August 1, 2016

Faculty Mortgage Program for the Purchase of a New Home
Plan Description

Program Objectives

Attracting and retaining world-class faculty members is critical to Wellesley's mission. In recognition of the high cost of housing in the Boston area, Wellesley College has two programs aimed at helping faculty secure suitable housing within a reasonable distance of the campus. These programs work together to help meet faculty members' housing needs over the course of their careers. It should be noted that housing programs are separate from the College's benefits program and are not automatically granted.

The home rental program includes approximately 100 dwellings of different types—roughly 60% apartments and 40% houses—for members of the faculty and certain administrative officers. In order to facilitate homeownership for tenured faculty, the College offers a special mortgage program for the purchase of a home proximate to Wellesley. Towns and cities included in the program offer a wide range of housing options.

The College's mortgage program is designed to make the purchase of a home as affordable as possible for eligible borrowers during their employment at the College. For most borrowers, the College mortgage program will enable them to purchase a higher priced home sooner than they likely can finance through a mortgage obtained on the open market. This likely makes the mortgage program particularly attractive. But since individuals' circumstances vary, the College's program may not make sense or be best for everyone who qualifies for it. Prospective borrowers who are considering the College's mortgage program are thus advised to consider whether an outside mortgage may better fit their circumstances and meet their needs. Over the years, many faculty members have chosen to use mortgages obtained in the outside market, rather than the College's mortgage program, to finance the purchase of their homes.

Summary

Wellesley's Faculty Mortgage Program combines two distinct mortgage loans for the purchase of a new home. Paired with a first mortgage obtained through TIAA Direct, the College offers a tax-efficient, minimum interest, second mortgage program designed to assist recently tenured faculty in purchasing a home in the local housing market. Per the terms of the program, it is not possible to obtain the second mortgage without also obtaining a first mortgage from TIAA. In addition, the length of the term in the College mortgage loan must be the same as the length of the term in the TIAA Direct mortgage.

The first mortgage must be obtained from TIAA Direct®. Through the program, the down payment can be as low as 5%, and TIAA offers both fixed and variable/adjustable loans, with varying terms, at competitive rates. Information regarding TIAA Direct's borrowing program is available at: https://www.tiaadirect.com/public/banking/borrow/purchase.

The interest rate of the second mortgage, which is loaned by the College, is the Annual Long-Term Applicable Federal Rate (AFR), the lowest interest rate allowed by the IRS without tax consequences) in effect in the month in which the rate is locked for the TIAA loan.

Eligibility
Faculty must be tenured to be eligible for the program. Eligibility for faculty begins at the end of the month in which tenure is approved by the Board of Trustees (typically at the February meeting). 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.

First Mortgage
The Faculty Mortgage Program requires that borrowers obtain a first mortgage from TIAA Direct. The exclusive relationship with TIAA Direct provides a number of benefits to the faculty members and the College.

- The College has collaborated with TIAA Direct to ensure that the program can offer low initial down payments and low monthly payments.
- TIAA Direct has designated and trained staff to work with Wellesley faculty members.
- Our relationship with TIAA Direct also reduces the College's administrative costs of running the program.
- TIAA Direct offers a variety of mortgages; faculty members may choose the mortgage that best fits their circumstances from among those that they qualify for, as determined by TIAA. Typically this first mortgage will be a "conforming" mortgage that cannot exceed $517,000 if it is to be combined with the second mortgage from the College that together comprise the College mortgage program. While non-conforming or "jumbo" loans may be possible in certain circumstances, limitations apply and eligibility will depend on individual circumstances.

<u>Second Mortgage</u>
Qualifying Residences
The Faculty Mortgage Program is only applicable to the purchase of a faculty member's principal residence. "Principal residence" is defined in Section 121 of the Internal Revenue Code, using a standard that incudes among other factors, where the faculty member resides most of the time, the address listed on the faculty member's tax returns, voter registration, driver's license, and automobile registration, the faculty member's billing address, and the faculty member's principal dwelling throughout the academic year.

The home must be located in one of the cities and towns listed in Appendix 1. Cities and towns are included if all or part of the municipality is within a 10-mile radius of Green Hall. Together, these towns cover 589 square miles and include a wide range of housing alternatives.

Single-family residences, townhomes and condominiums qualify. Vacation homes, investment properties, and income-producing (rental) properties are *NOT* qualifying residences.

The program is available only for the purchase of a home that is new to the faculty member. Existing residences already owned by the faculty member, including those financed with an outside lender, may not be refinanced using the program.

Maximum Second Loan Amount

For homes outside the Town of Wellesley, the College will loan the lesser of $400,000 or 50% of the “applicable value” of a home. The “applicable value” is up to the lesser of purchase price or the value determined by the first mortgage lender’s appraisal.

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 Frequently Asked Questions (FAQ) section of the website provides examples of the maximum loan size. http://www.wellesley.edu/finance/mortgage

Interest Rate

The maximum interest rate on the second mortgage is the Annual Long-Term Applicable Federal Rate (AFR) during the month in which the rate is locked for the TIAA. This rate is the lowest rate that is allowed by the IRS without additional tax consequences and is fixed for the life of the mortgage.

The current “Annual Long-Term Applicable Federal Rate” can be found at http://apps.irs.gov/app/picklist/list/federalRates.html.

The second mortgage is an interest-only loan. **During the life of the loan, monthly payments are minimized, and will be equal to one half of the AFR in effect when the loan is closed**. At the time of loan repayment (see below, typically when the house is sold or refinanced), the principal amount borrowed is due, and any contingent interest also becomes due. The effective total interest paid over the life of the loan will equal one half AFR plus contingent interest. Contingent interest is based on the appreciation of the value of the property over the life of the mortgage. The resulting total effective interest rate is guaranteed to be no greater than the AFR and no less than ½ the AFR (which has been paid monthly). The relationship between home price appreciation and contingent interest is as follows:

Average Annual Home Price Appreciation	Contingent Interest	Effective Total Interest Rate
<0%	0%	½ AFR
0% - ½ AFR	Avg Annual Rate of Home Price Appreciation	½ AFR + Avg Annual Rate of Home Price Appreciation
>½ AFR	½ AFR	AFR

It is important to note that if the resulting 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 to the faculty member, which is then treated as if it were paid back to the College as interest. This imputed income will be reported on IRS Form W-2 to the faculty member in the year that the mortgage is paid off. The imputed interest payment will 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. The faculty member should consult their financial advisor regarding any tax implications.

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 in the year in which the mortgage is paid off. The College is responsible for the employer portion of the applicable FICA tax.

Term of Loan
The term of the first and second loan must match.

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

- The date of sale of the mortgaged property, or the refinancing of the second mortgage.
- The date on which the property is no longer the faculty member's principal residence, as determined by the College in its sole discretion.
- 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 expiration of the second mortgage at the end of the term as specified in the loan. The second mortgage may have a term up to 30 years, but must match the term of the first mortgage obtained from TIAA.

Right of First Refusal
The College maintains the right to require the borrower to enter into an agreement with the College whereby the owner will not sell or convey the property without first offering to sell the premises to the College at fair market value. The College only intends to pursue this agreement if the house is within walking distance to the College.

Other Terms

1. Borrowers must qualify for a first mortgage from TIAA Direct to participate in the College program. Typically this loan must be "conforming" if it is to be combined with a second mortgage, which generally means that the first mortgage from TIAA cannot exceed $517,000.
2. The College is not involved in any underwriting decisions on the first loan, which are the responsibility of TIAA Direct, and which are subject to state and federal mortgage regulations. Further, the College has no control over the length of time required to close on the first mortgage with TIAA, although the College is committed to providing any information that TIAA requires from the College in order to complete the underwriting in a timely manner.
3. Borrowers must make payments on the first mortgage directly to TIAA Direct. Second mortgage payments will be made by Wellesley College payroll deduction.
4. The second mortgage loan, at the faculty member's request, will be made jointly to the faculty member and his or her spouse. Payment of the second mortgage, however, is still by payroll deduction from the faculty member.
5. The loan process is subject to all standard lending practices, including but not limited to debt, income, and credit verification and consideration of other underwriting factors as set forth in Appendix 2.
6. The borrower must notify the College immediately if the first mortgage is refinanced.
7. The borrower must notify the College immediately of changes in any circumstance that could result in the property not being the faculty member's principal residence.
8. There is no provision for refinancing the second mortgage with the College.
9. Borrowers are free to refinance their homes with an outside lender and repay the College's second mortgage in full at any time without penalty, at which time contingent interest will be due. No partial repayments on the second mortgage will be accepted.
10. Due to the structure of the mortgage program, it is likely that borrowers may not be able to obtain home equity lines of credit or additional home equity loans in the future. Any decision by TIAA to subordinate its interest in the mortgaged property is at the discretion of TIAA and subject to the terms of the first mortgage.
11. When calculating the contingent interest owed at the end of the mortgage, no adjustment will be made to the original purchase price to reflect improvements made during the period of ownership.

Application and Approval Process

Prospective borrowers should review program information on the College's website and then contact the Controller's office to:

1. Verify that the borrower qualifies for the College's program.
2. Determine the maximum amount of the second loan the College may provide.
3. Sign a consent which will allow TIAA Direct to share certain information gathered during the underwriting process with the College.

The borrower will provide the Controller with a timeframe in which it will be best for a TIAA Direct representative to contact them. TIAA Direct representatives are familiar with Wellesley's program, and will help prospective borrowers to understand the features of the program. They will be able to evaluate the borrower's credit and debt capacity and explain the application process.

If the applicant intends to move forward, they should initiate the application process for the first mortgage with TIAA Direct. The applicant can obtain a pre-approval letter from TIAA Direct, which remains valid for a certain period of time and under certain circumstances, and with a copy of the approval letter, can obtain a similar letter from the Controller's office, indicating the approved amount for the second loan. These letters may be used in negotiations with a seller. Since this letter may be written prior to a formal completed loan application, neither should be interpreted as final approval for a specific loan amount. Borrowers are cautioned against waiving the standard mortgage contingency clause when making an offer on a home, and should not make such an offer without a formal pre-approval that remains valid.

A mortgage applicant must complete a formal mortgage application, if he/she has not already done so with TIAA Direct. Completed applications with TIAA Direct will be shared with the Controller's office for review; this is required to obtain a second mortgage from the College. A copy of the first mortgage application will be used as part of the second mortgage application. The application fee for the College second mortgage is $1,000 and is due at this time.

TIAA Direct will notify the College when they have approved the first mortgage. The College has no control over the time it takes for TIAA to approve a first mortgage. If approved, the borrower will receive approval notification from TIAA Direct and the College.

Following negotiation of the home purchase, the borrower or borrower's representative must submit a copy of the signed Purchase and Sale agreement to TIAA Direct and the College. The College should also be notified of the size of the second mortgage. The borrower may have some discretion as to the relative size of the first and second mortgages, and TIAA and the College will describe available options and provide materials to illustrate the financial impact of a given mix between these loan types. The final decision as to the proportion of first and second mortgage is the responsibility of the borrower, who may wish to obtain outside financial advice.

The applicant will then receive a mortgage commitment letter from the College. The letter indicates the amount of the second mortgage and the terms of the loan.

A copy of the commitment letter goes to the College attorney and also to the applicant's attorney, if the College is provided with that information. The College attorney will respond with a letter to the applicant and the applicant's attorney detailing documents needed for the closing.

This program description provides general terms and conditions of the College's mortgage program for the purchase of a new home, which may be amended by the College at any time. The specific terms of the program are contained in the loan agreements and other legal documents signed by the borrower at closing. In the event of any discrepancy between those signed documents and this program description, the signed legal documents shall govern.

Terminating the Loan

In anticipation of paying off the second loan, a borrower should visit the Controller with a copy of the signed Purchase and Sale Agreement for the sale of the home (or, in the case of a refinance, a qualifying appraisal), and the Controller will calculate the contingent interest owed and provide information about additional documentation needed to settle the loan.

The Frequently Asked Questions (FAQ) section of the website provides examples of the amount of contingent interest and the imputed income that a borrower could anticipate under different home price appreciation scenarios. http://www.wellesley.edu/finance/mortgage

Program Oversight
A committee consisting of the VP of Finance and Administration and Treasurer (chair), the Chief Investment Officer (or her designate), the Dean of Faculty Affairs, the Chair of the Faculty Benefits Committee, the AVP of Finance and Controller (non-voting) and Director of Benefits (non-voting) are responsible for recommending program changes to the Trustees. The same group will review requests for exceptions to the policy. Reasons to request exceptions to the policy include material, unforeseen changes in family or financial circumstances and retirement plans. In order to request an exception, applicants and borrowers should contact the Controller regarding information needed in the review process.

The size of the program is capped at $35 million of College funds used to loan second mortgages. The size of the program will be reviewed when it reaches $32 million.

The program is subject to periodic review to ensure that it meets the College's objectives and is being operated in accordance with current lending regulations. The Faculty Benefits Committee, Finance Office or the Investment Office can request a review of specific aspects of the program at any time. However, the terms of any outstanding loans will not be changed, and any changes to the program must be approved the College's Trustee Investment and Finance committees.

Appendix 1
Qualifying Municipalities

Arlington	Millis
Ashland	Milton
Belmont	Natick
Boston	Needham
Brookline	Newton
Cambridge	Norfolk
Canton	Norwood
Concord	Sherborn
Dedham	Southborough
Dover	Sudbury
Framingham	Walpole
Holliston	Waltham

Hopkinton	Watertown
Lexington	Wayland
Lincoln	Wellesley
Marlborough	Weston
Medfield	Westwood
Medway	

Appendix 2

Underwriting Factors and Procedures

I. Underwriting Factors

1. Current or reasonably expected income or assets (other than the value of the residence the borrower intends to secure the loan) that the borrower will rely on to repay the loan.

2. Current employment status.

3. Monthly mortgage payment for the loan.

4. Monthly payment on the first mortgage from TIAA and any other loans secured by the same property.

5. Monthly payments for property taxes and other required costs related to the property such as homeowner's association fees.

6. Monthly payments for other debts, including alimony and child-support obligations.

7. Monthly debt-to-income ratio, to be calculated using the total monthly payments on debt obligations listed above as a ratio of gross monthly income.

8. Credit history.

9. Other factors as the College deems appropriate.

II. Underwriting Procedures

1. The College will, where necessary, ask the borrower to provide documentation from a third party to verify that the information that the College relies on for underwriting is accurate.

2. The College will require the borrower to consent to a shared application and documentation process with TIAA such that TIAA would provide the College with information gathered during the underwriting process.

3. The College will require the borrower to provide it with a copy of information TIAA provides the borrower as part of its underwriting process.