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Clinician Educator Deferred Interest Program

Summary Description

The Clinician Educator Deferred Interest Program (CE-DIP) is a secured nonamortizing mortgage loan. The CE-DIP loan is not part of the required cash down payment. CE-DIP is to be used for a purchase, not to refinance existing mortgage loans. There are no current interest payments. However, Deferred Interest is payable at the time of sale, prepayment, or refinancing.

ELIGIBILITY

CE-DIP has limited eligibility for some Clinician Educators. Eligible Clinician Educators who may apply for a CE-DIP loan if all of the following criteria are met:

- (i) Are Clinician Educators appointed as: a Clinical Assistant Professor, a Clinical Associate Professor, or a Clinical Professor; and
- (ii) Are appointed for a term of three years or more with the possibility of reappointment; and
- (iii) Are first time buyers of a residential property located within the area described in Exhibit A to this brochure (Qualifying Limit); and
- (iv) Are buyers whose initial appointment as a Clinician Educator or whose promotion within the Clinician Educator line begins on or after July 1, 2004; and

NOTHING IN THIS DOCUMENT SHOULD BE CONSTRUED AS AN OFFER OR COMMITMENT OF ANY KIND. PROGRAMS AND ELIGIBILITY REQUIREMENTS ARE SUBJECT TO CHANGE OR DISCONTINUATION WITHOUT NOTICE AT STANFORD UNIVERSITY'S SOLE DISCRETION.

- (v) Are buyers who are employed at seventy-five percent (75%) time or greater; and
- (vi) Are considered benefits eligible Stanford University employees.

Note: Clinical Instructors, Clinician Educators who have courtesy appointments, and Clinician Educators who have temporary appointments while awaiting an appointment as a professor in the MCL line are not eligible for this program.

QUALIFYING RESIDENCE

A CE-DIP loan may be used to purchase a single family home, condominium, or any other dwelling unit suitable for housing one family (the Qualifying Residence). Vacation homes, investment properties, multiple family dwellings (for example, duplexes), and life care facilities are not Qualifying Residences.

The Eligible Clinician Educator must occupy the Qualifying Residence as his/her principal residence. The home purchase financed by the CE-DIP loan (the Property) must be located within the Qualifying Limit.

LOAN AMOUNT

The University will lend the lesser of 20% of the purchase price of the Property or 20% of its fair market value (FMV), subject to a maximum loan amount of \$100,000. Stanford requires an appraisal of the Property by a licensed appraiser to establish its FMV. For example, if the appraised value equals the purchase price of \$500,000 then the CE-DIP loan amount will be \$100,000. However, if the appraised value is \$450,000, which is \$50,000 less than the purchase price of \$500,000, then the CE-DIP loan amount can only be \$90,000. If the appraised value is less than the purchase price, the borrower must make up the difference by adding to the required down payment.

LOAN TERM

The CE-DIP loan is due on the earliest of the following dates: (i) thirty years after the loan date, (ii) when the Property is sold, (iii) when the Property ceases to be the Principal Residence of the borrower, (iv) when the borrower ceases to be eligible as defined by the University, including, but not limited to retirement, voluntary or involuntary termination or death, (v) upon demand of the University or (vi) upon occurrence of other circumstances set forth in the Promissory Note (Note). The date on which the CE-DIP loan is due is called the Due Date.

The surviving spouse or domestic partner of the Eligible Person may not retain a CE-DIP loan.

INTEREST PAYMENTS

CE-DIP loans have no current interest payments, however Deferred Interest is due when the loan is partially or fully repaid. The amount of Deferred Interest depends on the purchase price of the home, improvements which 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 Stanford's Share of Appreciation. Stanford's Share of Appreciation is equal to Stanford's Share times Appreciation.

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, if the purchase price is \$500,000 and the outstanding principal of the CE-DIP loan is \$100,000 then Stanford's share equals 20%. However, if the appraised FMV is \$450,000 which is \$50,000 less than the purchase price of \$500,000, then the maximum CE-DIP loan is \$90,000 and Stanford's Share is 18%.

Appreciation is the difference between the adjusted Due Date Fair Market Value and the Purchase Price. For example, if the house price increases from \$500,000 to \$600,000, and there are no adjustments, the appreciation equals \$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 \$20,000 if the Purchase Price was equal to the appraised FMV at the time of purchase. See Table 1 for examples of the Deferred Interest calculation under varying appreciation assumptions.

CONDITIONS OF THE LOAN

CE-DIP 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 the Stanford CE-DIP loan program. 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 preapproval process takes fifteen working days.

Faculty Staff Housing needs an up-to-date loan application, including 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 other required documents such as the appraisal, disclosures, and a pest inspection report. Loan approval, including satisfying Stanford's underwriting guidelines, is necessary before any Stanford loan can be funded.

3. Loan Origination Fees

A loan origination fee equal to one percent (1%) of the principal amount of the CE-DIP loan is collected at the close of escrow. Such fees are often referred to as points.

4. Secured Instrument

The CE-DIP Loan is secured by a Deed of Trust. A Deed of Trust is the document that records a lien against the Property for the principal amount of the loan.

5. 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 of the value of the buildings and improvements on the Property with a deductible not more than 15%. Your insurance carrier will send the certificates 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, borrower's should expect to pay additional costs at or before the close of escrow. There will be fees for loan processing, the credit report, the appraisal, the title insurance, the 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 is required whenever all or part of the CE-DIP 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 is absolutely due and payable and is 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. These adjustments are available only if, and to the extent, 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 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 borrower.

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 PRINCIPAL AND DEFERRED INTEREST DUE, PAYOFF IN YEAR 10

Annual House Price Appreciation Rate	0%	5%	8.5%
PURCHASE ASSUMPTIONS			
Purchase Price	\$ 500,000	\$ 500,000	\$ 500,000
CE-DIP Principal	\$ 100,000	\$ 100,000	\$ 100,000
Stanford's Share	20%	20%	20%
ADJUSTMENTS TO DUE DATE FAIR MARKET VALUE			
Due Date Fair Market Value	\$ 500,000	\$ 814,447	\$ 1,130,492
Adjustment Improvements	\$ (25,000)	\$ (25,000)	\$ (25,000)
Real Estate Broker's Commission	\$ (30,000)	\$ (48,867)	\$ (67,830)
Adjusted Due Date Fair Market Value	\$ 445,000	\$ 740,580	\$ 1,037,662
APPRECIATION			
Adjusted Due Date Fair Market Value	\$ 445,000	\$ 740,580	\$ 1,037,662
Purchase Price	\$ (500,000)	\$ (500,000)	\$ (500,000)
Total Adjusted Appreciation	\$ 0	\$ 240,580	\$ 537,662
STANFORD'S SHARE OF APPRECIATION			
20% x Adjusted Appreciation =	\$ 0	\$ 48,116	\$ 107,532
PAYOFF AMOUNT: DEFERRED INTEREST + PRINCIPAL			
Deferred Interest Due	\$ 0	\$ 48,116	\$ 107,532
CE-DIP Principal	\$ 100,000	\$ 100,000	\$ 100,000
Total Due	\$ 100,000	\$ 148,116	\$ 207,532

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 setting forth the amount; (iii) the appraisal process is as set forth in the Note.

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. Following the prepayment, the outstanding principal balance of the CE-DIP loan will have been reduced. See Table 2 for an example of this calculation.

TABLE 2 PARTIAL PREPAYMENT OF \$25,000 MADE AT THE END OF YEAR 10

<u>Purchase Assumptions</u>	
CE-DIP Principal	\$ 100,000
Divided by Purchase Price	\$ 500,000
Stanford's Share	20%
House value in 10 years at 5% annual appreciation	\$ 814,447
<u>Prepayment Calculation</u>	
Deferred Interest Due, end of Year 10	\$ 62,889
Plus CE-DIP Principal	<u>100,000</u>
Equals Principal + Deferred Interest	\$ 162,889
Partial Prepayment	\$ 25,000
Divided by Principal + Deferred Interest	\$ 162,889
Equals the Fraction	15.348%
CE-DIP Principal	\$ 100,000
Times the Fraction	x 15.348%
Equals Amount of Principal Reduction	\$ 15,348
Total Prepayment	\$ 25,000
Less Amount of Principal Reduction	<u>15,348</u>
Equals Amount of Deferred Interest Paid	\$ 9,652
<u>New Principal and Stanford's Share Calculation</u>	
Beginning Principal Balance	\$ 100,000
Less Amount of Principal Reduction	<u>15,348</u>
Equals New Principal Balance	\$ 84,652
New Principal Balance	\$ 84,652
Divided by Purchase Price	\$ 500,000
Equals New Stanford's Share	16.9304%

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 THE DIP LOAN

CE-DIP loans can be in one of two forms, a CE-DIP Zero Current Interest Loan or a CE-DIP Employee Relocation Loan. For borrowers holding a CE-DIP Zero Current Interest Loan, the University is deemed, for income tax purposes, to have paid the borrower additional compensation which is then returned to the University as mortgage interest. For borrowers who itemize deductions, these two items generally offset each other for income, but not FICA (Social Security) tax purposes. Compensation/interest will be imputed on the outstanding loan principal at the Applicable Federal Rate (which is based on U.S. Treasury Bill rates). This deemed compensation/interest will be reported as taxable income each year on Form W-2 and is subject to FICA tax withholding. The amount will also be reported to you on an IRS Form 1098 statement of mortgage interest paid by you. Some borrowers will qualify for a CE-DIP Employee Relocation Loan if they have recently moved to the Stanford area and can make certain representations. Such loans are described in Section 1.7872-5T of the regulations that interpret the Internal Revenue Code. CE-DIP Employee Relocation Loans have no imputed income or interest.

The tax treatment of CE-DIP loans is subject to change and various aspects of CE-DIP loans raise tax issues that a borrower may wish to discuss with his or her tax adviser.

NOTHING IN THIS DESCRIPTION OF THE CLINICIAN EDUCATOR DEFERRED INTEREST PROGRAM SHOULD BE CONSTRUED AS AN OFFER OR COMMITMENT OF ANY KIND TO MAKE A PARTICULAR LOAN OR AS SUBSTITUTING FOR OR SUPERSEDING THE FORMAL PROGRAM DOCUMENTS. CE-DIP IS SUBJECT TO CHANGE OR DISCONTINUATION WITHOUT NOTICE AT STANFORD UNIVERSITY'S SOLE DISCRETION.

