



OLP Net News

In This Issue

- ◆ Introducing the GP-MOP Loan
- ◆ GP-MOP Accounting Issues
- ◆ Question of the Quarter: Can I reduce the term of my MOP Loan?

In Every Issue

- ◆ From the Director's Desk
- ◆ Notes of Appreciation

Other Links of Interest

- ◆ [University of California and Other Home Financing Links](#)
- ◆ [Weather in California](#)
- ◆ [Moving Information](#)
- ◆ [Insurance Rating Information](#)

MOP Interest Rate:

5.45%

May 2002 – July 2002

For Current and Historical MOP Rate Information, visit

www.ucop.edu/facil/olp/ratetbl.html

To compare our MOP Rate with conventional mortgage rates, visit

www.ucop.edu/facil/olp/mopcomp.html

For more information about our Products and Services, visit our home page at

www.ucop.edu/facil/olp/

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From the Director's Desk

As we approach the end of another Academic year, lending activity under MOP remains at levels paralleling the record set in the 2000-01 program year. The first ten months of this fiscal year produced 233 funded loans totaling \$93.6 million. The outstanding balance of the MOP portfolio reached \$439.9 million as of April 30, 2002. The new MOP interest rate for May through July 2002 is 5.45%, down from the previous quarter's rate of 5.75% and continuing the below 7% trend begun in February 1993.

In preparation for the anticipated start-up of the new GP-MOP loan product in mid-May, workshops were held in Oakland and Los Angeles in early April to review the new program parameters and to provide training on the use of an analytical tool developed by OLP. The "UC-OLP GP-MOP Analysis Model" is designed to assist the campus Home Loan Coordinators in providing financial and qualification information to prospective borrowers, and resource utilization information to campus decision makers. The current version of this model is an Excel spreadsheet that enables the analysis of multiple purchase scenarios to provide prospective buyers with initial monthly payment and cash requirements associated with the purchase of a home. The model also calculates and summarizes the type and amount of campus resources needed for each scenario. The model allows for the combination of GP-MOP loans with housing allowances and/or SHLP loans (the SHLP loan options include - amortizing loans, interest only loans, or delayed initial payment loans).



At the same time, we are finalizing all the procedures (including new loan documents and disclosure statements), and making modifications to our two mortgage systems to accommodate this new product. The campus Home Loan Coordinators will be notified of the date for submission of applications for this program. Prior to accepting applications, we will need to receive a communication from each campus identifying the person (s) authorized to sign the GP-MOP form committing the campus to fund the rate differential for each GP-MOP loan.

In March, The Regents approved the recommendation of the UC Housing Task Force to establish a program for the periodic sale of MOP loans to increase program liquidity and the level of funds available to address the increased demand for MOP loans. We are currently soliciting the services of a financial advisor to assist in the structuring and placement of the sale of approximately \$100 million from the existing portfolio of over \$439 million. If successful, future such sales could take place to provide on-going extra capacity for this important recruitment and retention tool. More information on this new program will be forthcoming.

--Steve Mathews

*Do you have a topic you would like to see covered in OLP Net News?
 E-mail us at olp@ucop.edu*

Introducing The GP-MOP Loan



The Graduated Payment Mortgage is the first new loan product under the Mortgage Origination Program (MOP) since its inception in 1984.

Graduated Payment Mortgages have long been common with private lenders and are most commonly used by housing tract developers to encourage new home sales. In these programs, the developer arranges with a lender to temporarily reduce the interest rate for a set number of years.

With the Graduated Payment MOP (GP-MOP), the Program participant (Borrower) initially pays a lower interest rate than the MOP rate (Standard Rate). The initial Borrower rate is stated as a percentage below the Standard Rate. This percentage, known as the Interest Rate Differential, changes each year, so that the difference between the Borrower Rate and the Standard Rate gradually decreases. After a pre-determined number of years, the Borrower will pay the Standard Rate, and the loan will become a standard MOP loan.

For example, assume that in the first year, the Borrower Rate is set at 2% below the Standard Rate. If the Standard Rate were 5.5%, the Borrower would pay 3.5% in the first year of the loan. Assuming the Interest Rate Differential had an annual decrease of .25%, the Borrower Rate would be 1.75% below the Standard Rate in the second year of the loan. If the Standard Rate remained at 5.5%, the Borrower would then pay 3.75% interest. However, given the variability of the MOP rate, the exact interest rate and payment change would not be known until the annual interest rate adjustment date. After eight years, the Borrower Rate would be equal to the Standard Rate in effect at that time. Accordingly, the interest rate the Borrower will pay during the initial years

of the loan will "shadow" the standard MOP rate at a steadily increasing pace.

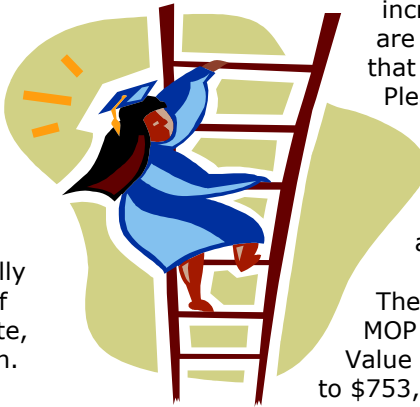
During the last ten years, the MOP rate has remained relatively stable. Assuming this stability continues, the interest rate and payment for GP-MOP borrowers will increase by a fairly predictable amount each year.

However, in the event that interest rates rise substantially, the Borrower's payment could increase at a faster rate. GP-MOP loans are designed for individuals who anticipate that their income will increase in the future. Please note that unlike some other Graduated Payment Mortgages in the private sector, the GP-MOP payments by the Borrower are designed to fully amortize the loan and there is no negative amortization.

The GP-MOP differs from the traditional MOP loan in other ways. While the Loan-to-Value ratio thresholds are the same (90% up to \$753,500, 85% over \$753,500), the maximum Payment-to-Income ratio that will be used to qualify Borrowers has been reduced from 40% to 38%. Finally, the maximum term of a GP-MOP loan is thirty-five years (as opposed to forty).

Unfortunately, there are no central funds available for GP-MOP loans. Each campus must use its own funds to implement this program, and the availability of funding may differ depending on the campus. Please contact your local Housing Programs Representative or the Office of Loan Programs if you would like additional information concerning this new product.

-- Jay Valancy



Question of the Quarter



Can I reduce the term of my MOP Loan?

Yes. A reduction in loan term is popular with some borrowers as it reduces the overall interest paid on the loan. Please note, however, that depending on the number of years of reduction, the increase in the monthly payment amount can be significant. The term reduction will result in a new maturity date for your loan and will affect your next regularly scheduled payment amount adjustment.

To reduce the maturity date of your loan, contact our office to obtain a two-page Modification Agreement. This Modification Agreement must be signed by all borrowers in the presence of a notary. Please note that a Notary may charge a fee for notarization. After signing, return the Modification Agreement to our office with your



personal check made payable to the County Recorder. The amount of this check will vary by County; however, it usually does not exceed \$20.

Upon our receipt of the signed and notarized Agreement, we will update our records and forward the Agreement and check to the County Recorder. The University does not charge a fee for this service.

As the MOP loan does not have a prepayment penalty, you may payoff your loan at any time. In addition, as an alternative to modifying your loan term, you may make additional payments to principal at any time for any amount. For specific instructions on how to make additional principal curtailments, please see our [Frequently Asked Questions](#) section or contact our office.

-- Jay Valancy

Accounting Issues Related to GP-MOP

In April 2002, the Office of Loan Programs (OLP) introduced a new loan product, the Graduated Payment Mortgage Origination Program (GP-MOP) loan. OLP anticipates applications will be accepted for GP-MOP loans starting in mid-May, 2002. This program provides loans that have an initial interest rate paid by the borrower reduced by up to 3.0% below the standard MOP interest rate, with a floor of 3.0% (see the article, "Introducing the Graduated Payment Mortgage Origination Program Loan" in this Newsletter). The campus that provides each loan must provide funds to cover the resulting interest differential to be paid over the rate differential period of up to 12 years. This article will address some of the Accounting issues relating to this differential payment.



When a campus authorizes an applicant to receive a GP-MOP loan, the campus must designate a funding source for the differential payments. The funding of this differential payment can be from available campus funds, including discretionary funds, as well as unrestricted and appropriate restricted gift funds.

On a monthly basis OLP will transfer funds from the campus for the total amount of interest differential for all GP-MOP loans, and produce reports that will provide detail by departmental funding source. These reports will be sent to each campus Accounting Office representative who is responsible for ensuring the funds are available.

In summary, the campus is responsible for designating the funding source, completing the monthly transfers and reconciling these transfers with the monthly reports provided by OLP. The Office of Loan Programs is responsible for applying the monthly payments, generating monthly reports, completing the monthly transfers, and completing all normal reporting to the campuses and borrowers, as well as tax reporting to the Internal Revenue Service.

-- Luann Ford

Notes of Appreciation (from Borrower Surveys)

- ❖ This was a case where the loan had to be expedited on a very fast track. I really appreciated the manner in which the information was conveyed and the process concluded. Excellence is the word I would use to describe the service received.
- ❖ Great program! I really appreciate it. It kept me from looking for a position elsewhere.
- ❖ The loan program is a major incentive for new faculty to choose UC.
- ❖ All staff involved provided outstanding service. I asked for expedited processing of the commitment and they made the deal possible. Thanks to all.
- ❖ Fantastic, courteous service – much better than bank/commercial lenders.

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A quarterly on-line newsletter published by the University of California's Office of Loan Programs. The Office of Loan Programs administers housing assistance programs for recruitment and retention of faculty and senior managers in support of the education, research and public service missions of the University of California.

OLP Announcements

- ◆ New GP-MOP Loan Coming Soon
- ◆ ACH Debit option now available for those borrowers who are not on payroll status. For more information, call 510-987-9000 or send an email to olp@ucop.edu.