

San Mateo County Community College District Employee Second Loan Application Form

1. Employment Information:

Employee ID	G
Employee name	
Job title	
Employment start date	
Full Time / Part Time	
Campus location	
Department	

2. Second loan reservation/application:

<< Check one box only >>

2.1	I am not ready to purchase my home at this time and want to make a second loan reservation. (if this box is checked, skip sections 3 to 5 and go to section 6)	<input type="checkbox"/> Loan amount: \$ _____
2.2	I am ready to purchase my home and hereby apply for the second loan offered by SMCCCD. Additional application information as listed below.	<input type="checkbox"/> Loan amount: \$ _____

3. Second loan eligibility information:

FICO score - employee	
FICO score - co-borrower (if applicable)	
First time home buyer? (Yes or No)	

4. Potential new home and funding information:

Property' full address	
Property type - (Single house/town house/condo)	
Purchase price	\$
First loan amount	\$
First loan type - Check one option -->	Conventional <input type="checkbox"/> FHA <input type="checkbox"/>
Second loan amount - Check one option -->	\$50,000 <input type="checkbox"/> Over \$50,000^{*1} <input type="checkbox"/>
Employee available cash towards purchase (all funds available for down-payment, closing cost and any additional contingency funds required by the first lender)	\$

5. Agents contact information:

Contact person/phone/email

Real estate company name: _____	
First lender bank name: _____	
Escrow company name: _____	

6. Employee's acknowledgement and application request:

I hereby acknowledge the guidelines as set out in the SMCCCD employee second loan program^{*2} and agree to follow the rules and conditions contain there in.

Employee's Signature

Date:

^{*1} Employee loan amount more than \$50,000 require additional approval calculation. Contact District Accounting Department

^{*2} SMCCCD Employee Second Loan Program Board Resolution attached.

BOARD REPORT NO. 16-2-108B

TO: Members of the Board of Trustees
FROM: Ron Galatolo, Chancellor
PREPARED BY: Ray Chow, Chief Financial Officer, 358-6742

APPROVAL OF REVISION OF EMPLOYEE SECOND LOAN PROGRAM

For the past fifteen years, the District has provided a second loan program in order to help employees purchase a home in the Bay Area. To date, the District has made 29 loans; 12 of these loans have been paid back for a total return to the District of \$142,172, which represents a 17.53% return on investment. Currently, the District's portfolio of loans is valued at \$960,523, or 17 outstanding loans, and all are for first time homebuyers. There is a balance of approximately \$2.2 million for loans to employees who are first time homebuyers, and total available for first time and non-first time primary residence homebuyers is \$4.2 million.

In October 2014, the Board approved the expansion of the program to (1) increase the maximum loan amount to \$100,000 and (2) include home buyers who are not necessarily first time home buyers, but who are purchasing a primary residence in the Bay Area (defined as within a 50 mile radius of the District). First time home buyers remain the program's priority.

In spite of this expansion of the program, approximately \$4.2 million remains unallocated. Staff believes that because of continued increase in the costs of home ownership, the \$100,000 maximum loan amount is insufficient to help some potential homebuyers. For example, in San Mateo County, the median single family home costs \$1.2 million, which implies a down payment of \$240,000 or more. For an employee who has saved \$100,000, even the District's matching program would not be enough to help purchase the median home.

Staff proposes to increase the maximum loan amount to \$150,000, subject to the existing rules which require an employee who wants to borrow more than \$50,000 to: (1) provide a dollar-for-dollar down payment match for the amount above \$50,000 and (2) purchase the home with at least a 20% down payment. Staff continue to believe that the match and down payment requirements reduce the District's exposure to default risk in the event of a market downturn. No additional funds would be allocated to support this change.

The other terms of the loan program, which remain unchanged, are:

- **Fifteen** year loan for second loans that are paired with FHA First Loans and **ten years** for conventional loans; restricted to owner-occupied homes.
- Loans are available for all regular employees and to adjuncts who teach 40% of a full time load and have been continuously employed for three years or six semesters.

- Employees who currently are under federal or state mandated wage garnishment or who are involved in progressive disciplinary procedures are not be eligible to participate in the program.
- The program prohibits the use of loans that have negative amortization, pre-payment penalties, and shorter term interest-only options. Variable rate loans are normally not allowed without the express written consent from the District.
- Each loan will charge interest and/or shared appreciation, depending on the restrictions of the first loan.
- The ten year loan will be interest and payment free for five years; interest in years six through ten will be calculated at the 11th District Rate of Funds (currently .668) plus 3%, payable monthly. Interest will be calculated based on a 25 year payback, which means there will be a balloon payment owed at the end of the ten year period. When the employee sells or refinances the home, leaves District employment or at the end of the ten year term of the loan, the employee is required to pay a “shared appreciation payment”^{**} that is calculated as:
 - ✓ Establish the sale or appraised value of the home.
 - ✓ Subtract from that amount the original sales price and the cost of improvements paid by the employee.
 - ✓ Multiply that by the District’s share which is calculated as: District loan amount divided by purchase price.
- Second loans that are paired with FHA first loans must be fifteen years in length and they cannot charge both interest and shared appreciation. Therefore, for years one through five, the loan will be an interest only loan, based on the 11th District Rate of Funds plus 3%. Interest in years six through fifteen will be calculated based on a 25 year payback; there will be a balloon payment at the end of the 15 years.
- The loan can be called or converted to the current market rate (at the District’s discretion) if the employee leaves College District employment.
- Employees must meet the following program underwriting matrix for loans:

FICO Score range*	High FICO Score range*	Employee Share of Down Payment Required	CLTV including SMCCD Loan
640	659	20%	80%
660	679	15%	85%
680	719	10%	90%
720	850	5%	95%

**The payment behavior of consumers in relation to FICO scores has been tracked very closely by the three major credit agencies. For example, there is a 1 in 40,000 chance that a borrower with a 720+ FICO score will be late or default on their payment versus a 1 in 4 chance for borrower with a 580 or less FICO score.*

- For loans greater than \$50,000, the employee must provide a dollar for dollar match for amounts over \$50,000 and put at least 20% down.

RECOMMENDATION

It is recommended that Board adopt the changes in the loan program described above.

^{**}The shared appreciation payment is more fully described in the Shared Appreciation Agreement.