# THE CENTRALIZED HOME FINANCING PROGRAM (CHFP)

**A Proposal of the**

**Chamber of Real Estate & Builders' Associations, Inc. (CREBA)**

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# OVERVIEW

The CHFP is a comprehensive program which has two basic features: **Centralized Funding**, and **De-centralized lending**. It is designed:

- Exclusively for home financing assistance to individual home loan borrowers. It has no component for developmental financing;
- For the benefit of all homeless families in both formal and informal sectors;
- At lending rates of 9% for socialized housing;
- With emphasis on socialized and low-income beneficiaries;
- On a funding scale intended to meet the Estrada administration's housing production target of at least 350,000 new housing units per year; and
- With funding and lending mechanisms designed to ensure continuing viability, stability and sustainability

# FUNDING ASPECT

The CHFP's funding aspect involves:

1. Constitution of a P124 Billion permanent revolving seed fund from the following sources:

    - One-time lump-sum investments by the SSS, GSIS and Pag-IBIG, to the full extent of the following percentages of their investible funds: SSS – 30%; GSIS – 30%; and Pag-IBIG – 70%, and to be released under the following terms:

        - Via a peso-for-peso swap of their outstanding mortgage portfolio (including NPLs) for NHMFC's promissory notes (PNs) or housing bonds;
        - At a PN/housing bond maturity of 10 years (corresponding to the median maturity of the outstanding mortgage portfolios);
        - With the PN/housing bond yield set at the average rate of the outstanding mortgage portfolio (less 2% corresponding to the overhead, collection and other costs that the Funders will forego upon turnover of the mortgage portfolio to NHMFC); and
        - The PNs/housing bonds to be amortized annually for 10 years (see Annex A);

    - The unused (residual) agri-agra funds of banks for the preceding year:

        - To be remitted lump-sum to the NHMFC in exchange for 2- to 5-year housing bonds;

- At rates of not more than 10% (but with effective yields of 13% due to exemption from the tax on interest income, to be further boosted once the proposed package of securitization enhancement measures is legislated upon);

- Under appropriate arrangements that the BSP, DOF, BAP and NHFMC may agree upon; and

- With annual payments of accrued interest by the NHFMC, and balloon payment of the principal on the 5th year.

2. Full securitization – with enhancement measures (proposed for inclusion in the pending DHUD Bill) intended to ensure marketability and competitiveness of housing bonds/securities, by raising effective or net yields without correspondingly raising the housing loan rates, on top of HGC cover.

**NEED FOR CENTRALIZED FUNDING**: – It is only under a centralized funding scheme as would be effected above that NHMFC (or whichever appropriate single institution may be designated) will have full control over the housing funds, in terms of:

- **TARGETING THE DESIRED BENEFICIARIES**. This is not possible under a scheme where the Funders and banks will service only their chosen clientele (i.e. the formal sector).

  Without centralized funding, the housing needs of the underprivileged in the informal sector will either continue to be neglected, or will have to be addressed through government budgetary allocations or foreign loans;

- **EFFECTING A 9% LENDING RATE FOR SOCIAL HOUSING BENEFICIARIES**, without need of government subsidies, under the cross-subsidy mechanism where the fund pool is allocated in appropriate ratios (and corresponding lending rates) among socialized, low-income and middle-income housing loans.

  Cross-subsidy is not possible under a scheme where the Funders and banks are free, or will most likely opt, to lend only at market rates;

- **TARGETING DESIRED GROWTH AREAS OR LOCATIONS** where residential production is to be emphasized; and

- **STANDARDIZATION** of lending terms, conditions and documentation, as a means of reducing costs and ensuring marketability.

**NEED FOR A ONE-TIME PERMANENT SEED FUND**:– The Funders cannot avoid exposure in housing, whether in the form of direct housing loans or developmental loans, as this is provided for under their Charters. Their Charters also allow them to invest in government securities. The CHFP merely requires that their housing exposure be effected on a one-time lump-sum basis, rather than in unpredictable trickles in annual installments.

As far as banks are concerned, the use for social housing purposes of the residual portion of their agri-agra loan portfolio is mandated under RA 7835. The CHFP merely provides for the manner by which banks may comply with this legal mandate.

Constitution of a fixed and permanent seed fund of P124 Billion for homebuyer financing is necessary to:

- **ACHIEVE THE PRODUCTION TARGET OF AT LEAST** 350,000 new housing units per year, on the fundamental premise that developers will build any number of homes only for those who have the capability to acquire;

- **ENSURE PERMANENCE, CONTINUITY AND STABILITY** of the housing effort;

- **INSPIRE THE PRIVATE SHELTER SECTOR'S CONFIDENCE** and allow private developers to undertake long-term programming of housing production activities such as land-banking, forward planning, etc; and

- **AVOID COSTLY DELAYS** in the delivery of home financing assistance, and enable faster project turnover by the developers, thus servicing as many homeless families in as short a time as possible.

**NEED FOR THE MORTGAGE-FOR-PN SWAP DEAL**: – The swap deal is necessary for the following reasons:

- **TO AVOID DISRUPTION OF THE FUNDERS' CASH FLOWS**. With the swap deal, the Funders' contributions to the housing program will not require any cash outlay, in contrast to the MWLS.

  The annual amortization of the PNs will even serve to strengthen the Funders' liquidity position since the receipts are assured, in contrast to the uncertainty of collection of their mortgage receivables (particularly their NPLs) should they opt to hold on to the same.

- **TO ENABLE THE PROGRAM TO SERVICE THE INFORMAL SECTOR**. Upon consummation of the swap deal, the Funders' erstwhile mortgage portfolios will be owned by the NHMFC. This will thus free the program from the conditionalities as to the use of the funds generated from these mortgages (i.e. that the funds shall be lent only to the Funders' members).

- **TO ENABLE SECURITIZATION BY NHMFC**. The mortgage portfolios will thereafter be treated as assets of the NHMFC, which it can now use to back its securitization program.

# LENDING ASPECT

The CHFP's lending aspect involves:

1. **DECENTRALIZED LENDING** to individual borrowers from both the formal and informal sectors.

   This will be undertaken nationwide, in two ways: (a) mortgage origination by participating banks, expectedly under normal banking procedures and processes; and (b) developer origination via **CTS** in-house financing.

   CTS origination is differentiated from mortgage origination primarily by the loan instrument used. Mortgage origination uses the Deed of Sale with Real Estate Mortgage (REM) wherein, upon payment of the downpayment (or even without it), the title to the house/lot unit is transferred to and registered in the name of the buyer-borrower. In contrast, CTS origination uses the Contract-To-Sell

(CTS) wherein, despite a downpayment, title will pass to the buyer-borrower only upon full payment of the consideration.

2. **PURCHASE BY THE NHMFC** of the mortgages and CTS accounts from participating banks and developers, who will be granted purchase commitment lines (PCL) in accordance with a standard MOA between the NHMFC and the originators. The funds for this purpose will come from the central CHFP Fund, to be allocated in appropriate ratios among socialized, low-income and middle-income housing.

**DEVELOPER ORIGINATION:–** Developer origination will be undertaken solely using the Contract-To-Sell (CTS) as instrument, under a standard MOA between the developer and the NHMFC.

Said MOA will provide, among others, that:

a) The rate, maturity, terms, eligibility requirements and other conditions of the loan shall be as prescribed by the NHMFC in accordance with the provisions of the proposed EO and the corresponding guidelines to be promulgated by the HUDCC;

b) Upon execution of the CTS, the borrower shall be required to pay an equity of five percent (5%) for socialized housing and ten percent (10%) for non-socialized, plus an origination fee of not more than three percent (3%) and such other reasonable and necessary charges if any;

c) The developer shall undertake collection of amortizations on behalf of the NHMFC for the first two (2) years of the CTS, for a collection fee of not more than two percent (2%) of the amounts collected, extendible to such period as may be mutually agreed upon;

d) The developer shall warrant in writing the remittance of one hundred percent (100%) collection for the first twenty-four (24) monthly amortizations of the CTS;

e) Upon take-out, the developer shall execute and deliver a Deed of Absolute Sale of the subject property in favor of the NHMFC, subject to CTS, and shall transfer/assign to the NHMFC the CTS, the receivables therefrom, the title to the subject property and all other necessary documents;

f) Within seven (7) days from submission by the developer of the account and all the required documents, the NHMFC shall release to the developer ninety percent (90%) of the balance of the CTS.

   The balance of ten percent (10%) shall be retained by the NHMFC within the first two (2) years of the account, and shall be forfeited in favor of the NHMFC in case of (a) violation of the one hundred percent (100%) collection warranty, and (b) other violations of the MOA. The NHMFC shall pay the developer interest of not more than ten percent (10%) per annum or market rate whichever is lower, for the retention.

   The one hundred percent (100%) collection warranty shall be deemed complied with when: (a) during the first two (2) years of the CTS <u>no account</u> is more than two (2) months in arrears; and (b) prior to the release of the ten percent (10%) retention, the first twenty-four (24) monthly amortizations (principal and interest) of <u>all accounts</u> covered by the warranty are fully paid and remitted.

# ASSET QUALITY

The accounts that the NHMFC will purchase in accordance with the foregoing, will represent high-quality assets against which securities of a relatively high investment grade may be issued.

Such quality is ensured by:

a) A strong hold on the collateral property due to the use of the CTS instead of mortgage as loan instrument;

b) The assurance of 100% collection of receivables due to the developer's 100% collection warranty backed by the 10% retention within a 2-year seasoning period, bolstered by greater credit discipline on the part of borrowers due to the requirement of up-front payment of equity and front-end fees; and

c) The proposed exemption from the Maceda Law and summary ejectment by the HLURB upon cancellation.

# ASSET HOLD

Mortgage origination necessitates the transfer of title to the subject property in favor of the buyer, in order to constitute the mortgage. Thus, in case of default, the mortgagee or the assignee (NHMFC) will have to institute foreclosure proceedings (a long and expensive process) before it can gain ownership and recover its investment through resale or other means.

In essence therefore, with mortgage origination the NHMFC purchases from the originator only the rights of a mortgagee, not the subject property itself.

With CTS origination on the other hand, when NHMFC purchases the account from the originating developer, it not only gains the right to the receivables, but becomes owner of the property itself (subject only to the terms of the CTS). When the buyer defaults, the CTS may be canceled by the developer in behalf of the NHMFC. When the developer violates the MOA, NHMFC may take over the property as owner, by simply canceling the collection agreement and appointing another collection agent, or undertaking the collection directly.

Title to the property will be transferred to the buyer only after full payment of the account, or sooner upon the sole discretion of the NHMFC. In the event of default, the NHMFC can easily take control of the property, or avail of several options under the developer warranty scheme to recover its investments in a much shorter time than possible under mortgage origination.

Compared to mortgages therefore, CTS accounts under this program ensure for the NHMFC the strongest asset hold.

# COLLECTION PERFORMANCE

The possibility of defaults is rendered remote by the measures that will serve to instill credit discipline in the buyer/borrower, such as:

a) The requirement for a borrower's stake in terms of front-end payment of equity and other fees and charges; and

b) The non-transfer of title prior to full payment – which will motivate the borrower to avoid default at all cost, on pain of easily losing the property and his stake therein, not to mention the humiliation of ejectment.

As further risk insulation, all CTS accounts purchased by the NHMFC will be backed by the developer's warranty of 100% remittance of collections, under the collection agreement between the latter and the NHMFC wherein the developer acts as the latter's collecting agent for a fee of 2% of collections.

To provide the warranty with strength and efficacy, the NHMFC will remit to the developer only 90% of the sales proceeds of all the CTS accounts turned over by the developer. The balance of 10% will be retained by the NHMFC for a period of 2 years, for which the developer will be paid accrued interest.

**DEVELOPER WARRANTY SCHEME:** – This scheme requires that:

a) Within the first 2 years from the date of purchase of the CTS accounts by the NHMFC, no single account from the batch shall be in arrears for more than 2 months, otherwise it would constitute violation of warranty.

b) After this 2-year seasoning period, the NHMFC will release the 10% retention plus accrued interest, but only when all accounts in the batch are up to date. If any one account is not current, the 10% retention for the entire batch will remain with the NHMFC.

c) Should any account in the batch fall in arrear for more than 2 months, the NHMFC will send notice to the developer of such arrears, and require the latter (within a grace period of 1 month) to either (1) update the account, or (2) buy it back.

d) In case of failure by the developer to undertake either option within the grace period, the NHMFC will: (1) cancel the collection agreement; (2) forfeit the 10% retention corresponding to the entire batch of accounts; and (3) take over the CTS and notify the borrower concerned of such cancellation, with instructions to henceforth remit all amortizations directly to the NHMFC.

e) Should the account still remain unpaid, the NHMFC will cancel the CTS, effect ejectment when necessary, and resell the property (expectedly at a premium).

**NEED FOR THE 10% RETENTION UNDER THE WARRANTY SCHEME**: – This arrangement is necessary for the following reasons:

- **IT RELIEVES THE NHMFC OF THE RISK BURDEN** from arrearages or loan delinquencies that caused the collapse of the UHLP.

- **IT ENSURES THAT ONLY DEVELOPERS IN GOOD FAITH** will participate in the program.

- **IT WILL PREVENT DELAYS IN TAKE-OUTS**, since the NHMFC need no longer undertake the lengthy process of credit evaluation of the individual loan applications.

- **IT WILL REDUCE THE DOCUMENTATION** which borrowers are required to submit in order to establish capacity to pay, thus reducing the borrower's cost burden.

- **IT WILL RENDER UNNECESSARY THE HGC GUARANTEE** on individual loans, thereby relieving the government guarantee mechanism of pressure, and spares the borrower from paying the HGC guaranty fee.

- **IT OFFERS THE NHMFC AMPLE PROTECTION** even in the worst case scenario of 6-month arrearages on all accounts, since the amount to be forfeited is not just 10% of the delinquent account, but 10% of the value of the entire batch of accounts passed on by the developer concerned (see Annex B).

## HGC RISK INSULATION

The developer's warranty backed by the 10% forfeitable retention, will render unnecessary the requirement for HGC guarantee on the individual loans. However, should the same still be required, it is highly unlikely that guarantee calls would be made.

As far as the sovereign guarantee on NHMFC securities is concerned, the possibility of guarantee calls on the HGC is similarly rendered remote, considering that the measures ensuring NHMFC's strong asset hold and high collection performance would enable it to maintain a solid financial position and continually generate cash flows sufficient to liquidate any maturing obligations from securitization.

## ADMINISTRATIVE EFFICIENCY

Individual loan servicing and collection will be undertaken at the retail end (by the developers in the case of CTS origination). Hence the NHMFC will concentrate simply on wholesale collection from the developers ~ a task that will not require expansion of the administrative machinery to more than the modicum necessary for such purpose, particularly under a fully computerized system.

As far as bank origination is concerned however, mutually convenient arrangements may be similarly agreed upon between the banks and the NHMFC.

## LEGISLATIVE PROPOSALS

To enhance the program's effectiveness, the following measures have been proposed for inclusion in the pending bill to create the Department of Housing:

1. **SECURITIZATION ENHANCEMENT MEASURES** – to ensure the marketability and competitiveness of housing bonds/securities, by using the fiscal approach to raise their effective or net yields, without having to

raise the interest rate itself (which would necessitate a corresponding increase in lending rates on individual housing loans to levels unaffordable by the target beneficiaries):

a) Exemption from the 20% withholding/final tax on interest income, for savings depositors of banks whose investment in housing bonds or similar instruments is not less than 20% of their investible funds;

b) Exemption from the 20% final tax on income, documentary stamps tax, gross receipts tax, and value added tax, for transactions involving the purchase and sale of housing bonds/securities;

c) Use of housing bonds/securities as statutory and/or liquidity reserves of banks, and insurance reserves of insurance companies;

d) Use of investments in housing bonds/securities as alternative compliance with the loan-to-deposit ratio requirement of banks; and

e) Use of investments in housing bonds/securities as alternative compliance with the social housing quota under RA 7279.

2. **EXEMPTION FROM RA 6552** (Maceda Law) for housing packages sold on installment under a Conditional Deed of Sale or Contract To Sell and financed under any government housing program. This is intended not only to instill credit discipline, but also to ensure full investment recovery by the home financing institution in case of loan defaults.

3. **REDUCTION OF THE MORTGAGE REDEMPTION PERIOD** in case of foreclosures, from 1 year to 3 months, to minimize the burden on the government's funding agencies in instances of housing loan defaults under the mortgage origination scheme.

4. **SUMMARY EJECTMENT BY THE HLURB**, to facilitate turnover of defaulted loans/cancelled accounts.

5. **ESTABLISHMENT OF A 20% CREDIT ALLOCATION FOR HOUSING** in the case of banking institutions.

## BENEFITS TO THE PARTICIPANTS

**FUNDERS & INVESTORS**: – With all the measures incorporated in the lending scheme to insulate the NHMFC from risk and losses, the Funders and all other investors are assured of safety as far as their investments are concerned. In addition, the SSS, GSIS and HDMF will benefit as follows:

1. Their one-time lump-sum investment will not unduly impair their cash position since this will be effected in the form of mere assignment of their mortgage receivables.

2. The mortgages they will assign will cover both performing and non-performing loans. They will therefore be spared the burden and cost of foreclosures in case of loan defaults.

3. The promissory notes/bonds that will be issued to them in exchange for the mortgages assigned shall bear interest rates equal to the average interest rate of all the mortgages less provision for standard overhead and collection cost of not more than 2%.

4. Their cash flow is assured through the yearly payment by the NHMFC of the accrued interest plus 10% of the principal over a 10-year period, by which time their total exposure shall have been fully liquidated.

5. The promissory notes/bonds that will be issued are risk-free and tax-free in view of the guaranty cover by HGC. This is particularly beneficial to HDMF which to this day enjoys no tax-exemption

**BANKS**: – No new burden is imposed on the banks. Their contributions to housing through the unused portion of their Agri-Agra loan allocation is provided under RA 7835. The CREBA proposal merely seeks to enforce their manner of alternative compliance therewith.

At 10% interest on the securities that will be issued to them in return for their investment, their effective net yield will be 13% in view of the tax exemption feature of HGC-covered issues. This is better than market yields.

Should CREBA's proposed securities enhancement measures be adopted, the banks will be further assured of the following benefits:

1. In addition to full HGC guarantee, the bonds/notes that they will get in return for their investment will be entitled to additional tax exemptions (GRT, VAT, DST). thus further boosting their effective net return.

2. When they enroll these bonds/notes as bank reserves, their effective return will be higher.

3. There will be no need for them to engage in costly, risky and cumbersome retail banking through housing loans. Their investment in housing bonds will suffice as compliance with their mandated loan allocation.

4. They will receive yearly payments of accrued interest, and their total investment will be liquidated in 5 years.

5. The additional feature of exemption from the 20% withholding tax on interest income for their savings depositors, will help expand their capability to attract depositors.

**HGC**: – The possibility of guarantee calls on the HGC is remote, in contrast to the HUDCC's MWLS.

**DEVELOPERS**: – Developer participation in the program is entirely optional.

While at first glance the developer warranty scheme with 10% retention may seem harsh, there is actually no real prejudice for those who are in earnest about their participation. It merely seeks to insulate the program from the unscrupulous who might seek to exploit the same.

The 10% retention will earn interest, and as such will be no different from a bank placement. Defaulting accounts that they may be required to buy back, can be easily resold at a profit. They will be assured of take-out in no more than 7 days, hence (1) they will not suffer from delays which, as in the past set-up, brought the industry to its knees due to massive holding costs; and (2) they can readily engage in new projects.

**HOMEBUYERS**:– Income-earners in both the formal and informal sectors will be assured of a stable and continuing home financing assistance program geared to their needs.

In particular, the underprivileged will be assured of an interest rate of only 9% for socialized housing.

While the requirement to put up a buyer's stake may appear burdensome on the part of the underprivileged, this is however necessary in order to:

a) Instill credit discipline, which was sorely lacking in the previous lending programs;

b) Serve as a disincentive to those who merely wish to take advantage of the government, or are uncertain about their ability to religiously amortize their loans; and

c) Deliver the message that Government is not in the dole-out business, and acquiring a home is a serious responsibility that requires dedication on the part of all concerned.

Fears about the financial capability of prospective buyers/borrowers to meet the front-end payments may be put to rest, as long-time experience has shown that those who are truly in earnest about acquiring a home will exhaust all means to meet the required downpayment. Besides, the required stake or downpayment need not have to be paid in one-lump sum, as arrangements can be made such that it may be remitted within a 2- to 3-month period or longer.

In return for this show of good faith on the part of the buyer/borrower, Government will reciprocate in terms of facilitating loan availment by doing away with tedious, cumbersome and documentary requirements or conditions – particularly those designed to prove capacity to pay – which are after all rendered unnecessary by the risk insulation measures incorporated in the program.

**GOVERNMENT**: – Without any government subsidy, the government will be able to provide home financing assistance to as many underprivileged homeless citizens as possible, in both the formal and informal sectors, within a short period of time.

The entire program, in both the funding and lending aspects, is so designed as to permanently set in place a shelter finance system that is stable, viable and continually self-sustaining ~ a far cry from the previous set-up which the HUDCC's MWLS seeks to maintain, wherein funding is entirely dependent on the discretion and good graces of the Funders.

With this system in place, Government will be finally afforded the opportunity to speedily resolve the critical housing problem that has plagued society for years, even as it integrates into the formal stream the millions in the informal sector.

In the process, Government will be able to take full advantage of the unparalleled economic pump-priming impact of housing activity – expanded business opportunities in at least 65 other industries, employment and livelihood opportunities for thousands of the unemployed and underemployed, and a tremendous boost to government tax revenues.

# COMPARATIVE MATRIX: CHFP VS UHLP

The only similarities between the defunct UHLP and the proposed CHFP are (1) centralization of funds: (2) formula lending; and (3) cross-subsidy scheme. Apart from these, the CHFP ***fundamentally differs*** from the UHLP as follows:

| ATTRIBUTE | UHLP | CHFP |
|---|---|---|
| FUNDING SCHEME | Centralized funding | Centralized funding |
| SEED FUND | No fixed and permanent seed fund | Constitution of P124 Billion one-time permanent seed fund |
| FUND SOURCE | Annual funding commitments by SSS, GSIS and Pag-IBIG | Seed fund sourced from:<br>• SSS/GSIS/Pag-IBIG to the extent of the allowed percentages of their investible funds under their Charters<br>• Unused (residual) agri-agra funds of banks |
| NATURE OF FUNDING | • Funders' contributions were treated as loans<br>• Annually negotiated<br>• Required cash outlays by Funders<br>• Released in trickles, unpre-dictable as to amount and time of release<br>• Subject to conditionalities as to program beneficiaries and lending rates<br>• Liquidation was unpredictable, depending solely on the program's collection performance | • Contributions are treated as investments<br>• One-time lump-sum<br>• Requires no cash outlay by Funders, as investment will be effected via a mortgage-for-PN/housing bonds swap deal<br>• Predictable, programmable<br>• Frees the program from Funders' conditionalities<br>• Liquidation is guaranteed via annual amortization of the PNs for 10 years |

| ATTRIBUTE | UHLP | CHFP |
|---|---|---|
| SECURITIZATION | NHMFC could not securitize (i.e. issue securities backed by its own mortgage assets), since the Funders retained ownership of the mortgages generated under the UHLP | Securitization can be fully effected because:<br>• Under the swap deal, the Funder's out-standing mortgages will become NHMFC's assets for securitization<br>• Subsequent securitization is assured via the package of securitization enhancement measures proposed for inclusion in the pending DHUD Bill, which will:<br>  ○ infuse risk-free features into the lending program, thus ensuring continuing viability and marketability<br>  ○ provide tax exemptions which will raise the effective yields of housing securities, over and above the HGC cover<br>  ○ provide a captive market for housing securities |
| LENDING SCHEME | **Centralized lending:**<br>• Participating banks and developers acted merely as NHMFC's fund conduits through mortgage origination<br>• NHMFC was responsible for loan servicing and collection | **De-centralized lending:**<br>• Participating developers are themselves the lenders, via CTS in-house financing<br>• Developers will be responsible for loan servicing and collection, under a collection agreement covered by 100% collection warranty backed by full sanctions |
| BENEFICIARIES | Exclusive to members of SSS, GSIS and Pag-IBIG, as dictated by the Funders | All homeless income earners, whether or not members of SSS, GSIS or Pag-IBIG, with emphasis on the underprivileged |

| ATTRIBUTE | UHLP | CHFP |
|---|---|---|
| LOAN INSTRUMENT | DEED OF SALE WITH MORTGAGE (REM) – inferior instrument:<br>• Necessitates title transfer in the name of the buyer when the loan is contracted<br>• In case of loan default, the funding institution must undergo lengthy foreclosure and ejectment proceedings to recover its investment<br>• Funds are tied-up for the entire duration of foreclosure, redemption and ejectment proceedings | CONTRACT-TO-SELL (CTS) – superior instrument:<br>• Title transfer in favor of the buyer will be effected only upon full payment under the CTS<br>• In case of loan default, the CTS can easily be canceled and the property resold<br>• No loss is incurred because of exemption from Maceda Law (proposed for legislation)<br>• Summary ejectment by HLURB (proposed for legislation) |
| CREDIT DISCIPLINE | No insulation against buyer-borrowers who were not truly determined to fulfill their loan obligations, because:<br>• No equity was required, and loan charges were capitalized, hence the borrower had no real stake in the loan<br>• Aggravated by borrowers' perception that the gov-ernment will not be serious in foreclosing and ejecting in case of loan default | Only those determined to religiously amortize their loans will dare avail of the program:<br>• Borrower's stake, via the requirement for up-front payment of equity (downpayment) of 5% for social housing and 10% for non-socialized, together with the loan charges<br>• Borrower's awareness that under the CTS, loan default will mean speedy ejectment and total forfeiture of all amounts paid |
| COLLECTION EFFICIENCY | • Administratively risky and burdensome, as NHMFC alone was responsible for collecting a large volume of individual loans<br>• Government personnel are generally poor collectors<br>• Borrowers are generally disinclined to repay government<br>• Losses are incurred due to condonations | • Relieves NHMFC of administrative burden ~ the originating developer will be responsible for collection, for a 2% fee, under a collection agreement with NHMFC<br>• Developer warranty of 100% collection and remittance of the first 24 monthly amortizations<br>• Fulfillment of developer warranty is assured via a forfeitable 10% retention of the sales proceeds<br>• No occasion for condonations |

| ATTRIBUTE | UHLP | CHFP |
|---|---|---|
| RELEASE OF TAKE-OUTS | • 7-12 month delays in release of mortgage take-outs, resulting in substantial losses for the developers due to cost overruns and slow turnover<br>• 100% of the consideration is released upon assignment of mortgage receivables, submission of title and other documents | As a quid-pro-quo for the 100% collection warranty backed by 10% retention, NHMFC will release to the developer in 7 days the proceeds (90%) of the sale, upon submission of the title over the H/L subject to the CTS, the assignment of CTS receivables, and other pertinent documents, resulting in faster project turnover |

## COMPARATIVE MATRIX: CHFP VS MWLS

| ATTRIBUTES | CHFP | MWLS |
|---|---|---|
| FUNDING SCHEME | **Centralized Funding**<br>A single institution (NHMFC or any other appropriate institution that may be designated) will take charge of management, allocation, programming and disposition of the entire housing fund pool. | **Decentralized Funding**<br>The Funders will individually program, allocate, manage and dispose of their housing funds. |
| SEED FUND | **P124 Billion** one-time, permanent, revolving seed fund, from the following:<br>• One-time lump-sum swap of outstanding mortgage portfolio of S/GSIS/Pag-IBIG to the extent of the allowed percentages of their investible funds under their Charters, in exchange for NHMFC PNs/housing bonds (total of P 81 Billion)<br>• Unused (residual) agri-agra funds of banks in the preceding year, in exchange for housing bonds (total of P 43 Billion) | • No fixed and permanent seed fund**.** Initial funding is only **P40 Billion** in the form of Funders' pledges<br>• Funding is entirely dependent on Funders' pledges, which have to be negotiated annually, the amount and time of release of which are discretionary on their part |

| ATTRIBUTES | **CHFP** | **MWLS** |
|---|---|---|
| PRODUCTION TARGET | The Estrada administration's production target of at least 350,000 new housing units per year is realizable | The limited P40 Billion funding, and its exposure to developmental loans and maximum loan ceiling of P2.5 million for homebuyer loans, may catalyze production of only 50,000 to 100,000 units |
| HOMEBUYER FINANCING vs. DEVELOPMENTAL FINANCING | The entire fund pool is **exclusively for homebuyer financing.** This will be used by the NHMFC solely to purchase the accounts of individual borrowers from the originating developers (see Lending Scheme)<br>• Ensures that housing production is demand-driven (i.e. developers will produce homes only for those who have the capability to acquire them, or who are enabled to do so via homebuyer financing assistance)<br>• Maintains competitiveness in the industry (i.e. developers will produce at a quality and price desired by homebuyers) | Funders allocate their housing funds for **both homebuyer financing** and **developmental financing**, under both direct and conduited lending (see Lending Scheme)<br>• Not demand-driven, as there is no assurance that developmental loans will be used for projects geared to the needs of the intended beneficiaries<br>• Conducive to monopolies, as there is danger that housing funds will be cornered by a few favored developers |
| BENEFICIARIES | • All homeless income earners, whether or not member of SSS, GSIS or Pag-IBIG, with emphasis on the underprivileged<br>• No need for government budgetary allocations or foreign loans to service non-members of SSS/GSIS/Pag-IBIG | • <u>Exclusive</u> to SSS, GSIS and Pag-IBIG members, further limited only to those <u>who can afford market lending rates</u><br>• The non-members of these institutions are deprived of a credit facility |
| LENDING RATE | **9% for socialized housing** under a cross-subsidy scheme | • Market rates, **in no case less than 12%**, **or 15%** if bank-conduited<br>• Unaffordable by socialized/low-income housing beneficiaries |

| ATTRIBUTES | **CHFP** | **MWLS** |
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| LOAN INSTRUMENT | Contract-To-Sell (CTS) in developer origination:<br>• Title transfer in favor of the buyer-borrower will be effected only upon full payment under the CTS<br>• In case of loan default, the CTS can easily be canceled and the property resold<br>• No loss is incurred because of exemption from Maceda Law (proposed for legislation)<br>• Summary ejectment by HLURB (proposed for legislation) | • Deed-of-Sale-with-Real Estate Mortgage (REM) in bank origination<br>• CTS in developer origination, to be automatically converted to REM after 2 years:<br>• REM necessitates title transfer in the name of the borrower even prior to full payment<br>  ○ In case of loan default, the funding institution must undergo lengthy foreclosure and ejectment proceedings to recover its investment<br>  ○ Funds will be tied-up for the entire duration of foreclosure and ejectment proceedings |
| LENDING SCHEME | **De-centralized Lending**<br>• Participating developers are the lenders themselves, via CTS in-house financing<br>• NHMFC will then purchase the CTS accounts from the developers, including the house/lot itself subject to the CTS, and the receivables. The NHMFC will remit to the developer only 90% of the proceeds, the 10% balance to represent retention for 2 years<br>• Loan servicing and collection will be undertaken by the developers themselves (on behalf of the NHMFC), under a collection agreement covered by a 100% collection warranty (on the first 24 monthly amortizations) backed by the 10% forfeitable retention<br>• NHMFC administrative expansion not necessary | **Institutional Lending**<br>• The funding institutions act as the lenders themselves, via direct lending using REM, and/or<br>• Through bank intermediation (also using REM), which requires additional spread that translates to higher lending rates, and/or<br>• Through participating developers via CTS origination<br>• The lender (or lending window) becomes a mere assignee of receivables, resulting in weak asset hold |

| ATTRIBUTES | **CHFP** | **MWLS** |
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| COLLECTION EFFICIENCY | Zero delinquency, 100% collection efficiency:<br>• Developer warranty of 100% collection, remittance of the first 24 monthly amortizations, forfeitable 10% retention | Uncertain collection efficiency. Developer warranty scheme is ineffective for lack of adequate sanctions, and entails added cost for borrowers (origination fee & guarantee fee) |
| RISK INSULATION | • No risk for government and the funding institutions. Risk is shared between the originating developer and the borrower, via:<br>  ○ Use of CTS; Exemption from Maceda Law; Summary ejectment by HLURB<br>  ○ Developer's collection warranty with 2-year seasoning;<br>  ○ Requirement for up-front payment of borrower's equity and other loan charges, forfeitable in case of default<br>• HGC guaranty of CTS accounts can be dispensed with<br>• Strong asset hold, as NHMFC gains full ownership of the H/L subject to the CTS | • Risk burden is assumed by the lending institution, and eventually by the government via the HGC guaranty, because:<br>  ○ The account buy-back warranty scheme is inutile since it is not backed by effective sanctions<br>• HGC guaranty calls would be likely<br>• Weak asset hold, as the funding institution is a mere assignee of the receivables under the CTS, or the mortgage receivables under mortgage origination |
| BORROWER CONVENIENCE | • Uses formula lending, to enable more socialized and low-income borrowers to qualify<br>• Ease of loan availment due to lesser documentation, translating to:<br>  ○ lesser broker's commissions<br>  ○ lower or no origination fee | • Loan availment is based on net-capacity to pay, wherein only the middle- to higher-income borrowers will qualify<br>• Difficult availment due to numerous unnecessary documentation, resulting in:<br>  ○ higher broker's commission<br>  ○ higher origination fee |

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| LEGALITY | Consistent with EO 90, RA 7279, RA 8282, RA 8291, PD 1752, RA 7835 and the Constitution | Violative of RA 7279, RA 7835, EO 90 and the Constitution |
| DO-ABILITY | Immediately doable. Funding can be immediately effected via an EO | Highly uncertain, as funding is entirely dependent on the discretion of Funders, and must be negotiated annually |
| POLITICAL ACCEPTABILITY | Will tremendously boost the administration's credibility and political stock, since:<br>• It covers all homeless underprivileged families whether or not members of SSS/GSIS/Pag-IBIG<br>• The 9% social housing loan rate is consistent with the President's poverty alleviation thrust | • Disillusionment for the underprivileged homeless millions who cannot afford market lending rates<br>• Disenchantment of the informal sector due to special preference for SSS/GSIS/ Pag-IBIG members<br>• Pro-rich, as it opens the MWLS to developmental loans, and individual housing loans of up to P2.5 million |
| SUSTAINABILITY | Sustainability is assured via the package of securitization enhancement measures proposed for inclusion in the pending DHUD Bill, which will:<br>• infuse risk-free features into the lending program, thus ensuring continuing viability and marketability<br>• provide tax exemptions which will raise the effective yields of housing securities, over and above the HGC cover<br>• provide a captive market for housing securities | • Securitization is dependent solely on HGC cover<br>• Inherent flaws and risks render the MWLS non-viable |

| ATTRIBUTES | **CHFP** | **MWLS** |
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| EFFECT ON LIQUIDITY OF SSS, GSIS, Pag-IBIG & BANKS | • No cash outlay by Funders<br>• Funders' investments (via the swap deal) are 100% recoverable – to be liquidated in 10 annual amortizations<br>• Banks' investments of their unused agri-agra funds in housing bonds are risk-free, with effective yields of at least 13%. This will be liquidated in 2 to 5 years – a short-term investment compared to long-term exposure in individual housing loans | • All outlays (in the form of either direct lending or release of funding commitments to bank intermediaries) are in cash, and disruptive of Funders' annual cash flows<br>• No assurance of 100% recoverability, due to uncertain loan collection efficiency under their lending scheme |