



OLP Net News

From the Director's Desk

This article marks my first opportunity to provide an update on the housing programs since taking over as Director in August, following Steve Mathews' retirement. As discussed elsewhere in this newsletter, it has been a tumultuous few months in the mortgage industry. Luckily, the Mortgage Origination Program's liquidity is not dependent on the secondary mortgage market, and the MOP interest rate is more stable than rates in the conventional market, given that it only changes quarterly and is based on a 4-quarter average of STIP's rate of return. However, as property values continue to flatten and decline in many areas, and as increasing delinquencies and foreclosures make newspaper headlines, there are challenges ahead as we continue to originate loans that must represent a good investment for the University while providing the needed assistance in recruiting and retaining faculty and Senior Managers.

Loan volume continues to remain high. For the first quarter of this new fiscal year, 107 MOP loans have funded in an aggregate dollar amount of \$62.9 million for an average loan amount of \$587,455. Additionally, 20 SHLP loans totaling \$2.5 million have funded. This compares to 103 MOP loans and 9 SHLP loans during the same time period last year.



Effective July 1, 2007, we started accepting applications for the Interest-Only Mortgage Origination Program (IO-MOP) loan product. Of the 107 loans funded in the first quarter, 4 represented IO-MOP loans, for a total dollar amount of \$2.8 million.

As of November 1, 2007, the new Standard MOP rate will be 5.0%, which compares to an interest rate of 4.60% a year ago. The IO-MOP rate effective November 1, 2007 is 5.25%.

Finally, we are starting to plan the next Home Loan Coordinators Meeting, which we are hoping to schedule in early March 2008. There have been many changes to housing programs staff at the campuses, so this will provide a great opportunity for us to put faces with names, and to discuss the issues that surround the on-going success of the housing assistance programs.

- - Ruth Assily

**Do you have a topic you would like to see covered in OLP Net News?
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MOP Interest Rate:

5.00%

November 2007 – January 2008

For Historical MOP Rate Information, visit <http://www.ucop.edu/facil/olp/ratecomp.pdf>

To compare our MOP Rate with conventional mortgage rates, visit <http://www.ucop.edu/facil/olp/mopcomp.pdf>

For more information about our Products and Services, visit our home page at <http://www.ucop.edu/facil/olp/>

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Subprime Mortgages and the UC MOP Loan

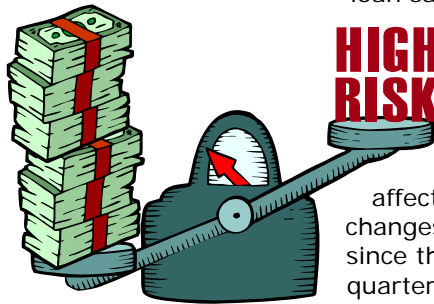
Several MOP borrowers, and potential MOP borrowers, have expressed concern that the recent problems in the subprime mortgage market will adversely affect their MOP loan, or the MOP interest rate.

As a general rule, subprime mortgages were made to borrowers who did not qualify for the best market interest rates because of poor credit or a lack of credit history. In their defense, lenders were allowing borrowers with a less than ideal credit record access to homeownership. Accordingly, some borrowers were given a first (or second) chance at establishing a good payment record and the opportunity to refinance into a competitively priced loan within a year or two of closing.

Unfortunately, some of the subprime loans had artificially low fixed rates for the first few years and converted to a significantly higher adjustable interest rate mortgage, causing, at minimum, "payment shock" and, at worst, the inability to afford their mortgage payments, leading to potential foreclosure and/or bankruptcy. Compounding the problem was a nationwide decline in housing prices, with a corresponding decline in home sales, many lenders closing their doors, and an overall tightening of mortgage lending credit standards which limited the ability of potential buyers to qualify for mortgage loans.

The University of California MOP loan differs from subprime lending in several significant ways:

1. The MOP rate available for new loans is the same, regardless of loan size.
2. All MOP loans are fully-amortized one-year adjustable mortgages. The MOP loan does not have a "teaser" rate or negative amortization.
3. The annual change in an individual's MOP rate is limited to 1% up or down, as compared to 2% for many conventional lenders.



4. Funding for the MOP loan is from University funds. The MOP loan is **not** funded by either a mortgage banker's credit line or via individual loan sales in the secondary market.

As all MOP loans are funded from the Short Term Investment Pool (STIP) and the MOP interest rate is determined by the performance of STIP, any changes in the investment market will ultimately affect the MOP interest rate. However, any changes to the interest rate tend to be gradual since the MOP rate is determined by a four quarter average of the STIP rate of return.

Since the inception of the Program in 1984, the MOP rate has, in general, lagged the interest rate charged in the private sector, slowly following either up or downward trends. The result is a stable index that does not have wide swings in value. While many experts believe that the fallout from the subprime lending market will continue, the effect on the University housing assistance programs should be minimal.

-- Jay Valancy

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