

Office of the President  
September 5, 2001

TO MEMBERS OF THE COMMITTEE ON FINANCE:

**ITEM FOR DISCUSSION**

For Meeting of September 12, 2001

**INITIAL RECOMMENDATIONS FOR NEW OR MODIFIED FACULTY/STAFF  
HOUSING FINANCIAL ASSISTANCE PROGRAMS, UC HOUSING TASK FORCE,  
OFFICE OF THE PRESIDENT**

This first report on the work of the UC Housing Task Force discusses four initial recommendations designed to strengthen the ability of existing financial assistance programs to address the growing housing affordability gap near most University campuses. The four recommendations are to: (1) increase maximum loan thresholds for the making of 95% secondary loans under the Supplemental Home Loan Program (SHLP); (2) increase the maximum allowable term for MOP and SHLP loans from 30 to 40 years; (3) introduce 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 loan; and (4) increase the percentage of the unrestricted portion of STIP that is available for MOP loans from 25% back to the 30% level it had been prior to March 1999.

Introduction

Following a report to The Regents in March 2001 on the major student, faculty, and staff housing issues faced by the University as it grows over the next decade, Chairman Johnson and Senior Vice President Mullinix appointed a Universitywide Housing Task Force (Task Force) to examine current University housing programs and to recommend new approaches designed to address the changing housing development and financial assistance needs of the University community. **Attachment 1 is the roster** of the members of the Housing Task Force. The work of the Task Force began with an overall presentation of existing programs, including a campus-by-campus review of projected enrollment increases, campus housing developments underway, critical factors in the housing market for each campus, and the design capacity and utilization of existing housing at each campus. At this initial meeting the Task Force discussed the major issues currently faced by the University and formed three subcommittees to focus on three major areas of need: (1) Traditional Campus Student Housing, (2) Third Party Development Opportunities, and (3) New Financial Programs for Faculty/Staff Housing. Each subcommittee is developing detailed background material and formulating recommendations to the Task Force for its consideration and referral to The Regents. The Task Force as a whole is addressing the broad issue of campus housing supply and demand. The Task Force also identified some ideas to evaluate quickly to determine if they could be introduced as solutions this fall for use in the coming academic year. The recommendations that follow are the result of these discussions of early solutions.

Since its initial meeting in May, the Task Force has met twice more and has three additional meetings planned for September and October. A set of recommendations for legislative assistance was sent to Assemblywoman Dion Aroner and Assemblyman Fred Keeley, who specifically requested input from the Task Force. These recommendations are to: (1) include the University in discussions of the statewide housing crisis; (2) target assistance to areas established by the University or the California State University system as impacted, high priority areas; (3) create a higher education-related housing loan program for developers in partnership with 501(c)(3) owners to foster housing production; and (4) manage and administer the loan program through an agency outside the University with experience in monitoring and managing these specialized programs.

The Task Force has also discussed in detail current planning activities underway at UCLA which involve reorientation of housing goals aimed at a substantially enhanced residential program (vs. commuter program); toured the UC Riverside campus housing programs; and is awaiting the results of an extensive survey of campus planning for housing supply and demand within this decade.

The New Financial Programs Subcommittee (Subcommittee) is pursuing a two-track approach for developing new approaches for addressing housing affordability issues identified by the Task Force. First, the Subcommittee is providing recommendations for program improvements and enhancements that would be of immediate benefit for the next major recruitment cycle. The Subcommittee provided its initial recommendations for these program enhancements to the Task Force at its August 20, 2001 meeting held at the Riverside campus. Second, the Subcommittee is exploring the potential for identifying: (1) additional private sector financial resources to leverage existing University resources and (2) additional University resources to increase the availability of current and/or new financial assistance programs. The ability to increase the resources available for financial assistance is key if there is to be any significant broadening of the eligibility beyond the current Academic Senate and Senior Management Group categories.

Additionally, the Subcommittee is exploring periodic sales of MOP loans as a way to increase the liquidity of the Program to support increased lending activity. The Subcommittee contemplates reporting its findings and recommendations to the Task Force on this proposal by the end of the year.

This initial Task Force report to The Regents provides summary background regarding current UC housing programs and the general nature of the housing problems faced by faculty and staff near major University locations throughout the state. This report also presents the recommendations of the Subcommittee, endorsed by the Task Force, for program improvements and enhancements to existing programs designed to address the current problems created by the rapid increases in housing prices of the past two to three years.

#### UC Faculty and Staff Housing Program Background

A report to The Regents on this same subject in November 1979 began with the statement: "The difficult problem of finding and financing housing in California continues to be acute." This quote provides an accurate summary of the situation faced by most newly recruited faculty at UC campuses today. Since the late 1970s the University has developed and implemented multiple

approaches to providing housing assistance as part of its recruitment and retention strategy. Over 4,000 faculty and staff have received some form of financial assistance and 911 for-sale housing units and 677 rental units are available. Often a combination of one or more loans and a cash housing allowance and/or for-sale housing unit has been necessary to meet recruitment and retention goals (see [Attachment 2](#)).

The University has six housing assistance program components:

- (1) Mortgage Origination Program (MOP) - first deed-of-trust one-year variable rate mortgages with terms up to 30 years;
- (2) Supplemental Home Loan Program (SHLP) - first and second deed-of-trust mortgage program with flexible terms and rates;
- (3) Salary Differential Housing Allowance Program (Housing Allowance) - one-time or multi-year grants to assist faculty with housing costs that are taxable to recipients, and which are generally not repaid;
- (4) For-Sale Housing Developments - campus production of single family and condominium developments on campus-owned or purchased land at six campuses;
- (5) Rental Housing - campus units available for transition housing at seven campuses; and
- (6) Outside Lender Relationship - provides all University employees access to competitive rates on a large variety of lending products with reduced fees.

[Attachment 3](#) provides a summary description of each of these program components.

### Housing Situation in California and Near UC Campuses

Since the time of the initial report to The Regents in 1979, marking the beginning of systemwide faculty housing assistance programs at the University of California, the residential real estate and financing markets in California have gone through multiple cycles. The general trend has been an increase in the price gap between home prices nationwide and those in California. In 1996 the median price of a house in California was \$177,270 or 53.1% higher than the national median price of \$115,800. By 2000, the California price had risen to \$243,390, or 75% greater than the national figure of \$139,000. This differential is even more severe when considering the housing markets surrounding the University's campuses, where most faculty desire to live. In 1996 the "All-Campus Average House Price"<sup>1</sup> near UC campuses was \$265,861 or 129.6% higher than the national median price of \$115,800. By 2000, the All-Campus Average House Price had risen to \$446,030, or 221% greater than the national figure of \$139,000. The All-Campus Average House Price increased 24.9% between 1999 and 2000. [Attachment 4](#) displays the changes in the National, State of California, and All-Campus Average House Price figures since 1984. Rents for off-campus housing are in keeping with local high cost markets.

This differential in housing prices near University campuses has been, and will continue to be, exacerbated by the shortfall of production of new housing units compared to household formation in California. The State Department of Housing and Community Development produced a report in May 2000, entitled "Raising the Roof - California Housing Development Projections and Constraints 1997-2020", which concluded that California homebuilders would

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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 9 campuses (the Merced campus is not included) called the All-Campus Average House Price.

have to construct an average of 220,000 additional housing units per year for the next 23 years to meet the demand generated by projected population growth and household formation. The report goes on to say that annual statewide housing production since 1990 has averaged just over 100,000 units. This current and projected shortfall will continue to have a major impact on the availability and affordability of housing within a reasonable distance of most University campuses.

Impacts in the Decade Ahead

At the same time as housing prices continue to rise and the state continues to fall short on the production of housing throughout the affordability spectrum, the University is projecting student enrollment to grow to 210,000 FTE by the year 2010; an increase of approximately 46 percent from 1998-99. To accommodate this growth, approximately 7,000 new faculty must be hired over the same time period. Historically, over 50% of these newly hired faculty come from out of state and approximately 15% of all new recruits have been graduate students immediately prior to hire, most of whom did not previously own a home. Based upon loan program statistics for the past four calendar years, approximately 75% of all program borrowers did not own a home at the time of participating in the University loan program.

The large percentage of out-of-area recruitments and the first time homebuyer status of many of these recruits exacerbates the impact of the current housing market on the faculty hiring process. This is also true for other non-faculty positions that are often the subject of national recruitment, such as many senior managers and specialized technical and professional positions. The University's biennial Faculty Recruitment and Retention report for 1999-00 shows an 11 percentage point increase in the use of housing assistance as a recruitment tool since the last survey (1997-98), increasing from 49.4% of new hires in 1997-98 to 60.5% of new hires in 1999-00.

The following table illustrates the impact of the increased prices near University campuses by comparing the maximum affordable house price for University faculty with typical academic-year appointments using MOP versus conventional financing.

Faculty Rank	Starting Salary	Maximum Price with MOP Loan	Maximum Price with Conventional Loan
Assistant Professor	\$4,170	\$297,851	\$199,551
Associate Professor	\$5,267	\$376,206	\$252,047
Professor	\$6,270	\$447,847	\$300,045

Note: Calculations based upon 90% financing, MOP interest rate of 6.35% and conventional rate of 7.0%, MOP P&I/income ratio of 40% and conventional PITI/income ratio of 35%

These examples demonstrate the increased buying power of the University loan due to both an interest rate advantage and more liberal underwriting parameters that increase the loan size possible at the same income. However, even with these advantages, current University programs do not fully address the needs of many newly hired faculty facing the high average prices near most University campuses. By contrasting the table's figures with the \$446,000 All-Campus

Average House Price already cited, it is readily apparent a single wage earning Assistant Professor cannot afford the average priced home near most of the University's campuses, even with the MOP loan.

#### University Response

Over the years, the University has modified and changed its programs and funding mechanisms to respond to the changing, but ever increasing cost of housing near its campuses. Most recently, in September 2000, The Regents approved higher loan amount thresholds used to determine the maximum loan-to-value ratios for the Mortgage Origination Program (MOP) and the Supplemental Home Loan Program (SHLP). The thresholds were also indexed based upon the annual change in the All-Campus Average compiled by the Office of Loan Programs. At that time The Regents requested that the President report back within the next year on further improvements to the programs to address the projected recruitment and retention needs over this next decade. That request and the parallel issues regarding student housing led to the creation of the UC Housing Task Force charged with examining levels of demand and making recommendations for new or enhanced programs to serve these needs.

#### Recommended Modifications and Additions to University Financial Assistance Programs

The following recommendations for housing assistance program modifications or new approaches are designed to strengthen the University's ability to continue to recruit and retain faculty and staff over the next decade. The program parameter and modified component recommendations are based upon an evaluation of how each proposal would strengthen the ability of existing program components to address the growing housing affordability gap near most of the University's campuses. The recommendation regarding STIP utilization would provide a marginal increase to the resources available for the MOP loan program.

##### ***A. Increase Supplemental Home Loan Program (SHLP) Loan-to-Value Ratio (LTV) Thresholds***

**Proposal** - increase maximum LTV to 95% for combined loan amounts up to \$687,000 and to 90% for combined loan amounts over \$687,000 [currently a combined LTV of 95% is available for combined loan amounts up to \$437,000; for combined loan amounts in excess of \$687,000, the LTV is currently limited to 85%]. These thresholds are automatically indexed based upon any increases to the annual All-Campus Average House Price Index.

**Advantages** – (1) would reduce the down payment cash requirements to borrowers; (2) loans can be structured to provide low or no payments during early years to increase affordability; (3) provides greater flexibility to use funds that might otherwise be used to make Housing Allowances, which are generally not repaid and are always treated as taxable income to the recipient; and (4) provides tax advantages to borrower over Housing Allowance approach (i.e., loan disbursements are not counted as taxable income and the interest portion of payments are deductible).

**Program Authorization** – Requires Regents' approval of higher LTV limits.

**Risk Assessment** – (1) no impact on MOP loans as SHLP loans are funded from discretionary funds available to Chancellors; and (2) although higher LTV ratios do increase the loss exposure for the campus funds used to make the higher LTV SHLP loans, this risk is mitigated by reducing the magnitude of Housing Allowances (Housing Allowances are oftentimes increased in size to account for the impact on the borrower of the income tax associated with the Housing Allowance payment, resulting in even higher costs to the campus fund source).

***B. Increase the Maximum MOP and SHLP Repayment Period to 40 Years***

**Proposal** – increase the maximum loan term to 40 years [current maximum is 30 years, which would remain the default loan term].

**Advantages** – increases the affordable purchase price by approximately 8.3%.

**Program Authorization** – requires Regents' approval of longer term.

**Risk Assessment** – (1) no negative impact on the earnings of STIP or campus funds; (2) no impact on loan risk profile; and (3) would result in marginally slower pay down of principal, thereby increasing interest payments by borrowers and reducing the rate of principal repayment to STIP for reuse in new loans.

***C. MOP Graduated Payment Option (GP-MOP)***

**Proposal** – develop a new MOP loan product that allows campuses to pay a portion of a borrower's interest rate for 6 to 12 years (or longer by exception). The initial rate paid by the borrower could be as low as 3.0%, with the campus providing funds to pay the interest rate differential. The differential paid by the campus would be reduced by between 0.25% and 0.50% annually, until the borrower is paying the program rate. Example: If the campus initially paid a 3% interest rate differential that was reduced by .5% each year, the borrower would be paying the program rate in year 7. The differential would be paid from funds available to the Chancellor or another University fund source (similar to funding of the Salary Differential Housing Allowance Program). The loans could be structured with 30 or 40-year repayment periods if the above term increase recommendation is adopted. It should be noted that the Los Angeles campus has implemented a pilot program similar to this approach under its implementation of the SHLP on campus.

As an alternative to paying the interest rate differential outright, the payouts could be accrued without interest during the rate reduction period and secured with a silent second/third loan, which begins to accrue simple interest at the end of the rate reduction period. This secured loan would be due and payable when the property is sold or the borrower leaves University employment.

**Advantages** – an initial lower interest rate would greatly increase the purchasing power of the borrower; (2) the rate reduction amount and period could be adjusted to match the initial household income and the projected annual income growth; and (3) University funds used to cover the interest rate spread are not subject to income tax reporting or taxation to the borrower (a much more efficient use of funds as compared to Housing Allowance grants).

**Potential Costs** – the actual cost for each campus and the University overall would depend upon the number of GP-MOP loans made, the amount of rate reduction in each case, the average GP-MOP loan size, and the percentage at which the rate reduction changes each year. If it is assumed that the average GP-MOP loan was \$435,000 (an increase of approximately 20% over the current average MOP loan amount to account for the greater affordability of the GP-MOP) and that the initial rate is reduced by 3.0%, with the annual percentage change in the rate reduction of 0.375%, the average per loan cost of the rate reduction over the eight years it takes to reach the normal MOP loan rate would be \$60,500. The overall annual cost in 2001-02 to provide this level of rate reduction would range from \$6.6 million to \$16.5 million assuming that between 20% and 50% of the projected 544 systemwide faculty recruits (based upon current required faculty hires to keep pace with enrollment growth and anticipated faculty turnover) are offered this loan product.

**Program Authorization** – would require Regents’ approval of program parameter modifications and use of campus or other University funds for interest rate reduction.

**Risk Assessment** – in the event the borrower’s household income did not increase in line with the increasing payments (as the interest rate reduction decreases), the payment-to-income ratio of some individual borrowers could increase in the early years of the loan, which might increase the risk of default. This impact is mitigated by the requirement of payroll deduction and the University’s ability to modify the note repayment term to reduce the monthly payment.

***D. Increase MOP Program Funding from Unrestricted STIP***

**Proposal** – increase the percentage of the unrestricted portion of STIP that may be utilized for MOP loans from its current 25% to 30%.

**Advantages** – Based upon the recent increased utilization of the program in terms of number and size of loans, the MOP Portfolio Projection model projects no remaining lending authority in 2010 under the current authorized STIP use percentage of 25%. The increased authority would provide relief for that condition as well as the possibility for a marginal increase in program funding in future years, depending upon actual STIP growth rates. In today’s dollars, a 5% increase in allocation authority provides approximately \$150 million in new lending authority (June 30, 2001 Unrestricted STIP balance: \$3.1 billion).

**Program Authorization** – would require Regents’ approval of program parameter authorizing the higher STIP utilization ratio. Historically, the funding authority has been modified several times. In establishing MOP in July 1984, The Regents provided an initial allocation of \$30 million for the first two years of the Program from the legally available cash balances in the unrestricted portion of the Short-Term Investment Pool (STIP). Subsequent actions were taken to provide additional funding through 1989, at which time The Regents approved providing ongoing authority to the President to authorize two-year allocations at levels determined to ensure that the maximum aggregate outstanding balance of the MOP loan portfolio does not exceed 30% of the legally available cash balances in the unrestricted portion of STIP. At that time, Hospital Working Capital borrowing, not to exceed 20% of the unrestricted portion of STIP, was also authorized. In March 1999, these percentages were decreased to 25% and 15%, respectively, to provide the Treasurer with the ability to use STIP to provide liquidity support for

the University's Commercial Paper (CP) Program, as long as the total outstanding loans by all three programs does not exceed 50% of the unrestricted STIP balances.

**Risk Assessment** – If the MOP utilization level were increased to 30%, then the combined MOP plus Hospital Working Capital authorized utilization level would equal 45%. Even though STIP is also providing liquidity support to the CP Program, it is highly unlikely that STIP will be used to actually fund any CP Program requirements. The University's CP Program has earned the highest credit ratings for commercial paper (A1+/P1 by S&P and Moody's) and investor acceptance is strong. Therefore, funding of this obligation, if required, would be caused by a failed trade due to technical issues involving a CP dealer and the Issuing and Paying Agent, rather than by any dealer's inability to market the University's commercial paper. Current Regental policy requires that in the event that ratings for the CP Program were reduced to below A1/P1, external liquidity support would be substituted for STIP.

The following table illustrates the impacts on affordability of implementing various combinations of the above proposals at a purchase price of \$500,000 (a figure about 12% greater than the October 2000 All-Campus Average House Price). As can be seen, depending upon the program components chosen, it is possible to greatly reduce income and/or down payment required for purchase of the same priced home, thereby increasing the options for employee buyers at all income levels.

	A. Current 30-Year MOP Loan	B. 40-Year MOP Loan	C. 30-Year GP-MOP Loan	D. 40-Year GP-MOP & 5% SHLP Deferred Payment Loan
Down Payment	\$50,000	\$50,000	\$50,000	\$25,000
Total Loan Amount	\$450,000	\$450,000	\$450,000	\$475,000
Minimum Monthly Income	\$7,000	\$6,467	\$4,958	\$4,258
University GP-MOP Payment	n/a	n/a	\$62,555	\$62,873
Borrower Net Equity after 10 years	\$377,390	\$341,739	\$391,328	\$314,029
Note: Calculations assume: (1) 90% MOP financing at an interest rate of 6.35%; (2) 3% initial year buy-down for the GP-MOP, reduced by 0.375% per year over 8 years; (3) an average 5% per year home price appreciation rate; and (4) for example D, a 5.75% simple interest SHLP second loan with no payments for 10 years and a combined LTV of 95%.				

The above program changes would allow many other combinations that could be used to address the specific affordability objectives of a given potential buyer.

Future Steps

Based upon the discussions at today's meeting, an action item to authorize these program changes will be prepared for consideration by The Regents at the November meeting.

(Attachments **One** **Two** **Three** and **Four**)