

## The Zero Interest Supplemental Home Loan Program (ZIP-SHLP) Overview

[tiny.ucsf.edu/zip](http://tiny.ucsf.edu/zip)

*The Zero Interest Program (ZIP) SHLP provides secured subordinate financing with no monthly payments and zero percent interest with a forgivable feature.*

### Summary

Departments may support new recruits into Academic Senate titles with a second mortgage using the UC Supplemental Home Loan Program (SHLP). A Supplemental Home Loan Program is supplemental to the primary Mortgage Origination Program (MOP) loan and is designed to assist junior faculty in the purchase of a first home by decreasing the down payment required for the home purchase. (The maximum combined loan to value ratio remains 90% for combined financing above \$2.37 million.) While candidates can borrow more to reduce the down payment, the additional debt does increase the monthly mortgage payment.

There are three forms of Supplemental Home Loan Program loans:

- Supplemental Home Loan Program (SHLP)
- Centrally-Funded Supplemental Home Loan Program (CF-SHLP)
- Zero Interest Program (ZIP or ZIP-SHLP)

Candidates can borrow 90% of the home's value under the Mortgage Origination Program, and up to an additional 5% under the Supplemental Home Loan Program, for combined financing up to 95% of the purchase price. Departments fund SHLP loans for their recruits from their own budgets. Limited funding from the UC Office of the President is available under the Centrally-Funded Supplemental Home Loan Program (CF-SHLP) for departments who have recruits who can benefit from a SHLP but do not have funds available for that purpose. The Zero Interest Program (ZIP) SHLP must also be funded by the department, and functions just as the SHLP but with no monthly payments and zero percent interest with a forgivable feature (see below). There is no centrally-funded ZIP option. ZIP loans are defined as non-Qualified Mortgages and come with increased risk to the university and tax implications for the borrower. A ZIP loan can also be subordinate to an outside loan, subject to the program and primary lender's guidelines.

At the end of the ZIP loan term, the outstanding principal balance (original principal balance, less any forgiven amounts) would be fully due and payable. Similar to the other SHLP products, using the zero interest loan as subordinate to the primary mortgage under the Mortgage Origination Program, allows participants to finance up to 95 percent of a home purchase.

### The Zero Interest SHLP (ZIP SHLP) Parameters

- Maximum Loan Amount: \$150,000
- Minimum Loan Amount: \$10,000
- Interest Rate: Zero percent interest
- Payment: No monthly payment
- Loan Term: 10 to 11 years depending on the funding date.
- Lien Position: 2<sup>nd</sup> or 3<sup>rd</sup> position (Departments may provide both a SHLP and ZIP-SHLP.)
- Transaction Type: Purchase (same property requirements as the MOP)

### **Forgivable Feature**

Ten percent (10%) of the original principal of the ZIP loan may be forgiven each year with the annual written endorsement of the department chair or equivalent designee, provided that the participant:

1. Continues to be employed as an eligible participant (i.e. maintains an appointment in a Ladder Rank, In Residence or Clinical X title);
2. is in good standing; and
3. is not in default on any term or condition of a Program loan.

*Any loan forgiveness will be reported as taxable income in the year forgiven on a W-2 form and is subject to standard withholding requirements.*

The annual forgiveness process begins in July. Loans that fund from July to December will be reviewed for forgiveness during the forgiveness processing period the year after funding. As such, loan terms will vary between 10-11 years depending on the funding date. (For example, the first forgiveness review period for a loan that funded in July 2022 would begin in July 2023.)

### **Funding Source**

ZIP loans will be funded by the nominating department or school using available funds, which may include discretionary funds as well as unrestricted and appropriate restricted gift funds. State 19900 funds cannot be used to fund program loans.

### **Eligibility**

The Mortgage Origination Program eligibility criteria apply to ZIP loans as well. Candidates must be appointed to an Academic Senate title (Ladder Rank, In Residence, or Clinical X) and either be in the first two years of the eligible appointment or the subject of a retention effort. In addition to being eligible, the Participant must be nominated by the location (campus) to participate in the Program loan as well as meet the underwriting guidelines for the requested mortgage product. Nomination to participate in a program loan is generally stated in the final and approved appointment letter at the time of recruitment.

### **Good Standing**

The Office of Loan Programs (OLP) will send an annual report and ZIP eligibility certification forms for active ZIP loans to each campus by July 15, with all forms due back by August 25. A program participant's departmental chair or equivalent shall annually determine whether the participant is in Good Standing, as defined below for this program.

A faculty member is to be considered in Good Standing if:

- they are carrying out their faculty duties as commonly understood;
- there has been no substantiated finding of misconduct as defined by Section 015 of the Academic Personnel Manual (APM 015) in the period since they were last reviewed to see if they were in good standing;
- they are not currently under a severe disciplinary sanction imposed by a formal disciplinary process or an informal agreement with the University in lieu of formal disciplinary action;
- they are up to date on their mandatory trainings; and
- they are in compliance with all University policies.

If the department chair or equivalent deems a participant is not in Good Standing, they should consult with the Dean and provide a written statement to the participant in a timely manner explaining why. The participant will have 30 calendar days to respond in writing, either accepting or challenging the Chair's assessment. If no response is received in this time period, that will be the same as the participant accepting the chair or equivalent's conclusion.

### **ZIP Loan Participant**

Only one ZIP loan and one ZIP participant is allowed per purchase transaction. The ZIP participant will be designated as the Primary Borrower for the program loan(s). The Primary Borrower will assume all tax reporting and forgiveness parameters tied to the program loan(s).

### **Repayment, Acceleration, and Risk of Default for Borrowers**

Upon the due date, the outstanding principal balance (original principal balance, less any forgiven amounts) is absolutely due and payable and payment is not contingent upon the sale price or fair market value of the house or any other factor. This is considered a “balloon payment.” ZIP loans may be called due prior to the originally determined due date (“loan acceleration”). All program loans are condition of employment loans (i.e., borrowers must remain employed by the University in an eligible title). The ZIP loan can be declared due and payable before the due date for a number of reasons, including:

1. The ZIP participant separates from the University, including by retirement, voluntary or involuntary termination, or death; or transfers to another University campus;
2. the borrower becomes ineligible under the Program guidelines (e.g. change in series, reduction in % time, falling out of Good Standing status, or other reasons);
3. if the property securing the loan is sold or transferred.

### **Default**

If the outstanding principal balance is not received by the University within ninety 90 days of the due date, or within a certain period following the acceleration date (usually 30 days), as applicable, interest will be charged on the unpaid principal balance at the annual rate of the current Standard MOP rate or the maximum rate then permitted by law, whichever is less, commencing on the due date or the acceleration date, as applicable, and continuing until the full amount of principal has been paid. The University may pursue all remedies available to it to collect the balance due.

### **Additional Risk to Departments and the Campus**

The ZIP loan's balloon repayment feature makes it a non-Qualified Mortgage. A Qualified Mortgage (QM loan), as defined by the Consumer Finance Protection Bureau, is a loan having certain features that are thought to make it more likely for a borrower to be able to repay it. Loans with nonstandard features such as balloon payments and loan terms greater than 30 years do not qualify as QM loans.

The Chancellor or other designated official will be required to acknowledge and accept any risk of litigation associated with making non-Qualified Mortgages. At UCSF, this acknowledgment and acceptance must be signed by the dean of the school (ZIP-06 Authorization Form).

The risk of default increases if a ZIP loan is likely to be accelerated. A ZIP loan may be accelerated and must be paid off in 30 days of the acceleration date if a faculty borrower changes out of an Academic Senate title, reduces percent time, retires, transfers to another UC campus, or if the secured property is sold or transferred (see *Repayment* above).

### **Tax Implications for Borrowers**

The ZIP loan is considered to be a below market-rate loan. A below market-rate loan is subject to imputed interest, which will be reported as taxable income each year on a W-2 form, and is subject to standard withholding requirements.

Any loan forgiveness will be reported as taxable income in the year forgiven on a W-2 form and is subject to standard withholding requirements.

Individual tax conditions vary and the campus cannot estimate the tax burden for potential ZIP participants. The University recommends that participants consult their tax advisor with questions concerning their particular tax situation.

Departments will need to provide a signed ZIP Advisory Notice from the candidate with the request for a ZIP loan([ZIP-04](#)).

### **Flow of ZIP Funds**

As with all other UC home loan products, the ZIP-SHLP loan is provided via the University of California Housing Assistance Program Corporation (the Corporation, managed by the Office of Loan Programs (OLP) at the Office of the President). ZIP funding flows as follows:

- Campus provides the funding source account information to OLP in the ZIP Loan Accounting Form.
- Once the loan is ready to fund, the campus funding source account is debited by OLP to fund the ZIP Loan.
- ZIP loan funds are wired to escrow for the home purchase transaction.
- The participant would owe the ZIP principal balance to the Corporation as the lender.
- If 1/10th of the loan is forgiven at the end of any year during the term, the principal balance would go down by that amount during the year of forgiveness.
- Any remaining principal balance on the Due Date or the Acceleration Date, as applicable, would be fully due and payable to the Corporation, which would then remit any such payment to the campus.

### **Combinations**

Departments may support home buying assistance using a combination of the Faculty Recruitment Allowance Program (FRAP), the Mortgage Origination Program (MOP), the standard Supplemental Home Loan Program (SHLP), and/or a Zero Interest Program loan (ZIP-SHLP). A Centrally-Funded Supplemental Home Loan Program (CF-SHLP) loan may not be requested with a Zero Interest Program loan. While possible to add a ZIP loan to an external first mortgage, that would require approval by the outside lender and would not affect the downpayment/equity requirements of the external first.

### **ZIP-SHLP Request Process**

The updated MOP/SHLP Allocation Request Form includes a section for requesting a SHLP, CF-SHLP, or ZIP-SHLP. As usual, the department should complete this form (not the candidate), affix the chair's signature, and submit it to the academic dean's office of the school for review and approval. In cases of requests for a ZIP-SHLP, the request must also include the [ZIP-04 ZIP Loan Advisory Notice](#) and the [OLP-80 Imputed Interest Income Disclosure](#) signed by the candidate, and the [ZIP-06 Authorization Form](#) signed by the dean. Once approved by the dean's office, the documentation should be submitted to the home loan program manager in the Office of Faculty and Academic Affairs ([wilson.hardcastle@ucsf.edu](mailto:wilson.hardcastle@ucsf.edu)).

### **Related Documentation**

- [MOP-SHLP Allocation Request Form](#)
- [ZIP-04 ZIP Loan Advisory Notice](#) and [OLP-80 Imputed Interest Income Disclosure](#) for borrowers  
*These upfront disclosures provide an overview of the ZIP Loan and detail important considerations. Departments requesting ZIP participation should obtain acknowledgement and signature from the candidate(s) before submitting the request.*
- [ZIP-06 Authorization Form](#) for deans
- ZIP Annual Eligibility Certification form certifying ZIP Loan and forgiveness eligibility  
*(Document pending from UCOP)*

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