

UBC Restricted Faculty Second Mortgage Loan Program

Description of Key Terms

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The Restricted Resale Capped Appreciation Program is one of two options in UBC's Home Ownership Program intended to assist full-time tenured and tenure-track faculty at UBC's Vancouver campus with the purchase of a new home on the campus. The Program was developed to support the long term development of a thriving, diverse and sustainable community on UBC's Vancouver campus. Housing choice and affordability and their effect on UBC's academic mission have been identified as high priorities for faculty. The Program is designed to recruit and retain the highest caliber of faculty needed to ensure UBC's continued research and training excellence.

The Program is referred to as a 'Second Mortgage Loan' program because UBC Properties Trust will advance approved faculty a loan (the "Loan") to help in the purchase of a new home from a designated market unit pool on campus. The Loan will be secured by the property and will be subordinate to the First Mortgage provided by a financial institution (the "First Mortgage"). It is repayable after 30 years or earlier if there is a change to your eligibility that triggers early repayment. It is interest-free during those years, and the repayment amount is based on a participating interest of the future resale or appraised value of the home at time of repayment. When units purchased under the program are resold, they may be resold to anyone without restriction. The annual interest savings (assumed at CRA rate) to the faculty purchaser will be a taxable benefit payable annually, and any portion of loss at resale absorbed by UBC Properties Trust under the terms of the program, will be deemed taxable benefit payable in the year the loan is repaid.

This program is described more specifically below.

Purchase Details

- Eligible faculty members (each a "Designated Owner") will be approved by the University of British Columbia (UBC) who will then provide the approved Designated Owner's name and information to UBC Properties Trust (UBCPT), which will be the Second Mortgage Lender.
- Initially, there will be one First Mortgage lender (financial institution) (the "First Lender") for this program. The First Mortgage must be a conventional mortgage.
- The Purchaser (Designated Owner & spouse, if applicable) will need to qualify for the First Mortgage loan amount through the First Lender to be eligible for this program.
- UBCPT will be the lender of the Second Mortgage Loan.
 - The Second Mortgage will secure a Loan, the principal balance of which will be an amount equal to up to 33% of the purchase price (exclusive of GST, Property Transfer Tax and all other closing costs) of the home, up to a maximum of \$330,000.

- There is no maximum home purchase price. However, homes over \$1,000,000 would receive a maximum Second Mortgage Loan of \$330,000. Therefore, when the purchase price of a home exceeds \$1,000,000 the Second Mortgage Loan amount would be less than 33% of the purchase price.
 - Interest on the Second Mortgage Loan will be participating in nature (as described below). This may result in the employee paying nominal or even zero, annual interest. If the employee pays zero interest annually, there will be a taxable benefit equal to the “prescribed rate” of interest as set out in the Regulations to the Income Tax Act (Canada). Currently the prescribed rate is 2%. The prescribed rate can change on a quarterly basis. However, the prescribed rate at the time a Loan is entered into will apply to the Loan for a period of five years (although a Designated Owner will be given the benefit of a lower rate, if the prescribed rate decreases). At the end of five years, the prescribed rate will be reset to the then applicable prescribed rate.
 - In addition, in the event that UBCPT is not fully repaid the amounts outstanding under the Second Mortgage Loan when due (in the event of a market loss) there will be a further taxable benefit equal to the portion of the Second Mortgage Loan that has not been fully recovered by UBCPT.
 - The income tax payable on the taxable benefits will be the responsibility of the Designated Owner.
- The home must be the principal residence of the Designated Owner.
 - The home must be the only dwelling unit owned by the Designated Owner in Metro Vancouver.
 - After being approved for this program, homes must be purchased from one of the following projects located at Wesbrook Place, UBC:
 - Sail by Adera;
 - Academy by Polygon Homes;
 - Binning Tower by Wall Financial; and
 - Lot 32 by Adera (coming soon).

This is the current list of eligible properties and others may be added in the future.

- A Designated Owner’s minimum down payment required by the First Lender will likely be at least 5% of the sum of the purchase price plus applicable GST. This will be confirmed by the First Lender.
- Purchasing Designated Owners will be responsible for all closing costs including, but not limited to, Property Transfer Tax, legal/lender/admin fees, applicable taxes, title insurance, etc.
- Designated Owners will not be entitled to refinance their home unless:
 - the refinancing is for the purpose of repaying the Second Mortgage Loan (including any appreciation interest payment as described below) in full; or
 - the purchaser is refinancing or renewing their First Mortgage where the mortgage amount is less than or equal to the then outstanding First Mortgage balance.

See attachment for sample purchase & repayment scenarios.

Maintenance & Repairs

- Purchasers must maintain the property in good repair and condition at all times, and all costs will be borne by the Designated Owner. This includes all operating costs including, but not limited to, insurance, property taxes (or equivalent), utilities, strata fees, special assessments, maintenance & repair, etc.

Repayment of the Second Mortgage Loan

- The Second Mortgage Loan must be repaid upon:
 - the sale of the home;
 - demand of repayment of the Second Mortgage Loan (which may occur on the conditions outlined below); or
 - when the Purchaser chooses to repay the Second Mortgage Loan.
- There are no restrictions on to whom the home must be sold however it must be sold for fair market value. If there is no third party sale (for example, if the Purchaser chooses to repay the Second Mortgage), then the fair market value will be determined by a third party appraiser, as further described in the loan documentation.
 - When the purchaser wishes to sell, the price and conditions of sale must be approved by UBCPT prior to marketing of the home. Upon closing, the sale proceeds will be distributed to each party as follows: first, to repay any outstanding amounts due to the First Mortgage Lender;
 - second, UBCPT will receive 33% (or a lower percentage in the case where the initial purchase price is greater than \$1,000,000) of the sale price. This amount will represent repayment of the principal owing under the Loan (as that amount may be adjusted under the terms of the Loan), plus participating interest, if applicable;
 - third, to pay customary closing costs including, but not limited to, loan fees, appraisal fees, real estate commissions, legal fees, taxes and administration fees, etc.; and
 - fourth, the owners will receive the remainder, but only after having first fully satisfied all charges or liens against the property, including all mortgages. In the event however that the remainder is not sufficient to repay the amounts noted above, the owners will be responsible to fund any shortfall using their other personal assets without affecting, in any manner, UBCPT's proceeds.
- UBCPT, at its cost, can obtain an appraisal at any time.
- UBCPT and/or UBC has an option to purchase the home prior to the unit being marketed for sale based on the price and conditions of sale submitted to UBCPT.
- As described above, upon sale of the home, repayment of the Second Mortgage Loan will be due. The then outstanding principal balance of the Loan will be fully repayable. Additionally,

UBCPT may, in some scenarios, be entitled to a participation interest payment. In other scenarios a portion of the principal amount of the Loan may be uncollectible. In particular, the Loan provides that in addition to the principal balance of a Loan, UBCPT will, in total, be entitled to an amount equal to 33% (or a lower percentage in the case of an original purchase price greater than \$1,000,000) of the sale price. In the case where the unit has increased in value from the time of original purchase, the amount due to UBCPT will be greater than the initial Second Mortgage Loan principal balance. In the case where the unit has decreased in value from the time of original purchase, the amount collectible by UBCPT will be less than the initial Second Mortgage Loan principal.

- Purchasers will be responsible for all closing costs and mortgage penalties, if applicable.
- Purchasers can choose to repay the Second Mortgage Loan in full at any time. The Second Mortgage Loan must be repaid in full, subject to a variation formula. The variation formula will be based on 33% (or a lower percentage in the case of an original purchase price greater than \$1,000,000) of the increase in market value of the home during the time of ownership. In the case where the unit has increased in value from the time of original purchase, the total amount due to UBCPT may be greater than the initial Second Mortgage Loan amount. In that case the amount due will be the full amount of the principal initially advanced, less any repayments, plus 33% of the amount by which the home has increased in value from the time of original purchase to the time of repayment. In the case where the unit has decreased in value from the time of original purchase, the amount collectible by UBCPT will be less than the initial Second Mortgage Loan amount. In that case, an amount equal to 33% of the decline in value will be subtracted from the principal amount of the Loan.

See attachment for sample purchase & repayment scenarios.

Demand of Repayment of the Second Mortgage Loan

- The Second Mortgage Loan becomes due and payable within 180 days of demand upon the earlier of:
 1. After the Loan has been outstanding for 30 years; OR
 2. The occurrence of one of the following policy driven repayment triggering events (summarized in the Report of the Faculty Housing Action Plan Policy Development Committee):
 - The Designated Owner is no longer employed by UBC;
 - The Designated Owner is no longer a tenured or tenure track employee at UBC or if retired faculty lose their emeritus/emera status;
 - Upon full retirement where the Designated Owner has been a full time employee of UBC for less than 15 years;
 - Upon full retirement where the Designated Owner has been a full time employee of UBC for more than 15 years but has not met professor emeritus/emera requirements;
 - Upon the settlement/agreement in the case of divorce/separation where the Designated Owner is not able to keep the home as their principal residence;

- Purchasing another dwelling unit in Metro Vancouver;
- If the home is being rented (outside of a UBC approved leave) and/or not being used as the Designated Owners principal residence; or
- Upon the death of the Designated Owner, in which case the Second Mortgage Loan becomes due and payable within one year of demand.

The Designated Owner will be required to assign a portion of their wages to UBCPT in the event that they fail to repay the amount due under the Second Mortgage Loan. UBCPT will have all other remedies available to a creditor to recover the total funds owing.

Reporting

- Purchasers in this program must annually:
 - declare that they comply with the program policies; and
 - confirm that the property is adequately insured and that all strata fees, property taxes and utility and service levies are paid and up to date.

Other

- The tax payable on any taxable benefits will be the responsibility of the Designated Owner. Where required UBC (the Designated Owner's employer) will adjust the Purchaser's T4 accordingly for any taxable benefits and UBC and UBCPT will take all informational, reporting, withholding and remitting steps required by the Tax Act or Canada Revenue Agency policy.
- The Designated Owner can temporarily rent their home, but only for and during the duration of a UBC pre-approved leave.
- Purchasers in the program will allow:
 - the First Mortgage Lender to share information with UBCPT regarding the First Mortgage; and
 - UBC to share information with UBCPT in the case of any termination of employment, retirement or other circumstance that will require repayment of the Second Mortgage Loan.

This document is to be read in conjunction with the 'UBC Properties Trust (UBCPT) Restricted Faculty Second Mortgage Loan Program – Sample Purchase & Repayment Scenarios.