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| SUBJECT | FACULTY HOUSING ASSISTANCE FINANCING ENDOWMENT |
| MEETING DATE | FEBRUARY 14, 2017 |

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa Ono, President and Vice-Chancellor

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| DECISION REQUESTED | <p>IT IS HEREBY REQUESTED That the Board of Governors <i>approve</i>:</p> <p><i>i. Terms of Reference for the Faculty Housing Assistance Financing Endowment Fund; and,</i></p> <p><i>ii. Amended Terms of Reference for the Student Housing Financing Endowment, both in the form attached hereto.</i></p> |
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| Report Date | January 3, 2017 |
| Presented By | Andrew Simpson, Vice-President Finance & Operations Hubert Lai, Q.C., University Counsel Peter Smailes, Treasurer |

EXECUTIVE SUMMARY

The Faculty Housing Assistance Financing Endowment (FHAFE) Fund is a discrete endowment fund to be invested separately from UBC’s Endowment Pool. It is intended to finance UBC’s housing assistance program to facilitate recruitment and retention of outstanding faculty members.

The establishment of the FHAFE Fund was proposed in April 2015 and approved on December 6, 2016 by the Board of Governors, subject to the development of appropriate Terms of Reference based upon the FHAFE principles presented to the Board of Governors.

The Terms of Reference govern the administration and management of the FHAFE Fund and sets out the requirements for the management of the Fund’s capital, the use of capital in the FHAFE Fund, the use of income from the FHAFE Fund, the redirection of FHAFE capital, and reporting. The Terms of Reference are attached as Attachment A.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International
 (Internal / External)

or Operational

DESCRIPTION & RATIONALE

Background

The FHAFE Fund was proposed in April 2015 and approved in principle on December 6, 2016, as a tool to provide a source of financing to help UBC Faculties in recruiting faculty members from other parts of Canada and international locations. High prices in the Vancouver housing market are a frequently cited reason for potential faculty to be hesitant about accepting a position at UBC. The concept is to direct the proceeds from land development on the UBC Vancouver campus into a discrete endowment fund and invest the endowment fund in interest bearing loans to faculty members. Faculty members would use the loan proceeds to finance the purchase of their first home in the Lower Mainland. The FHAFE Fund is modeled on the Student Housing Financing Endowment (SHFE) Fund, which has successfully enabled UBC to make capital available to build student housing on campus without requiring external borrowing while at the same time ensuring that the endowed capital generates a return that is competitive with the Endowment Pool.

On December 6, 2016, the Board approved the creation of the FHAFE Fund, subject to the development of appropriate Terms of Reference. The Treasurer and the University Counsel have worked together to prepare those Terms of Reference, which are attached for the consideration of the Board of Governors as Attachment A. The Terms of Reference govern the administration and management of the FHAFE Fund, both for the faculty housing assistance programs currently offered and for any new programs approved by the Board of Governors in the future. The Terms of Reference for the FHAFE Fund includes sections that address:

- 1) Management of FHAFE Capital
- 2) Permitted Uses of FHAFE Capital
- 3) Use of Endowment Income
- 4) Redirection of FHAFE Capital
- 5) Reporting

The Board has approved an annual allocation to the FHAFE Fund of \$10 million from the proceeds that UBC receives each year from UBC Properties Investments Ltd. in respect of market land development activities on the UBC Vancouver campus for the next 15 years. The redeployment of a portion of land development proceeds to the FHAFE Fund requires consequential amendments to the Terms of Reference for the SHFE Fund. Those amended terms are attached for the consideration of the Board of Governors as Attachment B.

BENEFITS
Learning,
Research,
Financial,
Sustainability &
Reputational

Establishment of the FHAFE Fund will provide UBC with the ability to finance housing assistance programs that will enable UBC to recruit and retain outstanding faculty members while ensuring intergenerational equity and funding for faculty housing assistance is within the limit as approved by the Board of Governors. FHAFE provides a funding source to implement the various Faculty Housing Programs promoted by UBC without sacrificing the investment income on the Endowment.

RISKS
Financial,
Operational &
Reputational

Default Risk

The stewardship of the Endowment assets is dependent on the repayment of the loans by faculty members. Default on the loans will reduce the underlying value of the asset and affect future returns and funds available for investment into faculty housing. The probability of repayment is highly dependent on the faculty member's ability to refinance the property and repay the loan. With the Vancouver housing market increasing steadily over 15 year increments in line with the terms of the Prescribed Interest Rate Loans, the faculty member should have sufficient equity through its repayment of the first mortgage over the 15 year period combined with the appreciation on their property. In the past 20 years, UBC has experienced an extremely low default loss of less than \$100,000. The expectation is that this will continue in the future. To reduce the risk exposure and protect the investment, the loans will be secured by second mortgages. In an extreme situation, the loans could be extended beyond 15 years to enable faculty members additional time to refinance their property.

Late Payments

Any delay in the principal and interest payments by faculty could affect the monthly and quarterly returns on the endowment, but given automatic payroll deductions, the risk is very low. Loans are issued to employees of UBC reducing the risk of collection and if repayment becomes a concern, UBC will develop a repayment plan with the faculty member that meets the objectives of both parties. Unless the faculty member defaults on the loan, the investment income will eventually be recovered.

Interest Rate Risk

The CRA prescribed interest rate has been at 1% since the second quarter of 2009 (with the exception of the fourth quarter in 2013). The likelihood of an interest rate increase is high causing a similar scenario for the CRA prescribed rate. Given the prescribed rate must be reset every 5 years, there is a risk faculty members will not be able to afford an increase in the prescribed rate. However, this risk is no different than the risk faced by most home purchasers (five-year mortgage rates tend to be the norm.) In the event the CRA prescribed interest rate increases rapidly and faculty members are unable to fulfill this commitment and wind up defaulting on interest payments, UBC will be able to rely upon its mortgage security.

Imposed Annual Limit

Faculty members eligible for the housing programs have 10 years to take up their respective housing benefit options. UBC has estimated that the annual cost would be \$6 million annually based on the current programs being offered. The actual take-up may differ from the estimates exceeding the Board of Governors approved limit for any particular year. Therefore, the annual limit should be monitored over a 3 year rolling average to ensure flexibility within this program. Monitoring and controls are currently being developed by Treasury to ensure that the limits are not exceeded.

Return/Loss on Participating Interest

A portion of the endowment return for the Second Mortgage loan is dependent on the sale price of the property. UBC will participate up to 33% on the appreciation and depreciation of the sale on the property. Since the interest rate for the Second Mortgage Loan is below FHAFE’s targeted required rate of return, the appreciation is important in making up this difference. With UBC’s reputation, the surrounding communities are a desirable place to live and will improve as further development continues. As a result, the property values are expected to increase over time.

COSTS The cost to administer FHAFE are currently supported by the annual operating budget.
 Capital &
 Lifecycle
 Operating

FINANCIAL Initial capital funding will be financed from endowed land development proceeds. The
 Funding liquidity impact will be \$10 million annually over 15 years.
 Sources, Impact
 on Liquidity

SCHEDULE The FHAFE Fund will be established upon approval of the Terms of Reference by the Board
 Implementation of Governors
 Timeline

CONSULTATION
 Relevant Units,
 Internal & External
 Constituencies

- UBC Treasury
- UBC Office of the University Counsel
- UBC Faculty, Staff Housing & Relocation Services

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| Previous Report Date | December 6, 2016 |
| Decision | <i>Approval Establishing a Faculty Housing Assistance Financing Endowment (FHAFE), Terms of Reference to be provided to the Board of Governors for approval by Feb 2017.</i> |
| Action / Follow Up | |
| Previous Report Date | April 14, 2015 |
| Decision | <i>IT IS HEREBY REQUESTED that the UBC Board of governors approve: the creation of a Faculty Housing Assistance Financing Endowment, and a new 10 year tiered, Canada Revenue Agency, prescribed interest rate loan (PIL) program within the Faculty Home Ownership Plan, to continue the 0 interest, 33% value, 30 year second mortgage loan program, to close the Restricted Resale Capped Appreciation Option, and to approve the development of a PIL option to replace the Down Payment and Mortgage Interest Assistance Plans, subject to consultation with the Faculty Association</i> |
| Action / Follow Up | |

Attachment: Faculty Housing Assistance Financing Endowment Fund Terms of Reference (Attachment A)
 Attachment: Student Housing Financing Endowment Fund Terms of Reference (Attachment B)

FACULTY HOUSING ASSISTANCE FINANCING ENDOWMENT FUND

TERMS OF REFERENCE

INTRODUCTION

- A. In December 2016, the Board of Governors approved, in principle, the creation of the Faculty Housing Assistance Financing Endowment Fund (the “FHAFE Fund”) subject to the development of appropriate terms of reference to be approved by the Board of Governors in February 2017.
- B. These Terms of Reference, made after the Board of Governor’s meeting in December 2016 and approved by the Board of Governors on February 14, 2017, govern the administration and management of the FHAFE Fund.

TERMS OF REFERENCE

1. Management of FHAFE Capital

- 1.1. The Board of Governors hereby designates up to \$10 million in proceeds the University receives each year from UBC Properties Investments Ltd., in its capacity as trustee of UBC Properties Trust, as FHAFE capital (“FHAFE Capital”) and any committed 2nd Mortgage Loans (“2ML”). All FHAFE Capital will be recorded in the Capital Account of the FHAFE Fund.
- 1.2. The Vice President, Finance and Operations, will manage the FHAFE Fund in accordance with these Terms of Reference, with the objective of maintaining the value of the FHAFE Fund over time.

2. Permitted Uses of FHAFE Capital

- 2.1. The Board of Governors has established the 2ML and Prescribed Interest Rate Loan (“PIRL”) programs. In addition, the Board of Governors is considering the establishment of the Participating Appreciation/Depreciation Loan (“PADL”) program. All three of these programs contemplate that the University will loan monies to faculty members to enable faculty members to purchase homes. Each of these programs have their own requirements for determining which faculty members will receive such loans, payment of interest, and repayment of principal.
- 2.2. The Vice President, Finance and Operations, shall ensure that the FHAFE Capital is, to the fullest extent possible, loaned to faculty members under the 2ML, PIRL, and PADL programs, in a manner that is consistent with the requirements approved by the Board of Governors for each of these programs except that, in the event of any inconsistency between the requirements approved by the Board of Governors for each of these programs and the requirements established in these Terms of Reference, the requirements established in these Terms of Reference shall prevail.
- 2.3. The benchmark rate of return for the FHAFE Fund (the “Benchmark Rate”) is the sum of the Canadian Consumer Price Index for the fiscal year and the Spending Rate established from time to time by the Board of Governors for the endowment pool under UBC Policy #113 (Endowment Management). Where a faculty member pays interest under any of the 2ML, PIRL, or PADL programs at a rate that is at any time less than the Benchmark Rate, the Faculty in which the faculty member holds his or her primary appointment shall top up the difference so that FHAFE Fund earns the Benchmark Rate on each loan.

- 2.4. The 2ML and PADL programs provide for participating interest. For the purposes of section 2.3, any participating interest (whether positive or negative) will be disregarded and not included in the calculation of any amounts that are to be topped up by the Faculty.
- 2.5. All loans made to faculty members under the 2ML, PIRL, and PADL programs must be secured against the home through a mortgage.

3. Use of FHAFE Fund Investment Returns

- 3.1. Expenses related to development (i.e. fundraising) at the University and the investment, administration, and management of endowment funds will not be charged against the FHAFE Fund.
- 3.2. In respect of each loan made with FHAFE Capital, the investment returns (being the net sum of interest payments and participating interest) earned by the FHAFE Fund will be allocated as follows:
 - (a) All interest payments earned by the FHAFE Fund will be deposited into the FHAFE Fund Stabilization Account as they are received. All amounts earned in respect of a participating interest will also be deposited into the FHAFE Fund Stabilization Account when they are received. Conversely, any unrecovered defaults on principal repayments by the faculty members and any loan forgiveness by UBC will be deducted from the FHAFE Fund Stabilization Account when those losses are realized.
 - (b) At the end of each fiscal year, an amount equal to the amount of inflation experienced during the fiscal year (as represented by the Canadian Consumer Price Index) will be capitalized by way of a transfer from the FHAFE Fund Stabilization Account to the FHAFE Fund Capital Account, becoming additional FHAFE Capital; and
 - (c) At the beginning of each fiscal year, an amount will be transferred from the FHAFE Fund Stabilization Account to the TREK Endowment Fund Spending Account (or as otherwise directed by the Board of Governors, from time to time). The amount to be transferred will be calculated by multiplying the Spending Rate that has been established by the Board of Governors for the endowment pool under UBC Policy #113 (Endowment Management) for that fiscal year by the rolling three-year average of the market value of the FHAFE Fund. The market value of the FHAFE Fund is the sum of the FHAFE Fund Capital Account balance and the FHAFE Fund Stabilization Account balance.

4. Redirection of FHAFE Capital

- 4.1. FHAFE Capital shall be received by and remain an asset of the University in its own capacity and is not received or held by the University as a trustee. These Terms of Reference are not intended to create a trust in respect of the FHAFE Capital; rather, they set out the intention of the Board of Governors with respect to the management and administration of the FHAFE Capital and its proceeds.
- 4.2. If there is an amount of FHAFE Capital that exceeds the University's foreseeable financing needs for faculty housing assistance, the Board of Governors may transfer the excess funds into another endowment fund, and such transferred funds will cease to be FHAFE Capital governed

by these Terms of Reference. It is contemplated that any such excess funds will be transferred to the Student Housing Financing Fund or the TREK Endowment Fund, but the Board of Governors may direct the funds into such other endowment that, at the time of transfer, best meets the University's needs.

5. Reporting

Unless otherwise directed by the Board of Governors, the Vice President, Finance and Operations, will submit to the Board of Governors an annual report, which shall contain:

- (a) the financial details of the Endowment including:
 - i. funds flow into the Endowment;
 - ii. a summary of each loan made with the FHAFE Capital, including loan advances, repayments, defaults and the rate of return;
 - iii. cumulative data about loan advances, and principal and interest payments;
 - iv. a list of the faculty housing assistance programs that FHAFE Capital has financed; and
 - v. the amount transferred to the Student Housing Financing Fund or the TREK Endowment Fund in accordance with Section 3(c) above; and
- (b) such additional information as requested by the Board of Governors, from time to time.

STUDENT HOUSING FINANCING ENDOWMENT FUND

AMENDED TERMS OF REFERENCE

INTRODUCTION

- A. On February 7, 2011, the Board of Governors approved, in principle, the creation of the Student Housing Financing Endowment Fund (the “SHFE Fund”), subject to the development of appropriate terms of reference to be approved by the Board of Governors.
- B. Terms of Reference to govern the administration and management of the SHFE Fund were prepared following the Board of Governors’ meeting on February 7, 2011 and subsequently approved by the Board of Governors on June 8, 2011. The Board of Governors also resolved that all the proceeds the University receives each year from UBC Properties Investments Ltd. (“UBC Properties Proceeds”) would be directed into the SHFE Fund.
- C. In December 2016, the Board of Governors approved, in principle, the creation of the Faculty Housing Assistance Financing Endowment Fund (the “FHAFE Fund”), subject to the development of appropriate terms of reference. These were prepared following the Board of Governors’ meeting in December 2016 and subsequently approved by the Board of Governors on February 14, 2017.
- D. The creation of the FHAFE Fund contemplates that the first \$10 million in UBC Properties Proceeds will be directed into the FHAFE Fund (“FHAFE Capital”), with the remaining balance being directed into the SHFE Fund.
- E. Accordingly, these Amended Terms of Reference have been amended and approved by the Board of Governors effective February 14, 2017.

AMENDED TERMS OF REFERENCE

1. Management of SHFE Capital

- 1.1. The Board of Governors hereby designates the balance of the UBC Properties Proceeds remaining following the FHAFE Capital contribution, in its capacity as trustee of UBC Properties Trust, as SHFE capital (“SHFE Capital”).
- 1.2. The Vice President, Finance and Operations, will manage the SHFE Fund in accordance with these Amended Terms of Reference, with the objective of maintaining the value of the SHFE Fund over time.

2. Permitted Uses of SHFE Capital

Loans to Student Housing and Hospitality Services

- (a) The Vice President, Finance and Operations, shall ensure that the SHFE Capital is, to the fullest extent possible, loaned to Student Housing and Hospitality Services to finance or refinance student housing-related capital projects (“SHHS Loans”).
- (b) SHHS Loans shall be documented by an internal loan agreement that:

- (i) sets out the principal loan amount, interest rate charge, and repayment terms;
 - (ii) requires principal and interest repayments to be accompanied by a certification, signed by the Managing Director, Student Housing and Hospitality Services, that the proceeds of the SHHS Loan were used to finance or refinance student housing-related capital projects; and
 - (iii) is signed by such individuals and contains such other terms and conditions that Treasury may require.
- (c) The per annum interest rate for all SHHS Loans shall be no less than the sum of:
- (i) the projected rate of inflation over the repayment term, as determined by Treasury, as at the execution date of the internal loan agreement; and
 - (ii) the Spending Rate, established pursuant to University Policy #113, as set at the execution date of the internal loan agreement.
- (d) Unless otherwise approved by the Vice President, Finance and Operations, the interest rate will be fixed for the duration of the repayment term of the SHHS Loan.
- (e) Unless otherwise approved by the Vice President, Finance and Operations, repayments will be made in annual instalments, amortized over not more than a 30 years term.

3. Use of SHFE Fund Income

- 3.1. Expenses related to development (i.e., fundraising) at the University and the investment, administration and management of endowment funds will not be charged against the SHFE Fund.
- 3.2. In respect of each loan made with SHFE Capital, the interest received by the University will be allocated as follows:
- (a) the portion of the interest attributable to inflation will be capitalized, becoming additional SHFE Capital; and
 - (b) the portion of the interest attributable to the Spending Rate will be transferred into the Spending Account for the TREK Endowment Fund (or as otherwise directed by the Board of Governors, from time to time).

4. Redirection of SHFE Capital

- 4.1. SHFE Capital shall be received by and remain an asset of the University in its own capacity and is not received or held by the University as a trustee. These Amended Terms of Reference are not intended to create a trust in respect of the SHFE Capital; rather, they set out the intention of the Board of Governors with respect to the management and administration of the SHFE Capital and its proceeds.

- 4.2. If there is an amount of SHFE Capital that exceeds the University's foreseeable financing needs for student housing-related capital projects, the Board of Governors may transfer the excess funds into another endowment fund, and such transferred funds will cease to be SHFE Capital governed by these Amended Terms of Reference. It is contemplated that any such excess funds will be transferred to the TREK Endowment Fund, but the Board of Governors may direct the funds into such other endowment that, at the time of transfer, best meets the University's needs.

5. Reporting

Unless otherwise directed by the Board of Governors, the Vice President, Finance and Operations, will submit to the Board of Governors an annual report, which shall contain:

- (a) the financial details of the SHFE Fund including:
 - (i) funds flow into the SHFE Fund;
 - (ii) a summary of each loan made with the SHFE Capital, including loan advances, repayments, and the rate of return;
 - (iii) cumulative data about loan advances, and principal and interest payments;
 - (iv) a list of the student housing-related capital projects that SHFE Capital has helped finance; and
 - (v) the amount transferred to the TREK Endowment Fund in accordance with Section 3.2(b) above; and
- (b) such additional information as requested by the Board of Governors, from time to time.