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Stanford | Faculty Staff Housing

Mortgage Assistance Program

Summary Description

The Mortgage Assistance Program (MAP) loan is an interest only, nonamortizing loan that has a low, fixed Current Interest rate and Deferred Interest that is payable at the time of sale, prepayment or refinancing. MAP is to be used for a purchase, not to refinance existing mortgage loans. The MAP borrower is able to purchase a more costly home than if he/she used only a conventional mortgage. Current Interest payable on the MAP loan is lower than a market interest rate on a conventional mortgage; and no principal payments are made during the term of the loan.

The maximum MAP loan amount may increase or decrease and the maximum interest rate may increase or decrease. Changes are made in response to current market conditions. The program will be reviewed each year .

Information regarding all of Stanford's housing programs is available at fsh.stanford.edu, or by email to fshousing@stanford.edu, or by calling 650-725-6893.

ELIGIBILITY

Eligible Persons, as defined in Exhibit A to this brochure, who are buying a Qualifying Residence located within the area described in Exhibit B to this brochure (Qualifying Area) that will be occupied by the Eligible Person may apply for a MAP loan.

QUALIFYING RESIDENCE

A MAP loan may be used to purchase a single family home, condominium, or townhome that is a for sale dwelling unit suitable for housing one family (the Qualifying Residence). Vacation homes, investment properties, commercial properties, properties zoned as commercial, multiple family dwellings (for example, duplexes and properties zoned for multiple units), Tenant in Common (TIC), and life care facilities are not Qualifying Residences. Personal property purchases such as mobile homes or houseboats are not Qualifying Residences.

The Eligible Person must occupy the Qualifying Residence as his/her principal residence. The home purchase financed by the MAP loan (the Property) must be located within the Qualifying Area.

TITLE/OCCUPANCY

Beneficial ownership and title to the home may only be in the name of the Eligible Person and his/her spouse or registered domestic partner. No other persons can hold title to the home. The home must remain owner occupied by the Eligible Person. Proof of such ownership and/or occupancy must be provided to the University upon request.

LOAN AMOUNT

The University will lend the lesser of 60% of the purchase price of the Property or 60% of its fair market value (FMV), subject to a maximum loan amount of $700,000. Stanford requires an appraisal by a licensed appraiser to establish the fair market value. For example, if the appraised value equals the purchase price of $1,200,000, then the MAP loan amount will be $700,000. However, if the appraised value is $1,100,000, which is $100,000 less than the purchase price of $1,200,000, then the MAP loan amount can only be $660,000. If the appraised value is less than the purchase price, the borrower must make up the difference by adding to the required down payment. Some MAP borrowers may prefer to borrow less than the maximum amount. Doing so, however, may effect eligibility for other University loan programs.

LOAN TERM

The MAP loan is due on the earliest of the following dates: (i) when the Property is sold; (ii) when the Property ceases to be the Principal Residence of the Eligible Person; (iii) when the borrower ceases to be an Eligible Person; or (iv) upon the occurrence of other circumstances set forth in the Promissory Note (Note). The date on which the MAP loan is due is called the Due Date.

A borrower who (i) is an Official Retiree from Stanford, (ii) is receiving benefits from the Stanford University Long Term Disability Plan, or (iii) is the surviving spouse or registered domestic partner of the Eligible Person, may retain his/her MAP loan so long as none of the Due Date circumstances set forth in the Note occur.

CURRENT AND DEFERRED INTEREST PAYMENTS

MAP loans have Current and Deferred Interest. Current Interest at a rate of 3% per annum on the outstanding principal is payable in arrears on the first day of each month. At the borrower's option, Current Interest may be paid by payroll deduction twice each month. Deferred Interest depends on the purchase price of the home, the duration of the loan, the Due Date Fair Market Value, the improvements that have been made and other factors that affect the value of all real property. Since these factors vary for each home, a borrower will not know the final amount of interest he/she will pay over the life of the loan until the loan is fully discharged.

Deferred Interest is payable on the Due Date (and on the date of any Prepayment) in an amount equal to the lesser of (i) Stanford's Share of Appreciation, or (ii) an amount of interest on the outstanding principal, which when added to Current Interest previously paid to Stanford, is equal to the higher of the Annual Applicable Federal Rate plus 1% per annum, or the current interest rate, compounded annually. See Table 1 for an example of this calculation.

Stanford's Share is a fraction, the numerator of which is the Outstanding Principal, and the denominator of which is the Purchase Price of the Property. For example: 1. if the appraised FMV equals the purchase price of $1,200,000, the maximum MAP loan amount is $700,000 and Stanford's Share is 58.3333%. However, if the appraised FMV is $1,100,000 which is $100,000 less than the purchase price of $1,200,000, then the maximum MAP loan amount is $660,000, and Stanford's Share is 55%. 2. if the appraised FMV equals the purchase price of $1,800,000, the maximum MAP loan amount is $700,000 and Stanford's Share is 38.8889%. However, if the appraised FMV is $1,700,000 which is $100,000 les than the purchase price of $1,800,000 the maximum MAP loan amount is still $700,000, and Stanford's Share is still 38.8889%

The Due Date Fair Market Value is the sales price of the Property or the appraisal value if there is no bona fide sale.

Appreciation is the difference between the adjusted Due Date Fair Market Value and the Purchase Price.
For example, if the house price increases from $1,200,000 to $1,300,000, and there are no adjustments, appreciation is equal to $100,000.

Stanford's Share of Appreciation is calculated by multiplying the fraction that is Stanford's Share by the adjusted appreciation. Absent adjustments in the above example, Stanford's Share of Appreciation is $58,333 if the purchase price was equal to the appraised FMV at the time of purchase. See Table 2 for examples of this calculation.

CONDITIONS OF THE LOAN

MAP is governed by the following conditions:

1. Minimum Down Payment

   The standard down payment is 10% of the purchase price.

2. Loan Approval

   We recommend that borrowers obtain preapproval for Stanford loan programs. Preapproval will expedite final loan approval once the purchase offer has been accepted. The University's loan approval process is similar to that of a residential mortgage lender. The loan preapproval process takes fifteen working days.

   Faculty Staff Housing needs an up-to-date loan application, including DIP, RIP, and ZIP (if applicable) and conventional loan amounts and terms immediately after a purchase offer has been accepted. It is also important to provide a copy of the fully executed purchase contract and a copy of the Preliminary Title Report. Other required documents may include an appraisal, disclosures, and pest inspection report. Loan approval, including satisfying Stanford's underwriting guidelines, is necessary before any Stanford loan can be funded. Documents can be sent via email to: secure-fshdocuments@lists.stanford.edu.

3. Loan Origination Fees

   A loan origination fee equal to 1% of the principal amount of the MAP loan is collected at the close of escrow. Such fees are often referred to as points.

4. Secured Instrument

   The MAP loan is secured by a Deed of Trust. A Deed of Trust is the document that records a lien against the Property for the amount of the loan.

5. Other Financing

   If the financing of your purchase includes a mortgage loan from a residential mortgage lender to be secured to the property you purchase, the following applies:

   Mortgages used together with University Programs:

   i. cannot be interest only;

   ii. cannot negatively amortize;

   iii. cannot have a term of more than thirty years;

   iv. cannot have a "balloon" feature;

   v. cannot have a prepayment penalty; and

   vi. if the loan is an adjustable rate mortgage (ARM), the transaction will be underwritten by Stanford using the monthly payment required on the thirteenth month.

6. Casualty and Earthquake Insurance

   Evidence of earthquake and casualty insurance with Stanford named as mortgagee must be provided to the title company before the close of escrow. Casualty insurance needs to be in the amount of the full replacement cost of the buildings and improvements on the Property. Earthquake insurance needs to be in the amount equal to the value of the buildings and improvements on the Property with a deductible not greater than fifteen percent. FSH will notify the borrower(s) of the amount of earthquake insurance that is required when the property appraisal is completed. Your insurance carrier will send the certificate of insurance to the title company. If borrowers use a lender in addition to Stanford, they need to verify if the insurance premium will be collected at the close of escrow.

Effective July 1, 2000, lenders on new loans secured by real property must disclose that Civil Code §2955.5 prohibits lenders from requiring borrowers to provide hazard insurance (fire insurance) for more than the replacement cost of the improvements on the property.

FUNDS NEEDED AT CLOSE OF ESCROW

In addition to points on the mortgages, borrowers should expect to pay additional costs at or before the close of escrow including Current Interest prorated from the date of the close of escrow through the last day of the month in which the closing occurs. There will also be fees for loan processing, the credit report, appraisal, title insurance, prepaid hazard insurance, and some portion of the escrow fees. The title company will provide the total amount of these costs and when they are due.

APPRAISAL AT PAYOFF

An appraisal may be required whenever all or part of the MAP loan is repaid unless there is a bona fide sale. This includes partial prepayments or refinancing. The appraisal must be ordered by Stanford although it is paid for by the borrower. For purposes of determining Deferred Interest, Stanford cannot use an appraisal ordered by another lender or the borrower. The appraisal process is described fully in the Note.

REPAYMENT OF PRINCIPAL

Upon the Due Date, the Original Principal and Current Interest are absolutely due and payable and are not contingent upon the sale price or fair market value of the house, or any other factor.

ADJUSTMENTS TO DUE DATE FAIR MARKET VALUE AT PAYOFF

Under certain defined circumstances, the amount due on the Due Date may be subject to certain adjustments, resulting in a reduction of the amount of Deferred Interest payable by the borrower. These adjustments are available only if there has been appreciation in the Property.

Adjustment Improvements

An Adjustment Improvement is an improvement made to the Property during the life of the loan (excluding repairs and improvements constructed with insurance proceeds) that meets all of the following criteria: (i) as defined by Internal Revenue Service regulations, the improvement on the Due Date constitutes a capital improvement, the cost of which is properly added to a homeowner's adjusted basis in the Property for capital gains tax purposes; (ii) it is not in violation of any applicable zoning and building codes; (iii) all required building permits have been obtained; (iv) it is completed and paid in full prior to determining the Due Date Fair Market Value; and (v) it remains, as determined in the sole discretion of Stanford, a part of the Property on the Due Date.

At the time of loan discharge, a borrower may request that an Adjustment Improvement be applied as a reduction against the Due Date Fair Market Value. To qualify for the credit, the borrower must submit a statement from an independent Certified Public Accountant (CPA). The statement sets forth the following: the date, description, and cost of the improvements; and a statement that, in the CPA's opinion, those items constitute capital improvements for federal income tax purposes and that the costs can properly be added to the homeowner's adjusted basis in the Property for purposes of calculating capital gains. More specific information regarding Adjustment Improvements, including a CPA Certification Form, is available at FSH.

The actual cost of the improvements as certified by the CPA will be subtracted from the Due Date Fair Market Value for purposes of calculating Stanford's Share of Appreciation. No adjustment of actual cost will be made to account for inflation or labor performed by the borrower. See Table 2 for examples of this calculation.

Real Estate Broker's Commission

At the time of sale, any bona fide real estate broker's commission actually paid at the time of sale (but in no event greater than 6% of the sale price at payoff) will be subtracted from the Due Date Fair Market Value before Stanford's Share of Appreciation is calculated.

TABLE 1: ANNUAL MAXIMUM DEFERRED INTEREST CALCULATION

Year	Principal	Principal Plus Cumulative Deferred Interest (For Compounding)	Interest Due For Period (Principal + Cumulative Deferred Interest x Note Rate of 5%)	Current Interest Paid (Principal x Current Interest Rate of 3%)	Deferred Interest Accrued for Period (Interest Due - Interest Paid)	Maximum Cumulative Deferred Interest
1	$ 700,000	$ 700,000	$ 35,000	$ 21,000	$ 14,000	$ 14,000
2	700,000	714,000	35,700	21,000	14,700	28,700
3	700,000	728,700	36,435	21,000	15,435	44,135
4	700,000	744,135	37,207	21,000	16,207	60,342
5	700,000	760,342	38,017	21,000	17,017	77,359
6	700,000	777,359	38,868	21,000	17,868	95,227
7	700,000	795,227	39,761	21,000	18,761	113,988
8	700,000	813,988	40,699	21,000	19,699	133,688
9	700,000	833,688	41,684	21,000	20,684	154,372
10	700,000	854,372	42,719	21,000	21,719	176,090

TABLE 2: PRINCIPAL AND DEFERRED INTEREST DUE, PAYOFF IN YEAR 10

Annual House Price Appreciation Rate	0%	3%	6%
Maximum Annual Interest Rate (Note Rate)	5%	5%	5%
PURCHASE ASSUMPTIONS			
Purchase Price	$ 1,800,000	$ 1,800,000	$ 1,800,000
MAP Principal	$ 700,000	$ 700,000	$ 700,000
Stanford's Share	38.8889%	38.8889%	38.8889%
ADJUSTMENTS TO DUE DATE FAIR MARKET VALUE			
Due Date Fair Market Value	$ 1,800,000	$ 2,419,049	$ 3,223,526
Adjustment Improvements	(25,000)	(25,000)	(25,000)
Real Estate Broker's Commission (6%)	(108,000)	(145,143)	(193,412)
Adjusted Due Date Fair Market Value	$1,667,000	$ 2,248,906	$ 3,005,114
APPRECIATION			
Adjusted Due Date Fair Market Value	$1,667,000	$ 2,248,906	$ 3,005,114
Purchase Price	(1,800,000)	(1,800,000)	(1,800,000)
Total Adjusted Appreciation	$ 0	$ 448,906	$ 1,205,114
STANFORD'S SHARE OF APPRECIATION			
a. 38.8889% x Adjusted Appreciation	$ 0	$ 174,574	$ 468,656
b. Maximum Deferred Interest	$ 176,090	$ 176,090	$ 176,090

PAYOFF AMOUNT: DEFERRED INTEREST + PRINCIPAL

Deferred Interest Due (lesser of a or b above)	$ 0	$ 174,574	$ 176,090
MAP Principal	$ 700,000	$ 700,000	$ 700,000
Total Due	$ 700,000	$ 874,574	$ 876,090

PARTIAL PREPAYMENTS OF PRINCIPAL AND DEFERRED INTEREST

A borrower may elect to make one or more partial prepayments of principal and Deferred Interest during the term of the loan. Doing so may have beneficial tax and cash flow consequences for the borrower. The following procedure must be followed in connection with such partial prepayments: (i) The minimum amount of a partial prepayment is $25,000; (ii) the borrower must notify Stanford in writing that he/she is making a partial prepayment and include the amount of the prepayment and the date the prepayment will be made; (iii) the appraisal process is as set forth in the Note.

After notice has been given to Stanford that a prepayment will be made, an appraisal may be required to determine the value of the home. Prior to requesting an appraisal be ordered by Stanford, the borrower can request from FSH the calculated Breakeven Value. The Breakeven Value is the value of the property when the Deferred Interest calculation of Stanford's Share is equal to the Maximum Deferred Interest. If in the Borrower's estimation, the market value of the home is equal to or greater than the Breakeven Value, an appraisal is not required.

For purposes of a partial prepayment, the Maximum Deferred Interest is calculated from the loan origination to the date of the prepayment with compounding prorated to the date of the prepayment. Table 3 below shows an example of partial year compounding.

The prepayment amount is applied to both principal and outstanding Deferred Interest. The following applies: the amount of principal reduction equals the original principal (adjusted for any prior prepayments) multiplied by a fraction, the numerator of which is the prepayment amount and the denominator of which is the total amount of principal and Deferred Interest outstanding. The remaining amount of the prepayment is applied to reduce the outstanding Deferred Interest. Following the prepayment, the outstanding principal balance of the MAP loan will have been reduced, resulting in a lower monthly Current Interest payment. See Table 4 for an example of this calculation.

TABLE 3: PARTIAL YEAR MAXIMUM DEFERRED INTEREST CALCULATION

ASSUMPTIONS

Loan Amount	$ 700,000
Note Rate	$ 5.0%
Current Rate	3.0%

Year	Principal	Principal Plus Cumulative Deferred Interest (For Compounding)	Interest Due For Period (Principal + Cumulative Deferred Interest x Note Rate of 5%	Current Interest Paid (Principal x Current Interest Rate of 3%)	Deferred Interest Accrued for Period (Interest Due - Interest Paid)	Maximum Cumulative Deferred Interest
Year 1	$ 700,000	$ 700,000	$ 35,000	$ 21,000	$ 14,000	$ 14,000
Year 2	700,000	714,000	35,700	21,000	14,700	28,700
Year 3	700,000	728,700	36,435	21,000	15,435	44,135
Partial Year	700,000	744,135	15,503	8,750	6,753	50,887

TABLE 4: PARTIAL PREPAYMENT OF $50,000 MADE AT THE END OF YEAR 3

PURCHASE ASSUMPTIONS

Purchase Price	$	1,800,000
MAP Principal	$	700,000
Stanford's Share		38.8889%

PREPAYMENT ASSUMPTIONS

Current FMV	$	2,100,000
Stanford's Share	$	38.889%
Breakeven Value	$	1,913,490
Current MAP Principal	$	700,000
Deferred Interest - Note Rate	$	44,135
Deferred Interest - Stanford's Share	$	116,667

PREPAYMENT CALCULATION

Deferred Interest Due, end of Year 3	$	44,135
Plus MAP Principal		700,000
Equals Total Principal + Deferred Interest	$	744,135
Partial Prepayment	$	50,000
Divided by Total Principal + Deferred Interest	$	744,135
Equals the Fraction		6.7192%
MAP Principal	$	700,000
Times the Fraction		x 6.7192%
Equals Amount of Principal Reduction	$	47,034
Total Prepayment	$	50,000
Less Amount of Principal Reduction		47,034
Equals Amount of Deferred Interest Paid	$	2,966

NEW PRINCIPAL AND STANFORD'S SHARE CALCULATION

Beginning Principal Balance	$	700,000
Less Amount of Principal Reduction	$	47,034
Equals New Principal Balance	$	652,966
New Principal Balance	$	652,966
Divided by Purchase Price	$	1,800,000
Equals New Stanford's Share		36.2759%

The borrower will not receive a refund of any Deferred Interest paid as part of a prepayment even if the Property subsequently declines in value (thereby resulting in a lower Deferred Interest obligation at the Due Date).

TAX ASPECTS OF MAP LOAN PROGRAM

Various aspects of MAP raise tax issues that a borrower may wish to discuss with his/her tax adviser.