Office of the President
September 6, 2000

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ITEM FOR ACTION

For Meeting of September 13, 2000

MODIFICATION OF PROGRAM FRAMEWORK AND LOAN PARAMETERS FOR UNIVERSITY OF CALIFORNIA MORTGAGE ORIGINATION PROGRAM

The President recommends that the Committee on Finance recommend to The Regents that:

(1) The Regents approve modifications to the Mortgage Origination Program Framework as detailed in Attachment 1.

(2) The Regents approve modifications to the Mortgage Origination Program Loan Parameters as detailed in Attachment 2.

BACKGROUND

Since 1984, The Regents have authorized the President to implement the University of California Mortgage Origination Program (MOP) and provide first deed-of-trust mortgage loans to eligible Faculty Senate members and members of the Senior Management Group using funds from the legally available cash balances in the unrestricted portion of the Short-Term Investment Pool (STIP). Over the intervening years, needed changes have been approved to MOP and today it provides a valuable recruitment and retention tool for the faculty and other key staff.

The University foresees the need to recruit an estimated 7,000 faculty members (3,000 new positions and 4,000 retirement and turnover replacements) during the next decade to provide instruction to an anticipated 60,000 additional students. This recruitment is taking place at the same time as California residential real estate prices are escalating rapidly, particularly in the metropolitan areas surrounding the existing University campuses. Attachment 3 displays a 30-year comparison of California and national housing prices through the end of 1999. Attachment 4 is a comparison of the housing costs near the University's nine established campuses and the Comparison 8 institutions. Between June 1999 and June 2000, for homes purchased under MOP, the average purchase price was $479,000 and the average loan amount was $342,000. Attachment 5 displays Program statistics since its inception in 1984.

In light of the on-going housing market cost escalations and the University's projected hiring and retention needs, several changes to the MOP framework and loan parameters are being recommended. Some changes will serve to maintain the long-standing advantages of the MOP loans over conventional loans, while others will expand the definition of those served under MOP. A large percentage of the University's faculty are recruited from out of state, and many senior administrative and managerial positions also require national or out-of-area recruitment, making housing assistance a key component of many recruitment offers. The recommendations, summarized below, are intended to address these collective issues.

PROPOSED PROGRAM FRAMEWORK MODIFICATIONS

A. ELIGIBILITY CRITERIA

Changes are recommended to the current definition of those eligible for program participation. To facilitate the recruitment and retention of key University administrators, it is recommended that the President be authorized to grant case-by-case exceptions to the eligible categories, based upon essential recruitment and retention needs to meet institutional goals.

B. ELIGIBLE RESIDENCES

Currently, program loans can be used to finance single-family residences, including condominium units. As housing prices have escalated, loan applicants have expressed interest in purchasing duplexes to provide them with rental income to offset homeownership costs and increase affordability. Some of these requests have been based upon the need to provide for special family living situations such as adult care-giving. Most conventional lenders treat a duplex as a single family dwelling for many of their loan products. It is proposed that duplexes be added to the eligible property types of the program.

C. EXCEPTIONS

Currently, 10% of the cumulative program allocation for loans is available for granting exception loans. There are three categories of exceptions: (1) individuals who have owned a home in the vicinity of the campus within the prior 12 months; (2) individuals who have had a previous MOP loan; and (3) refinance situations. Requests for exception loans have been increasing over time. This need can arise from a change in family size (marriage, birth of a child, divorce, etc.) or desire to reduce commute times, and can be coupled with a decision about remaining at UC or accepting a position at another University. Providing a MOP loan can be a key factor in the University's ability to retain these employees. Given the increased need for exceptions, it is recommended that the allocation for exceptions be increased from 10% to 15%.

The above described changes to the adopted Program Framework are displayed in detail in Attachment 1.

PROPOSED PROGRAM LOAN PARAMETER MODIFICATIONS

A. MAXIMUM LOAN-TO-VALUE RATIO

Before 1995, the maximum loan-to-value ratio (LTV) for all MOP loans, regardless of size, was 90% when the loan did not include financing of closing costs. If documented closing costs were included in the loan, the LTV could be increased to a maximum of 92%. In March 1995, in response to the rapid decline in property values in southern California in the early 1990's (resulting in a few principal losses to the program), The Regents restricted the LTV at various loan amount thresholds. Attachment 6 provides a summary of the losses experienced and the status of the Reserve.

Based upon an annual study of home prices in the zip codes at and around each campus where UC faculty live, the median sales price for homes sold between October 1993-1994 averaged $267,600 for all 9 campuses. A similar study from October 1998-1999 showed the campus average price rising to $357,100, an increase of approximately 34%. This tremendous growth in price, coupled with the LTV restrictions, has resulted in a significant increase in the amount of cash equity needed for down payment and closing costs. This growing down payment gap is having a negative impact on the University's ability to attract and retain faculty and staff, particularly those early in their careers with limited cash assets. Even senior faculty, especially those recruited from states where home prices are significantly lower, often have insufficient liquid assets to meet the down payment requirements in California’s high priced market.

To address this issue, it is proposed that the LTV thresholds be adjusted to keep pace with the growth in the average cost of housing, as the conventional market adjusts its conforming loan limits to recognize the impact of increased housing prices. Following an initial recommended adjustment to account for the growth in sales prices since 1995, the thresholds would be adjusted annually based on increases in the same home price study. The proposed changes to the threshold amounts are displayed in Attachment 7.

B. TECHNICAL CORRECTIONS

Several technical corrections are also recommended to better reflect current administrative practices regarding the locking in of interest rates and accounting for portfolio earnings.

The above described changes to the adopted Program Loan Parameters are displayed in detail in Attachment 2.

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