

University of California
Annual Report on the
University Employee
Housing Assistance Program

Fiscal Year Ended June 30, 2016

University of California
Office of the President
Executive Vice President - Chief Financial Officer

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Introduction

The Office of Loan Programs (OLP) plans, develops, and administers the University of California Employee Housing Assistance Program (Program) as approved by the Regents of the University of California (Regents). The residential lending activities are administered by OLP on behalf of the University of California Home Loan Program Corporation (Corporation). The Corporation was formed in January 2014 to qualify the University of California as a small creditor as defined by lending industry regulations.¹

Eligibility for Program participation is limited to full-time University appointees who are: (1) members of the Academic Senate or hold equivalent academic titles; (2) Acting Assistant Professors; (3) Senior Management Group employees; or (4) UC Hastings College of the Law faculty.

This report provides a summary of the Program results for the fiscal year that ended on June 30, 2016. The Program results include statistics regarding the total dollar amount of loans funded by the Corporation and the outstanding balances of Corporation and non-Corporation loans at year-end. This report also provides summary statistics for loans to Senior Management Group employees.

The Program is comprised of the Mortgage Origination Program (MOP) and the Supplemental Home Loan Program (SHLP). MOP loans are first deed of trust mortgage loans funded using an allocation from the University's Short-Term Investment Pool (STIP). Allocations are approved by the President of the University of California every two years.

Historically, SHLP loans have been funded from authorized campus fund sources to provide secondary financing. Campuses also have the option to provide primary mortgage loan financing if they have sufficient funds available. In November 2015, a Centrally-Funded Supplemental Home Loan Program (CF-SHLP) allocation of \$5.0 million was approved by the Regents to provide an additional source of secondary financing for individuals with limited downpayment resources.

The body of this report provides the following information for fiscal year 2015-2016:

- Loan volume statistics, including the number and dollar amount of mortgages funded by the Corporation, and a comparison to the loan volume for the prior fiscal year.
- Loan portfolio statistics, including the total number and dollar amount of mortgage loans outstanding as of June 30, 2016.
- Earnings analysis that presents the dollar amount of the earnings differential between the MOP portfolio and STIP.
- Loan activity for Senior Management Group employees.
- Loan sale statistics for sales completed under the Mortgage Origination Program Portfolio Sale Program.

Appendix A contains a description of the available loan products, and Appendix B contains a summary of loans requiring additional approval. Appendix C presents a cumulative summary of the loan volume since the establishment of the Corporation.

¹ The Consumer Financial Protection Bureau has oversight for banks, lenders and other financial institutions. The University of California is subject to the regulations regarding mortgage loan origination and servicing.

2015-2016 Housing Assistance Program Status Report University of California Home Loan Program Corporation

Loan Volume Statistics - MOP

During fiscal year 2015-2016, the total MOP loan volume was comprised of 249 loans with an aggregate dollar amount of \$159.3 million. Below is a breakdown of the loans funded by location. The total number of loans funded represents a 3.3% year-to-year increase, and a corresponding 8.2% increase in the total dollar volume funded.

The increase in MOP usage was smaller than expected based on the increasing number of faculty recruitments. This can partially be attributed to the availability of low fixed rates in the mortgage market. Potential applicants who have the ability to qualify for loans from conventional sources may be choosing a fixed-rate loan option. Additionally, market conditions that include limited inventory and multiple offers on properties are making it difficult for many potential applicants to find a property to purchase.

The MOP features, including low downpayment requirements, no lender fees, favorable underwriting terms, and no required Private Mortgage Insurance, continue to make the MOP loan an attractive alternative product and a valuable recruitment and retention tool.

Mortgage Origination Program Statistics by Location University of California Home Loan Program Corporation Fiscal Year 2015-2016

Location	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	22	\$18,182,200	\$826,464	19	3
Davis	39	18,964,500	486,269	27	12
Irvine	45	20,487,200	455,271	41	4
Los Angeles	32	29,835,350	932,355	16	16
Merced	9	2,985,550	331,728	9	0
Riverside	22	10,528,950	478,589	19	3
San Diego	29	17,730,300	611,390	27	2
San Francisco	18	15,431,800	857,322	18	0
Santa Barbara	14	11,697,150	835,511	8	6
Santa Cruz	14	7,709,550	550,682	11	3
Lawrence Berkeley National Laboratory	2	2,238,000	1,119,000	1	1
Office of the President ²	3	3,503,500	1,167,833	3	0
Totals/Average	249	\$159,294,050	\$639,735	199	50

² One loan was issued to a Division of Agriculture and Natural Resources employee. Eligibility for Program participation was approved by the Division of Agriculture and Natural Resources Vice President (see Appendix B for information regarding the delegation of authority for non-standard titles).

Loan Volume Statistics - SHLP

As displayed below, 27 SHLP loans were funded in fiscal year 2015-2016, with an aggregate dollar amount of \$1.6 million. There was a 12.9% year-to-year decrease in the number of loans funded and a 10.5% decrease in the dollar volume of loans funded. The decrease in loan volume is primarily due to fewer resources available to the campuses. To assist campuses with additional funding options, the CF-SHLP product was approved by the Regents and a \$5.0 million allocation was established. No CF-SHLP loans were funded during the fiscal year.

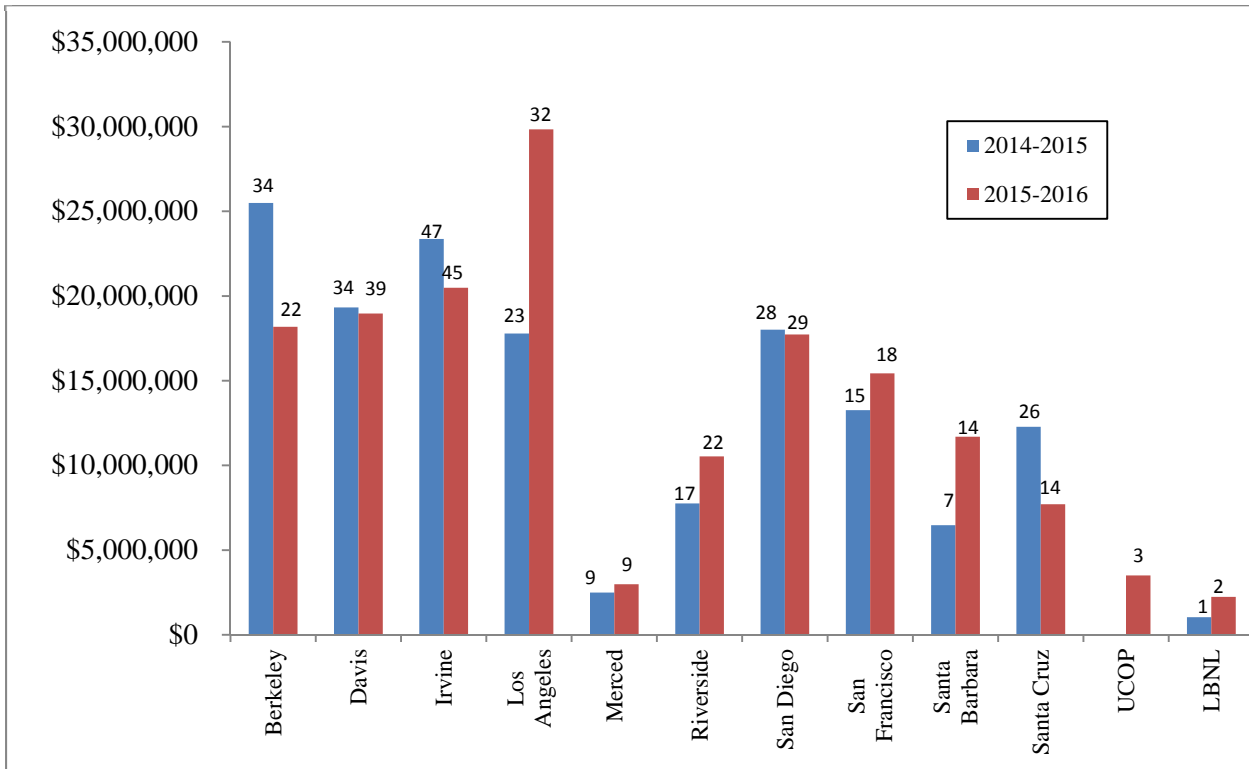
Supplemental Home Loan Program (SHLP) Statistics by Location University of California Home Loan Program Corporation Fiscal Year 2015-2016

Location	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	1	\$ 38,000	\$38,000	1	0
Davis	9	171,150	19,017	7	2
Irvine	13	284,450	21,881	13	0
Los Angeles	0	0	0	0	0
Merced	0	0	0	0	0
Riverside	0	0	0	0	0
San Diego	1	28,250	28,250	1	0
San Francisco	2	1,050,000	525,000	2	0
Santa Barbara	0	0	0	0	0
Santa Cruz	1	60,000	60,000	1	0
Lawrence Berkeley National Laboratory	0	0	0	0	0
Office of the President	0	0	0	0	0
Totals/Average	27	\$1,631,850	\$60,439	25	2

Mortgage Origination Program Activity Levels by Location

The total dollar amount of loans funded during the past two fiscal years has remained relatively stable. However, the distribution of loans by campus has changed. In fiscal year 2014-2015, the Irvine campus issued the highest number of loans, while the Berkeley campus funded the largest dollar amount. In 2015-2016, the Irvine campus again issued the most loans, while the Los Angeles campus had the highest dollar volume. This changing distribution is the result of many factors, including recruitment levels at each campus, MOP allocation funds available, market dynamics in the areas surrounding each campus, and the readiness of applicants to purchase a home near their work location.

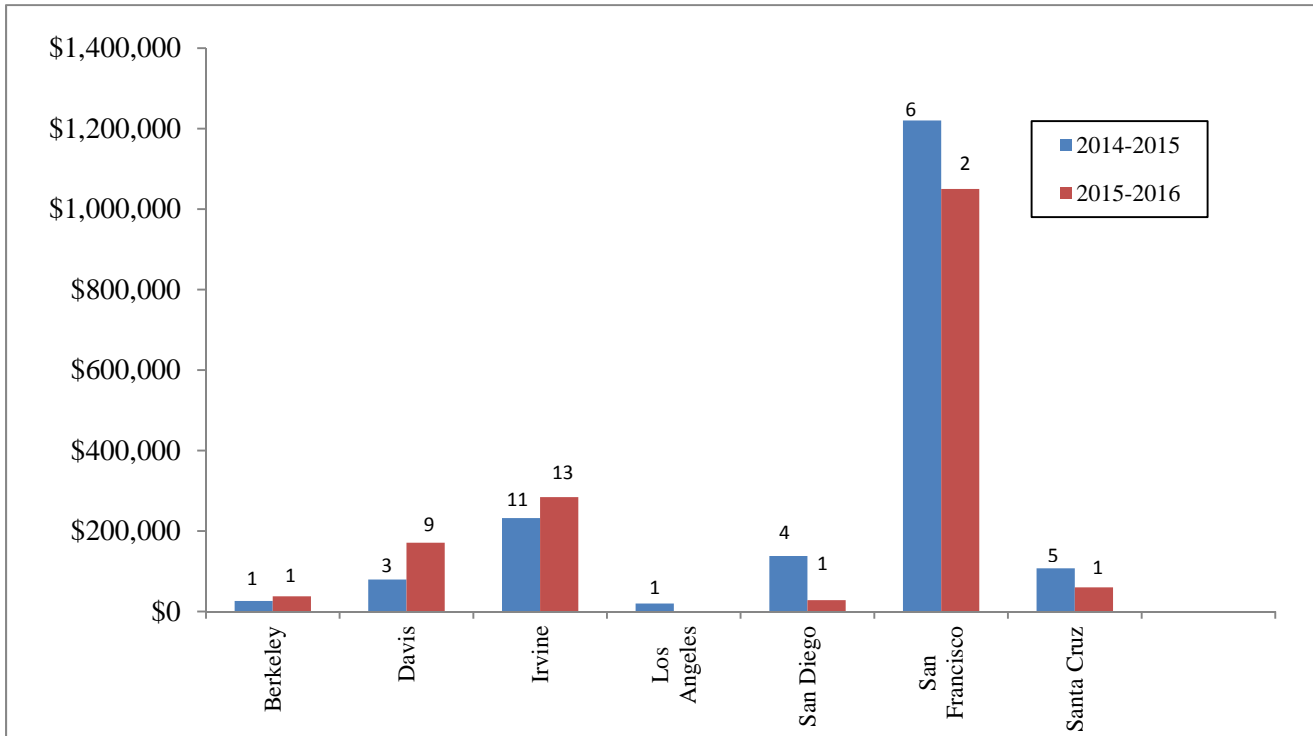
University of California Home Loan Program Corporation Number and Dollar Volume of MOP Loans Comparison of 2014-2015 and 2015-2016 Totals



Supplemental Home Loan Program Activity Levels by Location

The loan volume for the Supplemental Home Loan Program has been very low during the past two fiscal years, primarily due to a lack of resources available at the campuses. A comparison of the loan activity for campuses that issued SHLP loans is displayed in the following chart:

University of California Home Loan Program Corporation Number and Dollar Volume of SHLP Loans Comparison of 2014-2015 and 2015-2016 Totals



Senior Management Group Statistics

The majority of MOP and SHLP loans are issued to faculty in support of recruitment and retention, but Senior Management Group employees are also eligible for Program participation. Of the 249 MOP loans funded in 2015-2016, seven were issued to Senior Management Group employees. One of the loans at the Office of the President received additional approval for an amount greater than the programmatic maximum loan amount. The statistics for locations that provided loans to Senior Management Group employees are as follows:

Mortgage Origination Program Loans to Senior Management Group Employees University of California Home Loan Program Fiscal Year 2015-2016

Location	Number of Loans	Dollar Amount of Loans	Recruitment	Retention
Berkeley	1	\$ 1,330,000	1	0
Los Angeles	1	1,015,000	1	0
Merced	1	243,000	1	0
Santa Cruz	1	1,080,000	1	0
Lawrence Berkeley National Laboratory	1	1,128,000	1	0
Office of the President	2	3,130,000	2	0
Totals/Average	7	\$7,926,000	7	0

There was only one SHLP loan to an SMG employee in 2015-2016. The loan was funded by the Santa Cruz campus for \$60,000.

Cumulative Program Data

Loan Portfolio Statistics

MOP

From program inception in June 1984 through June 30, 2016, a total of 6,326 MOP loans have been funded, with an aggregate dollar amount of \$2.8 billion. The outstanding portfolio as of June 30, 2016 consists of 2,805 loans with a principal balance of \$1.27 billion. Of these loans, 532 remain as holdings of STIP and have an aggregate principal balance of \$319.0 million. The remainder of the loan portfolio has been sold to outside investors and consists of 2,273 loans with an aggregate principal balance of \$953.6 million.

SHLP

From program inception in March 1993 through June 30, 2016, a total of 1,335 SHLP loans have been funded, with an aggregate dollar amount of \$127.9 million. The outstanding portfolio as of June 30, 2016 consists of 277 loans with a principal balance of \$30.4 million. Of these loans, 225 remain as University investments that are held at the campus level and have an aggregate principal balance of \$27.3 million. The remainder of the portfolio has been sold to outside investors and consists of 52 loans with an aggregate principal balance of \$3.1 million.

All MOP and SHLP loans are serviced by the Office of Loan Programs.

MOP Portfolio Loan Sales

In order to renew STIP liquidity and to make additional funds available for new MOP loans, the University periodically sells pools of loans to outside investors. In fiscal year 2015-2016, the University successfully completed a sale of 49 MOP loans with an aggregate outstanding balance of \$28.5 million. The bid price for these loans was 102.1% of the outstanding principal balance of the loan pool.

MOP Earnings Analysis

When MOP was established, it was determined that any cumulative shortfalls in earnings and any principal losses to the MOP portfolio would be repaid to STIP from the Faculty Housing Program Reserve Fund (Reserve). Conversely, any excess MOP earnings would be transferred from STIP to the Reserve. A comparison of MOP earnings vs. STIP earnings is completed each month, accompanied by transfers of the overage/shortfall in earnings between STIP and the Reserve.

In fiscal year 2015-2016, a total dollar amount of \$3.3 million in excess MOP earnings was transferred to the Reserve from STIP. In fiscal year 2015-2016, there were not any MOP or SHLP loan losses.

Events Subsequent to the Reporting Period

Regents Action

In November 2016, the Regents approved the following amendments to the Mortgage Origination Program and the Supplemental Home Loan Program policies:

1. Establishment of an interest-only SHLP loan product.

The interest-only SHLP (IO-SHLP) offers a loan with an interest-only period, followed by a fully amortizing period. Three options are available: a 5, 7, or 10-year interest only period, with a total term of 20, 30 and 40-years, respectively. Separate Chancellor approval is required for issuing an interest-only loan or a loan with a term greater than 30 years.

2. Reduction of the floor interest rate.

The floor rate for the MOP, Graduated Payment-MOP (GP-MOP) and the CF-SHLP was reduced from 3.00% to 2.75%. The floor rate for the 5/1-MOP product (as described in Appendix A) was reduced from 3.50% to 3.25%.

The calculation of the minimum SHLP rate was changed to the 4-quarter average earnings rate of STIP, plus a service fee of .25%. The campuses have the flexibility to set a higher interest rate for SHLP loans, depending on campus needs.

The revised floor rates are effective for loans funded on or after February 1, 2017.

3. Streamlined approval for loan amounts exceeding the maximum loan amount threshold.

Previously, requests for loan amounts exceeding the maximum loan amount threshold required approval by the President, the Chair of the Board of Regents, and the Chairs of the Finance and Compensation Committees. The new process only requires approval by the President and the Chair of the Finance and Capital Strategies Committee.

4. Approval authority for GP-MOP loans with non-standard terms.

This approval authority was delegated from the President to the Chancellors.

5. Availability of a maximum loan term of 40 years for GP-MOP and 5/1-MOP loans.

To be consistent with MOP and SHLP parameters, loans with terms of up to 40 years are available for GP-MOP and 5/1-MOP loans. Chancellor approval for issuing loans with terms greater than 30 years is required.

6. Changes to the parameters for Centrally-Funded SHLP loans.

Revisions to the interest rate calculation and the maximum loan term were implemented for programmatic consistency.

7. SHLP provision for short-term bridge financing.

This option was eliminated.

Appendix A

Available Loan Products

A.1 Mortgage Origination Program

The Mortgage Origination Program utilizes an allocation from the University's Short-Term Investment Pool (STIP) to issue first deed-of-trust loans to eligible participants. MOP loans are adjustable interest rate loans with loan-to-value ratios of up to 90.0% and repayment periods of up to 30 years. Loans with maturities up to 40 years are available, but offering a loan with a term greater than 30 years requires approval by the Chancellor, Lawrence Berkeley National Laboratory Director or other authorized individual at the work location. Each location makes the determination whether to offer loans with terms greater than 30 years.

The MOP interest rate is defined as the most recently available four-quarter average rate-of-return of STIP, plus an administrative fee of one-quarter of one percent (.25%). MOP has had cumulative allocations of \$3.23 billion through June 2016.

MOP loans funded after August 1, 2010 have a minimum rate of 3.00% and MOP loans funded on or after January 1, 2014 have an interest rate cap of 10.0% above the initial loan interest rate. Effective February 1, 2017, the minimum interest rate will be reduced to 2.75%.

A.2 Graduated Payment Mortgage Origination Program

The Graduated Payment MOP (GP-MOP) is a loan that provides a lower interest rate to the borrower during the initial years of the loan. The initial rate paid by the borrower is a pre-determined amount less than the MOP Rate, with a minimum interest rate of 3.00%. The campus reimburses STIP for any shortfall in earnings resulting from the lower interest rate paid by the borrower. Of the MOP loans funded in fiscal year 2015-2016, one GP-MOP loan was funded, with a total dollar amount of \$593,750.

GP-MOP loans funded on or after January 1, 2014 have an interest rate cap of 10% above the initial Borrower Rate. Effective February 1, 2017, the minimum interest rate will be reduced to 2.75%.

A.3 5/1 Mortgage Origination Program

The 5/1 Mortgage Origination Program (5/1-MOP) loan is a fully-amortizing mortgage loan that offers a fixed interest rate and payment for the first five years of the loan, after which the loan converts to a MOP loan for the remaining loan term. The minimum interest rate during the fixed rate period is set at 3.50%, and adjusts to the MOP rate on the date that the 60th payment is due. Of the MOP loans funded in fiscal year 2015-2016, 44 5/1-MOP loans were funded, with a total dollar amount of \$26.8 million.

5/1-MOP loans funded on or after January 1, 2014 have an interest rate cap of 10% above the initial interest rate. Effective February 1, 2017, the minimum interest rate will be reduced to 3.25%.

A.4 Supplemental Home Loan Program

The Supplemental Home Loan Program (SHLP) primarily provides second deeds of trust for mortgage financing (a limited number of these loans are used to secure a first deed of trust on a property being purchased). SHLP loans are funded from authorized campus sources, or from the centrally-funded pool described in Section A.5. State funds cannot be used as a funding source.

SHLP loans funded after August 1, 2010 have a minimum rate of 3.00%.

Effective February 1, 2017, the minimum SHLP rate will be calculated as the most recently available four-quarter average rate-of-return of STIP, plus an administrative fee of one-quarter of one percent (.25%). Campuses have the option to set a higher interest rate depending on campus needs.

A.5 Centrally-Funded Supplemental Home Loan Program (CF-SHLP)

The Centrally-Funded SHLP (CF-SHLP) Program is a loan pool funded from the Faculty Housing Programs Reserve Fund. An initial allocation of \$5 million was approved in November 2015.

The CF-SHLP parameters fall within the SHLP guidelines with the following additional restrictions:

- Loans must be in second position.
- The maximum loan amount is \$75,000 and cannot exceed 5% of the purchase price.
- The maximum term is 15 years.
- The loans have a fixed interest rate equal to the most recently available four-quarter average rate-of-return of STIP, plus an administrative fee of one-quarter of one percent (.25%).
- Effective February 1, 2017, the minimum interest rate will be 2.75%.

Appendix B

Loans Requiring Additional Approval

Current Program parameters provide for an additional approval process to address unusual recruitment or retention needs. Any position that requires Regents approval for compensation-related matters must also receive Regents approval for loan-related matters. All other requests must be supported by a recommendation by the Chancellor, Lawrence Berkeley National Laboratory Director, Division of Agriculture and Natural Resources Vice President, or Chief Financial Officer – UC Hastings College of the Law. Below is a summary of the categories of loans requiring additional approval:

Maximum Loan Amount

The President, with concurrence of the Chair of the Finance and Capital Strategies Committee, may approve MOP and SHLP loan amounts for greater than the Program maximum loan amount threshold. The current maximum loan amount threshold for MOP or SHLP loans is \$1.43 million.

GP-MOP Terms

The President is authorized to approve an initial rate reduction amount greater than 3.00% and/or an annual adjustment to the rate reduction amount outside the standard rate reduction range of 0.25% to 0.50%.

Non-Standard Titles

Effective July 18, 2015, the President executed a Delegation of Authority (DA2587) to certain University officials to provide them with the ability to designate MOP or SHLP participation for University employees with specific non-eligible titles. The President retains the authority to approve MOP or SHLP participation for titles not included in DA2587.

Maximum Loan-to-Value Ratio

The President, with concurrence of the Chair of the Finance and Capital Strategies Committee, may approve an increase to the maximum Loan-to-Value ratio, to no more than 90.0%, for loans in excess of the current maximum loan amount threshold.

In fiscal year 2015-2016, six loans were funded that required additional approval. Four of these loans were utilized for recruitment purposes and two were for retention purposes.

**Loans Requiring Additional Approval
Cumulative Statistics: June 1984 - June 2016**

MOP Loans					
Category	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Maximum Loan Amount	9	\$14,246,500	\$1,582,944	8	1
Non-Standard GP-MOP	16	\$15,917,650	\$994,853	10	6
Non-Standard Title	66	\$45,809,400	\$694,082	53	13
Position Requiring Regents Approval	39	\$30,992,300	\$794,674	35	4
SHLP Loans					
Category	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Maximum Loan-to-Value Ratio	3	\$390,750	\$130,250	3	0
Non-Standard Title	44	\$14,346,442	\$326,055	30	14
Position Requiring Regents Approval	7	\$5,081,200	\$25,886	7	0

Appendix C

University of California Home Loan Program Corporation Cumulative Statistics

The University of California Home Loan Program Corporation (UCHLP) was formed to perform the residential lending activities associated with the University's Housing Assistance Programs. UCHLP began making loans effective February 1, 2014.

From the establishment of the Corporation to June 30, 2016, 575 MOP loans have been funded with an aggregate dollar amount of \$363.4 million. The outstanding principal balance of Corporation loans is \$297.3 million as of June 30, 2016.

In addition, 71 SHLP loans have been funded with an aggregate dollar amount of \$6.9 million and an outstanding principal balance of \$5.9 million as of June 30, 2016.

Mortgage Origination Program Statistics by Location – Corporation Loans Cumulative through June 30, 2016

Location	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	74	\$56,641,050	\$765,420	66	8
Davis	83	43,484,850	523,914	61	22
Irvine	98	46,946,250	479,043	87	11
Los Angeles	65	57,033,200	877,434	35	30
Merced	22	6,473,500	294,250	21	1
Riverside	42	19,694,250	468,911	37	5
San Diego	68	43,101,700	633,849	61	7
San Francisco	40	34,963,550	874,089	36	4
Santa Barbara	31	23,959,150	772,876	16	15
Santa Cruz	44	21,950,650	498,878	32	12
Lawrence Berkeley National Laboratory	4	4,335,250	1,083,813	2	2
Office of the President	5	4,708,750	941,750	3	2
Totals/Average	575	\$363,416,900	\$632,029	457	118

**Supplemental Home Loan Program Statistics by Location – Corporation Loans
Cumulative through June 30, 2016**

Location	Number of Loans	Dollar Amount of Loans	Average Loan Amount	Recruitment	Retention
Berkeley	3	\$1,394,300	\$464,767	3	0
Davis	13	265,900	20,454	10	3
Irvine	25	546,550	21,862	25	0
Los Angeles	3	887,650	295,883	1	2
San Diego	8	265,700	33,213	7	1
San Francisco	13	3,367,600	259,046	9	4
Santa Cruz	6	167,400	27,900	6	0
Totals/Average	71	\$6,895,100	\$97,114	61	10