Recent Developments in Housing Finance in the Philippines

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An Overview of the Shelter Sector

THE housing situation in the Philippines faces serious problems in terms of both quantity and quality of housing units. It is characterized by the emergence of a continuing demand for affordable housing units in response to the increasing population and household size, both in the urban and rural areas. Affordability, however, poses a challenge considering such factors as low income levels, inadequate supply of desired units and limited accessibility to home financing packages. The following major factors constitute the Philippines shelter problem: housing need,housing affordability, home ownership and land tenure, provision of basic services to urban households, type of housing materials, and geographic disparities in both housing need and stock.

The country's housing need is comprised of two components: the backlog in housing units and future housing needs. Housing need from 1987 to 1992 is estimated at 3.4 million units -1.8 million units for rural areas and 1.6 million units for urban areas.

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Housing affordability, on the other hand, remains a problem due to the relatively low levels of household income and increasing household expenditures. Presently, average monthly income for the country is P2,960. In 1988, the average monthly family income was P4,420 for urban areas, and P2,072 for rural areas. The amount available for housing was estimated on the basis of the current expenditure for housing, rent or its equivalent, plus amount saved. This amount available for housing averages P740 monthly, or 25% of monthly income. This is affordable only to households belonging to the top 50% of the income distribution. Housing, therefore, still remains largely out of the reach of a sizeable portion of the population.

Home ownership and security of tenure remains a problem in urban areas, where only 64 percent of the households own their dwelling units. Home ownership is most elusive in Metro Manila where 58% of households do not own the house they live in. Moreover, 22% of Metro Manila households do not have tenure over the land on which their houses are built.

An Integrated Shelter Delivery System

During the period 1981-1985, the government operationalized a total systems approach in housing finance, production and regulation. An interacting network of housing agencies with specific functions, namely funds generation, mortgage purchase, mortgage guarantee, regulation and socialised housing, was established and maintained. Such increased attention given by the national government to the development of the housing sector resulted in a significant increase in overall housing production.

A housing finance system integrating savings, secondary mortgage trading and credit insurance was put in place. This crucial component of the shelter delivery system was undertaken jointly by three government agencies: the Home Development Mutual Fund (HDMF), the National Home Mortgage Finance Corporation (NHMFC) and the Home Financing Corporation (HFC). This system created access to housing finance by the low- and middle-income groups through the channeling of savings for housing equivalent to P6.2 billion in long term mortgage funds during the period 1981-85. In addition, the system generated P1.2 billion in construction loans and P2.0 billion in long-term mortgages from the private banking system through HFC during the same period.

Government housing production activities were undertaken primarily by the National Housing Authority (NHA), while the function of regulation of land use and housing was undertaken by the Human Settlements Regulatory Commission (HSRC).

Private sector participation in the government's shelter program included accomplishments from both the formal and informal sectors. Private developers processed mortgages through the banking system which provided interim financing for housing loans. Organized private sector groups (realtors, developers, etc.) were actively involved during this period in all aspects of shelter activities from planning to production, land development, finance and brokerage.

Statistics indicate, however, that the contribution of the informal housing sector was more significant than that of the government and the private, formal sector combined. Informal housing activities accounted for virtually all rural housing.

In the urban and urbanizing areas, informal housing was delivered in the form of: owner-built housing on owned or leased land, housing constructed by numerous small professional but unregistered contractors and lastly, the makeshift and transitional housing of urban squatters.

The Revised National Shelter Program

With the advent of the administration of President Corazon C. Aquino in 1986, a six-year revised National Shelter Program was incorporated into the Medium Term Philippine Development Plan for 1987-1992. The primary objective of the revised shelter program is to develop a self-sustaining and equitable housing delivery system, with an increasing degree of private sector participation in both housing finance and production.

The general policy thrusts for housing as incorporated in the revised Medium Term Philippine Development Plan for 1990-1992 are as follows:

- Housing development is recognised as a fulfillment of a basic social need with positive economic impact. Housing shall be utilized not only to generate economic activities but also to promote social equity.

- Greater private sector involvement shall be encouraged, not only in land development and house construction, but also in loan granting and appraisal/valuation, mortgage origination and loan collection. Incentives to private developers of social housing projects will be provided to complement government production for the low-income groups.

- The decentralization of the functions and operations of government shelter agencies will be fully implemented. Greater participation of local government units (LGUs) will be enhanced in the processing and approval of town plans, land conversion applications and housing mortgages to fast track the delivery of housing services to the people.

- Linkages with non-housing sectors will be strengthened to effect prompt delivery of services procedures in the provision of needed support infrastructure. Measures will be undertaken to ensure the viability of shelter agencies for continued service.

The Housing and Urban Development Coordinating Council

In order to ensure the effective implementation of the revised National Shelter Program and the accomplishment of its targets and objectives, the Housing and Urban Development Coordinating Council (HUDCC) was established in 1987 by virtue of Executive Order No. 90. This body coordinates all government housing agencies, whose functions have been streamlined and carefully defined in accordance with the goals of the revised shelter program.

Under this framework, the NHA as the government's sole production arm engages in direct shelter production, focusing on the provision of housing assistance to the lowest 30 percent of urban income earners. Such assistance includes slum upgrading, squatter relocation, development of sites and services, and construction of core housing units.

Government's role in shelter production is minimal, catering primarily to the socially disadvantaged sectors. The housing needs of the middle and upper income groups will be dominated by the private sector with government assistance limited to the provision of financing.

The Housing and Land Use Regulatory Board, formerly HSRC, acts as the sole regulatory body for housing and land development. It is responsible, not only for the regulation of the housing industry and protection of home buyers, but also for the liberalization of standards for more affordable housing.

The Home Insurance and Guaranty Corporation, formerly HFC, was given a renewed mandate to promote private investments in housing development through its system of insurance, guarantees and incentives.

The Shelter Finance System

In keeping with the objectives of the *Revised National Shelter Program,* the shelter finance system focuses its policies in favor of the lower income groups and towards a more equitable distribution of home financing.

The provision of shelter finance is jointly undertaken by three agencies - the National Home Mortgage Finance Corporation (NHMFC), the Home Insurance Guaranty Corporation (HIGC), and the Home Development Mutual Fund (HDMF).

The National Home Mortgage Finance Corporation's (NHMFC) main function is to utilize long-term funds principally provided by the Social Security System (SSS), the Government Service Insurance System (GSIS) and the Home Development Mutual Fund (HDMF), to purchase mortgages originated by both private and public institutions under the Unified Homelending Program (UHLP).

NHMFC administers the Unified Homelending Program (UHLP) which integrates the respective housing loan programs of the SSS, GSIS and HDMF. The UHLP is funded entirely from borrowings from the SSS, GSIS and HDMF. It was designed to operate on a self-sustaining basis, with a cross-subsidy mechanism where the highest income class pays 3% more than the average so that the lowest income class pays 3% less. UHLP interest-rates are considered more socially equitable. Investors in UHLP in turn, get a guaranteed yield of 10.5% which is sufficient for them to substantially increase their funding for housing. UHLP loan packages and interest rates were recently adjusted and were applicable from 1991: loans up to P150,000 at 9%; over P150,000 to P225,000 at 12%; and over P225,000 to P375,000 at 16% interest per annum.

A home financing component for those employed/earning individuals who are non-members of the SSS, GSIS and the HDMF, was launched and made an integral part of the UHLP. Through the "Social Mortgage Window", the benefits of home ownership are made available to the widest possible number of households. Non-members of the three funding institutions may obtain loans up to P120,000 for house and plot packages, and up to P45,000 for home plots.

The shelter finance system also provides, through the Home Insurance Guaranty Corporation (HIGC), a Guarantee Program essentially of two types:

(I) developmental guarantees extended to developmental/construction loans by banks to private developers undertaking housing projects; and

(2) retail guarantees on individual home buyers loans.

These guarantees make commercial funds available to developers and home buyers because of the tax incentives granted to the lender and the substitution of Philippine credit for the borrower's credit. HIGC-guaranteed mortgages assume the nature of government securities and are, therefore, classified as risk-free. This enables the banks to roll over their funds, thereby generating a more active economic market.

The Home Development Mutual Fund

The Home Development Mutual Fund (HDMF) was conceived and operationalized as a provident savings system for housing finance. It was created to answer the need for a financial institution to mobilize savings with government propelling the system through decreed employer counterparts. At the same time, the Fund addresses the urgent need for affordable financing to help solve the housing problem.

HDMF is mandated to administer the provident fund contributions of member-employees and employers; to utilize funds not required for provident benefits for housing loans to members; and to develop savings schemes for home acquisition for private and government employees.

Provident in concept and private in character, HDMF is wholly owned by its members. Funds are administered in trust and applied exclusively for their benefit. Contributions are accounted individually, credited fully to each member's account, and are transferable in case of change in employment. Total accumulated Fund contributions are payable to each member upon membership maturity or termination as a result of death, retirement, total disability or permanent departure from the country.

In addressing the country's two interrelated, pressing needs - savings and housing - HDMF has remained an effective institution for mobilizing domestic savings for long-term housing finance. On the provident aspect, HDMF provides short-term provident loans under the Multi-Purpose Loan Program which is tied with the members' total accumulated Fund contribution.

Since inception, HDMF has remained in the primary business of housing as this accounts for the bulk of its investment portfolio. As one of the key agencies in the shelter finance system, HDMF's traditional role was that of providing end-user financing. The Fund opted to transcend this role in order to address the more critical problems of the shelter delivery system. HDMF believes that the magnitude of the country's shelter problem is such that no one agency can be expected to provide all the necessary solutions.

In order to complement the UHLP, HDMF launched the Expanded Housing Loan Program (EHLP), providing more liberal housing loan guidelines. Loan purposes covered by the program include house construction and/or acquisition, lot purchase, home improvement, refinancing of an existing loan, and redemption of a foreclosed property.

The EHLP provides for such financial assistance packages as:

- The plot purchase program whereby a member can borrow up to P150,000 in order to acquire a fully developed plot within a residential area;
- The Group Housing Program which aims to assist companies or employee-associations of at least 20 HDMF members who wish to provide housing for their employees/members;
- The Retail Interim Financing for House Construction Loans through banks

which provides financial assistance to members for the construction or improvement of residential units;

The Developmental Loan Program which seeks to augment originating banks' developmental funds for lending to project proponents/developers, thereby providing access to such funds at lower rates and easier terms.

The critical need for increased social housing units for the lowest 30% of the population pushed HDMF to actively take part in direct shelter production. Programs addressing this need are the Social Housing Developmental Loan Program (SHDLP) and the Group Land Acquisition and Development Program (GLAD), providing financial assistance for land acquisition and/or site development for social housing projects.

The Fund launched the GLAD Program in order to address the members' basic requirement for affordable land for housing. The program provides financial assistance to groups of Fund members for the acquisition of raw land and subsequent development and construction of houses thereon. By mobilizing the resources arising from community kinship, the margins accruing to middlemen in selling developed housing sites are eliminated. As such, HDMF envisages the GLAD Program as a primary vehicle to hasten the delivery of more affordable housing to a greater number of members.

On the more aggressive side, the Fund embarks on joint-venture projects in coordination with the NHA and private sector groups. A joint venture arrangement which pools together the available resources of two or more parties is an effective strategy in accelerating shelter production.

The impact of Housing Finance on Shelter Production

A total of 261,520 housing units were provided assistance by the government through the vigorous implementation of the NSP's four major programs: production, regular mortgages, development loans and community programs. In monetary terms, this translates to P21,508.6 million of government financial assistance to the sector for the period 1987-1990.

Housing Production

Over 64,000 units were completed by the Government during the period 1987-1990 with an aggregate value of P 2,706.0 million. This reflects an average annual expansion rate of 36.28 %.

To address the urgent need for housing assistance of the lowest 30% of the population, the NHA adopted new policies and approaches to housing delivery by way of introducing medium rise housing as an alternative to the squatting problem in Metro Manila. Medium rise housing is an intra city relocation scheme designed to maximize high cost urban land and to minimize economic dislocation of families. Also, in line with this policy of regionalization, the NHA gradually expanded its housing activities in areas outside Metro Manila to the regions in order to effect an equitable and wider spread of housing benefits for the poor.

The NHA likewise entered into more joint venture projects with LGUs, private landowners and developers to increase the availability of affordable housing units to low income families.

Regular Mortgages

Regular mortgages consist mainly of housing loans under the UHLP and complementary individual programs of the three funding institutions such as the Expanded Housing Loan Program (EHLP) of HDMF and the individual housing programs of SSS and GSIS. Non-members of SSS, GSIS and HDMF are also covered through the Social Mortgage Window of the NHMFC.

Regular mortgage takeouts totalled 106,468 for the period 1987-1990 with an average annual growth rate of 33.87 %. Total financial assistance aggregated to P15,259.0 million over the four—year period.

In line with government's policy of implementing a continuing program of socialized housing, the Abot—Kaya Pabahay Fund was established in January 1990 by virtue of Republic Act No. 6846. This Fund amounts to P2.5 billion to be built up over a 5-year period through annual appropriations of P500 million from the national government. The Fund will be used to provide amortization support, expedite land development for social housing by providing development financing to developers of low—cost housing projects, and establish a strong guarantee system for the funding agencies involved in housing.

Development Loans

The Social Housing Developmental Loan Program seeks to address the dearth in the production of low-income housing projects despite availability of funds for low-income mortgages. The program extends low-interest developmental loans to public and private developers and landowners to encourage them to produce affordable housing units for low-income families.

From 1988-1990, a total of 31,665 housing units were completed by both public and private developers with the assistance of NHMFC and HDMF. This amounts to some P2,062 million in developmental financing.

Government also encouraged private financial institutions to extend construction loans through the Development Guarantee Program of HIGC which covered 16,866 units from 1988-1990.

Community Programs

The Community Mortgage Program (CMP), administered by NHMFC, utilizes an innovative financing scheme whereby undivided tracts of land being occupied and developed by qualified community associations or cooperatives can be made the subject of loans under the UHLP.

The three-phased approach of the CMP addresses the problem of security of land tenure for the landless urban poor. 'The first stage allows for land acquisition by the community; the second stage provides financing for the horizontal development of the acquired property and the individual titling of lands; and the final stage involves home improvement or house construction.

PHILIPPINE NATIONAL SHELTER PROGRAM
IMPACT ON SHELTER PRODUCTION
(IN HOUSING ASSISTED)

PROGRAM	Actual					Target	
	1987	1988	1989	1990	TOTAL ACTUAL	1991	1992
Production	6,553	10,088	20,495	26,977	64,113	29,407	34,847
Regular Mortgages	12,257	22,873	34,501	36,837	106,468	27,474	32,580
Development Loans	0	6,495	14,738	10,432	31,665	8,364	9,841
Community Programs	2,008	12,515	17,781	26,970	59,274	35,741	42,579
TOTAL	20,818	51,971	87,515	101,216	261,520	100,986	119,848
Original Annual Plan Targets	20,818	73,543	85,486	93,850		100,986	119,848

(In Monetary Value)

	Actual					Target	
(in million Pesos)	1987	1988	1989	1990	TOTAL ACTUAL	1991	1992
Production	229.2	532.7	923.1	1,021.0	2,706.0	1,324.3	1,724.1
Regular Mortgages	1,740.3	2,659.2	4,702.2	6,157.3	15,259.0	3,652.9	4,736.9
Development Loans	0.0	695.8	972.0	394.8	2,062.6	458.7	594.1
Community Programs	70.3	184.8	550.9	674.9	1,480.9	1,203.6	1,577.3
TOTAL	2,039.8	4,072.5	7,148.2	8,248.1	21,508.6	6,639.5	8,632.4

A total of P1,480.9 million in collective loans has been released under the CMP, corresponding to units 59,274 housing units. The program provided land ownership for about 15,000 lower-income families.

The CMP has inherent advantages which have made it widely acceptable, capturing the interest, not only of government organizations, but also of a number of LGUs, community-based organizations and non-governmental organizations (NGOs). Its potential as a major government program, however, remains untapped. To date, a substantial volume of community projects are still under process. NHMFC has opted to exercise prudence over volume in consideration of various factors which require strengthening in order to ensure the quality of CMP portfolio.

HDMF In Shelter Production

Notwithstanding the shift to voluntary membership in 1987, the Home Development Mutual Fund maintained its viability and further strengthened its financial standing in order to deliver the housing requirements of its members.

As of year end 1990, the Fund's membership level stood at 1.1 million, while total accumulated membership contributions reached P10,414.29 million. The institution's asset base likewise expanded to P15.0 billion. A total of P4,313.14 million in short term loans was released to some 770,757 beneficiaries and provident benefit claims amounting to P813.94 million were paid out to 227,633 member-beneficiaries.

HDMF financed an aggregate of P6,045.59 million worth of individual home mortgages under the NSP's Unified Home Lending Program (UHLP) and its in-house Expanded Housing Loan Program (EHLP), benefitting almost 82,000 member-borrowers.

HOME DEVELOPMENT MUTUAL FUND PERFORMANCE INDICATORS 1987-1990 (In Millions of Pesos)

	1987	1988	1989	1990
Cumulative Collections				
Contributions	6,375.0	7,244.11	8,460.0	10,414.29
Housing Loan Amortizations	383.1	935.56	1,533.9	2,333.50
Short-Term Loan Amortizations	-	450.46	902.2	2,372.67
Provident Loan Amortizations	216.5	-	-	-
Membership Level				
No. of Employees	920,000	1,300,000	1,270,631	1,156,799
Short - Term Loans				
Loan Value	-	510.28	2,408.28	4,313.02
No. of Beneficiaries	-	123,577	459,013	770,757
Housing Loans				
HDMF Direct Takeouts				
Loan Value	55 M	55.10	-	-
No. of Housing Loans	362	363	-	-
No. of Beneficiaries	759	762	-	-
HDMF Takeouts of NHMFC				
Mortgage Overhangs				
Loan Value	176.40	204.06	-	-
No. of Housing Loans	2,157	2,285	-	-
No. of Beneficiaries	3,259	3,455	-	-
Unified Home Lending Program				
Loan Value	0.04	19.74	85.24	206.32
No. of Housing Loans	1	241	870	1,638
No. of Beneficiaries	1	289	1,025	1,971
Expanded Housing Loan Program				
Loan Value	3.57	43.33	412.53	1,223.20
No. of Units	168	1,540	6,871	15,284
No. of Beneficiaries	168	1,774	7,841	16,555
Corporate/Group Housing Loan Program				
Loan Value	-	-	479.70	529.70
No. of Units	-	-	3,055	4,394
Community Mortgage/Social Housing Developmental Loan Program				
Loan Value	-	-	26.60	66.45
No. of Units	-	-	969	2,922
Provident Claims				
Amount	250.50	416.16	596.46	813.94
No. of Beneficiaries	108,671	153,495	189,955	227,633

The Fund likewise provided an aggregate of P752.9 million in developmental financing for housing projects under its Group Housing Program, Community Mortgage and Social Housing Developmental Loan Programs, Developmental Loan and Retail Financing for House Construction Programs through originating banks. As of December 1990, some 8,958 housing units have been completed under these various programs.

Meanwhile, the initial project under the GLAD Program was launched recently. The project involves the construction of 276 housing units for the Community Housing Association of La Union, Inc. (CHALUI) in the province of La Union in the northern part of the country. The association was able to acquire 4.8 hectares of raw land at P85.00 per square meter. The Fund has already released an initial P 4.2 million for land acquisition.

Strengthening the Housing Finance System through Integration

Despite the presence of well-developed and specialized financial institutions in the country, housing finance in the Philippines has not yet been fully integrated into the overall financial system.

The preceding discussion focuses on the government's housing program and housing finance system, as this is treated separately and distinct from the types of financing provided by private commercial banks. These private institutions offer financial assistance under more stringent terms and higher interest rates, determined by open market competition. Consequently, they respond to the financial needs of those in the middle and upper income households with higher affordability levels for housing.

There is absolutely no competition between government housing finance institutions and the private commercial banks, all of which offer their own housing and real estate loan programs. They service two totally different markets. Government provides the much needed support for the housing needs of the less privileged groups through increased budget allocations, loan amortization support and interest rate subsidy schemes.

Efforts to integrate the housing finance system into the financial system, however, are continuously being undertaken by way of enhancing the acceptability of mortgage-backed instruments in the national capital markets.

On its own, it may be said that the government's shelter finance system has achieved some form of integration. The UHLP itself integrates the housing programs of the different shelter finance institutions and establishes vital linkages with private developers and originating banks.

As one of the shelter finance institutions, HDMF has been continuously working towards integrating the government machinery into the national financial system. Given its unique and distinct competence in mobilizing household savings for long-term housing finance, the Fund brings together both government and private sector resources to service the needs of its members who represent an entire cross-section of the population. HDMF has expanded its reach nationwide with fully decentralized operations. Through its various provident and housing loan programs, the fund integrates with its members, the employers, the originating banks, the private developers, the non-government organizations (NGOs) and even the local government units (LGUs).

HDMF has likewise invested in mortgage-backed instruments with the purchase of some P120.0 million worth of Contract-To-Sell (CTS) receivables from private developers at discounted rates. The ultimate objective here is for the Fund to re-sell these mortgage-backed securities to other private financial institutions at reasonable rates of return. Eventually, active trading of mortgage-backed instruments in the open market should be achieved thereby integrating the shelter finance system into the national capital markets.

The market for mortgage-backed investment instruments in the Philippines, however, is still in its initial birth stages. These instruments have not yet gained the full confidence of both institutional and individual investors due to several factors. One perceived reason is the failure of NHMFC's secondary mortgage market system (SMMS) which was rendered non-viable following adverse economic and political developments sometime in 1983. Although the revised NSP has reactivated the SMMS through the UHLP, transactions in the system are limited to home mortgages of the funding agencies. Investors, thus, remain wary of these mortgage instruments. Another reason could be because the rates of return on mortgage-backed securities pale in comparison with other market instruments such as Treasury Bills which offer less risk and higher yields.

Once acceptability of mortgage-backed securities as viable investment instruments is established, the shelter finance system can be assured of readily available funds in circulation. More institutions may be lured into purchasing mortgages once the mechanism for liquifying these mortgages is proven to be sound and profitable. The free flow of funds recycled into the system can only mean more financing for shelter production.

Conclusion

Integration of the housing finance system into the national financial system will undoubtedly strengthen its capability to generate more funds for shelter production. Full integration, however, can only be achieved if a country's economic and business climate remains favorable and interest rates are stable. Unfortunately, this is not the case in the Philippines where consumer prices continue to fluctuate and the inflation rate, now averaging 17% per annum, is high in comparison with levels registered by the other ASEAN countries.

Given the objectives of the Philippine government's shelter program and its focus on the servicing of the low-income sectors, it may be difficult to achieve full integration. Continued government support by way of legislation, budget appropriations and interest subsidies for housing dictate the interplay of forces in the housing finance system. In order to integrate the government's housing finance program, real market rates would have to be reflected. However, market rate levels for housing finance are simply beyond the affordability levels of the lowest 30% of the population.

As such, measures directed only towards partial integration may be undertaken at the moment. This is what HDMF has been doing in line with its mandate and the policy objectives of the National Shelter Program. The Fund recognizes the significance of establishing a viable market mechanism which would liquify home mortgages and recycle them into the system in order to generate increased financing for home acquisition.

Thus, while HDMF continues to implement its provident benefit and housing loan programs for its members, it is taking gradual steps to integrate housing finance into the overall financial system by investing in mortgage-backed securities. Eventually, the Fund hopes to establish a viable market mechanism which will activate open market trading of mortgage instruments, thereby paving the way for its integration into the national capital markets. ■