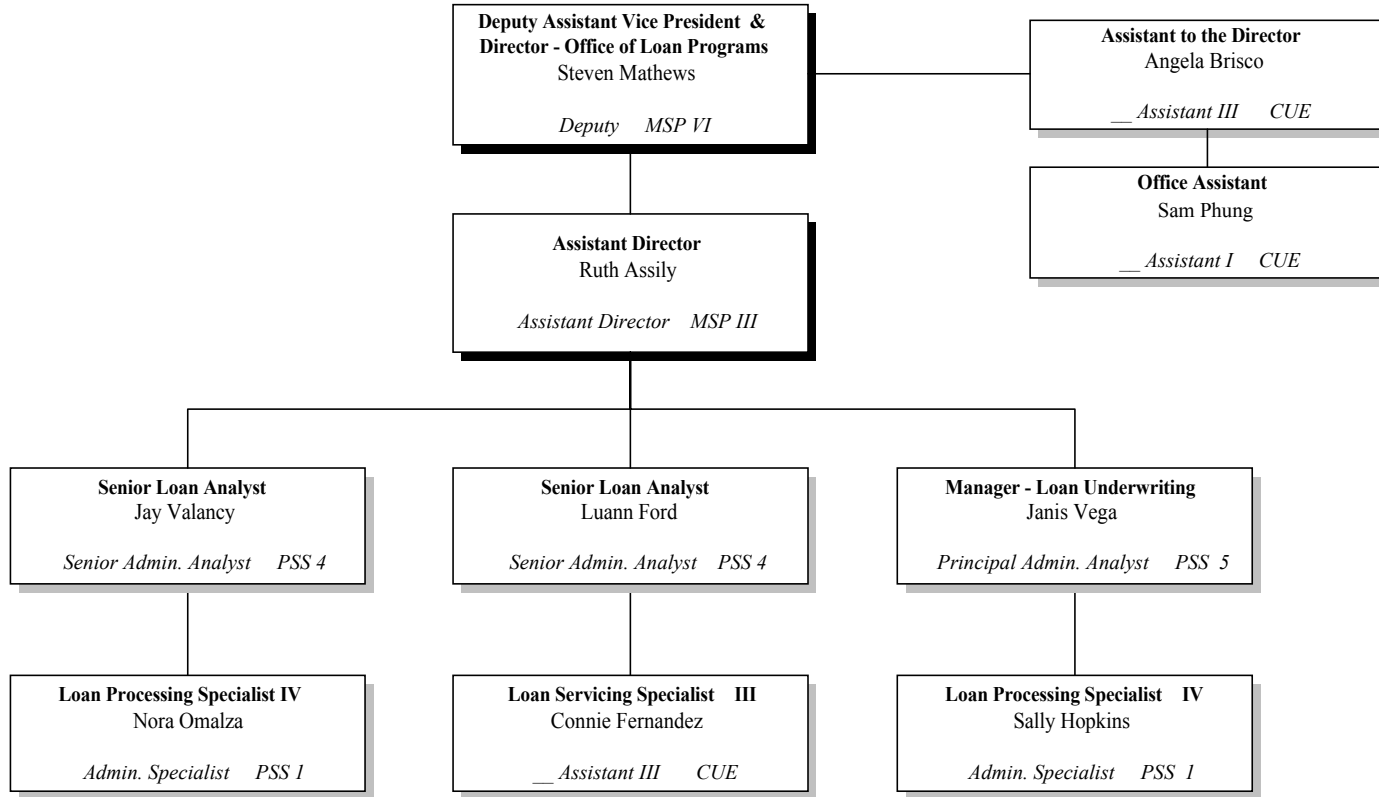
Business Assessment Report

OFFICE OF LOAN PROGRAMS

ORGANIZATION CHART

**Division of Business and Finance
FACILITIES ADMINISTRATION**

Office of Loan Programs



-- Loan Servicing
-- Loan Origination

-- Loan Servicing
-- Special Projects

-- Loan Origination
-- Customer Relations
-- Website/Manual/Forms Management

Permanent FTE

EXEC	0.00
MSP	2.00
PSS	5.00
CUE	2.50
TOTAL	9.50

APPENDIX B

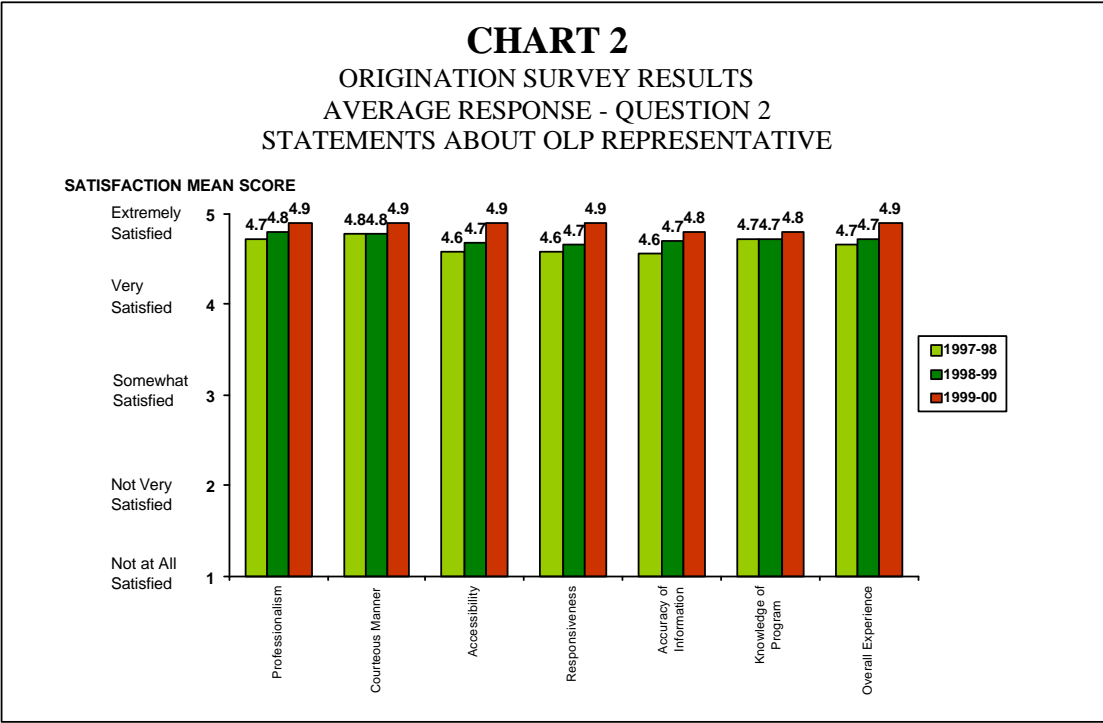
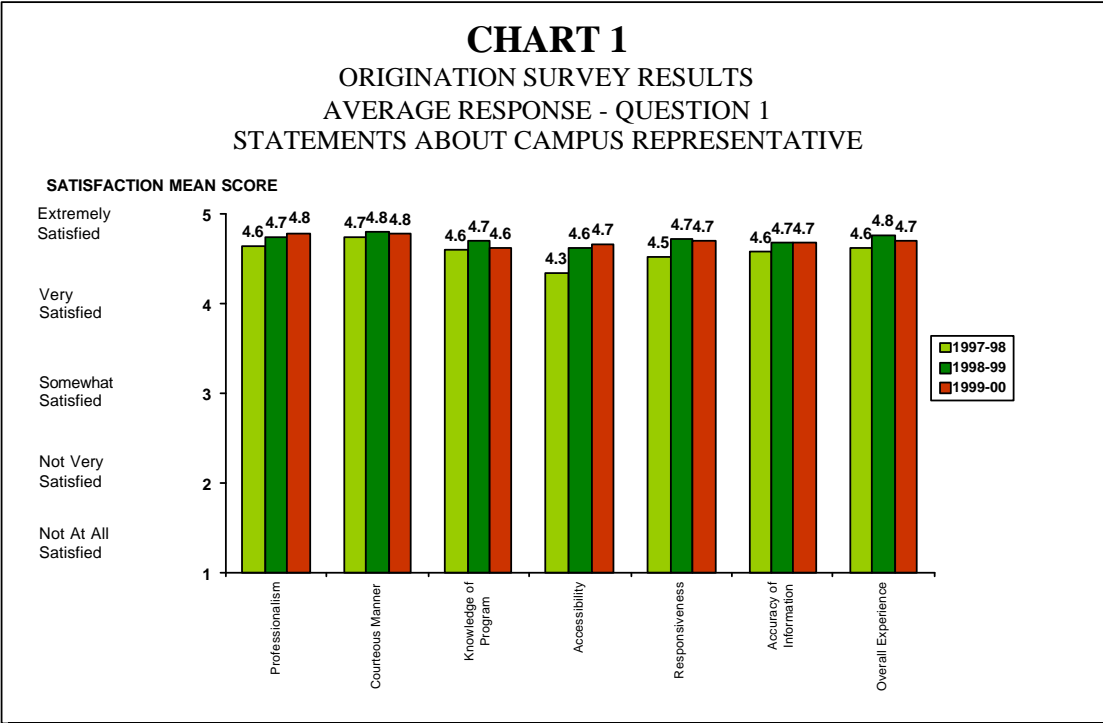
1999-2000

Business Assessment Report

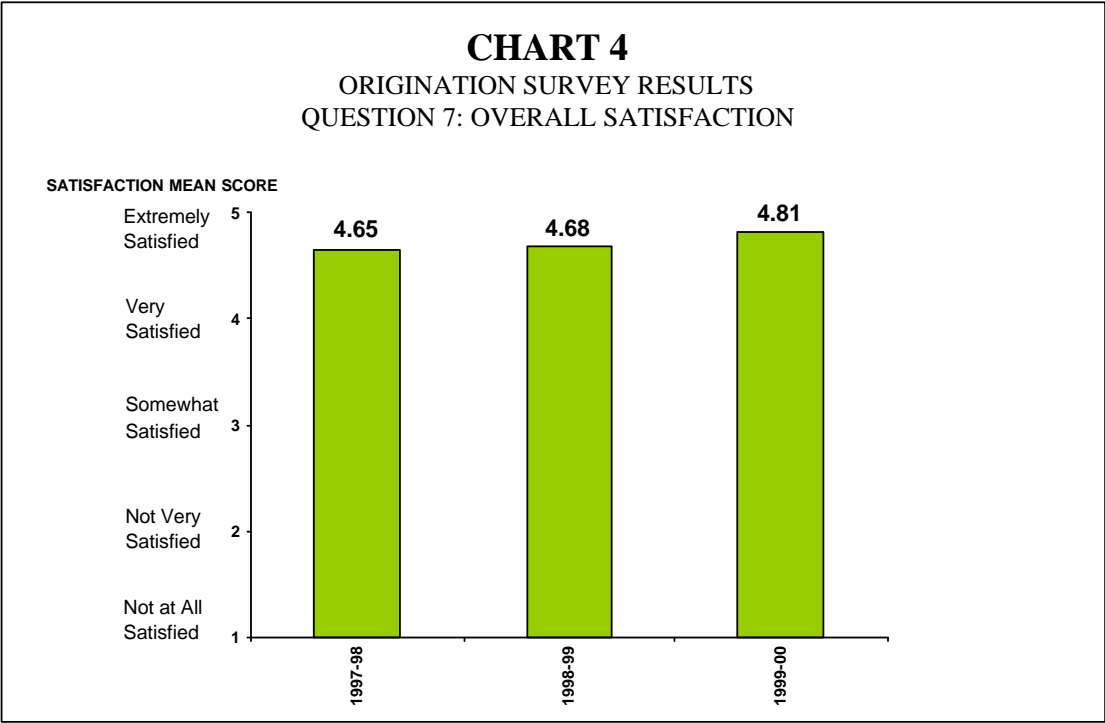
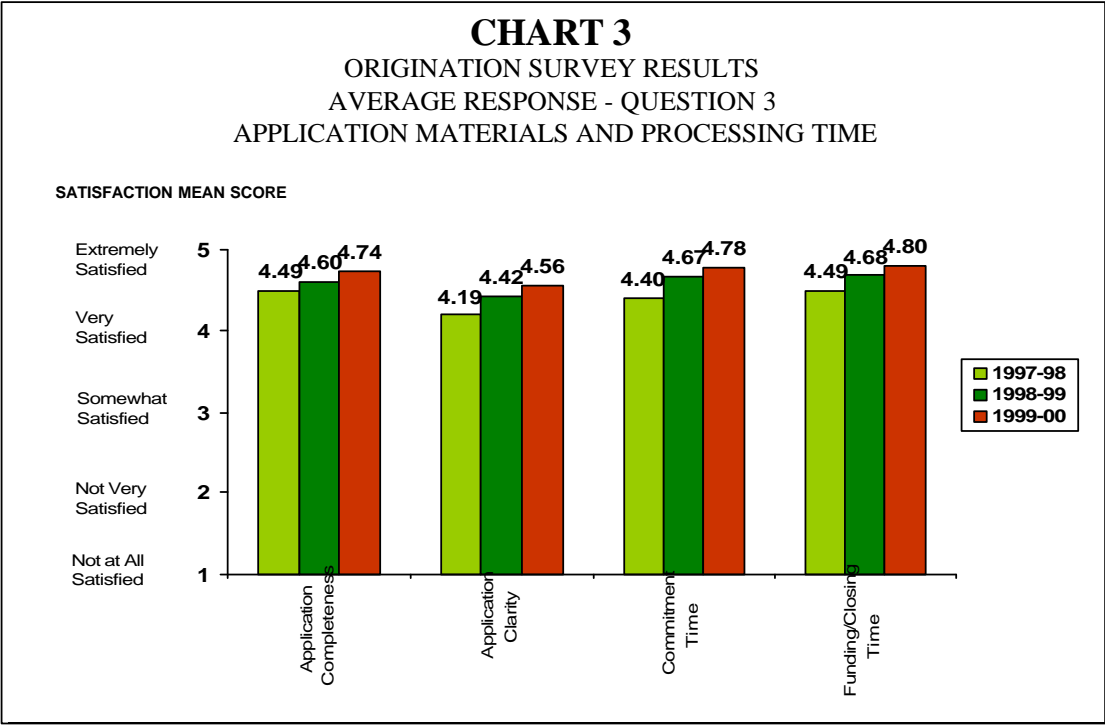
OFFICE OF LOAN PROGRAMS

**CUSTOMER SATISFACTION SURVEY RESULTS
LOAN ORIGINATION**

APPENDIX B: CUSTOMER SATISFACTION SURVEY LOAN ORIGATION



APPENDIX B: CUSTOMER SATISFACTION SURVEY LOAN ORIGATION



APPENDIX B: CUSTOMER SATISFACTION SURVEY COMMENTS
LOAN ORIGINATION - FISCAL YEARS 98-99 & 99-00

"This was a thoroughly positive experience. We only wish we had considered it sooner. [The campus representative] was amazing in every detail from paperwork to providing moral support and advice. Before we knew about the MOP, we worked with two other lending options. One was a nightmare - the other very helpful, but not nearly as professional and responsive as everyone we encountered at OLP. Thank you very much!!!

"I found dealing with [the campus representative and the OLP representative] to be the most positive aspect of my recruitment to [the campus]! They were available at any day/time of the week, and offered invaluable advice and flexibility for us as we struggled with housing in the Bay Area. My only concern is that the Department seemed to be completely in the dark about this critical aspect of recruiting senior faculty from lower housing cost areas (in my case, much, much lower!). I suspect it was the faculty's issue - they were incredibly aloof about many issues - but without the MOP we could not possibly have afforded to come. Thanks!!!"

"I was extremely satisfied with the advice from the Home Loan representative. As a first time buyer, it was great to have a resource and sounding board. The relationship was very different from a typical lender. The OLP representative was very professional - a little bit more distant - but perhaps this was appropriate. I appreciated his responsiveness during all aspects of the escrow period. Thank you!"

"Your lending program has proved to be invaluable. Because I can get an affordable home through this program that is close to the University. I will be much happier at [the campus]. I am very glad this program exists."

"Wonderful service at this office [OLP]. Thank you. Because of your speedy processing and funding of loan, we were able to buy the home we wanted in a very competitive market."

"Housing issues are, perhaps, the most difficult aspect of moving to [the campus]. From my first phone call to the Housing Office to the end, the people we encountered were efficient, understanding, and thoroughly professional. And thanks to many people who worked behind the scene."

"Everyone at the Office of Loan Programs was highly professional and helpful. The attitude consistently was one of "How can we help to facilitate the process?" The OLP is in danger of giving the word bureaucracy a good name. Thanks ever so much to OLP and UC for making this program available and making it work right."

"Because of [the] careful handling of our loan we were able to close in 21 days. This really helped us to compete with the other 16 parties who made offers on our house."

"This is an excellent program, and was a significant factor in my decision to come to UC."

APPENDIX B: CUSTOMER SATISFACTION SURVEY COMMENTS
LOAN ORIGINATION - FISCAL YEARS 98-99 & 99-00

"[The OP staff] were nothing short of remarkable to work with. They went out of their way to help us in every step of the loan process. Faculty Housing is central to [the campus] for retaining high caliber faculty, and the MOP loan program was a major feature of our decision to relocate. Thank you all again!"

"We were extremely glad that we chose this loan program. We had to do everything from a great distance as we were abroad, and the staff could not have made an awkward situation better! They were helpful, friendly, and made some very valuable suggestions. The entire process also had to be handled very quickly, and there was no snag at all. We do not feel this would have been the story had we gone with a conventional loan. We do not have enough praise for both your program and your staff. We are deeply grateful."

"My experience was an excellent one. My only suggestion is to make the faculty more aware of this wonderful benefit. I found out about the program purely by chance during a casual conversation with another faculty member. All incoming faculty should be made aware of this program."

"I'd like to express my deep appreciation to the wisdom of those who set up the system. It is a wonderful system, and it has made me a very loyal employee. I came to CA from MA. Houses are 4 times (yes, that's right 4 times) as expensive here as in MA. But now I live in a beautiful house by the sea. A month ago someone asked me if I would consider accepting a chaired professorship elsewhere. The pay would be 30% higher than my pay. I was assured of getting on the short list and estimated my chances of receiving an offer to be about 7/10. But, having just moved to my beautiful house, I said, "don't even ask. I'm staying here." So this program does work to keep talent in CA (and to attract it to CA). Thanks for asking - It's fun to have a glowing report to give."

"Workshops on campus for first time home buyers as well as a list of university recommended agents would be extremely helpful."

"Great Program! Only wish that we have more choices like fixed-rate mortgages. The variable rate only makes me uncomfortable, and initially considered outside commercial loans. If rate goes up, I might have to refinance the loan. Thanks!"

"My only complaint with the program is that the interest rate has no upper limit. This is disconcerting, and almost lead me to take a fixed rate bank loan instead. There should be a reasonable upper limit, for peace of mind."

"With today's home prices, it would be good to go above 90% for the total loan. That is what most private firms do. Also, is there a chance to adopt a refinancing program? Could we institute a fixed interest rate?"

APPENDIX C

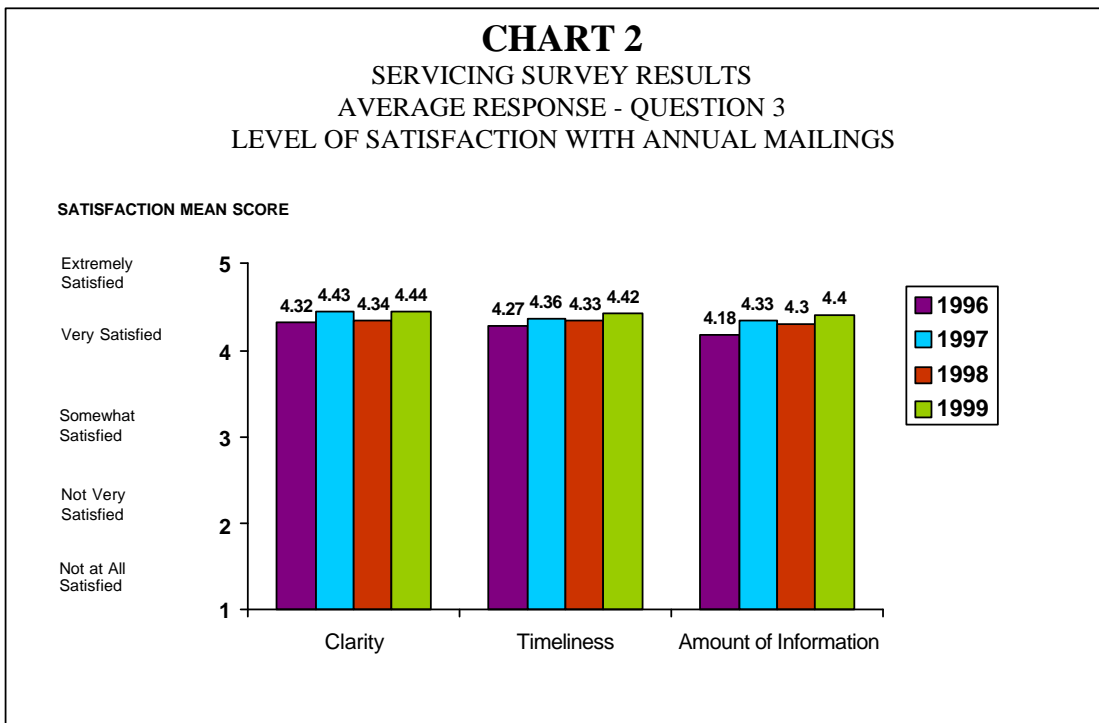
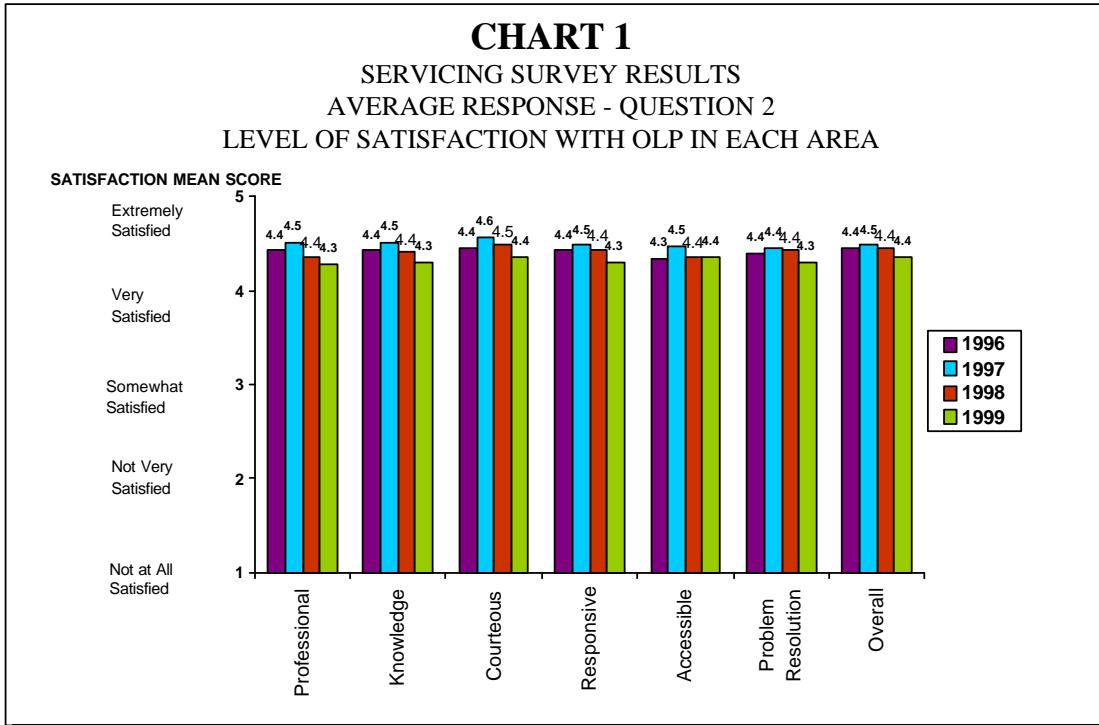
1999-2000

Business Assessment Report

OFFICE OF LOAN PROGRAMS

**CUSTOMER SATISFACTION SURVEY RESULTS
LOAN SERVICING**

APPENDIX C: CUSTOMER SATISFACTION SURVEY LOAN SERVICING



APPENDIX C: CUSTOMER SATISFACTION SURVEY COMMENTS
LOAN SERVICING - FISCAL YEARS 98-99 & 99-00

"Service has been excellent, especially during time when I was obtaining the loan."

"This is a very effective and efficient mortgage operation. The staff are professional and friendly. I have had 5 mortgages in the past and this one is by far the best - it is outstanding!"

"I was away in England for a year on sabbatical and I found the Office very helpful during this transitional period."

"It's a good service. Keep MOP going for new faculty hires."

"The staff and MOP program are the best benefit for recruiting faculty. It is an extremely well run operation."

"Have always been pleased w/MOP program although cap (400K) for incoming people in the Bay Area needs to be raised. Re-mortgaged home this year. Was extremely smooth process."

"Without this loan we could not have afforded our house 2 1/4 years ago. Now its value has skyrocketed. This will be a critical benefit for future faculty, it will be very hard for new faculty to afford anything in [the campus area]."

"This program was a key factor in my decision to come to UC, and it played a pivotal role when I was considering an outside job offer."

"I am glad the UC system offers this program to faculty members. The interest rates are excellent and it makes it possible for faculty members to afford a house in expensive areas. As a suggestion, this program would be most fairly utilized if qualification be made by the Office of the President and not up to Dean of the School."

"The availability of assistance with home purchase made it possible to accept the tenure track faculty position I was offered at [the campus]."

"All of the homeowners at [Campus For-Sale Housing project] would prefer at least quarterly statements which many of us have requested in previous surveys."

"I've not received this [history statement indicating breakdown of each payment]. An 800-phone number would be useful. It would be useful to include in standard mailings to MOP borrowers the fact that increases (or decreases) in annual interest rates are not linked to Federal Reserve decisions but to other factors, which you could explain briefly. Thank you."

"Excellent program. Overall very satisfied. Wish you had equity loans."

APPENDIX C: CUSTOMER SATISFACTION SURVEY COMMENTS
LOAN SERVICING - FISCAL YEARS 98-99 & 99-00

"Information about refinancing and its associated costs in the light of historically low fixed rate mortgages."

"Fixed rate! That's what we really need! Perhaps UC could offer a discount PMI policy on a traditional mortgage?"

"Would be useful to provide service for second mortgage or equity line for home improvement etc."

"Please, can you develop a direct debit from bank checking account?"

"Please give us the option of making principal payments by direct deposit. This could be done, for example, by my increasing my minimum payment (set by you) by a given amount/month."

"Refinancing and or "second" loan on property with substantially increased value would be great services to include in the program"

"I do wish - in retrospect - that the loan included property taxes and insurance. They are big bills that I find difficult to plan for. Is there any plan to change this?"

"It would be competitive if you offered fixed rate mortgages, or placed a cap on the existing variable rates."

"It would be great if you offered home equity loans to the UC people!"

"1) How about putting a cap on interest rates? It is a real disadvantage to be unaware of the future in such a volatile market. 2) What about fixed rate? 3) What about shorter plans? A ten-year plan would be really competitive. Thanks."

APPENDIX D

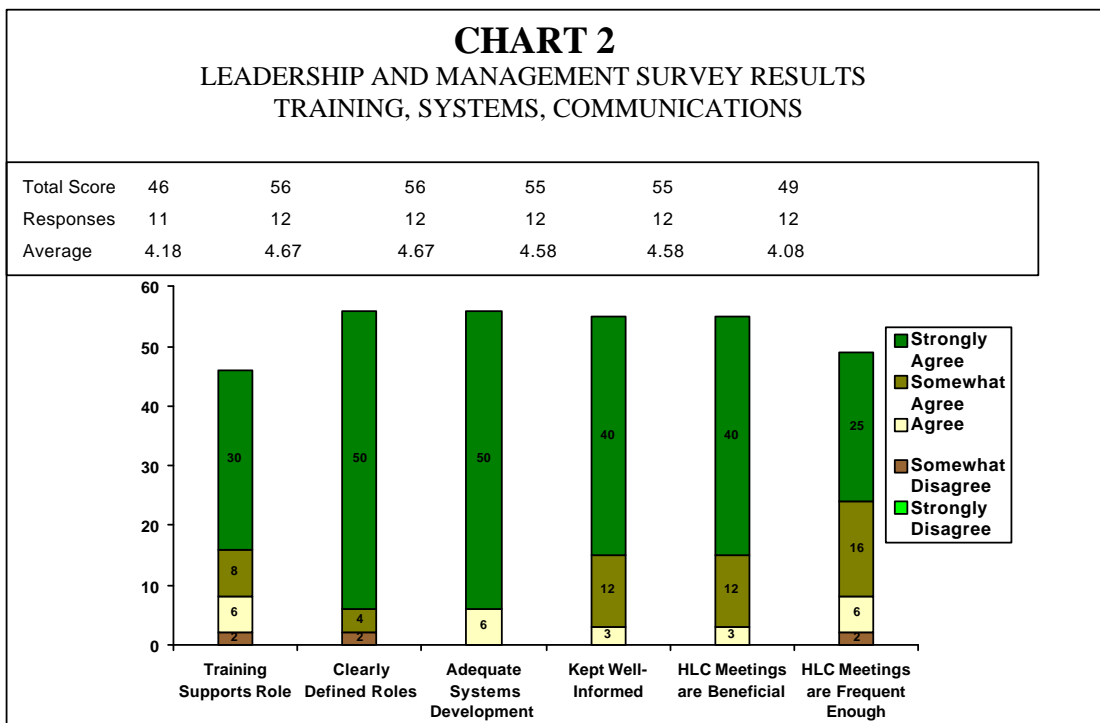
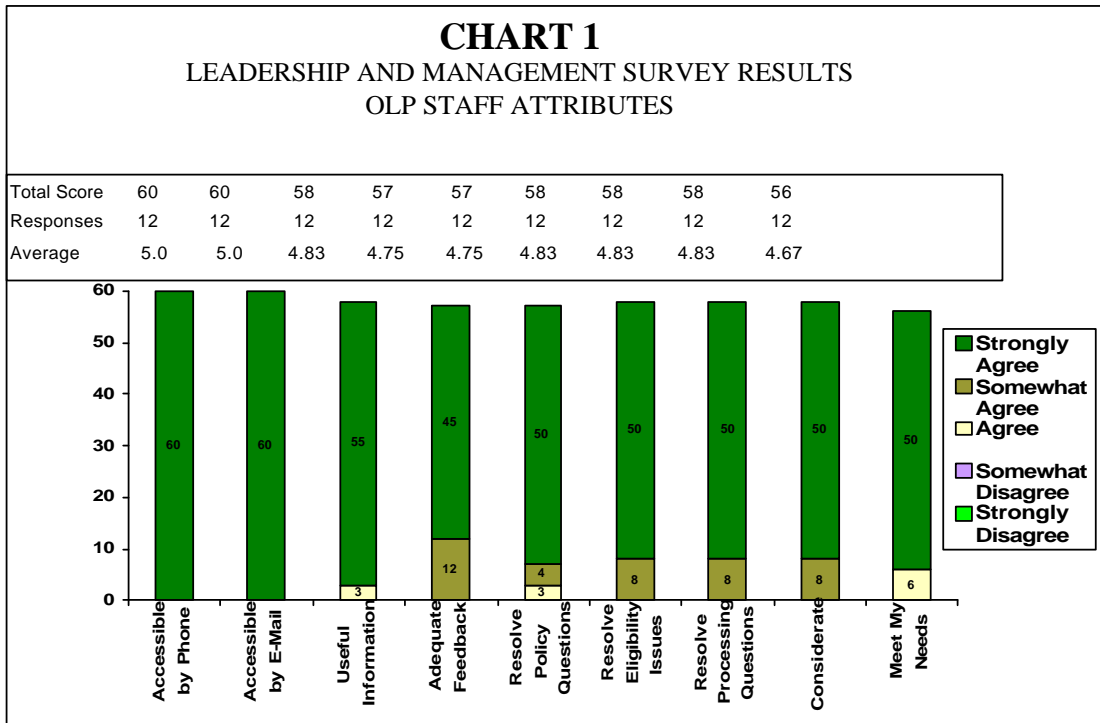
1999-2000

Business Assessment Report

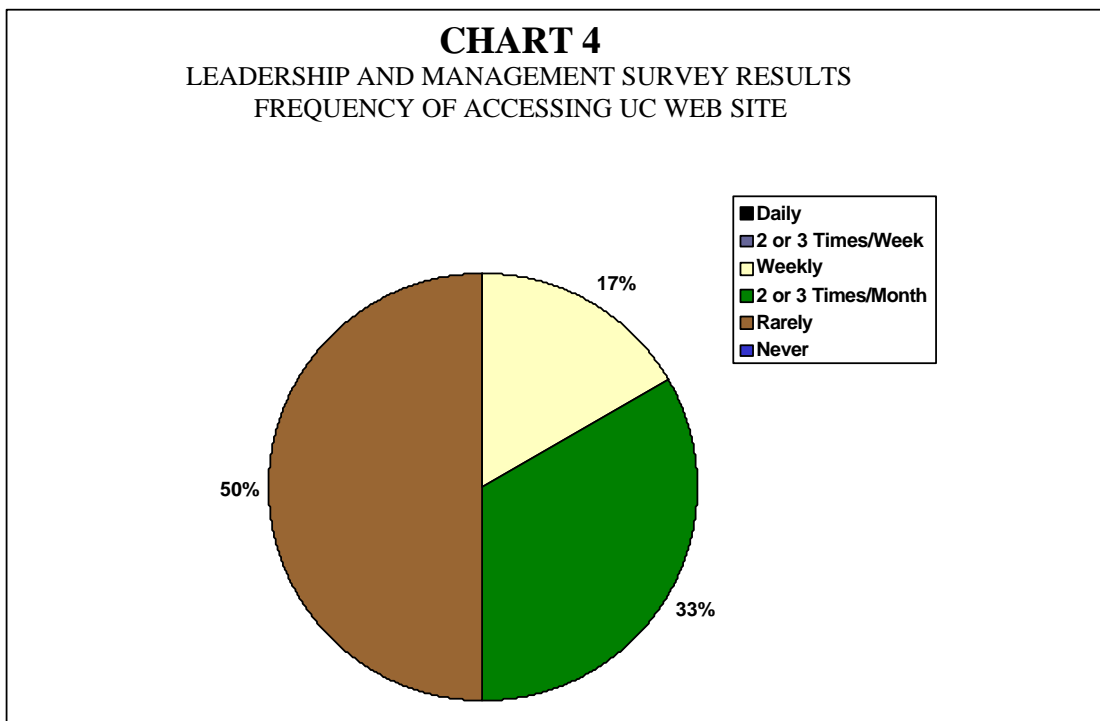
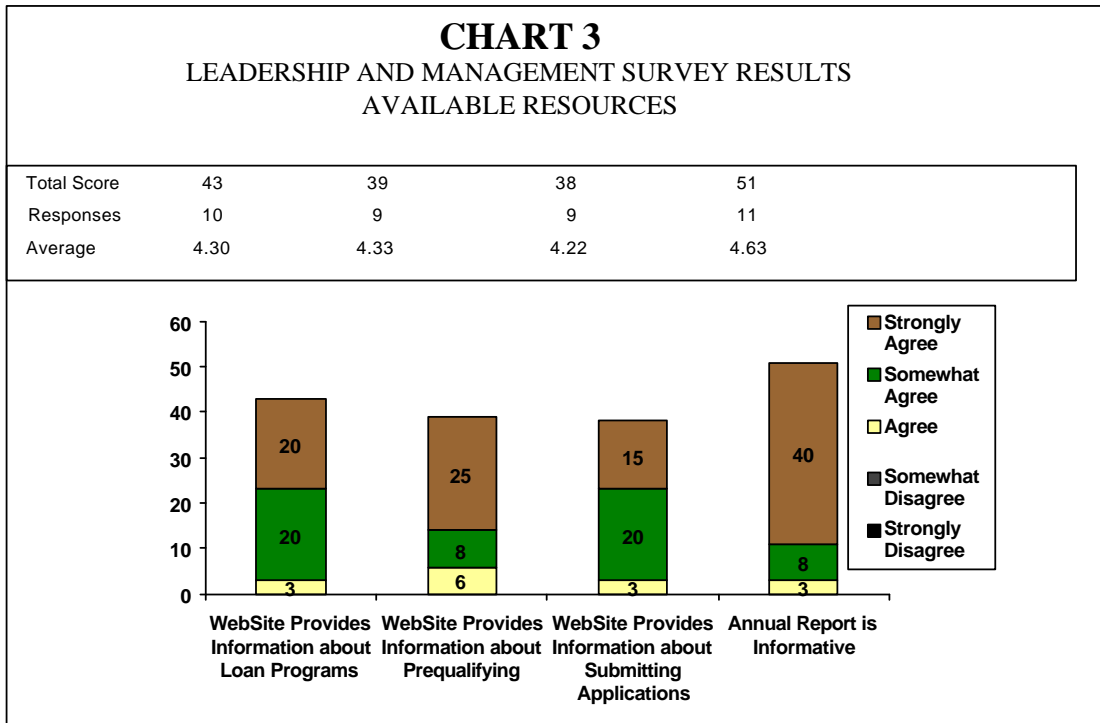
OFFICE OF LOAN PROGRAMS

LEADERSHIP AND MANAGEMENT SURVEY RESULTS

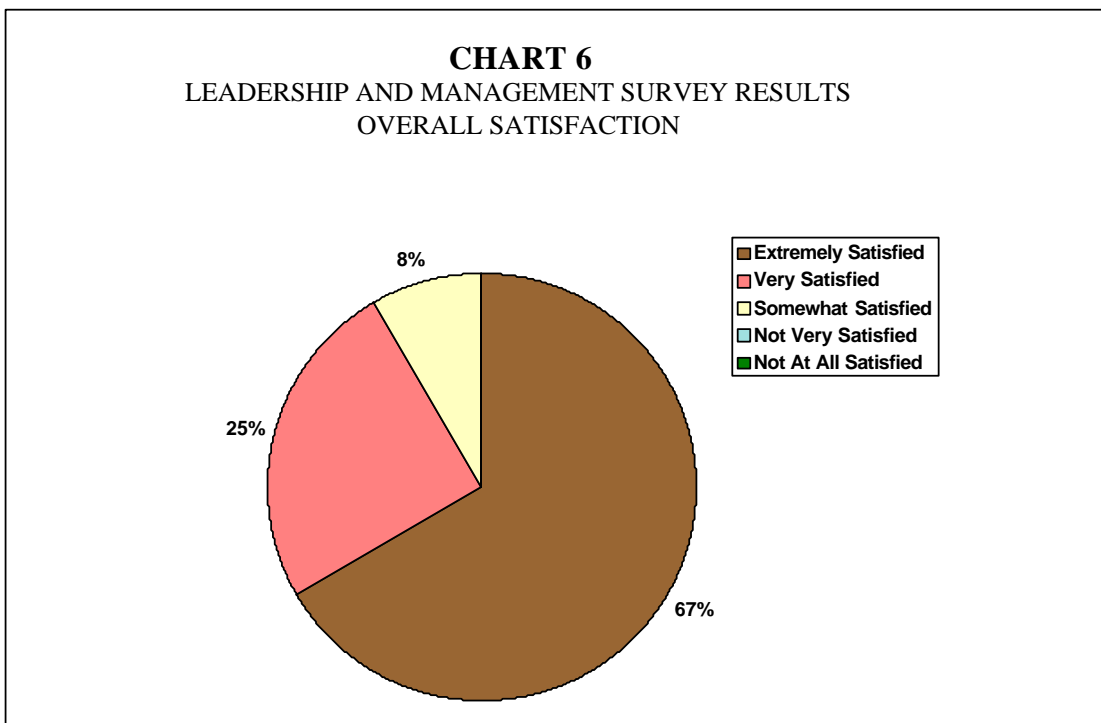
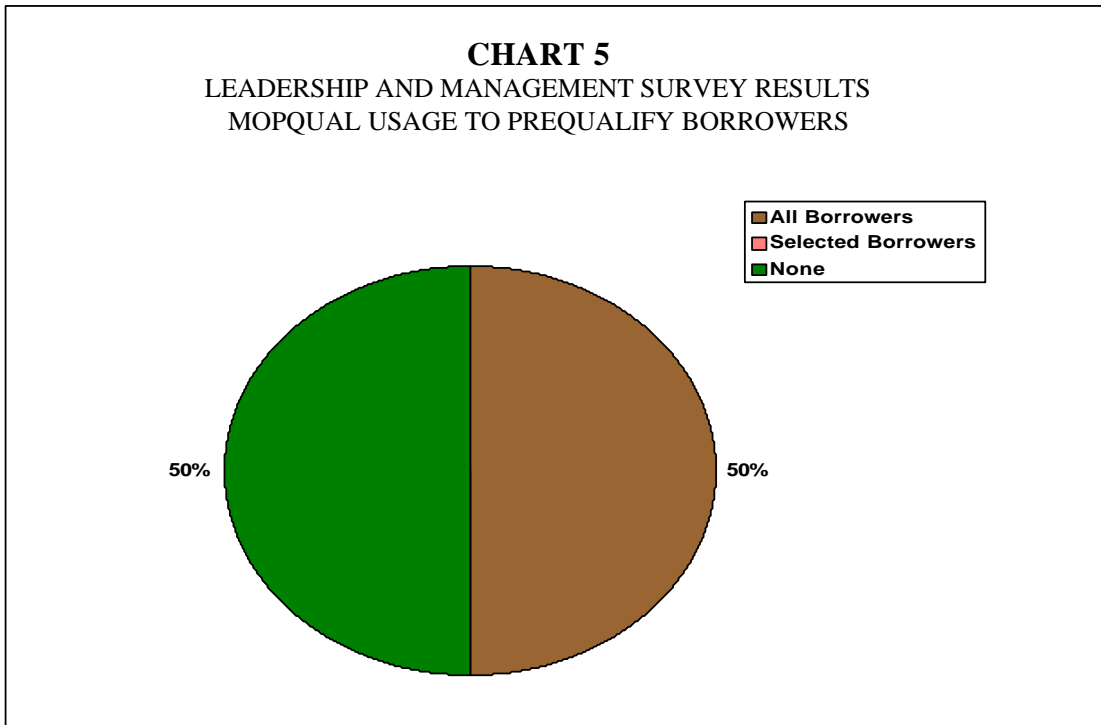
APPENDIX D: LEADERSHIP AND MANAGEMENT SURVEY



APPENDIX D: LEADERSHIP AND MANAGEMENT SURVEY



APPENDIX D: LEADERSHIP AND MANAGEMENT SURVEY



**APPENDIX D: LEADERSHIP AND MANAGEMENT SURVEY COMMENTS
MARCH 1999**

“Working as I do for a ponderous bureaucracy, I am continually amazed at the ease of access to the OLP staff and their responsiveness to the campuses. There is literally no major division on the campus from which I would expect to have my e-mail and phone calls returned within an hour or two. There are many where a day or two is the norm. Your staff not only picks up their own phones, they are always pleasant, extremely well informed on policy and procedures, and eager to assist the campuses. It is truly a pleasure to deal with every member of the OLP staff.”

“Seems that training on the campus level by OLP is sporadic. There is no formal training program that I know of? Training is on an as needed informal basis.”

“I find the Home Loan Coordinators meetings very beneficial and would like them to be more frequent. Discussions at these meetings regarding the for-sale programs are very helpful.”

“Given the travel costs and distances between campuses the meetings are held often enough, but I think it is invaluable for the OLP staff to have a familiarity with the idiosyncrasies of each campus and site visits - to the separate campuses and to OLP - help a lot.”

“The issue is not: are the staff helpful - they are! The issue is: are policies helpful and easy to understand? Do policies serve the ultimate customer, the purchaser? This survey covers [part] of your Program - the staff part. What about the MOP policies? Are these policies working for your customer (the Borrower)?”

“Some faculty have expressed frustration at the levels of details and reviews that they perceive are involved in the loan process. For example, they’ve seen that 2 late payments to Sears on their credit report or a failure for their spouse to initial p. 2 of the loan apps can stop the entire loan process. When the high stress of a career change, the complexity and logistics of moving are now combined with the uncertainties of getting a loan (or failing to close on time and facing the prospect of losing the house because Seller X has a better offer from someone else), we’ve got an unsatisfied customer, someone who’s clearly not happy with the process. Should we be doing anything to encourage a more holistic, less regulatory view of creditworthiness and underwriting guidelines? Faculty sometimes think we miss the big picture when we’re so focused on details, on getting the ducks in line.”

“I think that the campus coordinators should be invited to participate in discussions surrounding program development, implementation, forecasting ideas (rather than just being told about these things after the fact). If your office is going to be helpful in the campus’ goals of faculty recruitment/retention, there should be more of a sense of unity - linking both campuses and OLP rather than a feeling of separate entities with differing objectives.”

**APPENDIX D: LEADERSHIP AND MANAGEMENT SURVEY COMMENTS
MARCH 1999**

“Also, still the most important issues: The Borrower/Customer wants a fixed loan program. If not, then the MOP Brochure needs to sell a variable program. It should list the advantages MOP has over commercial lenders.”

“We need to use a timeline to show the last few steps - from loan approval through loan closing - where each step is often time critical. The timeline would include: loan approval, loan docs sent to escrow, signing and FedExing back to OLP, the 11:00 am deadline to request funds from the Treasurer’s Office, and the one day turnaround for the Treasurer’s Office to wire funds back to the escrow agent. Several times I’ve seen the Borrower either miss a critical deadline with the escrow agent or the escrow agent fails to FedEx priority for morning delivery, and the 11:00 am deadline is missed the next day, all of which pushes us past the closing date. If the Borrower and the Escrow Agent understand the sequence of steps, or rather, our sequence of steps, perhaps a late closing could be avoided. A bigger question is: can we change the 11:00 deadline that the Treasurer’s Office has? If private industry can do same day wiring, can we?”

“Many of our Borrowers are Assistant Professors who either graduate with large student loans or who have little cash to spare since they have just started to teach. We’re not talking tenured faculty here. 15% down, even in a \$200K market, is too burdensome for them. For those (unlike our Assistant Professors) who can afford the 15% downpayment, that 15% will not prevent them from walking away from the loan, since, for them, the 5-20% down in a \$200K market is not a lot of money. However, even 5% down is a lot of money to our newly graduated faculty member, and he or she will not walk away from that downpayment.”

APPENDIX E

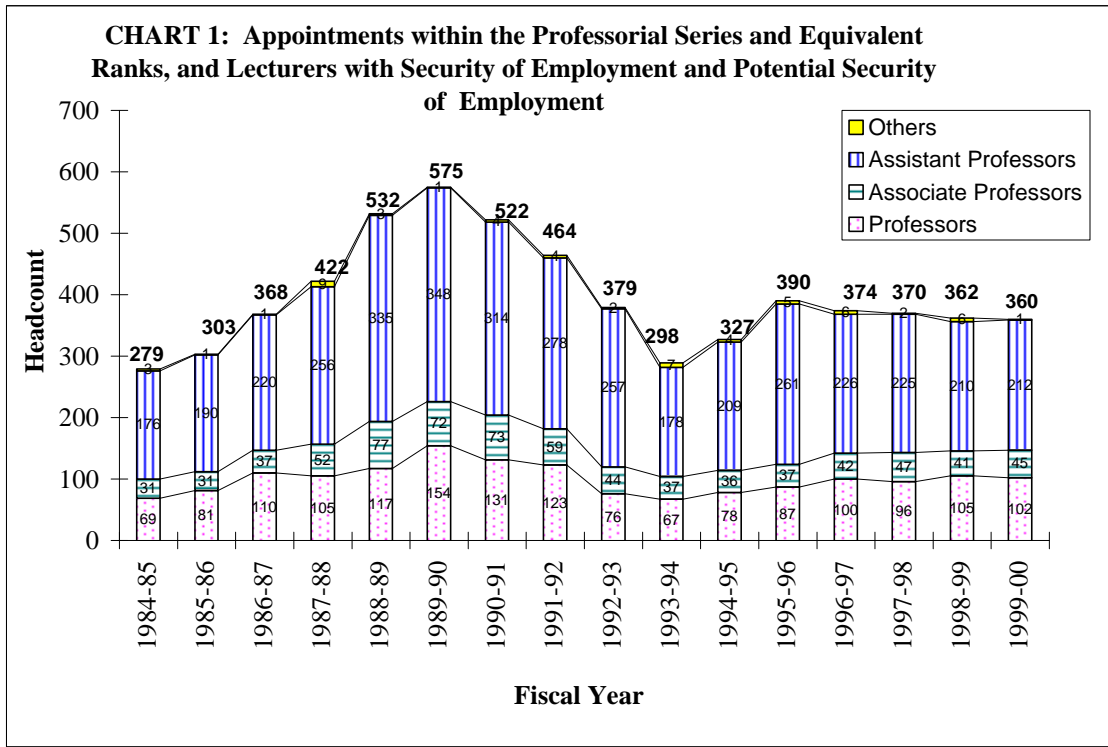
1999-2000

Business Assessment Report

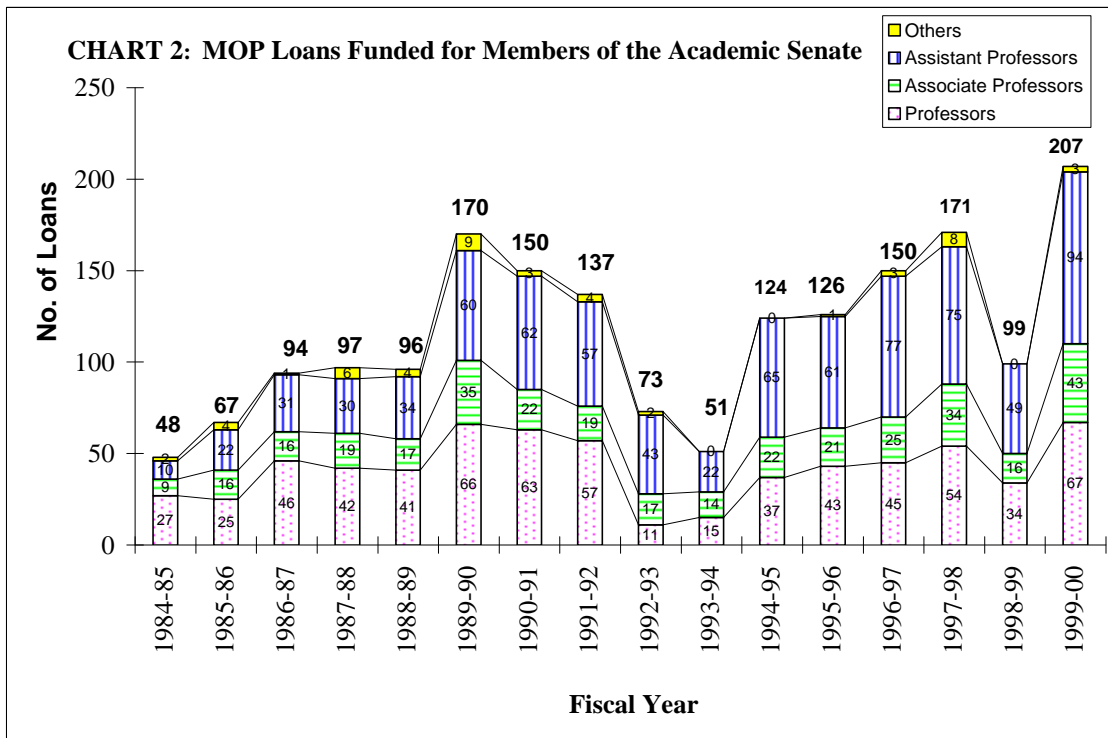
OFFICE OF LOAN PROGRAMS

BUSINESS CLIMATE INDICATORS

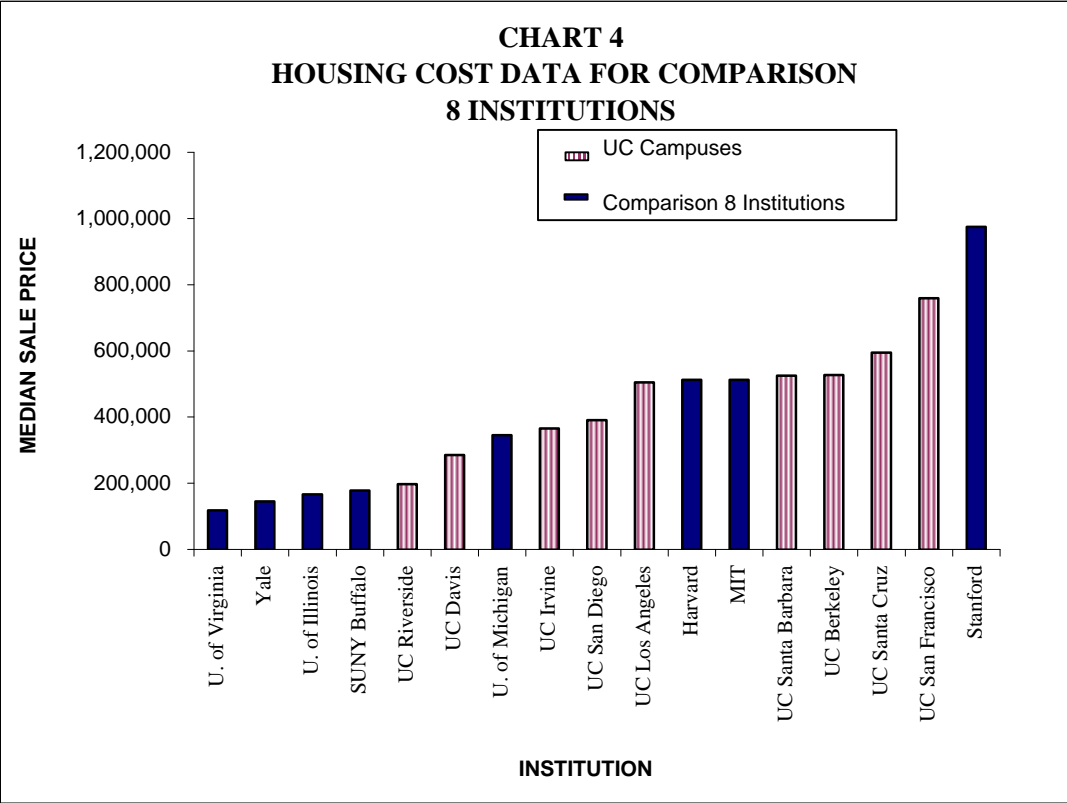
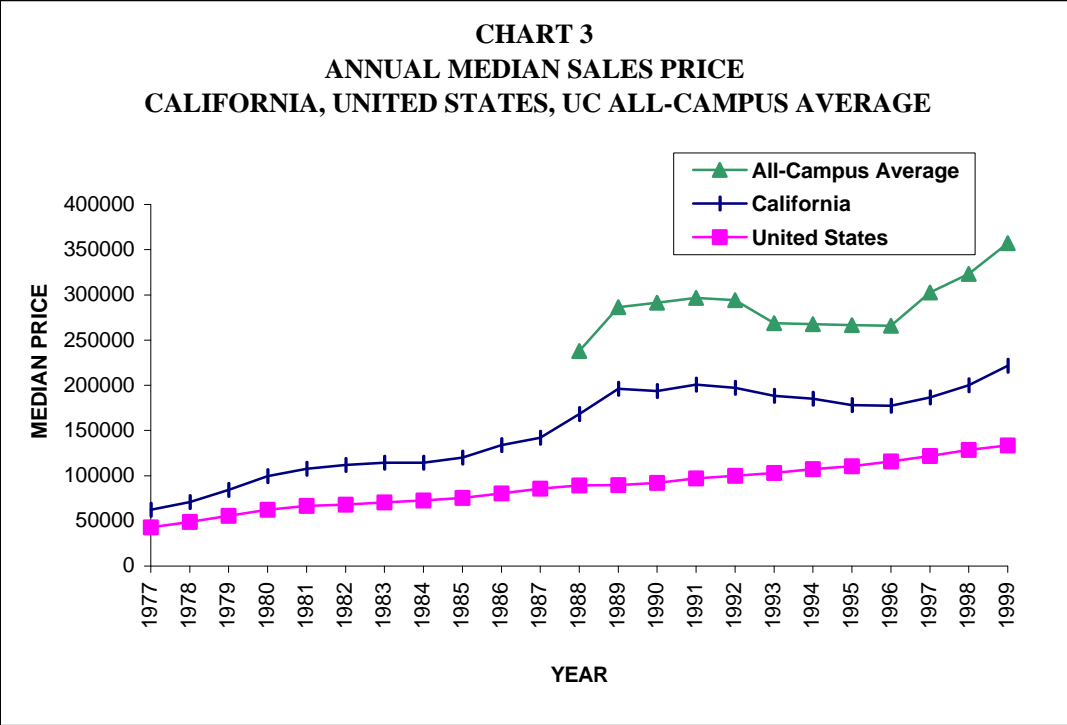
APPENDIX E: BUSINESS CLIMATE INDICATORS



Source: Annual Academic Personnel Statistical Report, Academic Affairs

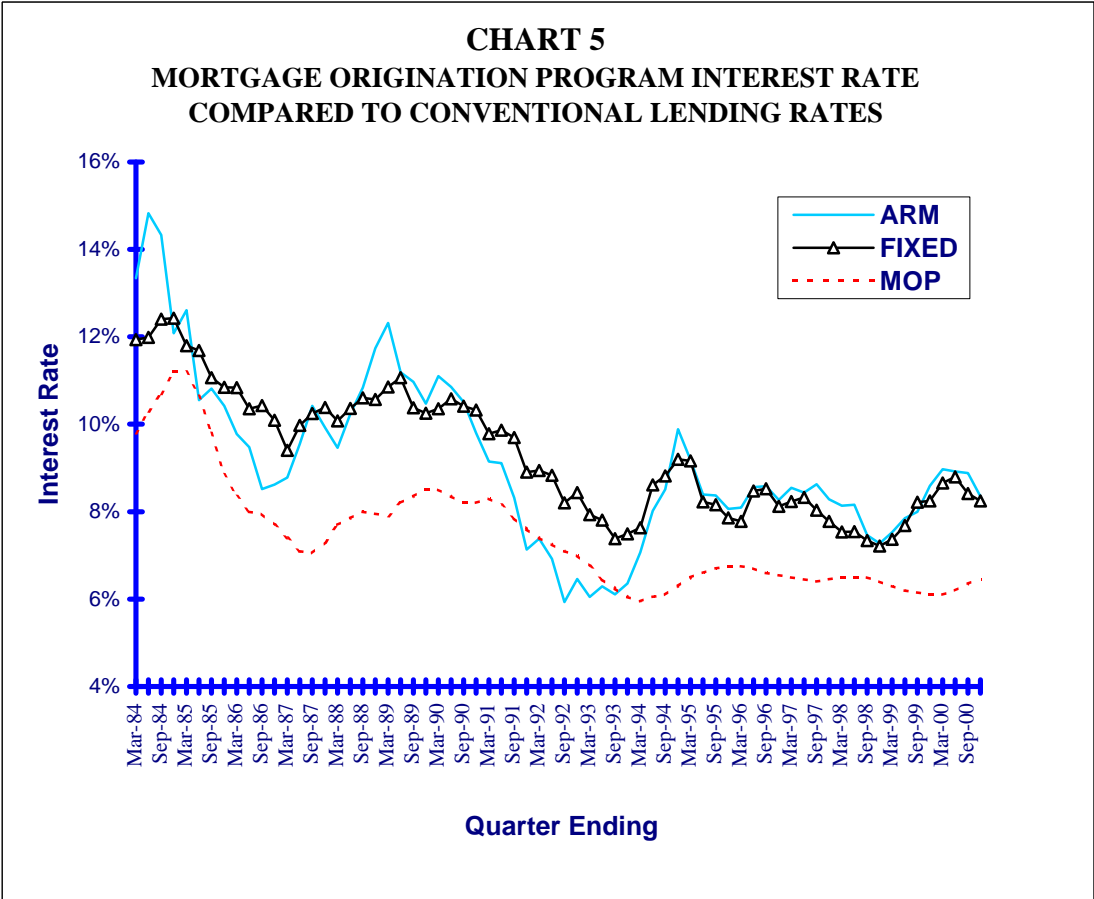


APPENDIX E: BUSINESS CLIMATE INDICATORS



Note: Chart 4 data is as of Spring 2000

APPENDIX E: BUSINESS CLIMATE INDICATORS



APPENDIX F

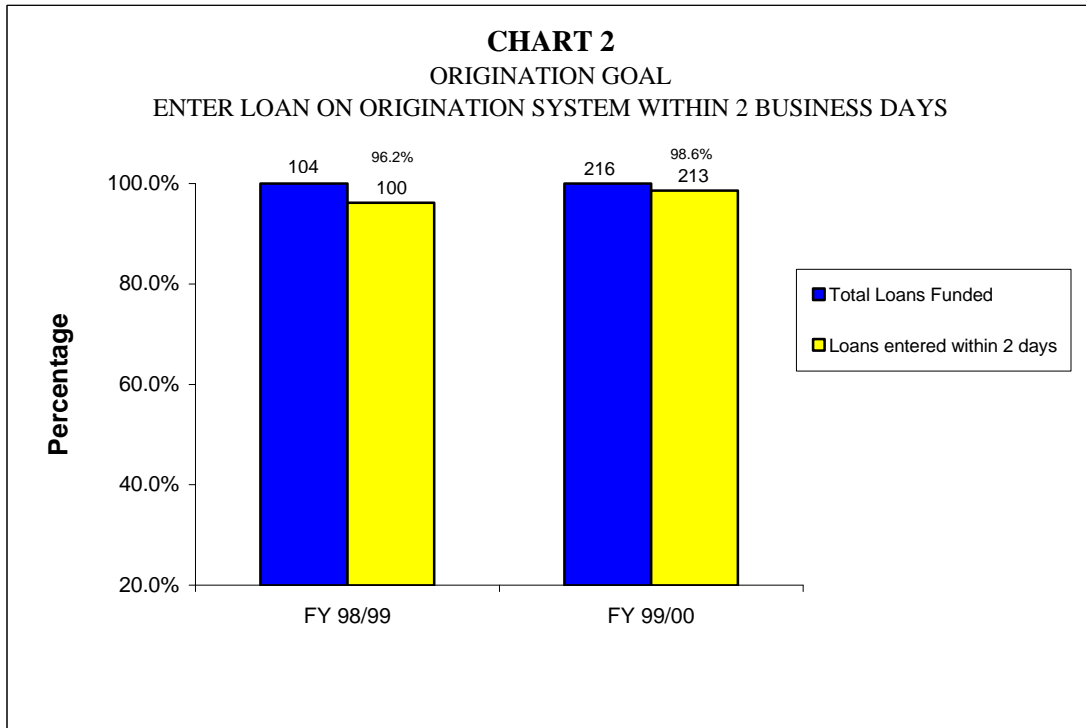
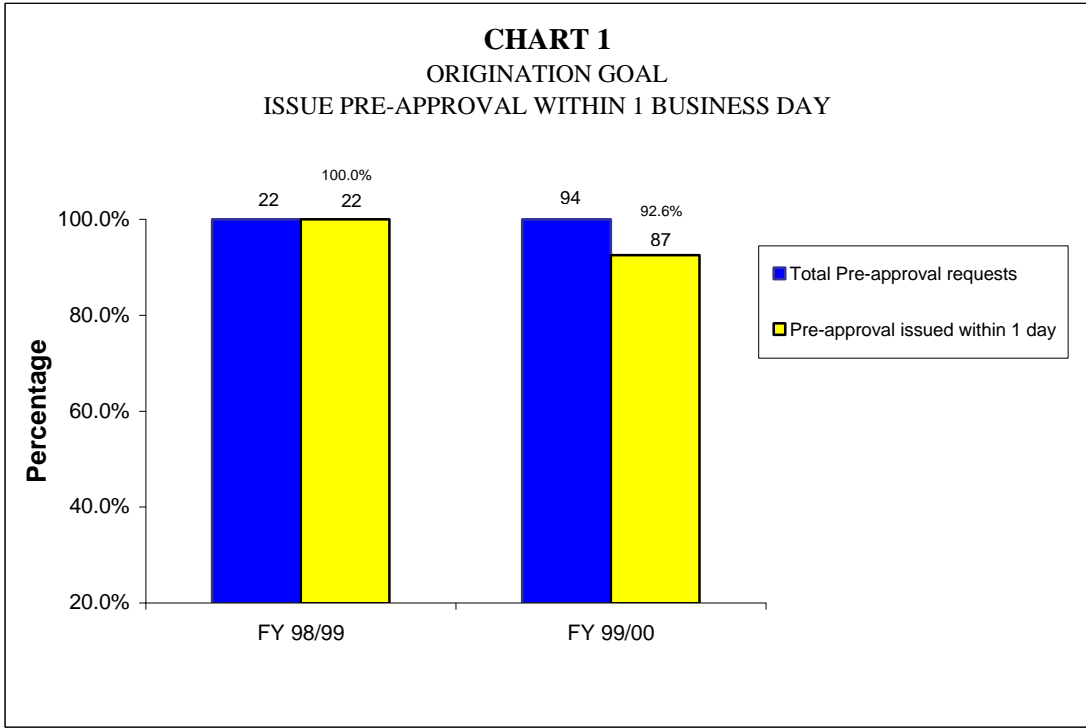
1999-2000

Business Assessment Report

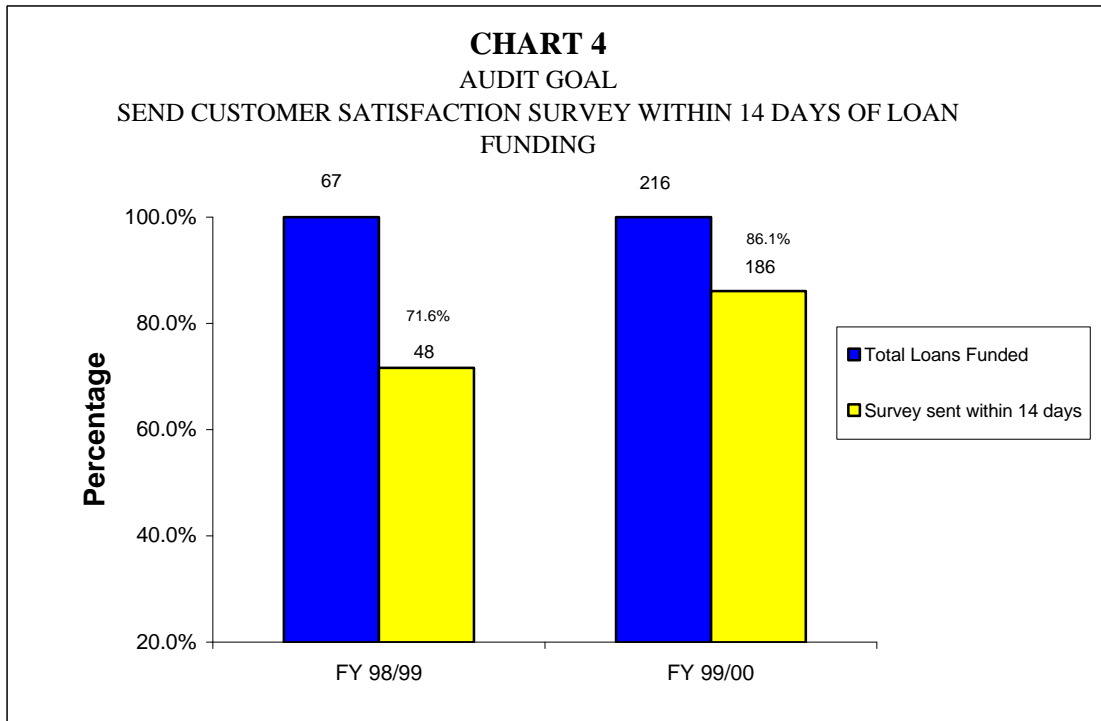
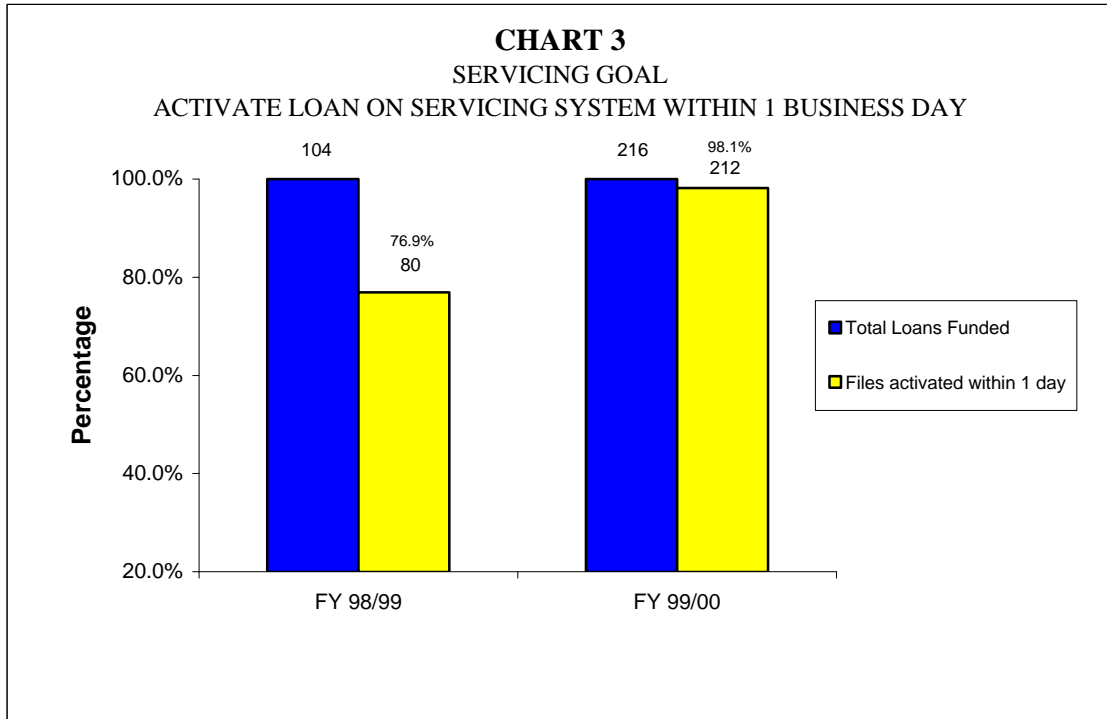
OFFICE OF LOAN PROGRAMS

PERFORMANCE MEASUREMENTS

APPENDIX F: PERFORMANCE MEASUREMENTS



APPENDIX F: PERFORMANCE MEASUREMENTS



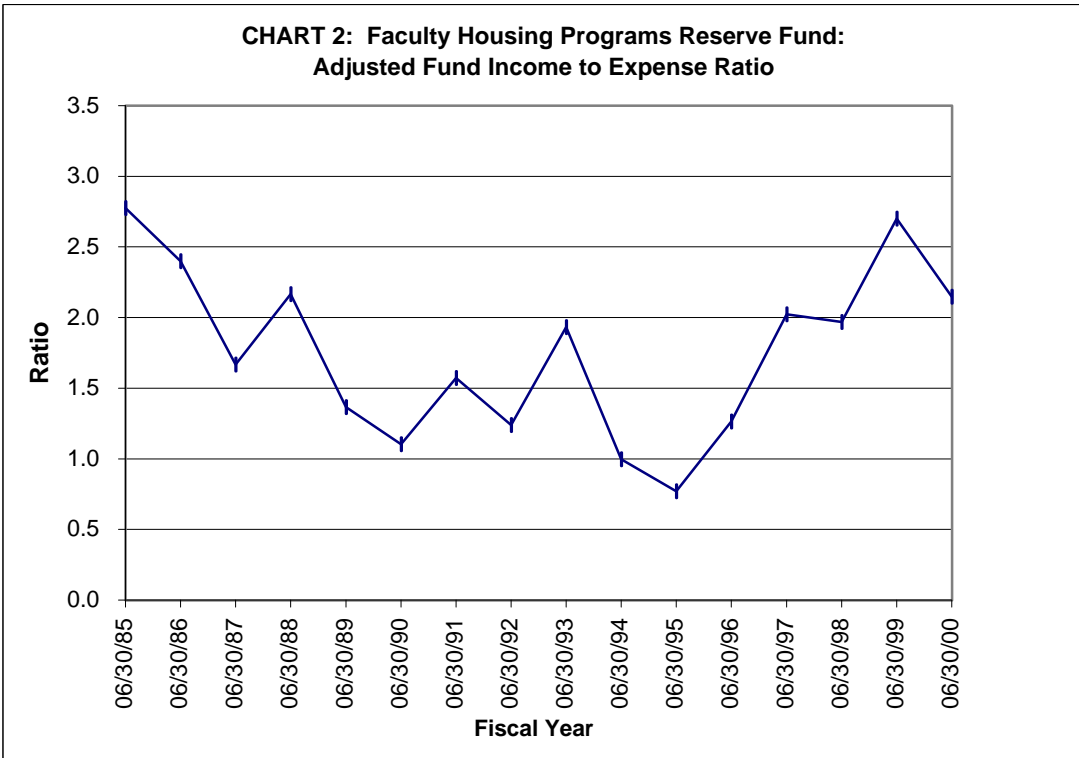
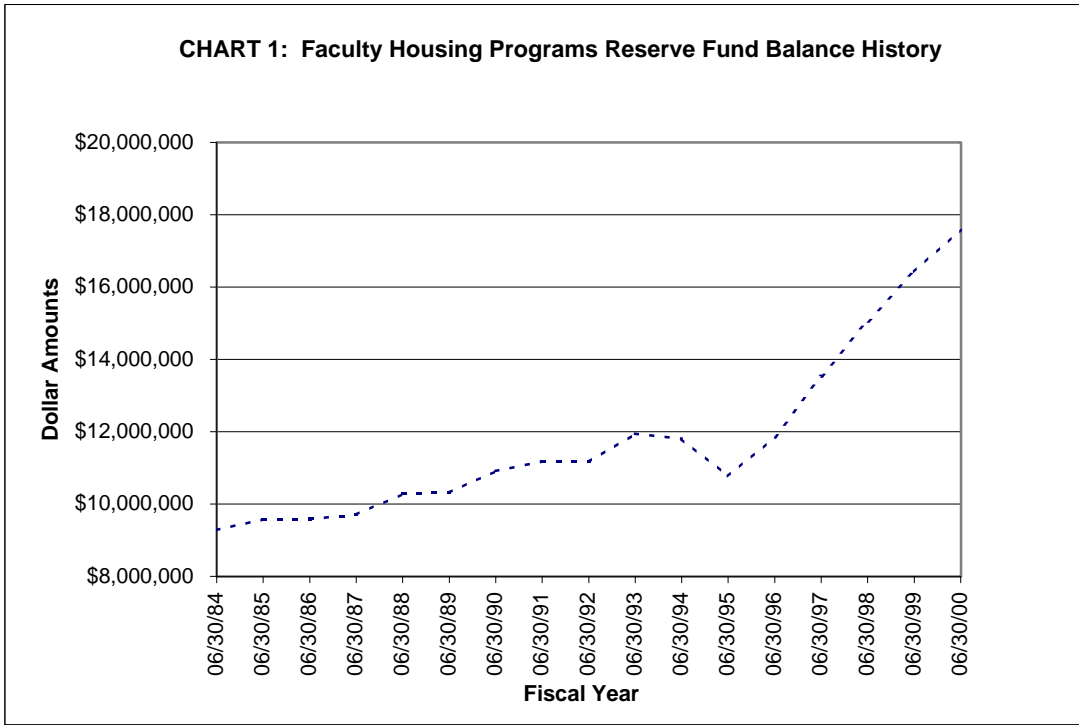
APPENDIX G

***1999-2000
Business Assessment Report***

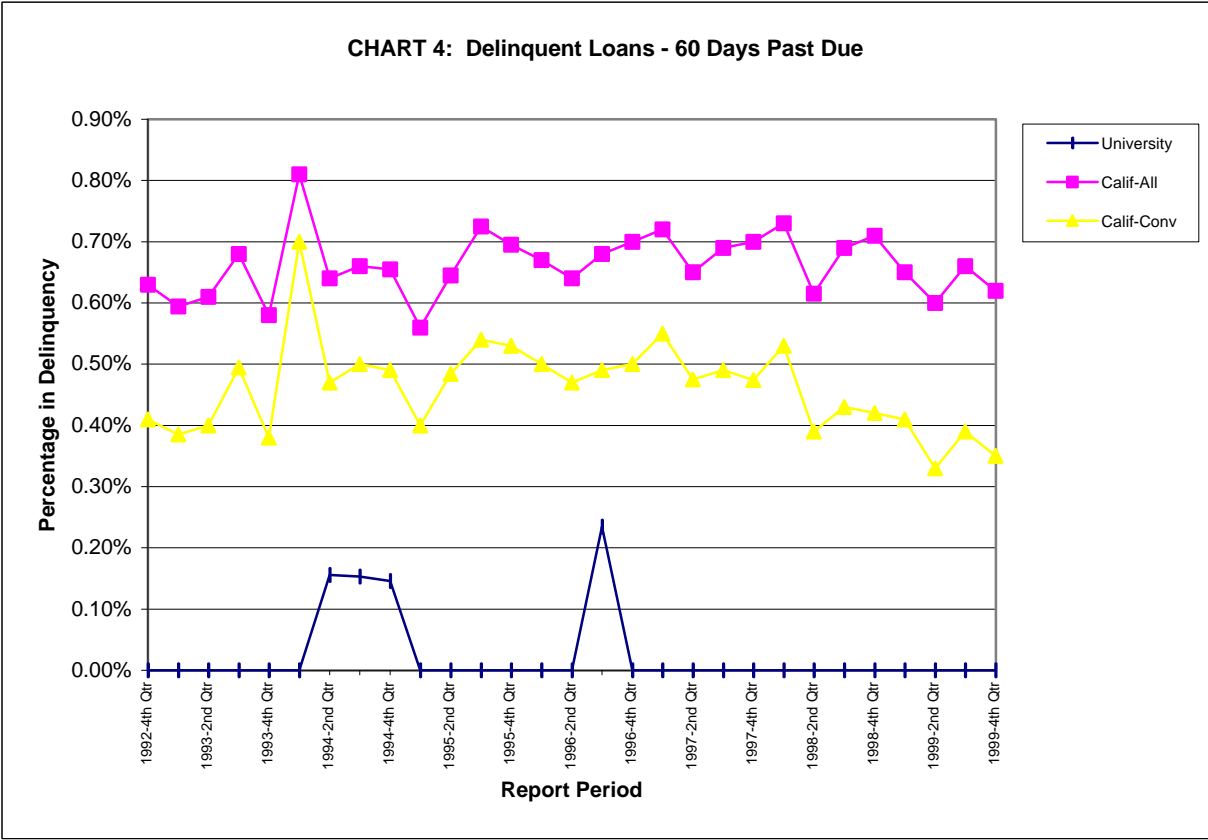
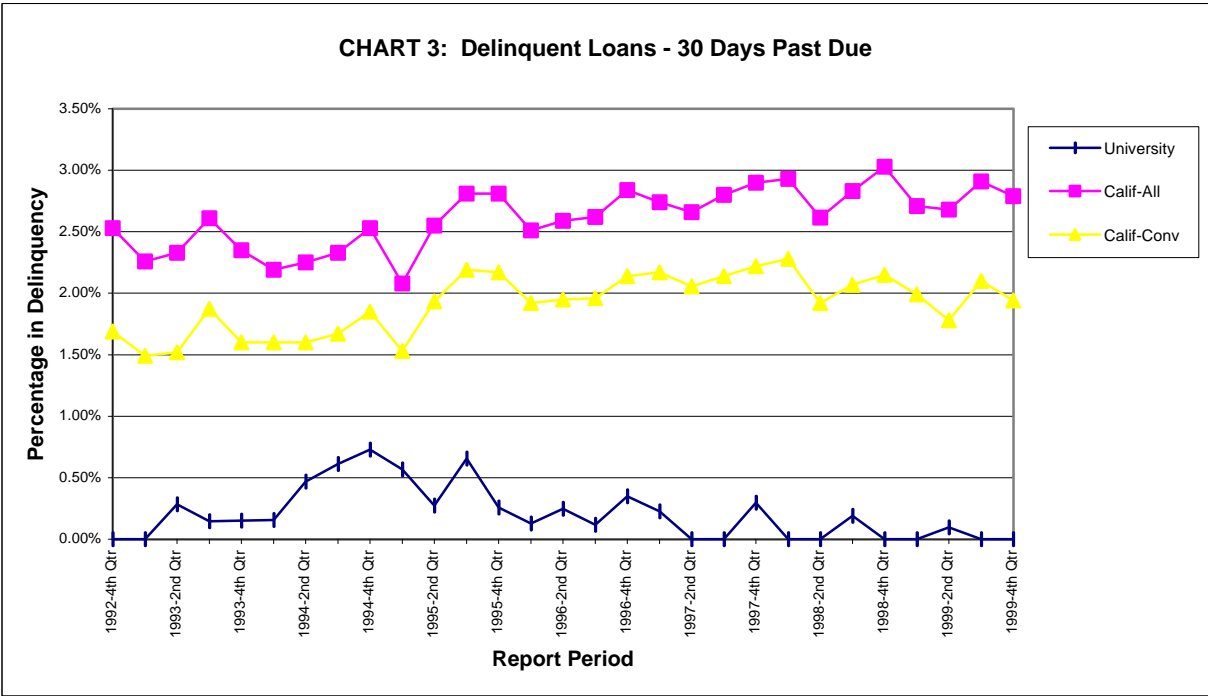
OFFICE OF LOAN PROGRAMS

FINANCIAL RESULTS AND INDUSTRY BENCHMARKS

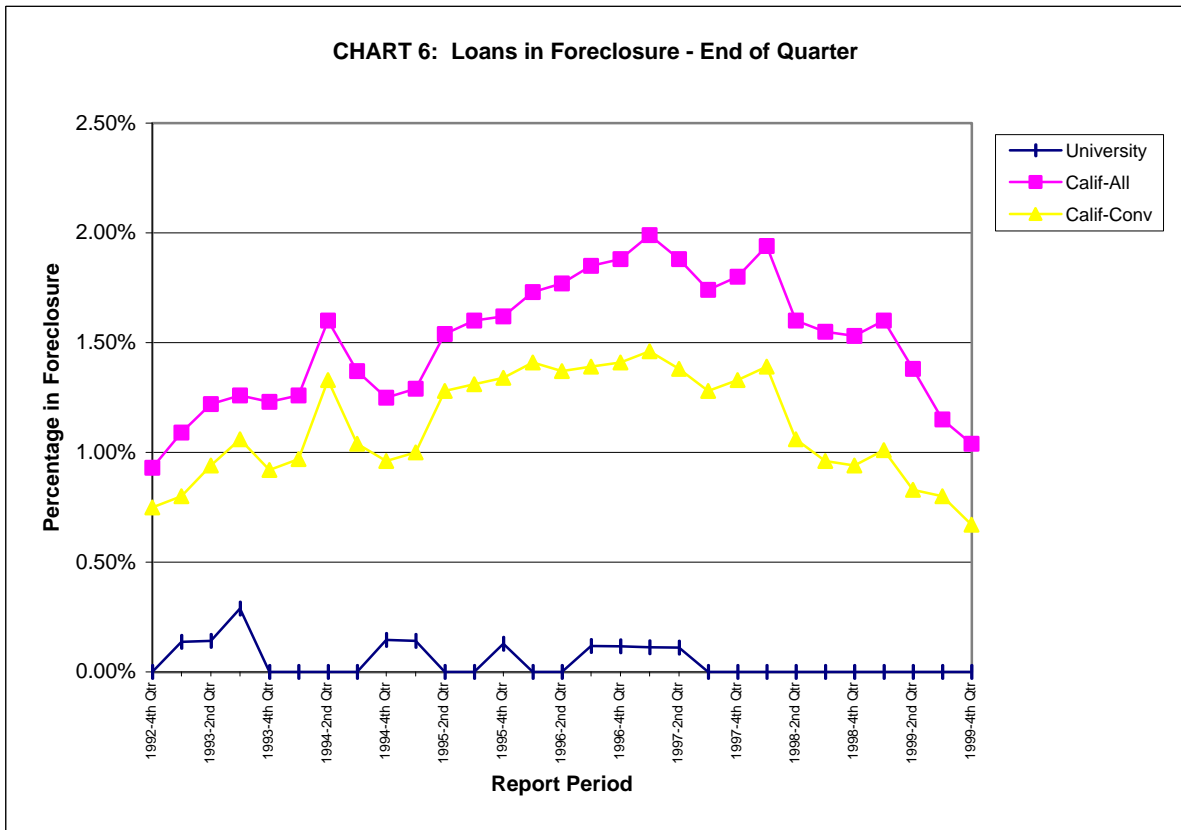
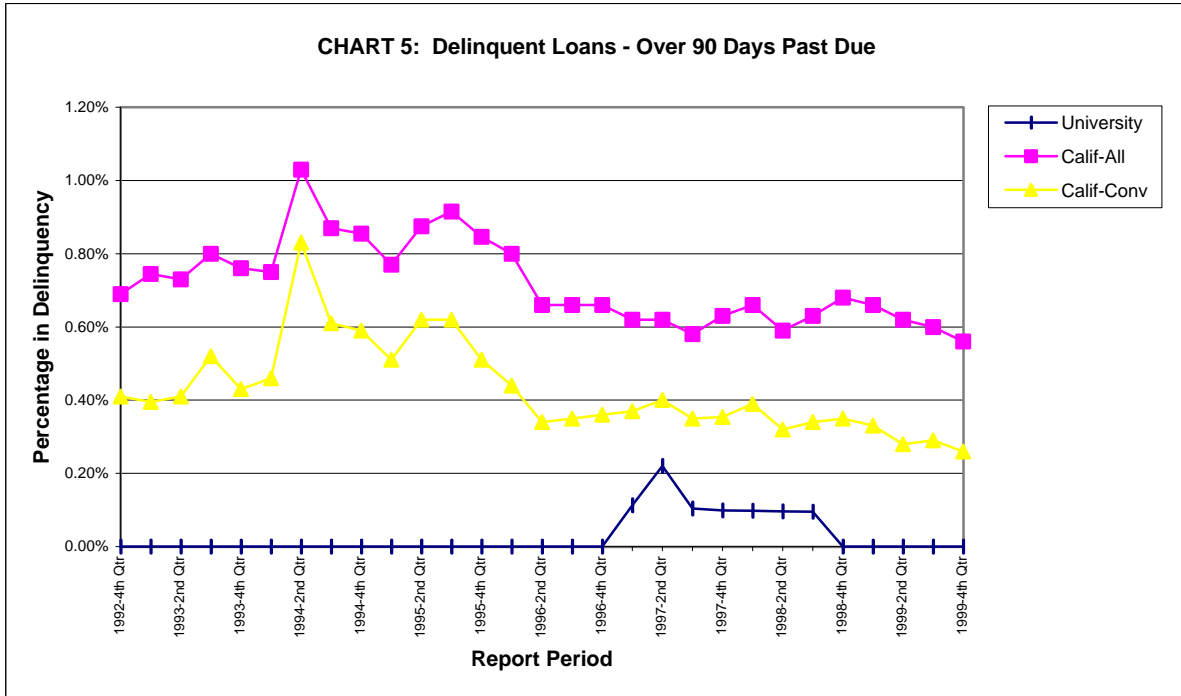
APPENDIX G: FINANCIAL RESULTS AND INDUSTRY BENCHMARKS



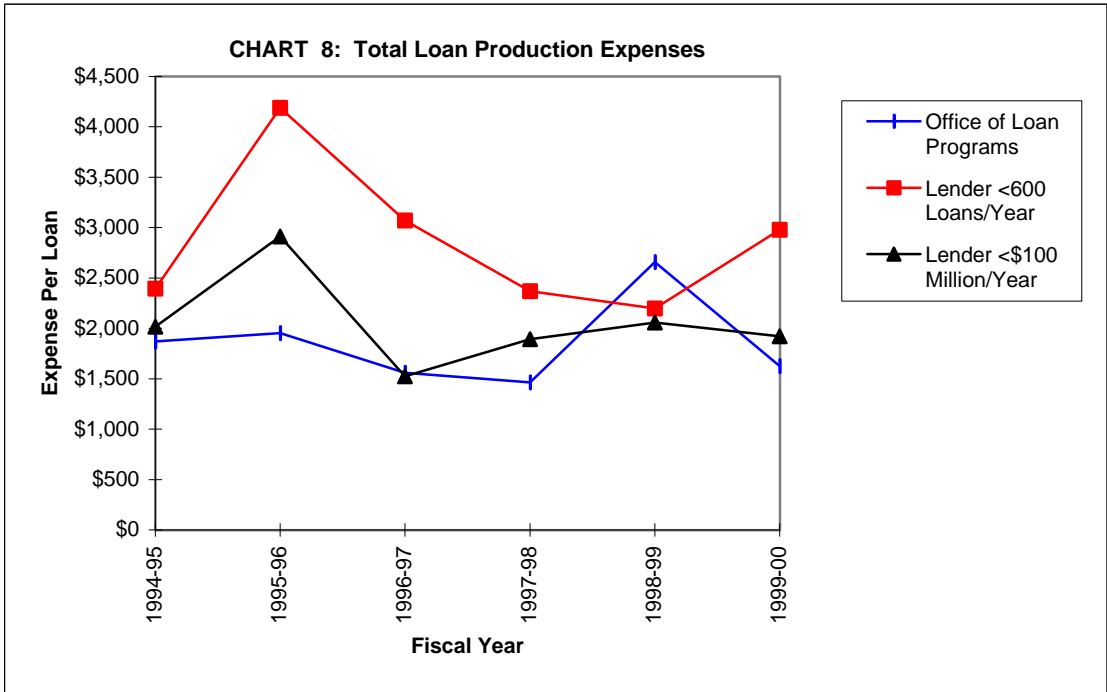
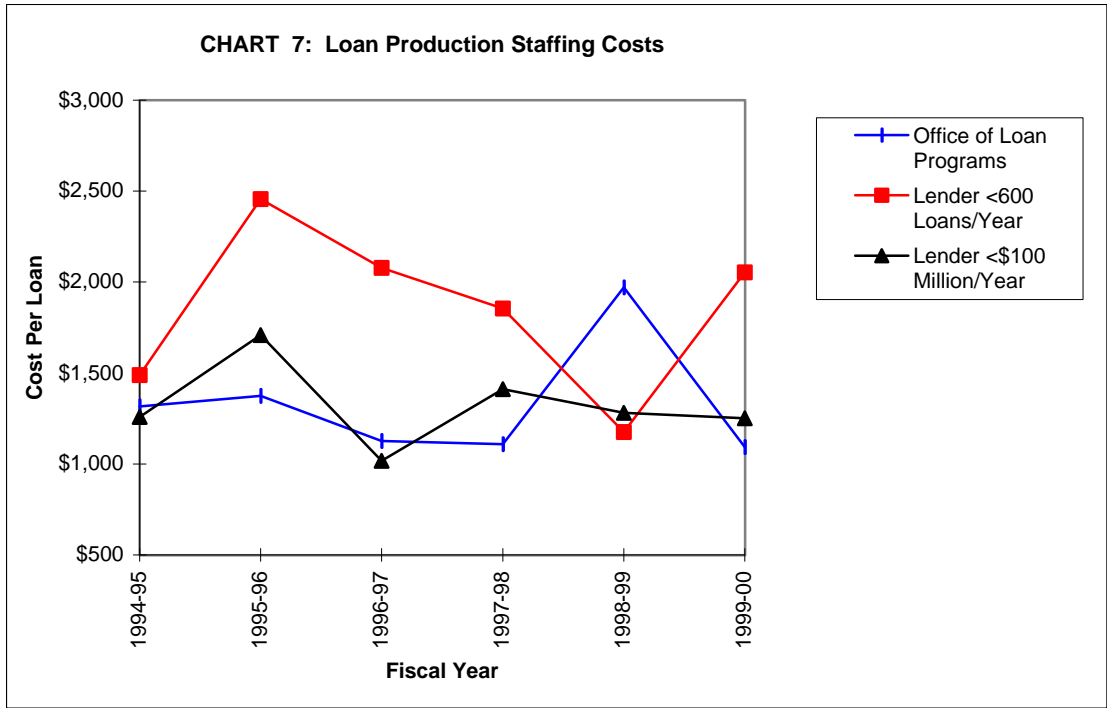
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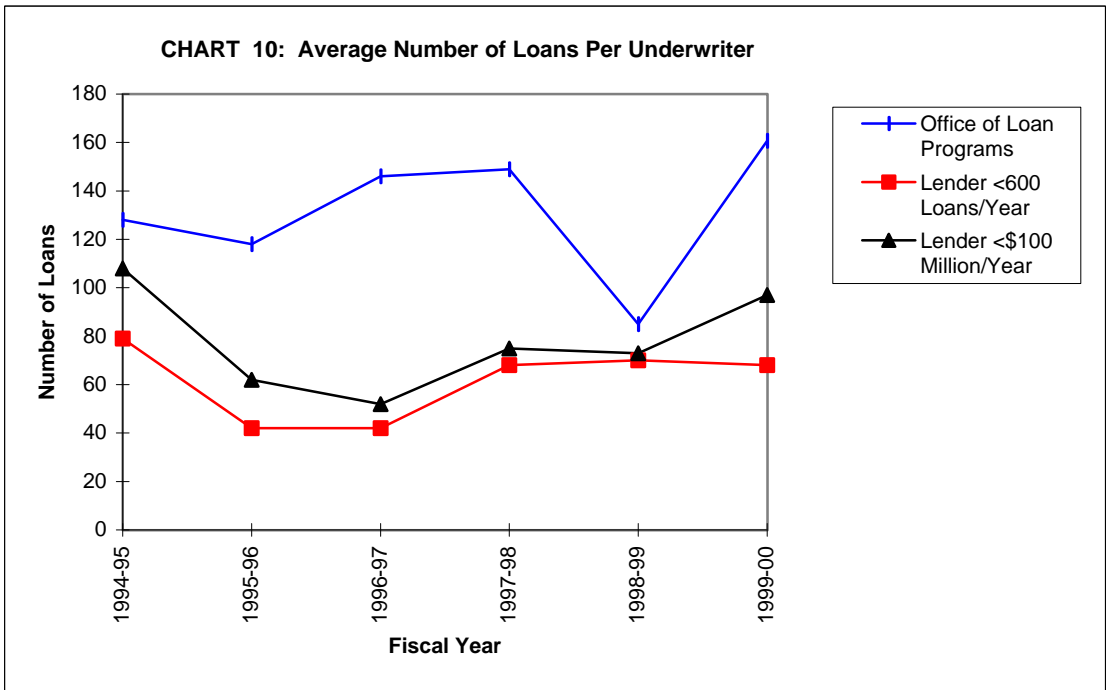
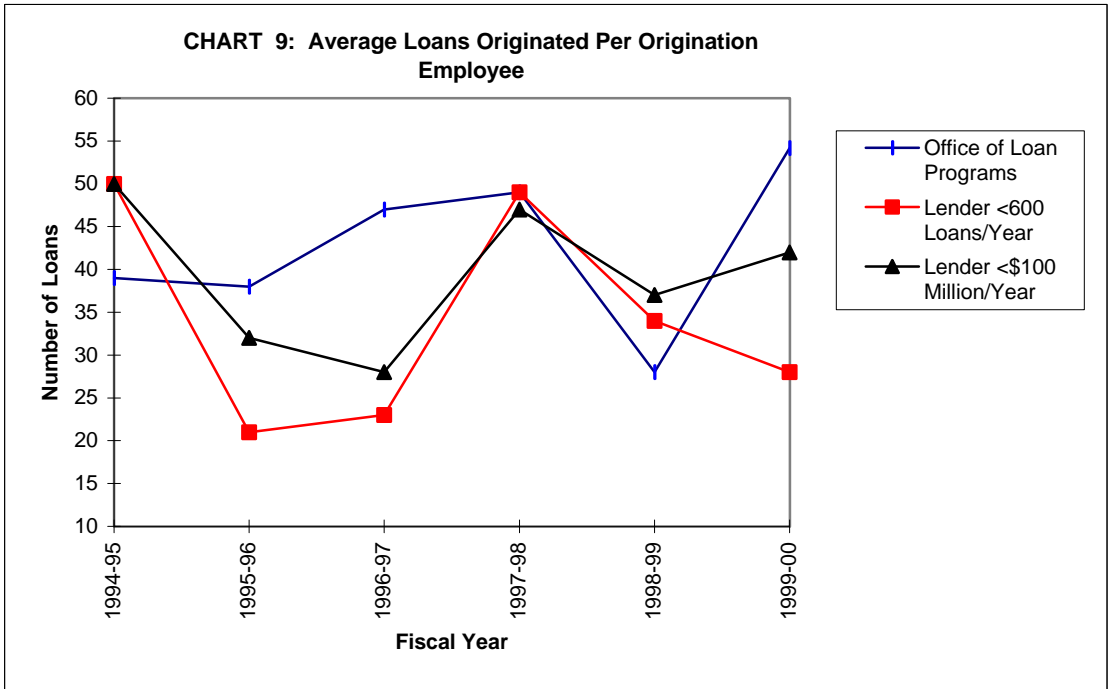
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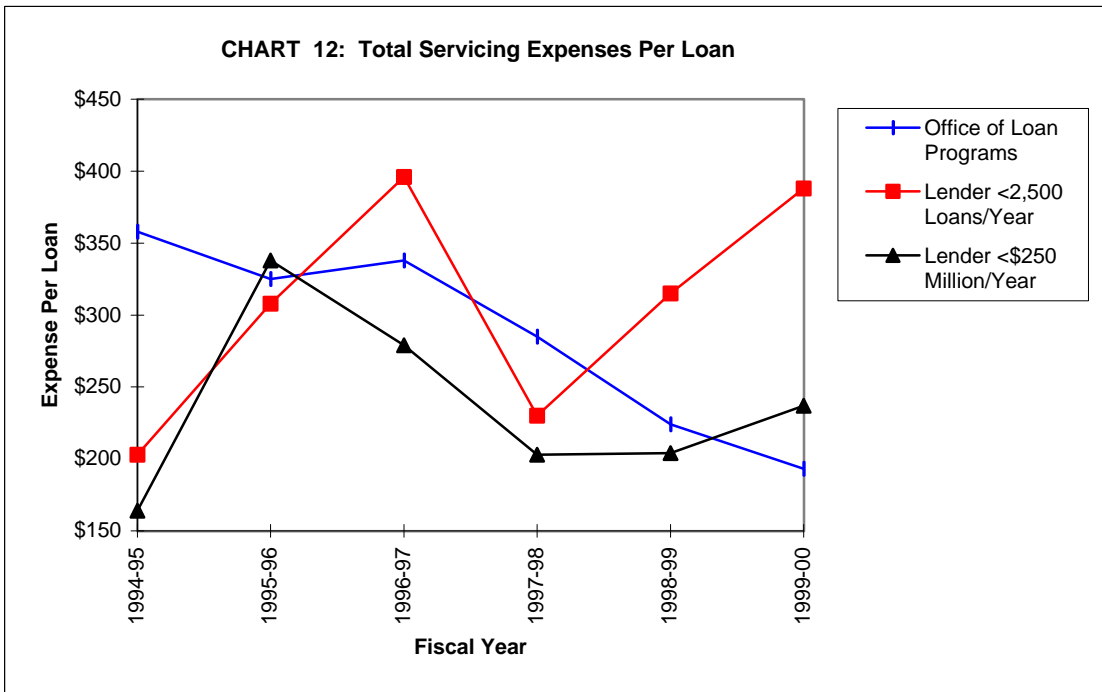
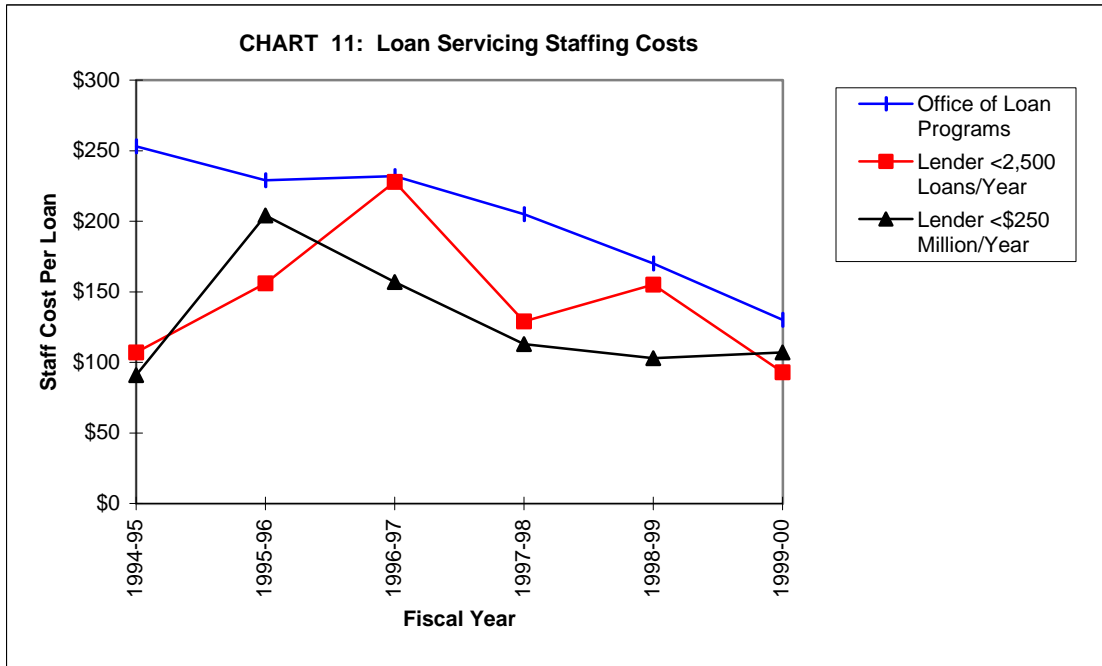
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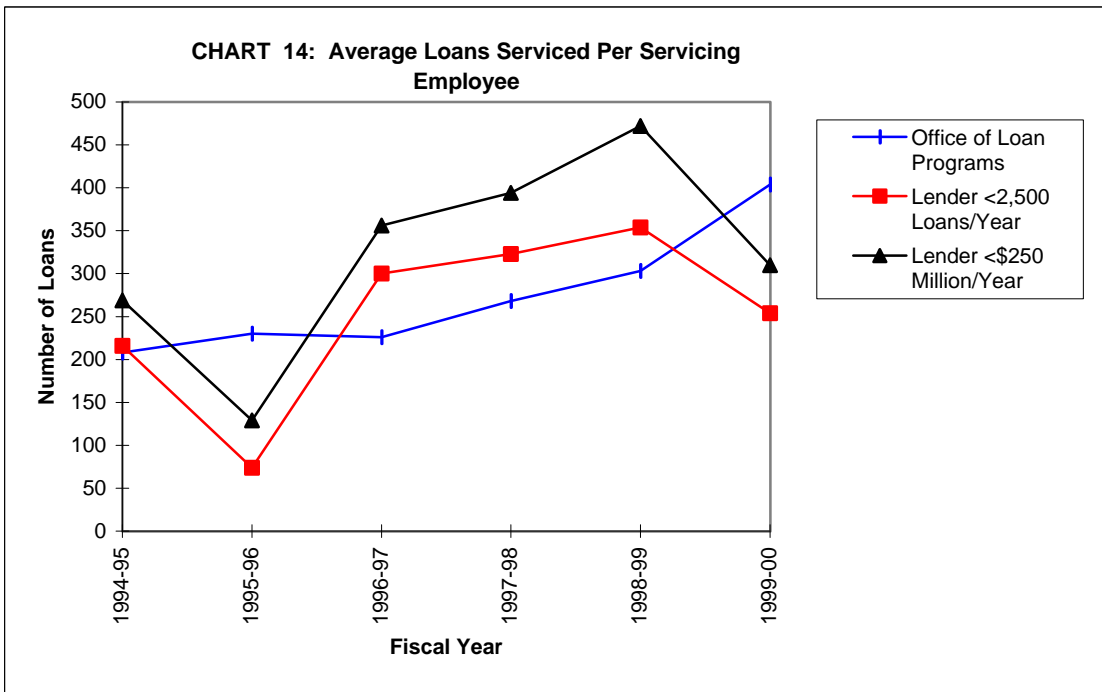
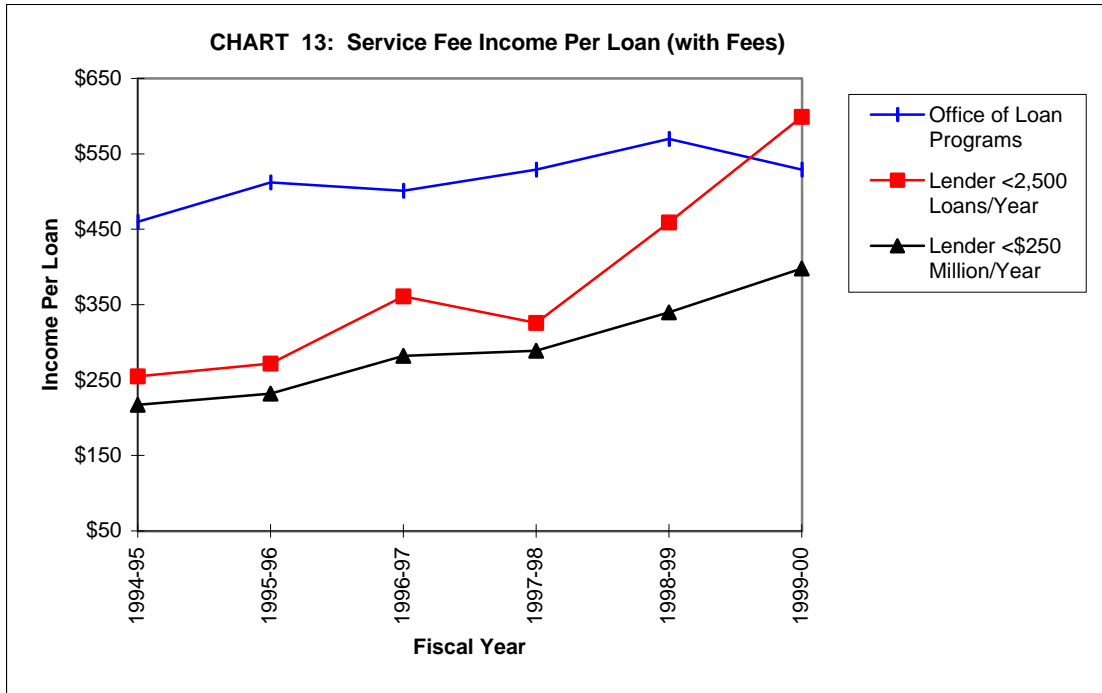
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