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Faculty Mortgage 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 more than 100 dwellings of different types—61 apartments and 43 houses—for members of the faculty and certain administrative officers. In order to facilitate homeownership for tenured faculty, the College offers deferred-interest mortgages for the purchase of homes in towns proximate to Wellesley. Towns and cities included in the program offer a wide range of housing options.

Summary

Wellesley's Faculty Mortgage Program is a tax-efficient, minimum interest, second mortgage program designed to assist recently tenured faculty in purchasing a home in the local housing market.

The interest rate is the Annual Long-Term Applicable Federal Rate (the lowest interest rate allowed by the IRS without tax consequences) in effect when the mortgage is closed.

This mortgage is offered to supplement a first mortgage obtained from TIAA Direct®. Information regarding TIAA Direct's borrowing program is available at: <https://www.tiaadirect.com/public/banking/borrow/purchase>.

Eligibility

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.

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 resources who thoroughly understand the Wellesley program to work with 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. Typically this first mortgage will be a "conforming"

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mortgage that cannot exceed \$517,000 if it is to be combined with a second mortgage. While non-conforming or “jumbo” loans may be possible in certain circumstances, limitations apply and eligibility will depend on individual circumstances.

Second Mortgage

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 includes 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. Existing residences 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) in the month the mortgage is closed. 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. Monthly payments are equal to one half of AFR in effect when the loan is closed. At the time of loan repayment, when the principal amount

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borrowed is due, the effective total interest paid 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 effective interest rate is guaranteed to be no greater than the AFR and no less than $\frac{1}{2}$ the AFR. The relationship between home price appreciation and contingent interest is as follows:

<u>Average Annual Home Price Appreciation</u>	<u>Contingent Interest</u>	<u>Effective Total Interest Rate</u>
<0%	0%	$\frac{1}{2}$ AFR
0% - $\frac{1}{2}$ AFR	Avg Annual Rate of Home Price Appreciation	$\frac{1}{2}$ AFR + Avg Annual Rate of Home Price Appreciation
> $\frac{1}{2}$ AFR	$\frac{1}{2}$ 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.

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

- The date of sale of the mortgaged property.
- The date on which the property is no longer the faculty member's principal residence.
- The date on which the borrower reaches age 70, if retirement occurs before the borrower's 70th birthday. The date of retirement, if retirement occurs after age 70.
- 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.
- 30 years after the loan was originated.

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

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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.

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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. Borrowers must pay first mortgages directly to TIAA Direct. Second mortgage payments will be made by Wellesley College payroll deduction.
3. The mortgage loans, 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.
4. 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.
5. The borrower must notify the College immediately if the first mortgage is refinanced.
6. 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.
7. There is no provision for refinancing the second mortgage.
8. 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.
9. 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 ensure and verify the following.

1. Borrower qualifies for the program.
2. To determine the maximum amount of second loan the College may provide.
3. To 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 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 application, it should not be interpreted as final approval for

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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 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. Applications for a College mortgage will be submitted at the same time or shortly thereafter the application for the first mortgage is made to TIAA Direct. A copy of the first mortgage application will be used as part of the second mortgage application. The application fee for the College mortgage is \$1,000 and is due at this time.

TIAA Direct will notify the College when they have approved the 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 required.

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.

Terminating the Loan

In anticipation of paying off the loan, a borrower should visit the Controller with a copy of the signed Purchase and Sale Agreement for the sale of the home and the Controller will calculate the contingent interest owed and share 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.

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The size of the program is capped at \$35 million. 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 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.

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.

TIAA Direct® is a division of TIAA-CREF Trust Company, FSB. Member FDIC. Equal Housing Lender (house bug)

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