Sagip Tahanan at Kabuhayan ng Pilipinas, Inc.[1]

I. Introduction

Background. The Sagip Tahanan at Kabuhayan ng Pilipinas, Inc. (SAGIP) is an organization registered with the Securities and Exchange Commission (SEC) composed of delinquent housing loan borrowers who availed of housing programs from various Government Financial Institutions (GFIs) such as the Home Development Mutual Fund (HDMF), Social Security System (SSS) and Government Service Insurance System (GSIS).

SAGIP claims that originally, its membership consists of approximately 60,000 delinquent housing loan borrowers from NCR and the Provinces of Laguna and Cavite. It later expanded to the Provinces of Rizal, Batangas, Bulacan, Naga, Davao and other parts of Mindanao.

Profile. SAGIP members belong to the formal sector, having availed of housing loans from either of the above-mentioned Government Financial Institutions (GFIs. To date, some of them are still employed but claim that earnings are insufficient to settle their outstanding obligations while the rest claim that they have been unemployed for a long time.

Per information gathered, most of them have refused to pay their amortizations during their productive years. There is a conjecture that such refusal to pay is associated with the common impression that government agencies will not allow them to be rendered homeless notwithstanding non-payment of their obligations, as manifested in the significant delay in the foreclosure of accounts in default. As such, some of them have prioritized spending on other matters, e.g., housing improvement, rather than paying their amortizations. In view of the substantial amount invested on home improvement, said borrowers can no longer afford to lose their housing units.

II. Issues of SAGIP

In a series of meetings/dialogues convened by the GFIs concerned with SAGIP, the latter ventilated its fundamental issue which seems to be the basis for SAGIP's existence. The major issue being raised by SAGIP is the failure of the government to provide curative measures to resolve the difficulty of its members in settling their housing loan obligations. SAGIP claims that such difficulty is attributed to the tight financial condition being faced in general by middle and low-income earners as a result of the economic crisis.

SAGIP also maintains that the current Loan Restructuring Program of the government is not affordable to the borrowers since the increase in monthly amortization as a result of restructuring the loan does not fit to their paying capacity.

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[1] This Study represents the analyses and views of the HGC Research Team and not necessarily that of the Corporation nor of the HUDCC.

This contention is based on the fact that availees of the program are those who have been encountering financial instability.

Given this, SAGIP made several representations with the GFIs concerned to give them enough leeway in settling their obligations. They also made representations with other government agencies and public officials to pressure said GFIs to act favorably on their requests. Moreover, the organization has been recruiting members who are similarly situated, probably to gain political muscle.

III. SAGIP Proposals

During the said meetings/dialogues, SAGIP made the following proposals to enhance the possibility of settling their obligations:

- NHMFC to condone penalties and interest incurred by SAGIP members;
- *NHMFC to accept P1,000 monthly deposit from SAGIP members and allow such members to update their accounts;*
- allow SAGIP members to avail of the benefits of Loan Restructuring Program for the second time;
- reduce interest rate to 6%;
- allow availees of Loan Restructuring Program for an additional term

III. Actions Taken by the Government

1. ***Issuance of Executive Order No. 281***. This was issued by the President on February 2, 2004 which provides for the deferment of eviction, foreclosure and cancellation of housing accounts and the formulation and implementation of affordable loan restructuring programs during such deferment period. Following are the salient features of E.O. 281:

   a. *Deferment of eviction, foreclosure and cancellation of housing accounts for a period of six (6) months from the date of the E.O*. However, the following accounts are excluded in the application of the E. O.: a) unoccupied housing units; b) accounts with no single payment since take-out; c) restructured accounts; d) consolidated accounts which were already disposed through sale or rent-to-own scheme; and e) accounts covered by Developers Buyback Guarantee.

   b. *Implementation of Affordable Loan Restructuring Program (ALRP)*. The concerned agencies shall review their loan restructuring programs and remedial measures with the end in view of adopting affordable schemes and remedies with terms and conditions that borrowers will be able to comply with.

2. ***Extension of the Effectivity of the Housing Loan Condonation Act of 1998***. Through NHMFC Board Resolution No. 3297, the NHMFC extended the effectivity of the Housing Loan Condonation Act which expired last December 31, 2003. The housing loan condonation is a form of relief to delinquent borrowers as it condones penalty, thereby reducing the obligation that they have to settle with the funding agencies. It also serves as an effective strategy to help improve the collection performance of NHMFC accounts by enabling delinquent borrowers to update their accounts with less burden.

3. ***Acceptance of P1,000 monthly deposit***. NHMFC allowed delinquent borrowers under UHLP to pay P1,000 monthly deposit as a show of interest to settle their obligation. Foreclosure of the accounts is deferred temporarily if borrowers pay the deposit religiously.

4. ***Disposition of NHMFC's NPLs***. To ensure recovery of the funds used to finance the UHLP, the NHMFC, SSS and HDMF agreed to rehabilitate the UHLP portfolio and approved the disposition of the Non-Performing Loans (NPLs) through a bidding process.

   In this connection, the NHMFC engaged the services of Punongbayan & Araullo / Earnst & Young Asia Pacific Solutions as Financial Advisor to prepare due diligence review and report as well as a disposition strategy for the UHLP portfolio. NHMFC has already completed the bidding process for the disposition of the said NPLs. The scheme was not an outright sale which enables NHMFC to partially retain management and control over the said NPLs.

   Meanwhile, GSIS has expressed its interest to take over management of its portfolio.

Notwithstanding these moves, SAGIP maintains that the government has not yet developed a systematic and comprehensive approach to address its concerns.

IV. Possible Options in Dealing with Delinquent Housing Loan Accounts

In addressing the problem of the government with respect to delinquent housing loan accounts, the following options may be taken into account:

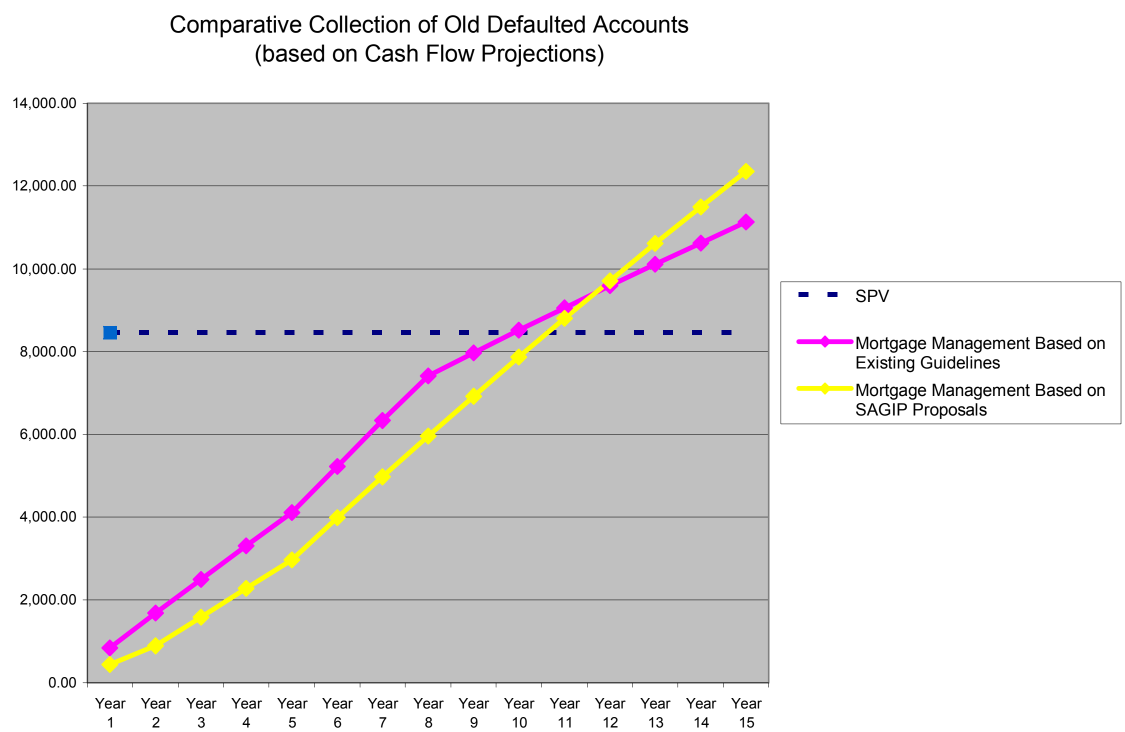
1. ***Disposition to a Special Purpose Vehicle (SPV)***. This entails the sale of mortgages to an SPV which will enable the agency implementing the loan facility to immediately recover a portion of the outstanding balance of the loans and utilize the same for other urgent projects;

2. ***Management of the Mortgages Based on Existing Guidelines***. It entails continuity of managing delinquent mortgages by the agency implementing the loan facility based on the existing set of guidelines prescribed for the purpose.

3. ***Management of the Mortgages Based on the Proposals of SAGIP***. This entails continuity of managing delinquent mortgages by the agency implementing the loan facility based on set of proposals made by SAGIP.

V. Comparative Study on the Three (3) Schemes

1. ***Comparative Collections***. Based on the cash flow projections (please refer to the attached assumptions), the graph below shows the comparative collections based on the three (3) schemes.



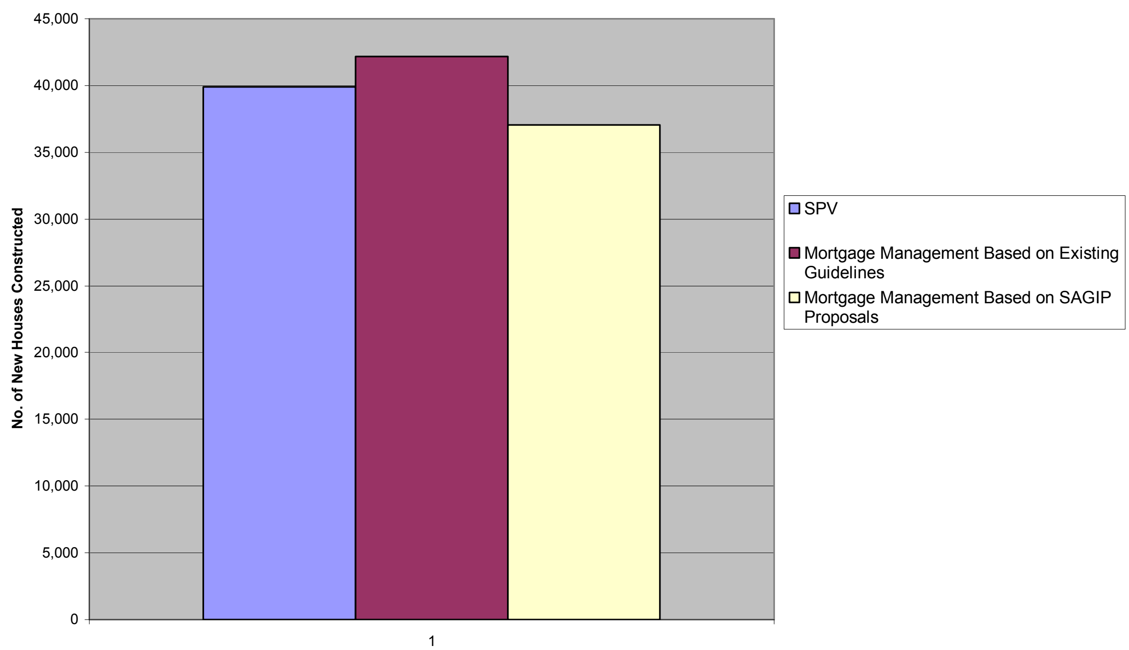
As shown by the graph, if the government will opt to dispose of its delinquent housing loan accounts to an SPV, collections may reach **P8,457.46 Million** as early as **Year 1**. However, because this scheme ensures recovery of only a portion of the estimated collateral value, some P14,400.54 Million will not be collected based on the P 22,858.00 Million collateral value.

On the other hand, if the government will opt to manage the mortgages in accordance with the existing guidelines pertaining to delinquent accounts, it will take almost ten (10) years before the same amount as that of SPV collection is obtained. At the end of the term of the loan on **Year 15**, total collections will amount to **P11,131.78 Million** (inclusive of accumulated interest and charges), leaving some P12,318.68 Million uncollected balance based on the P16,000 Million Outstanding Principal Balance.

If the government opts to grant the various requests of SAGIP, it will take almost eleven (11) years before the same amount as that of SPV collection is obtained. At the end of the term of the loan on **Year 15**, total collections will amount to **P12,355.90 Million** (inclusive of accumulated interest and charges), leaving some P10,998.48 uncollected balance.

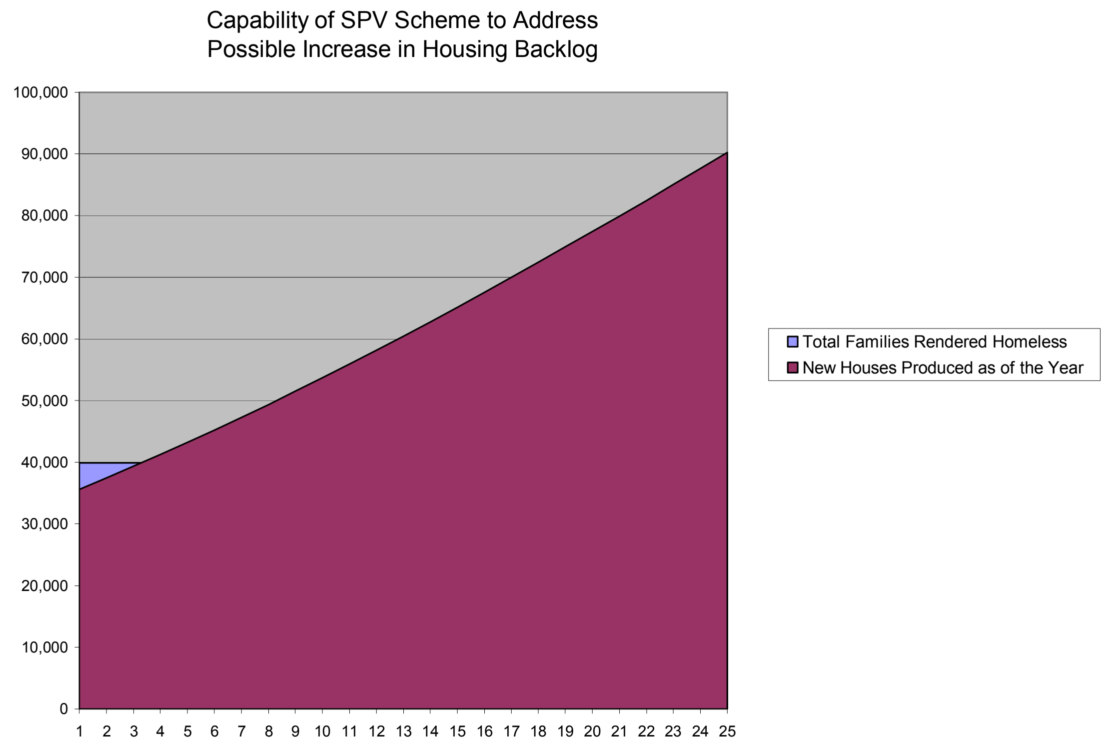
2. ***Comparative No. of Families that may be Rendered Homeless***. Based on the Cash Flow Projections, the graph hereunder shows the number of families that may be rendered homeless due to foreclosure as a result of failure on the part of the borrowers to settle their obligations.

Comparative No. of Families Rendered Homeless



As shown by the graph, if the government chooses to dispose delinquent accounts to an SPV some **39,900 families** may be rendered homeless, **42,180 families** if it chooses to manage the accounts based on the existing guidelines, and **37,050 families** if SAGIP proposals will be granted.

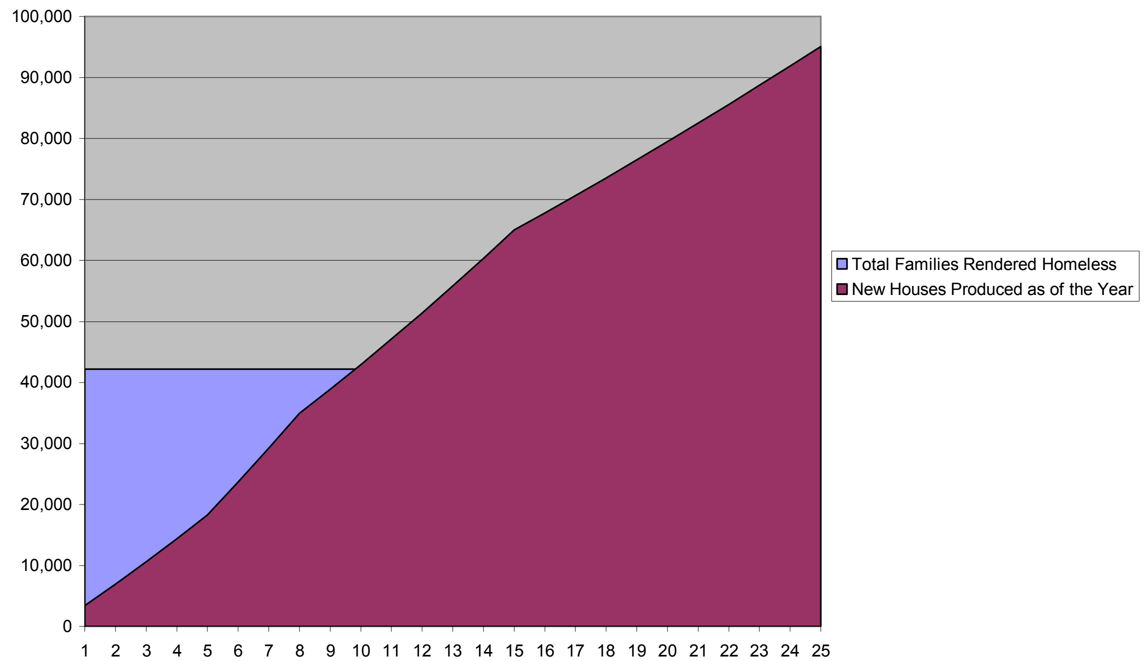
3. ***Capability of SPV to Address Possible Increase in Housing Backlog***. If net collections shall be used for constructing new housing projects, the graph below shows the responsiveness of the SPV scheme in dealing with the possible increase in housing backlog.



Working on the assumption that each housing unit would cost P225,000 (upper limit of the Socialized Housing Package and lower limit of the Low Cost Housing Package prescribed by HUDCC pursuant to HUDCC Resolution No. 02, s. 2003), some 33,830 houses will immediately be constructed on Year 1, or 87 % of the 39,900 families that may be rendered homeless. If annual collections will be rolled-over for new housing projects, said increase in the housing backlog will already be addressed prior to Year 4. If roll-over of collections will be continued, some 90,217 houses will be constructed at the end of Year 25.

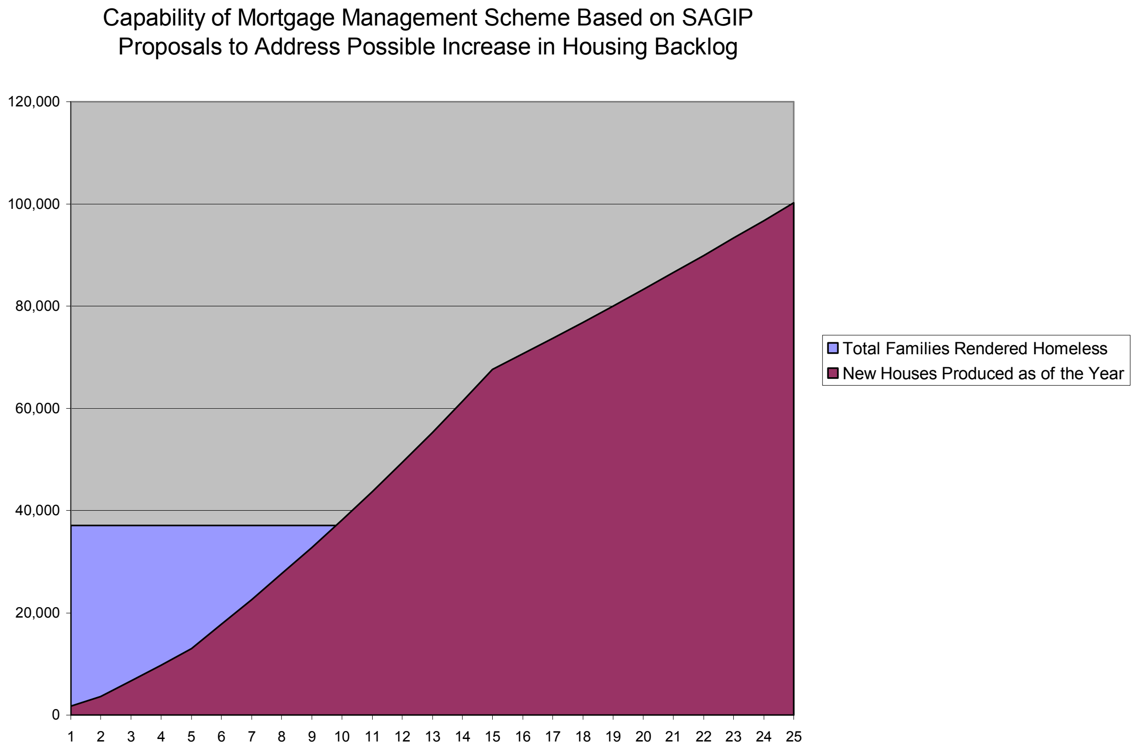
4. ***Capability of Mortgage Management Scheme Based on Existing Guidelines to Address Possible Increase in Housing Backlog***. Using the same assumption in item # 3, the graph below shows the gradual response of the scheme in dealing with the possible increase in housing backlog.

Capability of Mortgage Management Scheme Based On Existing Guidelines to Address Possible Increase in Housing Backlog



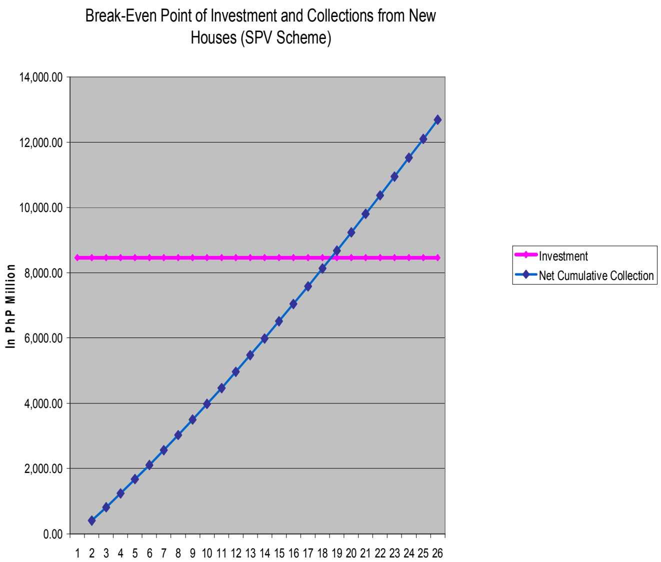
Assuming that net collections per year shall be utilized in constructing new houses to address the current year's housing backlog and that collections on said new housing units shall be rolled-over for new housing projects, the government will be able to respond to said increase in housing backlog shortly before Year 10. If such roll-over of collection will be pursued, some 95,084 units will be constructed at the end of Year 25.

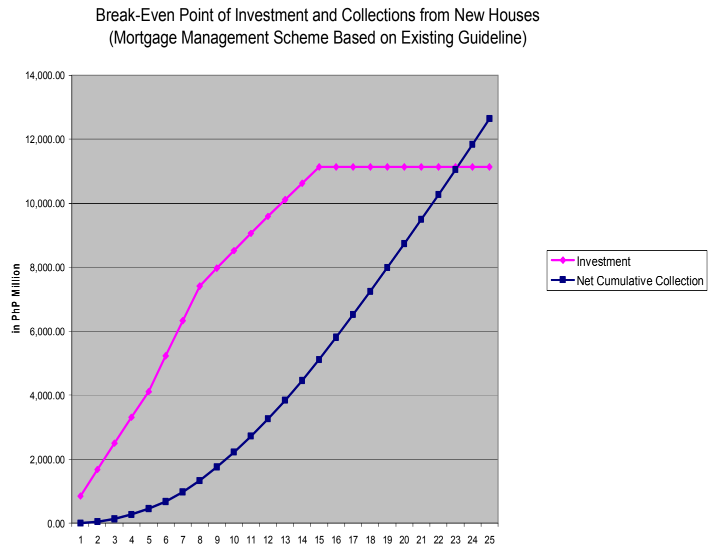
5. ***Capability of Mortgage Management Scheme Based on SAGIP Proposals to Address Possible Increase in Housing Backlog***. Using the same assumption in item # 3, the graph below shows the likewise gradual response of the scheme in dealing with the possible increase in housing backlog.

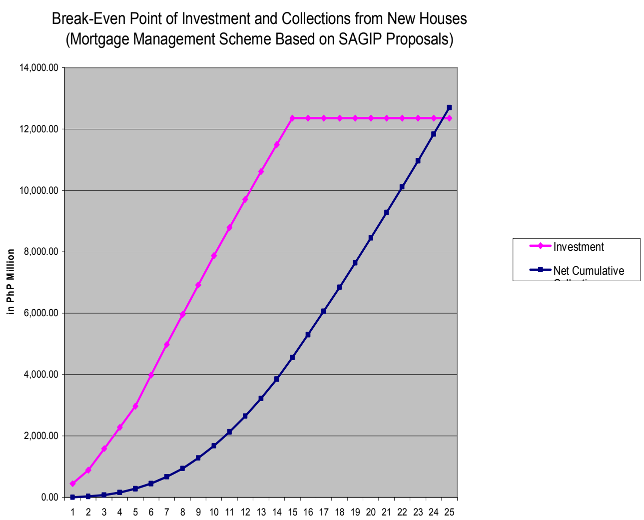


Assuming that net collections per year shall also be utilized in constructing new houses to address the current year's housing backlog and that collections on said new housing units shall be rolled-over for new housing projects, the government will be able to respond to the increase in housing backlog likewise shortly before Year 10. If such roll-over of collection will be continued some 100,231 units will be constructed at the end of Year 25.

6. ***Break-Even Point of Investment and Collection from New Housing Units***. The following graphs below show the break-even points of each scheme on amounts invested as against collections to be obtained from such investment:







The first graph shows that collections from the amount investment under the SPV scheme will obtain its break-even point shortly before Year 18, with Return on Investment (ROI) of 150% on Year 25. On the other hand, for the Second and Third Schemes, break-even points happen only shortly after Year 23 and before Year 25 with ROI of 114% and 103%, respectively.

Analysis

Based on the above study, the following observations were noted:

1. ***SPV***. The strength of the scheme of disposing delinquent accounts to an SPV lies on the immediate recovery of a portion of the outstanding balance for the loan and the absence of mortgage management cost on the part of the government. It is also more capable of responding immediately to the adverse effects of foreclosure should collection be infused again for new housing projects. This is manifested by the huge number of houses that may be constructed as early as Year 1. Such move to immediately infuse net collections to new housing projects will immediately generate multiplier effect to various industries involved in housing construction and will greatly contribute to the pump-priming of the economy.

Moreover, since accounts will be assumed by the SPV, government resources will be diverted on improving the collection efficiency of other accounts and on other official functions.

Borrowers concerned may also be introduced to the idea that the cost of acquiring a new housing unit may even be cheaper than settling their outstanding obligations.

It may be noted, however, that the disposition of accounts to an SPV does not ensure recovery of the outstanding obligation since sale of the same is normally at a very low price constituting a very small portion of the book value of the accounts. Moreover, such scheme is highly unacceptable on the part of SAGIP because of the apprehension that foreclosure of accounts will be at a higher rate.

2. ***Mortgage Management Based on Existing Guidelines***. This scheme is more acceptable to the borrowers as compared to the SPV scheme. However, it entails more expenses on the part of the government as compared to the SPV scheme since it shoulders cost of mortgage management until the end of the loan term. As in the SPV scheme, this approach likewise does not ensure recovery of the entire collectible amount even after the end of the loan term. In view of the status of the accounts, there is also a possibility that most of the borrowers will not be able to restructure the same which will result to foreclosure of the accounts and increase in the inventory of acquired assets.

3. ***Mortgage Management Based on SAGIP Proposals***. This scheme is the most acceptable to the borrowers because it entails lesser burden on their part. In this regard, this may open a window for higher collection efficiency than when accounts are managed based on the existing guidelines. However, collection efficiency may not be a good parameter in determining the viability of the scheme because it does not ensure higher collections as a result of the reduction of interest rate, condonation of outstanding interests, acceptance of P1,000 monthly deposit, and approval of the additional loan term.

   Similar to the second scheme, it also entails more expenses on the part of the government as compared to the SPV scheme since it also shoulders cost of mortgage management until the end of the loan term. Moreover, it also does not ensure recovery of the entire collectible amount even after the end of the additional loan term.
   Further, in view of the status of the accounts and the profile of SAGIP, there is no guarantee that most of them will restructure their accounts notwithstanding the grant of their various requests. Hence, it will also

result to foreclosure of the accounts and increase in the inventory of acquired assets.

In addition, this scheme, when approved, will set a bad precedent for other borrowers similarly situated. It will also encourage irregularity of payment of amortization since it may set a wrong impression that borrowers in default are more favored than those who regularly update their accounts.

As a result of the above-mentioned observations, it may be concluded that the most cost-effective approach in dealing with delinquent accounts is to dispose the same to an SPV. It maximizes the recovery of funds as early as Year 1 and utilizes the same for new projects that will create multiplier effect to housing construction-related industries.

However, while this scheme seems to be the most financially viable option among the three (3) schemes discussed above, it also poses danger because of its non-responsiveness to the plight of SAGIP members. It may be noted that in the light of the present political and economic condition, such scheme may give rise to political and moral issues which may adversely affect the government's relation not only with the affected borrowers but with other underprivileged sectors as well. In view of its vulnerability to attacks, the government needs to work-out a more responsive scheme that will address not only financial issues but moral and political issues as well.

In this light, we come to note of the rehabilitation of the UHLP accounts being undertaken by NHMFC and the funders concerned. It may be noted that while it is in the nature of the SPV scheme, such approach was bent a little to ensure retention by NHMFC of the management and control over the accounts.

In the light of the present economic and political circumstances, we are of the position that such an approach is an innovative way of dealing with delinquent accounts. It is highly commendable because of its capability to balance the weaknesses posed by the SPV scheme when implemented in its real sense.