

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of January 19, 2022

AMENDMENT OF REGENTS POLICY 5309: POLICY ON THE UNIVERSITY OF CALIFORNIA EMPLOYEE HOUSING ASSISTANCE PROGRAM

EXECUTIVE SUMMARY

The University of California Housing Assistance Program (Program) provides mortgage loans to Faculty and Senior Managers under the Mortgage Origination Program and the Supplemental Home Loan Program. The Office of Loan Programs (OLP) is proposing the introduction of a new zero interest Supplemental Home Loan Product (SHLP) as an additional resource for down payment assistance. Due to the high cost of housing in California, Program participants continue to have difficulty with providing a down payment. The new SHLP option would provide below market rate secondary financing with no monthly payments and zero percent interest with a forgivable feature. Upon the end of the loan term, the outstanding principal balance (original principal balance, less any forgiven amounts) would be fully due and payable. Regents' approval is required to add the new product to Regents Policy 5309: Policy on the University of California Employee Housing Assistance Program and allow balloon payments exclusively for this product.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that Regents Policy 5309: Policy on the University of California Employee Housing Assistance Program be amended as shown in Attachment 1 to add the Zero Interest Supplemental Home Loan Program product and that balloon payments be allowed exclusively for the Zero Interest Supplemental Home Loan Program.

BACKGROUND

Given the continued escalation of housing prices, the campuses are finding it increasingly difficult to recruit and retain faculty. The Office of the Chief Financial Officer has been working with Academic Affairs to develop a product that will help with down payment assistance. These efforts have led to the development of a Zero Interest Program (ZIP) Loan, a loan program which would, if approved by the Regents, provide an alternate housing assistance option. The introduction of the new loan option will provide more flexibility to campuses under the Supplemental Home Loan Program (SHLP), which primarily provides secondary mortgage

financing. Similar to the current SHLP loan, the zero interest product could be combined with a primary mortgage from the Program, allowing Program participants to finance up to 95 percent of a home purchase. In particular, the ZIP Loan would provide a more affordable housing assistance option and expand opportunity to faculty who otherwise may not have wealth, savings, or family contributions to be able to secure adequate funding for a down payment. As the University seeks to advance faculty diversity and recruit new generations of faculty, it is important to ensure equitable access to the housing market.

Product Overview

The Zero Interest SHLP (ZIP Loan) would provide a loan with the following parameters:

- Interest Rate: Zero percent interest
- Payment: No monthly payment
- Loan Term: ten years
- Maximum Loan Amount: Up to \$150,000
- Forgivable Feature:
 - Ten percent (10 percent) of the original principal of the ZIP loan may be forgiven each year, provided that the faculty member meets the following criteria: (i) still employed by the University as an eligible participant, as defined in the Program guidelines; (ii) in good standing; (iii) overall job performance in the previous period was satisfactory; and (iv) not in default on any term or condition of a Program loan.
 - Loan forgiveness, if any, will be reported as taxable income in the year forgiven on a W-2 form and is subject to standard withholding requirements.
- Repayment: Upon the end of the loan term, the outstanding principal balance (original principal balance, less any forgiven amounts) is fully due and payable.

Eligibility

The Program loan participant must meet the eligibility criteria defined by the Program. In addition to being eligible, one must be nominated by the location to participate in the Program loan as well as meet the underwriting guidelines for the requested mortgage product. Nomination to participate in a Program loan is generally stated in the final and approved appointment letter at the time of recruitment.

Funding Source

The ZIP loan will be funded from available campus funds, which may include discretionary funds, as well as unrestricted and appropriate restricted gift funds. State 19900 funds cannot be used to fund Program loans.

Policies and Guidelines

As with other Program productions, the implementation and compliance of the ZIP loan will be administered by the University of California Home Loan Program Corporation (Corporation)

within the Office of the Chief Financial Officer. The ZIP Loan would be subject to the Employee Housing Assistance Program Policy – Implementation Guidelines, which provides Program details and the terms of program loan options. In addition, the Campus ZIP Loan Implementation Guidelines would provide the guidelines for campus administration of the ZIP Loan and potential forgiveness. The new product will also be included in the President’s annual report on the status of the Program.

At their January 2014 meeting, the Regents approved the formation of the Corporation to qualify the University of California as a small creditor under the Consumer Financial Protection Bureau’s (CFPB) lending regulations. The Corporation assumed the operation of the residential lending activities of the Office of Loan Programs effective February 1, 2014. At the annual meeting in December 2021, the Board of the Corporation approved the ZIP loan.

Considerations

The balloon repayment feature makes the ZIP Loan a non-Qualified Mortgage.

A Qualified Mortgage (QM) loan, as defined by the CFPB, is a category of loans that have certain, more stable features that help make it more likely that the borrower can afford their loan. Loans with nonstandard features such as balloon payments and loan terms greater than 30 years do not qualify as QM loans.

The Chancellor or other designated official will be required to acknowledge and accept any risk of litigation associated with making non-Qualified Mortgages. A similar process is currently in place for campuses that offer loans with terms greater than 30 years.

Timing

If the ZIP loan is approved by the Regents at the January 2022 meeting, legal documentation will be finalized and it is expected that the program would be implemented for the campuses to use in spring 2022.

[Attachment: Proposed Amendment](#)