

Office of the President

TO MEMBERS OF THE COMMITTEES ON COMPENSATION AND FINANCE:

## DISCUSSION ITEM

*For Meeting of March 14, 2007*

### **REVIEW AND DISCUSSION OF PROPOSED REVISIONS AND MODIFICATIONS OF PROGRAM PARAMETERS FOR UNIVERSITY OF CALIFORNIA MORTGAGE ORIGINATION PROGRAM AND SUPPLEMENTAL HOME LOAN PROGRAM**

#### **EXECUTIVE SUMMARY**

This item presents proposals for review by The Regents for modifications to the formal program parameters of the Mortgage Origination Program (MOP) and the Supplemental Home Loan Program (SHLP) based upon a review of all program parameters in light of the compensation-related reviews of the past year and the changes in the housing market near UC campuses. Detailed background history and utilization data for the two programs were provided at the July 2006 meeting and to The Regents in a between meeting mailing in November 2006. The following areas represent the major focus of this review:

- **Limited Resource Allocation Loans under MOP, which provides that up to 15 percent of the program funds may be used for:**
  - refinancing existing housing debt secured on the borrower's primary residence;
  - obtaining a second MOP loan near the same work location for a replacement primary residence; or
  - obtaining a MOP loan to purchase a primary residence even though the applicant previously owned a home near the work location within the past 12 months
  
- **Approval for Program Participation of Positions not Designated as Eligible by MOP or SHLP Parameters** (designated eligible titles being members of the Academic Senate and the Senior Management Group)

- **Approval of Non-Conforming Loan Terms within Parameters Established by The Regents**
  - rate reduction parameters of the GP-MOP loans;
  - limited increases in the normal loan-to-value ratios under MOP and SHLP;
  
- **Approval of MOP and SHLP Loans in Excess of \$1 Million**

In addition to the proposed modifications to the treatment and approval procedures of the above program categories, this item also presents two proposed enhancements to the MOP and SHLP loans to address affordability issues created by the significant home price increases of the past several years. The two enhancements are:

- offering a new MOP loan product that provides for an interest-only payment period for up to 10 years
  
- a SHLP loan with an up to 100 percent loan-to-value ratio limited to combined loan amounts equal to the indexed loan size limit for 92 percent MOP loans (currently \$795,500).

These two enhancement proposals were developed and recommended by the New Financial Programs Subcommittee of the UC Housing Task Force, which was reconvened in late 2005 to review the home loan programs in light of the rapid and on-going home price escalations of the prior three years. These program enhancements were also discussed with the faculty Senate Welfare Committee in November 2005 and reviewed by the chancellors in late 2006.

Other minor modifications, editing, and formatting changes are being proposed to the parameters of both programs to conform those aspects of each program that are similar and to reflect on-going operational practices.

## BACKGROUND

### *Introduction*

The Mortgage Origination Program (MOP) was initially approved by The Regents at the July 1984 meeting. The Supplemental Home Loan Program (SHLP) was initially approved by The Regents at the March 1993 meeting. The approval of SHLP represented a major updating of the former Short-Term Housing Loan Program initially launched in May 1982, and was intended to supplement MOP by providing greater loan term flexibility to the campuses to address many unique circumstances that arise in the course of recruiting and retaining top faculty and staff. Both MOP and SHLP have undergone multiple amendments over the intervening years (13 times for MOP and 5 times for SHLP) in response to changing circumstances and to account for issues that have arisen that were not contemplated in the earlier program policies.

An overview of both programs describing their general structure, loan products, and utilization was presented at the July 2006 meeting. That overview included a brief description of several categories of approvals that have been authorized by The Regents for the making of loans for purposes, or with attributes, differing from certain specified standard program parameters. As a result of the July presentation, it was requested that further information be presented to The Regents regarding these approval categories. A mailing to The Regents in November 2006 provided further written background information on each of these authorized approval categories, including statistics on utilization. That report also indicated that the President would seek comments from the chancellors regarding the approval processes for these program purposes, as well as regarding two proposed loan program enhancements that were recommended by the UC Housing Task Force's New Financial Programs Subcommittee. This item incorporates many of the comments received from the campuses as a result of that review process. The following sections recap these two subject areas and present proposals for changes to the MOP and SHLP programs in these areas, as well as proposed editorial changes to synchronize the language of both loan programs where the policy is similar and to reflect operational practices of the past two decades.

### *Review of and Proposed Modifications to Non-Standard Loan Program Parameter Approval Categories*

The addition of each of these categories was approved by The Regents in response to needs identified over time to address myriad situations that can arise in programs of this magnitude, with widely varying individual situations and local market conditions. The current MOP and SHLP program parameters, as adopted by The Regents, designate the process for reviewing and approving each such request. Below is a summary of each approval category, including utilization information and proposals for modifications. The proposals for the approval

processes strive to strike a balance that facilitates the University's ability to offer timely recruitment and retention packages that are competitive and that address the very high costs of housing near many UC campuses, while maintaining appropriate oversight of sensitive or larger financial transactions.

- (1) **Approval of MOP Limited Resource Allocation Loans** – Approved initially in May 1989, these MOP guidelines authorize chancellors to approve using up to a specified percentage of the overall MOP allocation for loans that are not in conformance with the primary intent of MOP, which is to assist in the purchase of the first home within a reasonable commute distance of each campus. The dollar amount of such loans was initially limited to no more than 10 percent of the cumulative allocations for all MOP allocation periods beginning with July 1, 1988 through June 30, 2000, and was increased at the September 2000 Regents meeting to 15 percent of all cumulative allocations for allocation periods beginning with July 1, 2000. The 1989 Regents item stated, "It has become evident that the campuses need the ability to authorize a limited number of applications for 'non-conforming' loans, because of personal hardship of the borrower or essential academic need of the campus." The specified non-conforming uses that were authorized were to allow for: (1) refinancing existing housing debt secured on the borrower's primary residence; (2) obtaining a second MOP loan near the same work location for a replacement primary residence; or (3) obtaining a MOP loan to purchase a primary residence even though the applicant previously owned a home near the work location within the past 12 months.

In 1989, after nearly four years of MOP operations, a number of cases had occurred regarding changes in family status (such as qualified domestic relations order or other judgments rendered by a court of law) that were requiring the eligible borrower to move from the home or to purchase his or her partner's ownership interest in the home. There were also cases resulting from natural disaster and individual medical or financial circumstances that were causing the need for a borrower to relocate and need additional MOP assistance. Since that time, other issues have arisen, such as a change in family size that made the current home untenable for the borrower. There are also occurrences of job duty changes and the need to be in closer proximity to the work locations for job-related purposes that have required a second University loan to be offered. Due to the initial high cost of housing near many UC campuses, many entry level candidates have to make sacrifices regarding the location, size, and/or condition of the initial home purchased, and, at time of achieving tenure, desire to move up to a more suitable home (or one that is closer to their work location) or to renovate the current home to meet changed family needs. Some of these issues are related to recruitment and many are related to retention and supporting existing employees.

Based upon the above phased-in 10 percent and 15 percent limitations, a cumulative total of \$232.2 million is authorized to be utilized for these types of resource-limited uses through June 30, 2007. As of December 31, 2006, 331 loans totaling \$151.1 million have been funded for these purposes. Of this total, 99 loans were utilized for refinance situations, 111 for a second MOP loan, and 121 for those who had a prior home near the same work location. These numbers compare to the total of 3,805 MOP loans funded through December 31, 2006 totaling \$1.343 billion. Given the varied personal circumstances of eligible employees and differing local market situations, all of the above circumstances are likely to continue into the future. Additionally, some University employees are facing, and more will most likely be facing, financing shock as some of the hybrid private sector loans begin to adjust, potentially leading to a new set of cases requiring University assistance. Thus, there will be an on-going need to be able to respond to many and varied circumstances that arise in the recruitment and retention of highly sought-after academic and other staff eligible for these loan programs.

**Proposed Future Action:** In order to maintain the ability to address the varied needs that arise in recruitment and retention, it is proposed that:

- the chancellors retain the approval authority for this limited portion of the MOP funds allocated for these purposes; and
- the MOP parameter governing this limited resource allocation be rewritten to clarify the minimum utilization level for primary purpose loans and the maximum allowed usage of allocated funds for the above specified limited uses.

- (2) **Approval for Program Participation of Positions not Designated as Eligible by MOP or SHLP Parameters** – The current MOP eligibility guidelines state: “The eligible population for the Mortgage Origination Program consists of full-time University appointees who are members of the Senior Management Group; are members of the Academic Senate, or who hold academic titles equivalent to titles held by such members; or hold the title of Acting Assistant Professor; *except that the President is authorized to make exceptions to the above categories based upon the essential recruitment and retention needs and goals of the institution.*” The last phrase (shown in italics) was approved by The Regents in September 2000. Similar language was included in the original SHLP guidelines adopted by The Regents in March 1993. This provision was intended to provide flexibility to offer one or both of these loan products to support critical recruitment and retention needs for academic positions not in the eligible Academic Senate or for staff positions not in the Senior Management Group on a case-by-case basis.

Only 56 such approvals have been granted for MOP loans (39 of these have resulted in loans as of December 31, 2006 or 1 percent of all MOP loans funded) and 42 such approvals have been granted under SHLP (with 40 resulting in loans as of December

31, 2006, or 4.5 percent of all SHLP loans funded). All campus locations are represented in these requests, and all requests were made based upon a need to address the high cost of housing near the work location. In many cases the ability to offer loan assistance was a critical element of a recruitment or retention negotiation. The ability to use these two important financial tools to support these past recruitment and retention cases has been vital in staffing many critical positions across the University. Over the 13 years that this ability has existed under SHLP and the 6 years that it has been available under MOP, the total approvals have been 98.

**Proposed Future Action:** It is proposed that both programs retain this category of additional approval with the President continuing to be the approval authority for those positions that do not otherwise require Regents' approval at the time the approval is granted. Regents' approval for loan program participation by otherwise non-eligible titles would be required for any non-academic appointee with total cash compensation in excess of the Indexed Compensation Level at the time of the request for approval and for any position specifically designated by The Regents as requiring Regents' approval for compensation-related matters.

(3) **Approval of Non-Conforming Loan Terms within Parameters Established by The Regents:**

- a. **Graduated Payment MOP (GP-MOP) Rate Reduction Parameters:**  
Under the GP-MOP loan product, approved in November 2001, the initial interest rate paid by the borrower can be reduced by a maximum of 3 percent from the MOP Standard Rate to a floor of 3 percent, with the campus providing funds to cover the resulting interest differential. The differential paid by the campus is reduced by 0.25 percent to 0.50 percent annually, until the borrower is paying the Standard MOP Rate, normally over a six to twelve year period. The approved Parameters provide that the President, based upon the essential recruitment and retention needs and goals of the institution, may approve rate reductions of more than the standard 3 percent maximum. The President is also authorized to approve annual adjustment amounts outside the standard range of 0.25 percent to 0.50 percent for this loan product, however, there is no provision for approving a floor interest rate of less than 3 percent, and none is being recommended.

Thus far, seven such approvals have been granted, with four of the loans having been funded. These cases have involved high level recruitment and retention cases, most of which involved national searches. The selected candidates required additional certainty for interest rate stability, which these approvals can provide during the rate reduction period of the loan. The ability to provide limited variations in these two loan product parameters has been vital to support some past recruitment and retention cases.

**Proposed Future Action:** It is proposed that the President continue to be the approval authority for those positions that do not otherwise require Regents' approval at the time the approval is granted. Regents' approval would be required for any non-academic appointee with total cash compensation in excess of the Indexed Compensation Level at the time of the request for approval and any position specifically designated by The Regents as requiring Regents' approval for compensation-related matters.

- b. **MOP and SHLP Loan-to-Value Ratio (LTV) Thresholds:** The MOP and SHLP Parameters provide that the President, with concurrence of the Chair of the Committee on Finance and the Chairman of the Board of Regents, may approve higher LTV ratios for MOP and SHLP loans within specified overall limits. The following table summarizes the current standard LTV limits based upon loan size for MOP and SHLP loans.

Loan Size	MOP LTV	SHLP CLTV*
<=\$795,500	90.0 percent**	95.0 percent
\$795,500 – \$1,000,000	90.0 percent	95.0 percent
>\$1,000,000 - \$1,251,000	90.0 percent	95.0 percent
>\$1,251,000	85.0 percent	90.0 percent

\*Combined Loan-to-Value Ratio of all loans, including the SHLP loan.

\*\*If closing costs are financed, MOP LTV may be up to 92 percent

For loans in excess of \$1,251,000, the current approved loan parameters for these two loan programs authorize increasing the MOP LTV to a maximum of 90 percent and for a SHLP loan used either alone or with a MOP or outside conventional loan, increasing the maximum CLTV to 95 percent. Note that the above dollar threshold amounts for determining the maximum LTV reflect applicable levels in effect as of April 2006, which are adjusted annually in April, based upon increases in the "All-Campus Average Sales Price"<sup>1</sup> from an annual zip code study performed by the Office of Loan Programs.

To date, there have been no requests or approvals of an increased LTV for a MOP loan, while there have been three such requests and approvals for SHLP loans. Given the high cost of housing near most campuses, even a 5 percent down payment means \$40,000 to \$50,000, plus the expenses for paying the normal closing costs (i.e., title and escrow fees, initial taxes, insurance premium, etc.), which can add up

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<sup>1</sup> The Office of the President has conducted annual analyses since 1988 of the median cost of housing in zip code areas near each campus where most faculty live or are buying homes. Those numbers are then averaged to produce an average price for the campuses called the All-Campus Average Sales Price.

to another \$15,000 on an \$800,000 purchase. The ability to provide these approvals was critical for the one recruitment and two retention cases where utilized.

**Proposed Future Action:** It is proposed that the approval process remain with the President with the concurrence of the Chairman of the Board of Regents and the Chair of the Committee on Finance and be expanded to include the Chair of the Committee on Compensation.

- (4) **Approval of Non-Conforming MOP Loan Size within Parameters Established by The Regents** – In September 2000, The Regents adopted a MOP parameter that any MOP loan in excess of \$1 million requires approval by the President, and upon the President’s recommendation, the concurrence of the Chairman of the Board of Regents. Currently, there is no corresponding dollar threshold limit for SHLP loans.

Below is a table that provides an overview of the loans at or over \$1 million made under these two programs through December 31, 2006. Of the four MOP loans funded in excess of \$1 million, three were funded before the approval limit was adopted in 2000 and ranged from \$1,095,000 to \$1,360,000. Two MOP loans in excess of \$1 million have been approved by The Regents, with one funding at \$1,250,000.

Loan Program	Number = \$1 Million	Number > \$1 Million
MOP	79	4
SHLP	1	4
MOP & SHLP Combination	1	23*

\*17 of these are included in the 79 MOP loans equal to \$1 million

Unlike other similar MOP limits or thresholds, such as Loan-to-Value thresholds, this loan size threshold was not indexed when adopted in 2000. At that time, the All-Campus Average Sales Price was \$446,030. The 2005 All-Campus Average Sales Price was \$757,700, or a 70 percent increase since adoption of this additional approval requirement. Near five of the UC campuses, the 2005 median price was over \$800,000 and at one campus it was over \$1 million. For many of these campuses, the median price is even higher for homes in the immediately adjacent neighborhoods. Given the rapid increase in prices of the past three years, it can be anticipated that more loans, or combinations of loans, at or above \$1 million will be needed to compete adequately for many good candidates, especially in the professional and medical schools. Thus, the ability to provide 90 percent financing in an expeditious manner for homes in excess of \$1 million, which has become a more prevalent issue in the past two years, will continue to grow. At the same time, the numbers of these transactions will be limited to households with incomes currently in excess of approximately \$145,000, which is the minimum annual income required to

qualify for a million dollar loan at a 5 percent interest rate and amortized over 40 years (the minimum income increases to \$161,000, if the loan is amortized over a 30-year period).

***Proposed Future Actions:***

- A. For MOP loans:** (1) immediately increase the maximum MOP loan threshold amount from \$1,000,000 to \$1,251,000 (the current loan size limit for 90 percent MOP loans), which represents a 25 percent increase over the benchmark established in 2000, since which time the All-Campus Average Sales Price Index has increased by over 70 percent. Going forward, adjust this threshold amount in April of each year to match the threshold dollar figure for 90 percent MOP loans (*if this proposal is adopted at a later meeting, the dollar threshold number would reflect the new April 2007 index value change*); (2) Expand the concurrence approval process to be as follows: Approval of MOP loans in excess of the threshold amount to be granted upon recommendation by the President, with concurrence of the Chairs of the Committees on Finance and on Compensation and the Chairman of the Board of Regents.
- B. For SHLP Loans:** Adopt the same criteria established for MOP loans.
- C. For MOP/SHLP Combinations:** Require the same concurrence approval process for combined loan amounts in excess of 120 percent of the single loan threshold amount (e.g., if the MOP or SHLP threshold amount were indexed to \$1,251,000, then a MOP/SHLP combined loan amount of up to \$1,501,200 would be allowed without requiring concurrence approval).

As previously stated, the actions proposed above strive to strike a balance that would facilitate the University's ability to offer timely recruitment and retention packages, while maintaining appropriate oversight of sensitive or larger financial transactions. Academic recruitments, in particular, can span multiple years and involve candidates who are considering multiple options regarding employment opportunities.

***Proposed Program Enhancement Modifications***

In response to ongoing construction cost and price escalations in California housing, the UC Housing Task Force (Task Force) was appointed by The Regents and convened in March 2001 to study and make recommendations regarding all facets of the University's student and employee housing programs. The Regents approved several changes to the University's mortgage loan programs at the November 2001 meeting based upon the work of the Task Force's New Financial Programs Subcommittee. The four approved changes, designed to strengthen the ability of the home loan programs to address the growing housing affordability gap near most University campuses, included: (1) increasing the maximum loan

thresholds for the making of 95 percent and 90 percent SHLP loans; (2) increasing the maximum allowable term for MOP and SHLP loans from 30 to 40 years; (3) introducing a new MOP loan option that provides for lower graduated payments during the early years of the loan to increase the purchasing power of the borrower; and (4) increasing the percentage of the unrestricted portion of STIP that is available for MOP loans from 25 percent to 30 percent.

The Regents also approved programs to provide for the sale of MOP loans (March 2002) and SHLP loans (March 2003) in order to increase the liquidity of these two programs and increase the levels of funds available for new loans. To date, \$707.1 million in MOP loans and \$15.3 million in SHLP loans have been sold to third-party investors. All sold loans continue to be serviced by the University to maintain continuity for the borrowers.

The prior program changes and the successful sales of MOP and SHLP loans have increased the University's ability to provide loans to newly recruited faculty and to assist in retaining existing faculty. However, there are still lending needs that are not being met by the programs as they currently exist. The price of residential real estate has continued to escalate and the conventional financial market has created new lending products to address these escalations. In 2001 the median price of a house in California was \$262,350 or 78 percent higher than the national median price of \$147,800. By the end of 2005, the California median price had risen to \$524,020, or 154 percent greater than the national figure of \$206,600. This differential is even more severe when considering the housing markets surrounding the University's campuses where most faculty desire to live. In 2001 the All-Campus Average Sales Price near UC campuses was \$489,444 or 231 percent higher than the national median price of \$147,800. By 2005, the All-Campus Average Sales Price had risen to \$757,700, or 267 percent greater than the national figure of \$206,600. The All-Campus Average Sales Price increased 55 percent between 2001 and 2005. Attachment 1 displays the changes in the National, State of California, and All-Campus Average House Price figures since 1984. Historically, approximately 65 percent of all hired faculty are from outside of the State of California.

In light of the continuing housing price situation and issues faced by recently recruited faculty, the New Financial Programs Subcommittee of the Task Force was reconvened in October 2005 by Senior Vice President Mullinix to examine potential further program modifications that could assist in keeping pace with the new realities of the residential market. This Subcommittee had seven members, representing five campuses and included faculty and administrators (see [Attachment 2](#) for a list of Subcommittee members). Based upon those discussions as well as additional meetings with the Executive Vice Chancellors, the Faculty Senate's Welfare Committee, and the campus Home Loan Coordinators, several program modifications were reviewed for their potential to maintain the University's ability to remain competitive in recruiting and retaining many highly sought-after faculty and administrators. As previously indicated, these items were also provided to the chancellors

for an opportunity to review and comment. The recommendations discussed below represent those enhancements believed to have the most potential for addressing the problems created by the continued increases in housing prices and growing affordability gap faced by recent hires.

**A. Modify MOP Parameters to Provide an Alternative Loan Product Offering an Initial Period of Interest-Only Payments**

**Issue:** The rapid and continued increases in home prices near UC campuses over the past two to three years are making it harder for many newly-hired faculty to afford the required monthly payments associated with a home purchase for a house near their campus. This is particularly true for junior faculty, who often are purchasing their first home. Additionally, this situation often discourages more senior faculty being recruited from lower cost areas, given the prospect of a significant differential in the cost for comparable housing near the UC campus as compared to their current situation.

**Proposed Future Action:** Create an additional MOP loan product type that has a temporary interest-only repayment feature for up to 10 years (the interest-only rate would adjust annually) and maximum overall term of 40 years (IO-MOP). Unlike many similar conventional market loan products, these loans would not have negative amortization. At the end of the interest-only period (IO-Period), the fully amortized payment would be calculated using the remaining loan term at the then Standard MOP Rate.

These loans would have an interest rate margin of 0.25 percent added to the Standard MOP Rate during the IO-Period to:

- (1) Provide additional earnings to offset the increased risk of no principal pay-down during the IO-Period (such amounts collected while the loan is owned by UC to be held in a loan loss account);
- (2) Reduce the increase in payment to the borrower at the end of the IO-Period, when amortization begins at the Standard MOP Rate; and
- (3) Increase the marketability of these loans to outside investors.

**Advantages:** These loans would (1) provide reduced monthly payments to borrowers in the early years of the loan; and (2) provide easier qualifying for borrowers, reducing monthly income required to qualify for the same loan size or facilitate qualifying for a larger loan; and provide a product that is common in the conventional marketplace.

**Risk Assessment Observations:** (1) There would be no negative impact on the MOP rate of return, as the Standard MOP Rate of interest would continue to track the

STIP rate of return as do non-IO-MOP loans; (2) The borrowers would be affected by increased monthly payments when the IO-Period ends, which would be partially mitigated by annually adjusting the IO-Rate, returning to Standard MOP Rate at the end of the IO-Period, and having at least a 30-year amortization period remaining after the IO-Period ends; (3) The borrowers would accumulate less equity during the IO-Period and pay more total interest over the life of the loan than for a fully amortizing MOP loan; and (4) The University would be subject to some increased exposure to principal losses in the event of a market downturn or if a borrower leaves the University or otherwise must payoff the loan in the early years of the loan.

**B. Amend SHLP Parameters to Allow the Making of Targeted Program Loans with a Combined Loan-to-Value Ratio of 100 percent**

**Issue:** The rapid and continued increase in home prices near UC campuses over the past two to three years is also making it harder for many newly-hired faculty to afford the required down payments associated with a home purchase for a house near their campus. This is particularly true for junior faculty, who often are purchasing their first home and have no equity from a prior home sale. This situation can also be true for mid-level hires, especially those from lower cost areas, who may have some equity, but not nearly enough to meet the substantial requirements for home prices near most UC campuses. As noted earlier, even a 5 percent down payment means \$40,000 to \$50,000, plus the expenses for paying the normal closing costs (i.e., title and escrow fees, initial taxes, insurance premium, etc.), which can add up to another \$10,000 on an \$800,000 purchase. These amounts are presenting barriers to some applicants.

**Proposed Future Action:** Allow a SHLP loan in combination with other University or non-University loans at a combined loan-to-value ratio (CLTV) of up to 100 percent (SHLP-100), with the following parameters:

- (1) any such SHLP-100 loan shall not exceed 5 percent of the lesser of the sales price or appraised value of the home on which it is secured;
- (2) for transactions using all University financing, the SHLP-100 would be subordinate to a University loan package of not more than 95 percent CLTV;
- (3) for transactions using all or partial outside financing, the SHLP-100 would be subordinate to that loan package of not more than 95 percent CLTV, provided that no such higher priority loans employ negative amortization;
- (4) The SHLP-100 loan would be targeted to serve junior and mid-level hires and therefore be limited to transactions where the aggregate value of all loans, including the SHLP-100 would not exceed the indexed amount for 92 percent MOP loans (currently \$795,500).

**Advantages:** These loans would (1) address the growing need for a source of down payment assistance, especially for first-time buyers with limited or no cash resources; (2) provide a more efficient alternative to Faculty Recruitment Allowances, which are taxable to the recipient, and expenditures of funds by the campus (e.g., to provide a Recruitment Allowance with the same net benefit to a buyer, it must be “grossed up” to account for the federal and state taxes); and (3) provide a product mix that is similar to financing packages available to targeted borrowers in the conventional market place.

**Risk Assessment Observation:** During the early years of the loan and in declining markets, the risk of loss in the case of foreclosure, other default, or recipient leaving the University is high. This risk is mitigated by the fact that the funds used for a Faculty Recruitment Allowance, which is for a similar purpose, are permanently expended at the time of issuance of the Allowance. The added loan also means additional monthly payments by the borrower to amortize this additional debt.

**Summary Description of Potential Impacts of the Above Recommendations**

The following table illustrates the impacts on affordability of implementing various combinations of the above proposals at a purchase price of \$500,000.

	<b>A. Current 30-Year MOP Loan</b>	<b>B. Current 40-Year MOP Loan</b>	<b>C. 40-Year IO-MOP with 5-Year IO-Period</b>	<b>D. 90 percent 40-Year MOP with 5 percent SHLP &amp; 5 percent SHLP-100</b>
Down Payment	\$50,000	\$50,000	\$50,000	\$0
MOP Loan Amount	\$450,000	\$450,000	\$450,000	\$450,000
SHLP Loan Amount	\$0	\$0	\$0	\$25,000
SHLP-100 Loan Amount	\$0	\$0	\$0	\$25,000
Total Loans	\$450,000	\$450,000	\$450,000	\$500,000
Initial MOP Payment	\$2,416	\$2,170	\$1,969	\$2,170
SHLP-Payment	\$0	\$0	\$0	\$278
SHLP-100 Payment	\$0	\$0	\$0	\$278
Total Monthly Loan Payments	\$2,416	\$2,170	\$1,969	\$2,726
Minimum Monthly Income	\$6,039	\$5,425	\$4,922	\$6,815

Total Loan Balances after 5 Years	\$413,229	\$429,946	\$450,000	\$458,597
Note: Calculations assume: (1) 90 percent MOP financing at an interest rate of 5.0 percent; (2) the MOP rate remains constant for the first 5 years of the loan; and (3) for example D, a 6.0 percent fully amortized SHLP second loan and a 6.0 percent fully amortized SHLP-100 loan, both with terms of 10 years.				

Columns A and B display the results for the buyer using current MOP loan options. Columns C and D display the impacts of using either the proposed IO-MOP (column C, which reduces the income needed to qualify) or using the 100 percent financing option (column D, which reduces the cash resources needed, but does increase the overall monthly payments due to the additional secondary loans). The above program enhancements would allow many other combinations that could be used to address the specific affordability objectives of a given potential buyer.

***Technical and Editorial Updates to Program Parameters***

Finally, other minor modifications, editing, and formatting changes are being proposed to the parameters of both programs to conform those aspects of each program that are similar and to reflect on-going operational practices and clarify ambiguities. The following provides a brief highlight of some of those items.

- A. MOP and SHLP Eligible Population Definitions** - Update to: (1) read the same for both programs, (2) include the requirement for Regental approval of certain groups of employees for participation in these programs, and (3) recognize that some appointees are initially hired with non-qualifying academic titles, while waiting for campus approvals of the final eligible title contained in the hiring letter.
- B. MOP and SHLP Definition of Eligible Residence** - Update to: (1) read the same for both programs, (2) clarify that incidental secondary units, often referred to as “grad-flats or “in-law units” are allowed to be a part of the property (these types of single family properties are very common near many campuses), and (3) clarify that a participant is not required to occupy the residence during approved leaves.
- C. MOP and SHLP Provisions for Continued Program Participation** - Update to: (1) read the same, and (2) clarify that administrative discretion is available in evaluating the enforcement of the payoff requirements in individual cases (in some cases, market conditions, health, other family matters, etc. may warrant temporary forbearance rather than moving to foreclosure or other similar action).

**COMMITTEES ON  
COMPENSATION/FINANCE  
March 14, 2007**

**-15-**

**J1**

([Attachment 1](#) [Attachment 2](#))