# UNIVERSITY OF CALIFORNIA HOME LOAN PROGRAM CORPORATION ZERO INTEREST SUPPLEMENTAL HOME LOAN PROGRAM (ZIP LOAN)

# ZIP LOAN ADVISORY NOTICE

This Advisory Notice describes the features of a Zero Interest Supplemental Home Loan Program (ZIP Loan), which is a loan product option available through the University of California's Home Loan Program (Program).

The ZIP Loan provides a subordinate-lien mortgage loan with no monthly payments and zero percent interest with a forgiveness feature to assist with the purchase of a primary residence. **Upon the Due Date**, **any outstanding principal balance would be fully due and payable and is considered a "balloon payment".** 

#### **Loan Overview**

The Zero Interest SHLP (ZIP Loan) provides a loan with the following parameters:

- Interest Rate: Zero percent interest
- Payment: No monthly payment
- Loan Term: The loan term will be approximately 11 years depending on the funding date.
- **Due Date:** End of the loan term.
- Repayment: Upon the Due Date the outstanding principal balance (original principal balance, less any forgiven amounts) is fully due and payable and is considered a "balloon payment".

### Forgivable Feature:

Ten (10) percent of the original principal balance 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:

- continues to be employed by the nominating University campus as an eligible participant, as defined in the Program guidelines;
- is in good standing; and
- is not in default on any term or condition of a Program loan.

#### **Eligibility & Participation:**

- **ZIP Loan Participant:** The eligible Program participant must be designated by the campus.
- **Eligibility:** The ZIP Loan Participant must meet the eligibility criteria as defined in the Program guidelines and continue to be employed by the nominating University campus.
- Loan Acceleration: All Program loans are condition of employment loans. The ZIP Loan can be declared due and payable before the Due Date for a number of reasons, including, for example, if the designated ZIP Loan Participant (the "Primary Borrower") is no longer employed by the University or becomes ineligible under the Program guidelines or if the Property securing the Loan is sold or transferred.

#### **Important Considerations**

- Loan forgiveness is contingent upon meeting the forgiveness criteria with written endorsement of the Department Chair (or equivalent designee) provided annually to the Office of Loan Programs.
- The ZIP Loan can only be carried by the Primary Borrower and is not assumable by another borrower.
- Upon the Due Date, any outstanding principal balance (original principal balance, less any forgiven amounts) is absolutely due and payable and is not contingent upon the sale price or fair market value of the house, or any other factor.
- Since 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 approximately between 10-11 years depending on the funding date. For example, the first forgiveness period for a loan that funded in July 2022 would start in July 2023.

- 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 ZIP loan is considered a below market-rate loan since the interest rate of "zero" is below the Applicable Federal Rate (AFR). Below market-rate loans are subject to annual imputed interest income. Imputed interest income will be reported as taxable income on a W-2 form and is subject to standard withholding requirements. Please see the imputed interest income disclosure for more details.
- Participants should consult with their tax advisor if they have any questions concerning their particular tax situation.

## **Example of the ZIP Loan Forgiveness Feature**

For illustration purposes only, the example below provides the outstanding principal balance on December 31st of each year through the 10-year loan term for a \$100,000 ZIP Loan with 10 percent forgiveness granted each year, assuming that no principal prepayments were made (and Lender made no disbursements on Borrower's behalf for unpaid Escrow Items or property insurance for which it was not reimbursed by Borrower):

Original Principal Balance	\$ 100,000				
Year of Loan Term	Amount Forgiven	Outstanding Principal Balance			
Dec. 31st of Year 1	\$10,000	\$ 90,000			
Dec. 31st of Year 2	\$10,000	\$ 80,000			
Dec. 31st of Year 3	\$10,000	\$ 70,000			
Dec. 31st of Year 4	\$10,000	\$ 60,000			
Dec. 31st of Year 5	\$10,000	\$ 50,000			
Dec. 31st of Year 6	\$10,000	\$ 40,000			
Dec. 31st of Year 7	\$10,000	\$ 30,000			
Dec. 31st of Year 8	\$10,000	\$ 20,000			
Dec. 31st of Year 9	\$10,000	\$ 10,000			
Dec. 31st of Year 10	\$10,000	\$ -			

In this example, if, after forgiveness granted at the end of Year 7, (1) the Property is sold or transferred, or (2) the Primary Borrower (i) separates from the University or from the campus that designated him/her as the eligible Program participant, (ii) is otherwise no longer eligible to participate in the ZIP Loan, or (iii) is in default of any term or condition of a Program loan, then \$30,000 would be the outstanding balance then fully due and payable.

I/we certify that I/we have read and understand this ZIP Loan Advisory No
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Primary Applicant (Designated ZIP Loan Participant)	Date	Co-Applicant	Date