

SUPPLEMENTAL HOME LOAN PROGRAM

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SUPPLEMENTAL HOME LOAN PROGRAM

"Home, the spot of earth supremely blest,
a dearer, sweeter spot than all the rest."

-- Robert Montgomery

I. INTRODUCTION

In May 1982, the Short-Term Housing Loan Program was implemented to provide funds for housing assistance to eligible members of the Academic Senate. Initially, \$2 million was allocated to the campuses for secondary financing (second and third deed of trust loans) to assist with the purchase of housing. The allocation was a loan from both the University Fund and the Educational Fund, with repayment of the principal, plus 6% annual simple interest, due by June 30, 1992. In February 1989, the repayment date for the allocated funds was extended to June 30, 2000.

In March 1993, The Regents approved the Supplemental Home Loan Program (SHLP) to replace the Short-Term Housing Loan Program. All existing mortgage loans made by the University at either the campuses or Laboratories (except those made pursuant to the Mortgage Origination Program), regardless of fund source, are now governed by the guidelines created for the SHLP. In addition to the \$2 million original allocation, campuses or Laboratories may designate other funds, such as discretionary, endowment, current, foundation, and departmental funds, for SHLP loans. Eligible SHLP participants include members of the Academic Senate, Acting Assistant Professors, and Executive Program Members. Exceptions may be granted by the President to include other academic titles. For loans funded by gift or endowment funds, eligibility also may be extended to other academic and non-academic employee classifications, in order to satisfy the terms of the gift or endowment.

In addition to the accounting requirements outlined in this chapter, SHLP loan servicing includes reconciling expected payments to payments collected; setting up cash collection procedures, when needed; pursuing delinquencies; tracking and enforcing hazard insurance compliance; tracking property tax delinquency; monitoring borrower eligibility; preparing annual Mortgage Interest Statements; etc. Detailed procedures for these servicing functions are set forth in the Real Estate Management and Loan Programs (REMLP) Servicing Manual. Servicing options available to the campuses and Laboratories include a commercial lending institution, self servicing, and the REMLP.

II. GENERAL PROCEDURES

SHLP loans are recorded in the campus or Laboratory general ledger. Generally, the accounting office must follow the procedures detailed below to account for such loans:

- 1) Identify the source of funds to be used for the loan.
- 2) Move the funds to the Loan Funds group.
- 3) Establish funds within the Loan Funds group.
- 4) Establish interfund receivables and payables.
- 5) Establish a receivables account within the Loan Funds group.
- 6) Reconcile loan balances to the general ledger.

The account structure within this chapter may be different for the Laboratories; therefore, all references to campus financial control should be translated to cash when recording a Laboratory transaction. This means that funds will be transferred to or from the Laboratory and the Office of the President (OP) by check or wire.

Note that Current Funds is used as the source of funds for the examples in this chapter. Accordingly, for other sources of funds campus and Laboratory accounting offices must substitute the appropriate accounts and transaction codes.

OP has reserved fund numbers 03641 through 03649 for the SHLP loans.

III. INITIAL ACCOUNTING PROCEDURES

A. ACCOUNTING FOR THE ORIGINAL \$2 MILLION ALLOCATION

The original \$2 million loan allocation advanced to the campuses by OP (no advance was made to the Laboratories) was recorded in the following manner:

Dr. Investment Control--Advances	J-104054-XXXXX
Cr. Campus Financial Control	J-1195X0

The campuses responded, crediting a liability account in Loan Funds, as follows:

Dr. OP Financial Control	X-119500
Cr. Due to Endowment Fds--Housing Loan	X-102099-XXXXX

Currently, OP credits the campus STIP investment income on the unloaned balance of the advance, as follows:

Dr. Campus Loan Fund STIP	
Income	J-103884-03885-8405
Cr. Campus Financial Control	J-1195X0-900X0
Dr. OP Financial Control	X-119500
Cr. Loan Funds Balance	X-10XXXX-XXXXX-8405

A 6% interest expense for the advance is being accrued by OP. When the accrued interest becomes due (currently scheduled for June 30, 2000), OP will charge the campuses, as follows:

Dr. Loan Funds Balance	
(Expense)	X-10XXXX-XXXXX-8130
Cr. OP Financial Control	X-119500
Dr. Campus Financial Control	J-1195X0-900X0
Cr. Endowments Income Advance	J-239592-3XXXX

Until the \$2 million allocation is paid in full, these funds may be kept at the campuses for additional SHLP loans. To record the principal repayment, OP will charge the campus ledger by making the following entry:

Dr. Due to Endowment Fds--	
Housing Loan	X-102099-0364X
Cr. OP Financial Control	J-119500
Dr. Campus Financial Control	J-1195X0-900X0
Cr. Investment Control--	
Advances	J-104054-0XXXX

B. ACCOUNTING FOR LOANS FROM OTHER SOURCES

To establish a loan made with funds from another fund source, the loan amount must be transferred from the "source" account (e.g., Current Funds) to Loan Funds. The following entries are used to make this transfer:

Dr. Current Funds Balance	X-1XXXXX-XXXXX-0499
Cr. Due to Current Funds	X-1020XX-XXXXX
Dr. Due from Loan Funds	X-11299X-XXXXX
Cr. Loan Funds Balance	X-10364X-0364X-8219

C. RECORDING LOAN PAYMENTS MADE TO BORROWERS

A Notes Receivable entry is required when a wire or payment is made to the borrower or the escrow account. The entry is made as follows:

Dr. Notes Receivable--Loan Funds	X-1020XX-0364X
Cr. Cash or OP Financial Control	X-1XXXXX

IV. LOANS SERVICED BY CAMPUSES AND LABORATORIES

The initial interest payment is the first payment received for a loan. When a loan closes, the escrow company handling the transaction collects an initial interest payment for the period beginning on the date of closing through the end of the month. The amount of interest received must be reconciled before it is deposited. The amount due is equal to the per diem interest [(loan amount x annual interest rate)/365] multiplied by the number of days from closing to the end of the month (including the day of closing). To determine the correct number of days, the following formula is used: (number of days in month - day loan closed) + 1.

EXAMPLE 1 \$20,000 fully amortized loan @ 6% closes May 15.
 Initial interest due = [(((\$20,000 x .06)/365) x ((31-15)+1))] = \$3.29 x 17 = \$55.93

If the escrow company collects too much interest, a refund check must be issued to the borrower; if too little interest is collected, the borrower must pay the balance due. Collection efforts or refunds for differences of \$5.00 or less are not required. Refer to REMLP Servicing Manual, Section 1.01. for more information.

When the initial interest payment is received, a credit is made to Loan Funds. Then the income is transferred back to the "source" account (in this case, Current Funds Balance) as follows:

Dr. Cash or OP Financial Control	X-1XXXXX
Cr. Loan Funds (Interest)	X-10364X-0364X-8020
Dr. Loan Funds (Interest)	X-10364X-0364X-8219
Cr. Current Funds Balance	X-1XXXXX-XXXXX-0499

Currently, the SHLP offers three types of loans including Fully-Amortized, Interest-Only, and Shared Appreciation.

A. FULLY-AMORTIZED LOANS

As loan payments are received, the correct principal and interest distribution must be determined in order to prepare the appropriate entries. Table 1 provides a sample one-year amortization schedule for the loan described above in Example 1. This amortization schedule tracks fiscal year interest to facilitate reconciliation to the general ledger. The schedule also tracks calendar year interest for use in completing the calendar-year-end reconciliation necessary to determine the annual interest to be reported to the Internal Revenue Service (IRS) on Form 1098, Mortgage Interest Statement. See Section 1.05 of the REMLP Servicing Manual for instructions on

preparing Form 1098.

To record the loan payment, a debit is made to Cash or OP Financial Control and a credit is made to Notes Receivable for the principal portion and to the Loan Fund balance for the interest portion.

Dr. Cash or OP Financial Control	X-1XXXXX
Cr. Loan Funds Balance (Interest)	X-10364X-0364X-8020
Cr. Notes Receivable--Loan Funds	X-1020XX-0364X

To repay the original fund source (e.g. Current Funds), a debit is made to Loan Fund balance for the full amount of the payment and a corresponding credit is made to Current Funds:

Dr. Due to Current Funds (Principal)	X-1020XX-XXXXX
Cr. Due from Loan Funds (Principal)	X-11299X-XXXXX
Dr. Loan Funds Balance (Prin + Int)	X-10364X-0364X-8219
Cr. Current Funds Balance (Prin + Int)	X-1XXXXX-XXXXX-0499

B. INTEREST-ONLY LOANS

Table 2 shows a sample one year interest-only schedule for the loan described in Example 1. A regular loan payment on an interest-only loan is recorded in the same manner as an initial interest payment:

Dr. Cash or OP Financial Control	X-1XXXXX
Cr. Loan Funds Balance (Interest)	X-10364X-0364X-8020
Dr. Loan Funds Balance (Interest)	X-10364X-0364X-8219
Cr. Current Funds Balance	X-1XXXXX-XXXXX-0499

C. SHARED APPRECIATION LOANS

Shared appreciation loans have a fixed interest rate that is set below the market rate for the term of the loan. These loans also provide for contingent interest to be paid to the lender at an agreed upon percentage of appreciation in the value of the property. The loan is secured against the property upon transfer or sale of the property or the repayment of the loan. Regular payments are credited to principal and interest. At payoff, the contingent interest portion of the payment is credited to Loan Funds (Interest). The contingent interest payment must be reported as interest on IRS Form 1098 (see REMLP Servicing Manual, Section 1.04).

Curtailments are additional principal payments on a loan. To record a curtailment, debit Cash (or Financial Control) and credit Notes Receivable, as follows:

Dr. Cash or OP Financial Control	X-1XXXXX
Cr. Notes Receivable--Loan Funds	X-1020XX-0364X
Dr. Due to Current Funds (Principal)	X-1020XX-XXXXX
Cr. Due from Loan Funds (Principal)	X-11299X-XXXXX

When a curtailment is received, the original amortization schedule used to track the breakdown between principal and interest must be revised. Curtailments received at any time after the due date of a scheduled monthly payment are treated as having been received on the first day of the next period.

Table 3 shows the amortization schedule from Table 1, revised to show the effect of a curtailment received in October, 1993. As a comparison of the two tables shows, the curtailment results in a change in payment distributions.

Table 4 illustrates the change in the amortization schedule when a curtailment is received for an interest-only loan. In this case, the monthly payment amount must be adjusted because the interest is computed on a lower principal balance. The campus home loan coordinator should prepare, for signature by the borrower, a new SHLP Payroll Deduction Authorization form changing the deduction amount for borrowers whose payments are made through payroll deductions.

V. LOANS SERVICED BY REMLP

For borrowers who are paid through the University payroll system, REMLP reconciles the payroll deduction reports to a forecast of expected monthly payments. The loan payments are entered in the loan servicing database and a report is generated which details the distribution to principal, interest and service fees. This report is sent to the campuses or Laboratories to be used as the basis for preparing the appropriate journal entries.

Borrowers who are not paid through the University payroll system must remit their payments by check to REMLP. At the end of the month, REMLP will credit the campuses financial control account (or send a check or wire to the Laboratories) for the principal and interest payments received during the month. Responding entries must be prepared by the campuses and Laboratories. REMLP will fax reports to the campuses and Laboratories that show the correct distribution of cash payments. In addition, a separate report that breaks down all cash payments by fund source will be sent to the campuses and Laboratories at the end of each month.

REMLP servicing also includes the reconciliation of initial interest payments, handling of all required refunds, follow-up on hazard insurance and property taxes, collection of delinquent payments, preparation of annual interest statements (IRS Forms 1098), initiating or terminating payroll deductions, and processing payoffs.

REMLP charges a fee for performing these services. The service fee is charged in advance for deferred payment loans originated by REMLP. (Deferred payment loans are loans for which the interest is computed for the term of the loan and added to the principal balance at maturity.) All questions concerning service fees should be referred to REMLP. REMLP will submit invoices to the Laboratories or charge the campus financial control. The entry for the service fee income to OP is as follows:

Dr. Cash or Campus Financial Control	J-1XXXXX-XXXXX
Cr. Service Fee Income Account	J-267932-67932

The campuses and Laboratories must respond by debiting the loan fund account and crediting the Cash or financial control account as follows:

Dr. Loan Funds Balance (Service Fee)	X-10364X-0364X-8127
Cr. Cash or OP Financial Control	X-1XXXXX

The campuses and Laboratories must then fund this charge from the source fund (in this case, Current Funds). This entry can be netted with interest income. The entry is recorded as follows:

Dr. Current Funds Balance	X-1XXXXX-XXXXX-0499
Cr. Loan Funds Balance (Service Fee)	X-10364X-0364X-8219

VI. LOANS SERVICED BY AN OUTSIDE INSTITUTION

When a campus or Laboratory uses a commercial lending institution to service its loans, the ledger entries are similar to those made when the campus or Laboratory services them, except that the payments are collected by the lending institution. The campus or Laboratory receives cash from the servicing institution, less the service fee, on a monthly basis. The entries to record such payments are as follows:

Dr. Cash	X-1XXXXX
Dr. Loan Funds Balance (Service Fee)	X-10364X-0364X-8127
Cr. Loan Funds Balance (Interest)	X-10364X-0364X-8020
Cr. Notes Receivable--Loan Funds	X-1020XX-XXXXX

The campus or Laboratory is then required to transfer these funds to the source funding as follows:

Dr. Due to Current Funds (Principal)	X-1020XX-XXXXX
Cr. Due from Loan Funds (Principal)	X-11299X-XXXXX
Dr. Loan Funds Balance (Prin + Int)	X-10364X-0364X-8219
Cr. Current Funds Balance (Prin + Int)	X-1XXXXX-XXXXX-0499

VII. DEFAULT PROCEDURES - GAIN OR LOSS ON SALE OF FORECLOSED PROPERTY

In the case of a default, the University may take title to the property secured by the loan. If this occurs, the property becomes an investment of the University. Refer to the REMLP Service Manual, Chapter 2, Section 2.02, concerning default procedures.

If, as of June 30, the University has taken title to the property, but has not sold the property, the campus or Laboratory must prepare a reversing journal (type 14) to reflect the investment. When recording the investment, the value should equal the outstanding loan balance. The entry is as follows:

Dr. Investment--Real Estate Current Fds	X-113XXX-XXXXX
Cr. Due from Loan Funds (Foreclosure)	X-11299X-XXXXX
Dr. Loan Funds Balance (Principal)	X-10364X-0364X-8219
Cr. Current Funds Balance	X-1XXXXX-XXXXX-0499
Dr. Due to Current Funds	X-1020XX-XXXXX
Cr. Notes Receivable--Loan Funds	X-1020XX-XXXXX

All costs related to the foreclosure are charged to the campus or Laboratory; such costs are recorded to the loan fund balance fees, as follows:

Dr. Loan Funds Balance	X-10364X-0364X-8127
Cr. Cash or OP Financial Control	X-1XXXXX

At the time of the sale of the property, the gain or loss from the sale is recorded in the fund source used to make the loan (in this case, Current Funds), as follows:

Dr. Due to Current Funds (Principal)	X-1020XX-XXXXX
Cr. Notes Receivable--Loan Funds	X-1020XX-XXXXX
Dr. Loan Funds Balance (Principal)	X-10364X-0364X-8219
Cr. Current Funds Balance	X-1XXXXX-XXXXX-0499
Dr. Cash or OP Financial Control	X-1XXXXX
Cr. Due from Loan Funds (Principal)	X-11299X-XXXXX
Dr. Current Funds Balance (loss)	X-1XXXXX-XXXXX-0130
or	
Cr. Current Funds Balance (gain)	X-1XXXXX-XXXXX-0130

VIII. RESPONSIBILITIES

Accounting Offices are responsible for ensuring that the procedures set forth in this chapter are applied when accounting for SHLP loans.

IX. REFERENCES

President David S. Saxon, Letters to each Chancellor announcing the Short-Term Housing Loan Program, specifying the respective advance amounts, and providing initial program guidance, May 18, 1982.

President David S. Saxon, Memorandum to Chancellors providing implementing guidelines for the Short-Term Housing Loan Program, June 29, 1982.

Assistant Chief Accountant Donald L. Alter, Memorandum to accounting officers on the Short-Term Housing Program, July 21, 1982.

President J. W. Peltason, Memorandum to Chancellors providing implementing guidelines for the Supplemental Home Loan Program, May 12, 1993.

University of California Real Estate Management and Loan Programs Service Manual for the Supplemental Home Loan Program.

Historical note: Accounting Manual chapter first published 11/1/82 as the Faculty Short-Term Housing Loan Program; present revision 3/31/94; analyst--Ken Strangfeld, with the assistance of Ruth Assily of Real Estate Management and Loan Programs.

TABLE 1

FULLY-AMORTIZED LOAN

LOAN NUMBER:		LOAN CLOSING DATE:	05/15/93
NAME:		DYS FOR INITIAL BILLING:	
17			
PROPERTY ADDRESS:		ANNIVERSARY MONTH:	JUNE
PRINCIPAL:	20,000.00		
INTEREST RT:	6.000%		
SERVICE FEE%:	0.25%		
TERM (# OF PMTS):	60		
1ST PMT MO:	7/1/93		

TD	DATE	TO GROSS	TO	TO	REMAINING	INT TD	INT
PMT	DUE	PMT AMT	INTEREST	S/F	PRINCIPAL	BALANCE	(CY) (FY)
0	6/1/73	55.93	55.93	2.33	0.00	20,000.00	55.93
	55.93						
1	7/1/93	386.66	100.00	4.17	286.66	19,713.34	155.93
	155.93						
2	8/1/93	386.66	98.57	4.11	288.09	19,425.25	254.50
	98.57						
3	9/1/93	386.66	97.13	4.05	289.53	19,135.72	351.63
	195.70						
4	10/1/93	386.66	95.68	3.99	290.98	18,844.74	447.31
	291.38						
5	11/1/93	386.66	94.22	3.93	292.44	18,552.30	541.53
	385.60						
6	12/1/93	386.66	92.76	3.87	293.90	18,258.40	634.29
	478.36						
7	1/1/94	386.66	91.29	3.80	295.37	17,963.03	91.29
	569.65						
8	2/1/94	386.66	89.92	3.74	296.84	17,666.19	181.11
	659.47						
9	3/1/94	386.66	88.33	3.68	298.33	17,367.86	269.44
	747.80						
10	4/1/94	386.66	86.84	3.62	299.82	17,068.04	356.28
	834.64						
11	5/1/94	386.66	85.34	3.56	301.32	16,766.72	441.62
	919.98						
12	6/1/94	386.66	83.83	3.49	302.83	16,463.89	525.45
	1,003.81						
	4,695.85	1,159.74		48.34	3,536.11		
					20,000.00		

TABLE 2

INTEREST-ONLY LOAN

LOAN NUMBER:		LOAN CLOSING DATE:	05/15/93
NAME:		DYS FOR INITIAL BILLING:	
17			
PROPERTY ADDRESS:		ANNIVERSARY MONTH:	JUNE
PRINCIPAL:	20,000.00		
INTEREST RT:	6.000%		
SERVICE FEE%:	0.25%		
TERM (# OF PMTS):	60		
1ST PMT MO:	7/1/93		

TD	DATE	TO GROSS	TO	REMAINING	INT TD	INT
PMT	DUE	PMT AMT	INTEREST	S/F	BALANCE	(CY)
	(FY)					
0	6/1/93	55.93	55.93	2.33	20,000.00	55.93
	55.93					
1	7/1/93	100.00	100.00	4.17	20,000.00	155.93
	155.93					
2	8/1/93	100.00	100.00	4.17	20,000.00	255.93
	100.00					
3	9/1/93	100.00	100.00	4.17	20,000.00	355.93
200.00						
4	10/1/93	100.00	100.00	4.17	20,000.00	455.93
300.00						
5	11/1/93	100.00	100.00	4.17	20,000.00	555.93
400.00						
6	12/1/93	100.00	100.00	4.17	20,000.00	655.93
500.00						
7	1/1/94	100.00	100.00	4.17	20,000.00	100.00
600.00						
8	2/1/94	100.00	100.00	4.17	20,000.00	200.00
700.00						
9	3/1/94	100.00	100.00	4.17	20,000.00	300.00
800.00						
10	4/1/94	100.00	100.00	4.17	20,000.00	400.00
900.00						
11	5/1/94	100.00	100.00	4.17	20,000.00	500.00
1,000.00						
12	6/1/94	100.00	100.00	4.17	20,000.00	600.00
1,100.00						
		1,255.93	1,255.00	52.37		

TABLE 3

FULLY-AMORTIZED LOAN WITH CURTAILMENT

LOAN NUMBER:		LOAN CLOSING DATE:	05/15/93
NAME:		DYS FOR INITIAL BILLING:	
17			
PROPERTY ADDRESS:		ANNIVERSARY MONTH:	JUNE
PRINCIPAL:	20,000.00		
INTEREST RT:	6.000%		
SERVICE FEE%:	0.25%		
TERM (# OF PMTS):	60		
1ST PMT MO:	7/1/93		

TD	DATE	TO GROSS	TO	TO	REMAINING	INT TD	INT
PMT	DUE	PMT AMT	INTEREST	S/F	PRINCIPAL	BALANCE	(CY) (FY)
0	6/1/93	55.93	55.93	2.33	0.00	20,000.00	55.93
55.93							
1	7/1/93	386.66	100.00	4.17	286.66	19,713.34	155.93
155.93							
2	8/1/93	386.66	98.57	4.11	288.09	19,425.25	254.50
98.57							
3	9/1/93	386.66	97.13	4.05	289.53	19,135.72	351.63
195.70							
4	10/1/93	386.66	95.68	3.99	290.98	18,844.74	447.31
291.38							
	10/1/93	500.00	0.00	0.00	500.00	18,344.74	447.31
291.38							
5	11/1/93	386.66	91.72	3.82	294.94	18,049.80	539.03
383.10							
6	12/1/93	386.66	90.25	3.76	296.41	17,753.39	629.28
473.35							
7	1/1/94	386.66	88.77	3.70	297.89	17,455.50	88.77
562.12							
8	2/1/94	386.66	87.28	3.64	299.38	17,156.12	176.05
649.40							
9	3/1/94	386.66	85.78	3.57	300.88	16,855.24	261.83
735.18							
10	4/1/94	386.66	84.28	3.51	302.38	16,522.86	346.11
819.46							
11	5/1/94	386.66	82.76	3.45	303.90	16,248.96	428.87
902.22							
12	6/1/94	386.66	81.24	3.39	305.42	15,943.54	510.11
983.46							
		5,195.85	1,139.39	47.49	4,056.46		
					20,000.00		

