

Office of the President
March 6, 2003

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ITEM FOR ACTION

For Meeting of March 19, 2003

**ESTABLISHMENT OF LOAN PORTFOLIO SALE PROGRAM FOR THE
UNIVERSITY OF CALIFORNIA SUPPLEMENTAL HOME LOAN PROGRAM**

The President recommends that the Committee on Finance recommend to The Regents that The Regents authorize the establishment of a program for the periodic sale of all or portions of the Supplemental Home Loan Program (SHLP) loan portfolio to increase the level of program funding liquidity for the purposes of providing additional loans for the recruitment and retention of faculty and other employees in support of the projected student enrollment growth, subject to the following:

- (1) The SHLP Portfolio Sale Program shall be conducted to provide additional funding for future SHLP loans, within the following parameters authorized by The Regents:
 - a. Net proceeds, after expenses, from the SHLP Portfolio Sale Program shall be returned to the campus designated fund source;
 - b. If the sale of any portion of the SHLP Portfolio results in proceeds less than the outstanding receivables of the SHLP loans sold (Par Value), an appropriate funding source must be approved by the Chancellor of the campus for which the sale is being undertaken to cover any sales discounts and other related transaction costs;
 - c. No sale of SHLP Portfolio loans shall extend the term of any individual SHLP loan or modify the interest rate to be charged, and the University's Office of Loan Programs shall retain mortgage loan servicing; and
 - d. Purchasers of SHLP loans shall have no recourse to Regental funds and shall be repaid only from individual mortgage loan repayments and/or property securing each individual loan, except that any such sale of SHLP Portfolio loans may include terms that: (a) provide for the making of advances of monthly remittances of principal and interest to the purchaser for all loans sold, which are not in arrears in excess of three months, by an agreed time each month, and (b) provide for the exchanging of any loan sold to the purchaser that becomes non-performing, for more than an agreed to time period, with another SHLP loan of similar size and characteristics, or repurchase of such non-performing loan at the same discount rate or premium, if any, that applied to the original loan sale, it being understood that any loan repurchased would be funded from a source approved by the Chancellor of the campus from which the loan originated.

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- (2) Periodically, sales pursuant to the SHLP Portfolio Sale Program shall be reported to The Regents, such reports to include information related to the loans sold, purchase prices, and summary transactions costs.
- (3) The President, after consultation with the General Counsel, shall be authorized to execute such documents as may be necessary to effect any sale pursuant to the SHLP Portfolio Sale Program.

BACKGROUND

At the March 2002 meeting, The Regents approved the recommendation of the UC Housing Task Force to establish a program for the periodic sale of all or portions of the Mortgage Origination Program (MOP) loan portfolio to provide greater liquidity in the unrestricted portion of STIP. A total of eight sales to five purchasers were completed between July and December 2002, resulting in the sale of \$453 million of the MOP portfolio. The weighted average purchase price for these sales was 100.286% of PAR value, with the over PAR amount covering all costs associated with the sales. The success of these sales has enabled the University to increase the loan allocation level for MOP, which will improve the University's ability to meet projected increased demand for loans to support the increased levels of recruitment of faculty and other employees, and the retention of existing faculty resulting from projected student enrollment growth. There is a separate item on today's agenda detailing the successful outcome of the initial sales of MOP loans.

Several campuses have indicated an interest in the possibility of selling loans under the University's Supplemental Home Loan Program (SHLP). The funding sources for SHLP loans include Chancellor's discretionary funds and funds from Campus Foundations. Currently the University has 170 SHLP loans with an aggregate outstanding balance of \$25.3 million. These loans are made under more flexible terms than MOP loans and include fixed and variable rate loans, as well as shared appreciation mortgages. The approved lending criteria allow eligible faculty and staff to borrow up to 95% of the house value with a loan maturity of up to 40 years. The loans may be in first, second, or third position in combination with University MOP loans or outside loans. The current interest rates vary between 3.0% and 9.0%. Based upon a preliminary analysis by the financial advisors hired to assist in the sale of the MOP loans, it may be possible to sell approximately \$13 million of the existing SHLP loans at or near PAR value; however, there is no assurance that such sales can be consummated.

If successful, such sales would free up the current campus funds for new lending under the program. The increased funding liquidity resulting from such sales would further support the increased recruitment and retention needs of the campuses. These loans oftentimes provide the means to bridge the affordability and/or down payment gap faced by many borrowers.

Management of the SHLP Portfolio Sale Program

The Office of Loan Programs within the Office of the President would manage the SHLP Portfolio Sales Program. To the extent necessary, the Program will be assisted by financial consulting services, whose fees shall be included as part of the costs of each sale. Each campus that participates in a sale would be responsible for any net costs associated with the sale of its loans

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The documentation necessary for such a sale of loans would include: (1) an offering statement describing the University and SHLP and the loan portfolio, (2) a Purchase and Service Agreement, and (3) representations and warranties based on the above parameters approved by The Regents. All documentation shall be drafted by the Office of General Counsel (OGC) or, if prepared by an institutional investor or financial consultant, shall be reviewed and approved by OGC.

As required by the authorizations contained in the action, the President shall provide a report of each sale under the SHLP Portfolio Sale Program.