

Zero Interest Supplemental Home Loan Program (ZIP Loan)

UCSC Campus Guidelines

Purpose and Background

The Zero Interest Supplemental Home Loan Program (ZIP Loan), as defined by the University of California Employee Housing Assistance Program (Program), provides secured secondary financing with no monthly payments and zero percent interest with a forgivable feature to assist eligible senate faculty– prioritizing assistant professors and ensuring equitable access to the housing market for the newest cohort of faculty– with the purchase of a principal place of residence.

The ZIP Loan’s principal may be forgiven over time, provided that the eligible Participant approved for a ZIP Loan meets the specified conditions stipulated. These guidelines set forth the campus implementation of such terms for loan forgiveness.

Eligibility

The Program loan participant must meet the eligibility criteria defined by the Program. Candidates must be appointed to an Academic Senate title (Ladder Rank or Teaching Professor) and receive the ZIP Loan offer as part of the initial appointment or startup package, or by exception as part of a retention offer. Faculty hired prior to the program’s inception may participate in lieu of a Faculty Recruitment Allowance (FRA) if they have not yet received any FRA disbursement.

In addition to being eligible, the Participant must be nominated by their dean 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 or startup letter at the time of recruitment.

No Dual Eligibility: Only one ZIP loan and one ZIP participant is allowed per purchase transaction. The campus will specify the one ZIP Participant in the [ZIP Authorization Form](#). 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).

As with the MOP Loan, the residence being purchased must be within Santa Cruz county or an adjacent county. The Vice Provost for Academic Affairs may approve exceptions to the campus area requirement.

Structure of the Loan

Precise details on the ZIP Loan and its parameters are forthcoming. As is it is currently understood, the structure of the loan will be:

Interest Rate: 0% interest

Payment: No monthly payment

Loan Term: 10-11 years depending on funding date

Maximum Loan Amount: \$150,000

Minimum Loan Amount: \$10,000

Lien Position: 2nd or 3rd position

Transaction Type: Purchase (same property requirements as the MOP)

The balance on the loan will be due on the earlier of (“Due Date”):

1. The end of the loan term, which is 10-11 years depending on funding date unless there has been an approved loan term extension as described below; or
2. The sale or other transfer of the subject property; or
3. Within six months of the date on which the Participant:
 - a. No longer qualifies for Program participation as defined by the University of California Employee Housing Assistance Program; or
 - b. Separates from the University of California (“University”) for any reason, including retirement, voluntary or involuntary termination, or death; or
 - c. Transfers to another University campus; or
 - d. No longer occupies the subject property as their principal place of residence.

Ten percent (10%) of the original principal of this loan may be forgiven each year with the endorsement of the dean, provided that the Participant meets the conditions set forth below under “Loan Forgiveness.”

ZIP loans will be most commonly used in combination with a MOP loan, though they may also be subordinate to an outside loan, subject to the Program and primary lender’s guidelines. ZIP loans may not be used in combination with a SHLP loan.

Funding Source

As of October 1, 2022, FRAs and ZIP loans will be centrally funded. All FRA/ZIP loan agreements dated prior to October 1, 2022 will continue to be cost-shared between divisions and central funds, based on past practice.

Delegated Authority to Offer ZIP Loans

Deans have authority to offer any combination of ZIP loan and FRA up to \$78,900 (total) per candidate, or up to \$150,000 by exception and with approval of the CPEVC. This amount is as of October 1, 2022, and the deans’ authority amount will increase to match the currently published FRA maximum in the academic salary scales.

Divisions will maintain a system of tracking ZIP loan and FRA commitments for budgetary and reporting purposes.

Loan Forgiveness

Ten percent (10%) of the original principal of the ZIP loan may be forgiven each year through the term of the loan, provided that the participant:

- continues to be employed at UC Santa Cruz as an eligible participant (i.e., maintains a senate faculty appointment);
- is in good standing;
- is not in default on any term or condition of a Program loan.

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.

ZIP loan participants on leave up to 1 year can be considered to be eligible, as defined for this program. ZIP forgiveness for participants on approved leave beyond one year will require annual approval by the Vice Provost – Academic Affairs (VPAA). Divisions should contact the Academic Personnel Office to initiate such a request.

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.)

The loan forgiveness review process may be postponed for one year to allow time for the campus to review a participant's challenge to a finding that they are not in good standing (see below). If necessary, the loan term may be extended for one year when the loan forgiveness review process resumes.

Good Standing

The Office of Loan Programs (OLP) will send an annual report and ZIP eligibility certification forms for active ZIP loans to the campus Employee Housing Office by July 15, with all forms due back to OLP by August 25. The Housing Office will route the forms to the program participants' deans' offices. The dean shall annually determine whether the participant is in Good Standing, as defined below for this program. The campus will provide the deans' office with any relevant information to assist them in this annual determination.

A faculty member is normally 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 dean deems a participant is not in Good Standing, they should consult with the Academic Personnel Office 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 dean's assessment. If no response is received in this time period, that will be the same as the participant accepting the dean's conclusion.

The VPAA will make the final decision, and there is no further appeal process.

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 the following reasons:

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.

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.

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.

Applicable Policy

- Regents Policy 5309: Policy on the University of California (UC) Employee Housing Assistance Program. Provides a high-level Program summary, participant eligibility, property eligibility, and list of Program loan options.
- UC Employee Housing Assistance Program Policy – Implementation Guidelines. Provides Program details and the terms of Program loan options.
- Campus Implementation Guidelines of Zero Interest Supplemental Home Loan Program (ZIP Loan). Provides guidelines for campus administration of the ZIP Loan and the forgiveness feature.

See [this chart](#) for a comparison of the ZIP Loan, the Supplemental Home Loan Program (SHLP), and the Faculty Recruitment Allowance.

Flow of ZIP Funds

- The Employee Housing Office provides the funding source account information to the Office of Loan Programs (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 owes 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 is reduced by that amount.
- 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.

ZIP Request Process

When the faculty member is ready to start the loan application process, they should contact the Home Loan Coordinator in the [Employee Housing Office](#) to review their qualifications and start the MOP and/or ZIP loan process.

Forms

- The following are required to be included in the Program eligibility packet sent to OLP:
 - **ZIP Advisory Notice (ZIP-04)**: Upfront disclosure providing an overview of the ZIP Loan and detailing important considerations. The campus should go over the form with the applicant(s) and obtain acknowledgement and signature upfront.
 - **ZIP Loan Authorization Form (ZIP-06)**: Campus authorization for the ZIP Loan and non-QM loan liability acknowledgment form signed by the Chancellor (or designee).
 - **ZIP Loan Accounting Form (ZIP-05z)**: Provides the campus GL account to be debited to fund the ZIP Loan.
- **ZIP Annual Eligibility Certification**: Form certifying ZIP Loan and forgiveness eligibility.
- **Disclosure of Potential Imputed Interest Income (OLP-80)**: Signed by borrower