September 15, 2016

Wellesley College Faculty Mortgage Program for the Purchase of a New Home
Frequently Asked Questions (FAQs)

What is the structure of the Wellesley College mortgage?

The mortgage program combines a traditional first mortgage from TIAA Direct® with a contingent interest College second mortgage to make it possible for eligible faculty members to borrow significant amounts with affordable monthly payments. This combination of mortgages enables faculty members to purchase a home in the relatively expensive greater Boston housing market, and likely enables them to purchase a higher priced home sooner than they would otherwise be able to purchase without the mortgage program.

The mortgage provided by the College is a contingent interest second mortgage. The length of the term in the second mortgage will be the same as the length of the term in the first mortgage provided by TIAA Direct. The maximum rate charged on the mortgage is the Annual Long Term Applicable Federal Rate (AFR), the lowest rate the College is permitted by the IRS to charge without giving rise to imputed income to the borrower. Monthly payments are based on ½ AFR. A lump-sum interest payment of ½ AFR compounded over the period of the loan is due when the mortgage is repaid. At that time, the borrower will use a portion of home price appreciation to pay the remaining interest. If, however, the home has appreciated by less than ½AFR, no additional interest will be due and instead the ½ AFR will be considered imputed income. The net effect is that over the life of the loan, the borrower will pay AFR if home price appreciation is moderate to high, will pay less than AFR but more than ½AFR if home price appreciation is positive but low, and will pay ½AFR if the home's value declines or is unchanged.

<u>Example:</u>

Purchase Price	800,000
Second Mortgage	400,000
AFR at time of purchase	2%
Annual Interest Payment	4,000
Monthly Payment	333.33
At time of Sale	
Years of Ownership	10
Sale Price	1,300,000
Home Price Appreciation	500,000
Rate of Home Price Appreciation	5%
Principal Owed on 2^{nd} mortgage	400,000
Interest Paid	40,000
Contingent Interest Owed	44,240
Contingent Interest Paid	44,240
Imputed Income	0

September 15, 2016

The following table illustrates the calculation of contingent interest for the first year for the example above:

Month	Interest Paid	Principal	Contingent Interest	Total Owed
1	333.33	400,000.00	333.33	400,333.33
2	333.33	400,333.33	333.89	400,667.22
3	333.33	400,667.22	334.45	401,001.67
4	333.33	401,001.67	335.00	401,336.67
5	333.33	401,336.67	335.56	401,672.23
6	333.33	401,672.23	336.12	402,008.35
7	333.33	402,008.35	336.68	402,345.03
8	333.33	402,345.03	337.24	402,682.27
9	333.33	402,682.27	337.80	403,020.08
10	333.33	403,020.08	338.37	403,358.44
11	333.33	403,358.44	338.93	403,697.38
12	333.33	403,697.38	339.50	404,036.87

September 15, 2016

The table below shows the contingent interest owed for different AFRs and different rates of home price appreciation for the same purchase of an $800,000 home using a $400,000 second mortgage.

Contingent Interest

Average Annual Home Price Appreciation	**AFR at time of purchase** 1%	2%	3%	4%	5%	6%
-1%	0	0	0	0	0	0
0%	0	0	0	0	0	0
1%	20,456	44,240	44,240	44,240	44,240	44,240
2%	20,456	44,240	69,871	98,167	98,167	98,167
3%	20,456	44,240	69,871	98,167	129,402	165,879
4%	20,456	44,240	69,871	98,167	129,402	165,879
5%	20,456	44,240	69,871	98,167	129,402	165,879

No contingent interest due
Some contingent interest due
Full contingent interest due

The table below shows the effective interest rate over the life of the mortgage for the same combinations of AFRs and home price appreciation.

Effective Interest Rate for Second Mortgage

Average Annual Home Price Appreciation	**AFR at time of purchase** 1%	2%	3%	4%	5%	6%
-1%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
1%	1.0%	2.1%	2.5%	3.0%	3.5%	4.0%
2%	1.0%	2.1%	3.1%	4.2%	4.7%	5.2%
3%	1.0%	2.1%	3.1%	4.2%	5.3%	6.4%
4%	1.0%	2.1%	3.1%	4.2%	5.3%	6.4%
5%	1.0%	2.1%	3.1%	4.2%	5.3%	6.4%

Borrower pays ½AFR.
Borrower pays between ½AFR and AFR.
Borrower pays full AFR with compounded interest

Why is it called a contingent-interest mortgage?
Upon the sale of the home (or external refinancing) the borrower owes an amount of interest that is contingent on home price appreciation.

September 15, 2016

What is the maximum loan term?

The maximum loan term is 30 years, but may be shorter. It must match the term of the first mortgage.

The principle and outstanding interest are due on the earliest of:

- The date of the sale or third party refinance of the mortgaged property.
- The date on which the property is no longer the faculty member's principal residence.
- The date of retirement.
- The date upon which employment with the College is terminated for any reason other than retirement. Termination does not include a leave of absence taken with the approval of the College.
- The date at which the loan terms are reached (outlined in the terms of the mortgage documents).

What is the maximum amount the College will loan? (note that this is on top of the TIAA 1st mortgage)

For homes outside of the Town of Wellesley, the College will loan up to the lesser of $400,000 or 50% of the "applicable value" of a home. (The "applicable value" is the lesser of the home price and the appraised value of the home.) To enable faculty members to live in close proximity to campus, the College will loan up to the lesser of $550,000 or 50% of the "applicable value" of a home in Wellesley (ZIP codes 02457, 02481, 02482).

The table below provides examples of how the loan size varies depending on location and purchase price. Please be aware that the amount of the first mortgage will be determined by TIAA based on their underwriting process and the borrower's individual circumstances.

Location	Purchase Price/ Appraised Value	Maximum Wellesley College Loan	% of Purchase Price Financed by the College
Beyond Wellesley	$600,000	$300,000	50%
Beyond Wellesley	800,000	400,000	50%
Beyond Wellesley	1,000,000	400,000	40%
Wellesley	$600,000	$300,000	50%
Wellesley	800,000	400,000	50%
Wellesley	1,000,000	500,000	50%
Wellesley	1,100,000	550,000	50%
Wellesley	1,200,000	550,000	46%

Note that 1st mortgages must generally be super conforming or **conforming**, which means that they cannot exceed **$517,000** or $417,000 respectively, if they are to be paired with a second mortgage. Thus some of the above examples imply a larger down payment than 5% in order to purchase homes with a price above $965,000 outside of Wellesley and $1.12 million in Wellesley.

Does Wellesley have a down payment requirement?

September 15, 2016

The College does not have a down payment requirement. TIAA Direct will write mortgages with down payments as low as 5%, although some borrowers may be required to provide a larger down payment. The down payment cannot come from the Wellesley loan. Please note that any down payment assistance, often referred to as a gift by TIAA, must be from a relative of the borrower or co-borrower.

September 15, 2016

What is the current Applicable Federal Rate (AFR)?
The AFR can be found at http://apps.irs.gov/app/picklist/list/federalRates.html. The Annual Long Term Rate in effect at the time of the closing is the rate used.

Is a conventional first mortgage required in order to receive mortgage assistance from Wellesley?
Yes. The Faculty Mortgage Program is a second mortgage program only.

Must I use TIAA Direct for the first mortgage?
Yes. TIAA Direct has special underwriting guidelines for mortgages to Wellesley faculty that account for the College's second mortgage and provide favorable terms. The College's relationship with TIAA Direct also reduces the administrative burden of the program.

What happens if I don't qualify for a mortgage at TIAA Direct?
In general, Wellesley faculty members are attractive potential borrowers. TIAA Direct understands the economic certainty provided by tenure and will be underwriting a relatively small portion of the home's value. It is very important to speak to a TIAA Direct representative about your financial situation and to apply for pre-approval for a mortgage under the College's program before you begin the home search process, and certainly before you make an offer to purchase a new home.

One reason that TIAA Direct may not write a first mortgage is that an applicant's monthly debt service exceeds 43% of monthly income, a circumstance that could arise because of existing student loan indebtedness or a mortgage on a second home. The new federal rule was put in place to avoid overburdening borrowers. Although the College is not strictly bound by the new rules for the second mortgage, they are sensible. And in practical terms, participation in the program requires obtaining a first mortgage from TIAA Direct. A faculty member could look for a less expensive home or defer home purchase until existing debt has been paid down. A faculty member should consult with TIAA Direct, the College's financial planning resources or other resources available to the faculty member, about ways to facilitate a transition.

What if I already have a mortgage with the College and want to switch to a bank or mortgage company?
You may arrange for a new, refinancing mortgage with a bank or mortgage company and use the proceeds to pay off the College in full at any time.

If I already have a mortgage with a bank can I refinance into the College program?
No. The program is available only for the purchase of a home that is new to you. Note that those with pre-existing college mortgages are eligible to refinance into the new mortgage program. Please contact the AVP for Finance and Controller for more information.

Are the monthly interest payments tax-deductible?
Yes, subject to certain limits. In the tax year interest payments are made they are reported on an IRS Form 1098 Mortgage Interest Statement. Any deferred interest is not tax-deductible until the tax year it is actually paid.

Are there any other tax consequences to borrowing from the College?

If the effective interest rate is less than the AFR, the IRS considers the difference between the effective interest rate and the AFR to be imputed income. This imputed income will be reported on IRS Form W-2 to the faculty member as income in the year that the mortgage is paid off. It will also be reported as mortgage interest paid on a Form 1098 Mortgage Interest Statement in the same tax year. The faculty member is responsible for any and all applicable taxes related to imputed income.

In addition, imputed income is subject to normal Social Security and Medicare (FICA) taxes. Although Federal and State taxes will *not* be withheld, the employee portion of the FICA tax for the imputed income will be withheld from their regular pay. The College is responsible for the employer portion of the applicable FICA tax.

Is there a fee to participate in the program?

The fee to participate is $1,000, which is due to Wellesley College with the mortgage application. The fee covers the legal costs incurred by the College to issue a mortgage.

How can I estimate closing costs?

Your attorney, or the College's if you choose to use our attorney, is best positioned to estimate the costs associated with the loan.

Does the College require that I use a specific attorney?

You may use any real estate attorney you choose. Many Wellesley borrowers choose to use the same firm as the College, Kertzman and Weil, although in that case, the attorneys represent the College.

Is there a penalty if the mortgage is paid off before the maturity date?

In order to make the administration of the program manageable, no partial payments will be accepted for the second mortgage. Note that the entire second mortgage can be "paid in full" at any time without penalty, either upon sale of the home or by refinancing.

If capital improvements are made to the property, how does this affect the deferred interest?

Not directly. Capital improvements may affect the price of the house when the loan is paid off, however and thus may have an impact on the amount of contingent interest paid. Although the value added by capital improvements benefits the faculty member by increasing equity in the home, the sale price of the home is a factor in determining the deferred, contingent interest that is owed to the College, which is capped at AFR. Home price appreciation that is due to capital improvements by the homeowner is treated the same as home price appreciation due to overall market escalation.

What happens if I retire?

Payment on the second mortgage is due on the date of retirement from the College. Borrowers will be expected to provide a plan for payoff at the time a retirement date is set. Payoff can be accomplished by refinancing, using other assets, or selling the home.

What happens in the event of the termination of my employment with the College for any other reason than retirement?

Your loan shall, at the option of the College, immediately become due and payable after notice is provided to you. Termination does not include a leave of absence taken with the approval of the College. Payoff can be accomplished by refinancing, using other assets, or selling the home.

Are there costs to the faculty member associated with a payoff?
There is no prepayment penalty or any other costs associated with paying off the mortgage.

Who is eligible?
Eligibility for tenured faculty begins at the end of the month in which tenure is approved by the Board of Trustees. Physical education faculty with long-term renewable five- or six- year contracts hired on or before July 1, 2009 and senior administrators in positions equivalent or higher than vice president are also eligible for the program.

Must I live in the home?
Yes. The home must be your primary residence for the life of the loan. If you travel during a sabbatical, but intend to return, the home would still be considered your principal residence.

How does a faculty member apply for a faculty mortgage?
A faculty member should contact the Controller's office to initiate the process and once qualification is confirmed, the borrower will provide the Controller's office with initial information (including a timeframe) so that TIAA Direct can contact the faculty member to begin the application process. Note that this process may take several days, and is not instantaneous. Please plan accordingly, and ahead.

Do I need to speak to TIAA Direct before I begin looking at homes?
It is strongly recommended that you speak to a TIAA Direct representative to understand the price range of homes that you and your family can afford using this program. It is imperative that you obtain pre-approval for a mortgage before you make an offer to purchase a home.

How has the application process changed under the 2015 program?
The application process requires the coordination of information from the Controller's office, the borrower and TIAA Direct. In the past, the turnaround time for commitment letters and closing was short. As a result of regulatory changes and the involvement of TIAA Direct, the application process now takes longer. We have tried to ensure that the application process takes no longer than an ordinary borrower would experience at a commercial bank, but the process will now take longer than under the old mortgage program. In addition, the College no longer has the ability to expedite aspects of the process as sometimes happened in the past. **Therefore, it is strongly recommended that you initiate the process with TIAA Direct <u>before</u> you search for a home and certainly before you make an offer or sign any purchase and sale agreement.**

September 15, 2016

You are responsible for planning ahead and allowing sufficient time for all the steps of the process.

What steps can I take to make my home search and purchase go smoothly?

Buying a home is a major investment that will have a lasting impact on your finances. There are several steps you can take to help ensure a smoother process and reduce financial risk:

- Speak to TIAA Direct before you begin you home search to understand the size of mortgage you are likely to qualify for using this program. Not all borrowers will qualify for the maximum loan amounts in the College's program because of individual financial circumstances.
- In addition to offering guidance on the size of mortgage you will qualify for, TIAA Direct can suggest steps that may improve your credit score which could increase your borrowing capacity.
- You are strongly cautioned not to waive the standard mortgage contingency in any offer you make to purchase a new home. You may receive advice to the contrary from real estate brokers and other "experts," but you should recognize that they may not have your best interest at heart. Until you are approved for a loan by TIAA, which happens once your offer has been accepted by the seller, there is no guarantee that you will be able to obtain a mortgage and complete the transaction, which may put your deposit at risk. A mortgage may not be approved for a number of reasons. Obtaining a pre-approval commitment from TIAA is the best way to minimize this risk, but even then some risk remains, which is why it is very important not to waive the financing contingency.

How much time should I allow for the mortgage process?

Financing a home requires significant documentation and numerous steps. The amount of time from the initial contact with the Controller's office until the closing date of the home purchase will vary and be contingent on each borrower's situation, the type of mortgage and lending processing. **A good rule of thumb, however, is to assume that a typical mortgage loan will take around six to eight weeks to close from the formal application date for obtaining a mortgage on a specific property on which a purchase and sale agreement has been signed.** The key ingredient to a quick turnaround is to have a completed application as soon as possible.

Is there anything I can do to speed the application process?

The key to a speedy application process beyond submitting a mortgage application (Form 1003) is to have ready the following items;

1. Two years' W-2s and/or 1099s
2. Tax returns for the last two years
3. Bank statements – usually up to six months
4. Proof of origination for the cash down payment
5. Signed Purchase and Sale Agreement
6. Letter of explanation (LOE) for any negative entries on your credit report.

How can I estimate my monthly payment?

TIAA Direct will be able to provide guidance on the estimated monthly cost of the combined loans.

Further Questions?
Please contact the AVP for Finance and Controller, Melissa Fletcher (X2247), who is responsible for this program.