Proposed Faculty Housing Assistance Program

Ad Hoc Committee on the Design of the Faculty Housing Program

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Committee Members:

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Summary:

The MIT Faculty Housing Assistance Program (FHAP) has been established to support junior faculty and recently tenured faculty purchasing a primary residence in the local housing market. The program is a significant enhancement over the current Housing Assistance Loan Program (HALP). It is being established in recognition of the sharp increase in Boston-area housing prices that occurred over the past five years. In the year 2000, the ratio of median regional housing prices to average faculty salaries began exceeding its historic values.

The initial program is designed to assist those faculty members hired or tenured during this period of historically high housing costs and who, therefore, are -- or were -- constrained in their ability to purchase a home. Following a one-year start up, the program will be available to faculty hired or tenured in the prior three fiscal years. The details of the programs for untenured and tenured faculty differ, as described below.

Since the primary motivation for the FHAP is to help compensate for the recent, rapid increase in housing prices, in future years the program may be altered on a going forward basis in any and all respects or may be terminated entirely depending on changes in the local housing market. The terms of any then outstanding loans, however, would continue to be governed by their existing loan documents.

Program for Senior (Tenured) Faculty:

Contingent Interest Mortgage Program for Senior Faculty (CIMP-SF)

The CIMP-SF is a tax-efficient, minimum interest, second mortgage program to assist recently tenured faculty in purchasing a home in the expensive local area housing market. The interest rate is capped at the long-term Applicable Federal Rate in effect when the loan is made, which is the lowest tax efficient rate allowed by the IRS. One-half of the
Interest is due over the course of the loan, paid in monthly installments. The other half is accumulated and added to the principal, and is due upon maturity or early termination of the loan. This deferred interest is contingent on the appreciation of the property, as described below. Paying some of the interest during the loan term will reduce the size of the balloon payment owed at maturity of the loan (making its payment or refinancing easier).

**Term of loan:** 30 yrs

**Maximum Loan Amount:** lesser of $300,000 or 40% of the applicable value of the property. The applicable value is the fair market value of that portion of the property that constitutes the principal residence of the faculty member, as such value is appraised by the first mortgage lender or is determined by the real estate tax assessor, whichever is greater.

**Interest Rate:**

- **Annual interest charge:** one half of the long-term Applicable Federal Rate (AFR) at the time the loan is made.
- **Contingent Interest:** the lesser of one-half the long-term Applicable Federal Rate (AFR) at the time the loan is made or the difference between the average percentage appreciation of the property since the inception of the loan, and one-half the AFR, if this difference is greater than zero. Appreciation is calculated to exclude appreciation attributable to capital improvements made after the loan is made, and, therefore, not funded by the loan from MIT.

**Eligibility:** This program is available one time only (for purchase, or, if eligible, for refinancing or major renovation) to all faculty hired into a tenured position or promoted to a tenured position at any time during the current MIT fiscal year (FY) or during the preceding three MIT fiscal years (e.g. in MIT FY 2006, which begins July 1, 2005, all faculty hired into or promoted to tenure on or after July 1, 2002 are eligible; in MIT FY 2007, all faculty hired into or promoted to tenure on or after July 1, 2003 are eligible). Faculty promoted to tenure at any time on or after July 1, 2006 who have outstanding loans under the CIMP-JF program must terminate those loans before or as they join the CIMP-SF program.

**Special Eligibility:** Only during MIT FY 2006 (the period July 1, 2005 through June 30, 2006), those faculty hired into or promoted to a tenured position during the period July 1, 2000 through June 30, 2002 and who have not already received other housing assistance from MIT will also be eligible if they were first-time buyers of a qualifying residence on or after July 1, 2000 or if they are first-time buyers of a qualifying residence during MIT FY 2006. Tenured faculty who meet the above criteria but who have already received other housing assistance from MIT are generally not eligible; when the additional other assistance consists of a CIM issued under the current Housing Assistance Loan Program,
they are eligible to convert their existing CIM into the CIMP-SF for a term equal to 30 years minus the expired portion of the term of the original loan.

**Qualifying residence:** The CIMP-SF is only applicable to a faculty member’s purchase of a “principal residence” within a 50-mile radius of MIT. “Principal residence” is defined by the IRS, under Section 121 of the Internal Revenue Code, using a facts and circumstances standard and considering, among other facts, where the faculty member resides most of the time, the address listed on the faculty member’s tax returns, voter registration, driver’s license, and automobile registration, the faculty member’s billing address and the faculty member’s principal dwelling throughout the academic year. Vacation homes, investment properties, and income properties are not qualifying residences. Single-family residences, condominiums, and cooperatives qualify. Faculty may request approval to purchase a multi-family property so long as the faculty member’s residence constitutes 50% or more of the appraised value; only the applicable value of the portion of such a property that is occupied by the faculty member as his or her principal residence may be taken into account in determining the Maximum Loan Amount for a CIMP-SF loan.

**Refinancing an existing loan:** This program may not be used to refinance an existing mortgage except as follows: (i) faculty hired into a tenured position or promoted to a tenured position at any time during the current MIT fiscal year (FY) or during the preceding three MIT fiscal years and who were first-time buyers of a qualifying residence on or after July 1, 2000 may refinance an existing, qualifying residence; (ii) only during MIT FY 2006 (the period July 1, 2005 through June 30, 2006), those faculty hired into or promoted to a tenured position during the period July 1, 2000 through June 30, 2002 and who were first-time buyers of a qualifying residence on or after July 1, 2000 may refinance the qualifying residence. In all cases, any loan origination expenses must be borne by the borrower. Using the program to refinance is also permissible in connection with major renovations (see below).

**Financing Major Renovations:** The program is available on a one-time basis to qualifying faculty who undertake a major renovation of an existing, qualifying residence in lieu of using the program to buy a new qualifying residence. A major renovation is defined as “a major capital addition or renovation to the faculty member’s principal residence in connection with which a certified public accountant has signed and delivered a letter to MIT confirming that the design and construction contracts, and related legal and consulting costs, for the capital improvements (as defined under generally accepted accounting principles) to the faculty member’s current principal residence equal or exceed $150,000.” The faculty member must either refinance the first mortgage loan on the residence in conjunction with entering into a CIM for a major renovation, or will be assessed a fee to cover MIT’s cost to have an outside contractor undertake additional reviews (e.g., relating to the construction) required for this type of loan. For refinancing, the maximum loan amount is the lesser of $300,000 or 40% of the applicable assessed value including the added value of the renovation.
Refinancing this loan: The outstanding balance of a loan can be refinanced at the prevailing AFR for a term equal to the remaining term of the original mortgage one time during each 10 year interval of the mortgage. Loan transaction expenses must be borne by the borrower.

Termination: Principal and outstanding interest are due on the earliest of (i) the date of sale of the property, (ii) the date when the property is no longer the faculty member’s principal residence, or (iii) the date of termination of employment as a faculty member at MIT. Faculty who retire and who maintain the property as their principal residence have the option to retain the loan as a demand loan with all other terms and conditions unchanged.

Mortgage Life Insurance: Faculty are required to obtain mortgage life insurance for the principal and accrued contingent interest.

Programs for Junior (Untenured) Faculty:

Eligible junior faculty may select either or both of the following programs.

Contingent Interest Mortgage Program for Junior Faculty (CIMP-JF)

The CIMP-JF is a tax-efficient, minimum interest, second mortgage program to assist recently hired untenured faculty to purchase a home in the expensive local area housing market. The interest rate is capped at the long-term Applicable Federal Rate (AFR) at the time the loan is made, which is the lowest tax efficient rate allowed by the IRS. Unless the faculty member elects to defer all of the interest, one-half of the interest is due over the course of the loan, in monthly payments. The other half is accumulated and added to the principal, and is due upon maturity or early termination of the loan. This deferred interest is contingent on the appreciation of the property, as described below.

Term of loan: 10 yrs

Amount of loan: $50,000.

Interest Rate:

Annual interest charge: one half of the long-term Applicable Federal Rate (AFR) at the time the loan is made (unless the junior faculty member elects to defer all interest until loan maturity or termination). If the junior faculty elects deferral, interest will be accumulated as owed each year, but payment will be owed at loan maturity or termination. Interest that accrues on interest will not be tax deductible and this option is not as tax efficient as paying interest annually.

Contingent Interest: the lesser of one-half the long-term Applicable Federal Rate (AFR) at the time the loan is made or the difference between the average
percentage appreciation of the property since the inception of the loan, and one-half the AFR, if this difference is greater than zero. Appreciation is calculated to exclude appreciation attributable to capital improvements made after the loan is made, and, therefore, not funded by the loan from MIT.

Eligibility: This program is available one-time only to all junior (untenured) faculty hired in the current MIT fiscal year or the previous three MIT fiscal years (e.g. in MIT FY 2006, which begins July 1, 2005, all junior faculty hired on or after July 1, 2002 are eligible; in MIT FY 2007, all junior faculty hired on or after July 1, 2003 are eligible).

Special Eligibility: Only during MIT FY 2006 (the period July 1, 2005 through June 30, 2006), those junior faculty hired during the period July 1, 2000 through June 30, 2002 will also be eligible if they were first-time buyers of a qualifying residence on or after July 1, 2000 or if they are first-time buyers of a qualifying residence during MIT FY 2006.

Qualifying residence: same as CIMP-SF

Refinancing an existing loan: This program may not be used to refinance an existing mortgage except as follows: only during MIT FY 2006 (the period July 1, 2005 through June 30, 2006), those faculty hired into a junior faculty position during the period July 1, 2000 through June 30, 2005 and who were first-time buyers of a qualifying residence on or after July 1, 2000 may refinance the qualifying residence. In all cases, any loan transaction expenses must be borne by the borrower.

Refinancing this loan: This mortgage may not be refinanced.

Termination:
a) Principal and outstanding interest are due on the earliest to occur of (i) sale of the property, (ii) date of termination of employment as a faculty member at MIT, or (iii) the date when the property is no longer the faculty member’s principal residence.
b) Upon award of tenure, the CIMP-JF may be continued so long as the faculty member remains eligible and the property remains qualifying. Faculty promoted to tenure who have outstanding loans under the CIMP-JF program must terminate those loans before or at the time they join the CIMP-SF program.

Mortgage Life Insurance: Faculty are required to obtain mortgage life insurance for the principal and accrued contingent interest.

No-Interest, Fully Amortizing Loan (NIFAL) Program for Junior Faculty

The NIFAL is a program to assist recently hired junior (untenured) faculty to purchase a primary residence in the local housing market. The terms of the loan are similar to those in the current Faculty Relocation Loan Program, except that it is now available to all qualifying junior faculty. The loan will be secured by a mortgage on the property.
Eligibility: All full-time, junior (untenured) faculty hired in the previous three MIT fiscal years (e.g. in MIT FY 2006, which begins July 1, 2005, all junior faculty hired on or after July 1, 2002 are eligible; in MIT FY 2007, all junior faculty hired on or after July 1, 2003 are eligible). Only during MIT FY 2006 (the period July 1, 2005 through June 30, 2006), those junior faculty hired during the period July 1, 2000 through June 30, 2002 will also be eligible if they purchased a qualifying residence on or after July 1, 2000 or if they purchase a qualifying residence during MIT FY 2006. Note that the tax implications of this loan for the faculty member are different depending on whether or not he or she meets the IRS definition of a relocating new employee of the Institute.

Qualifying residence: same as CIMP-SF

Term: The loan will be for a period of 5 years, with one-fifth of the principal becoming due on each anniversary of the date on which the loan was made. See “Forgiveness” below.

Amount of Loan: $50,000.

Interest rate: This loan will be interest free.

Termination: The entire amount of the loan outstanding becomes due on the earlier of (i) the date of sale of the property, (ii) the date when the property is no longer the faculty member’s principal residence, or (iii) the date of termination of employment as a faculty member at MIT.

Forgiveness: On each 12-month anniversary of the original date of an outstanding loan, the Institute will forgive one-fifth of the original principal of the loan.