

FACULTY RESIDENTIAL MORTGAGE REVENUE BOND PROGRAMS

I. INTRODUCTION

The University of California, as part of its recruitment and retention processes, offers various housing assistance programs to its faculty members and other designated employees. These programs, which are self-supporting, are administered by the office of Real Estate Management and Loan Programs. Since the inception of the housing assistance program, new mortgage money has occasionally been made available through the sale of Residential Mortgage Revenue Bonds. To date, there have been three bond issuances:

1979 Faculty Residential Mortgage Revenue Bond Program
1985 Mortgage Revenue Bond Faculty Loan Program
1987 Mortgage Revenue Bond Faculty Loan Program

Each of these programs provided funding from tax-exempt bond proceeds for 30-year, below-market fixed rate mortgages to eligible participants. For more information concerning the University's housing assistance programs, please refer to the Annual Report on University Employee Housing Assistance Programs published by the Office of Real Estate Management and Loan Programs.

II. ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

The bond indentures require that "The Regents shall at all times keep or cause the Trustee to keep proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the proceeds of Bonds,..." To accomplish this, the Trustee (typically a financial lending institution) establishes various funds and accounts as specified in the indenture, and maintains these funds as required, to ensure compliance with the bond covenants. In addition to monthly remittances from the Mortgage Servicer, the Trustee is responsible for specific funds transfers that may be required under the indenture, as well as any required reserves.

The Mortgage Servicer is responsible for all activity related to the mortgage loans, including collection of monthly payments, loan payoffs, and maintenance of individual account information. The Servicer remits the loan payments to the Trustee on a monthly basis, and provides

II. ACCOUNTING RECORDS AND FINANCIAL STATEMENTS (Cont.)

activity statements in both detailed and summary form (Single Debit Reconciliation). For the 1979 Faculty Mortgage Program, the servicing function is handled by three financial institutions (banks); for the 1985 and 1987 Mortgage Loan Programs, the University acts as Servicer).

Activity for these programs is recorded on the general ledger at the Office of the President. Financial statements are prepared for each issue and are subject to an annual audit, as specified in the indenture.

III. ACCOUNTING PROCEDURES

The following financial entries should be used to record mortgage activity for each bond indenture, as reported by the Trustee:

A. To record bond proceeds received by the Trustee:

Dr. Assets Held by Trustee	J-102012-0388X
Cr. Bonds Payable	J-10209X-0388X

B. To record purchase of (investment in) mortgages:

Dr. Mortgages Receivable	J-102013-0388X
Dr. Mortgage Interest (paid on purchase)	J-10388X-0388X-8028
Cr. Assets Held by Trustee	J-102012-0388X

C. To record monthly mortgage remittance activity (should reconcile with Servicer's report):

Dr. Assets Held by Trustee	J-102012-0388X
Cr. Mortgages Receivable	J-102013-0388X
Cr. Mortgage Interest Income	J-10388X-0388X-8028
Dr. Servicing Fee	J-10388X-0388X-8131

The same entry would be made to record the payoff of an individual mortgage loan.

D. To record income earned on the investment of funds held by the Trustee:

Dr. Assets Held by Trustee	J-102012-0388X
Cr. Investment Income	J-10388X-0388X-8029

E. To record payment of program expense costs:

Dr. Program Expense	J-10388X-0388X-8134
Cr. Assets Held by Trustee	J-102012-0388X

F. To record semi-annual Bond Interest Payment, and annual Principal repayment (including bonds called for early redemption):

Dr. Bond Interest Expense	J-10388X-0388X-8133
Dr. Bonds Payable	J-10209X-0388X
Cr. Assets Held by Trustee	J-102012-0388X

IV. RESPONSIBILITIES

It is the responsibility of General Accounting, Office of the President, to ensure that the covenants outlined in each bond indenture are carried out in a timely manner and that the General Ledger reflects the correct fund balances held by the University as well as those held by the Trustee.

V. REFERENCES

Indenture dated September 1, 1979 between The Regents and Crocker National Bank (First Trust, as successor Trustee);

Indenture dated July 15, 1985 between The Regents and Security Pacific National Bank (Bank of America, as successor Trustee);

Indenture dated August 1, 1987 between The Regents and Security Pacific National Bank (Bank of America, as successor Trustee):

Annual Report on University Employee Housing Assistance Programs, as published by the Senior Vice President--Business and Finance, Real Estate Management and Loan Programs.

Historical note: Accounting Manual chapter first published 6/15/83. Present revision 6/30/94; analyst--Leslie Beresford.