The State of Philippine Housing Programs

A Critical Look At How Philippine Housing Subsidies Work

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PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

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The findings, interpretation and conclusion in this volume are those of the authors and do not necessarily reflect those of the Institute and other institutions associated with the study.

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Foreword

The two small photos on the lower left and right sides of the cover of this volume tell the all-too familiar signs of the social issue which the topic of this book hopes to address—the poor's lack of decent housing. Time and again, the acquisition of a decent shelter has remained as one of the most daunting tasks for many of the lower income population to achieve. Most of them occupy unsafe, overcrowded shanties within slum settlements or in makeshift dwellings, where access to safe water and good sanitation are serious problems. The problem is even more pronounced in the urban areas and given the speed at which urbanization continues to spread to many cities and municipalities all over the country, the magnitude of this problem may be bigger than expected.

For many years, the government has attempted to help by providing housing subsidies: either in the form of low-cost subsidized housing units or as rental ceilings on housing units. Thus, year after year, large fiscal resources are being expended from public funds to finance these subsidy programs. Despite this, however, homelessness, unauthorized housing and lack of decent housing remain to be a major headache. Why? What has been the problem? Where and how did the programs fail, if they indeed did?

Hopefully, this volume can help provide some answers and aid our policymakers and development planners in shaping more meaningful and effective policies and legislation on the provision of shelter to the country's poor.

Mario B. Lamberte, Ph.D.
President

Preface

The publication of this book comes at an auspicious time. The government faces a huge fiscal deficit that it plans to tame by 2006. The target is a budget surplus in that year. To accomplish this goal, the government has to be more judicious in its spending and more determined in its revenue collection. It is thus a favorable time to review its expenditure pattern, the allocation of scarce public resources among competing demands, especially, the various subsidies intended to correct for market failure.

In addition, it has to re-examine its role in an open, deregulated and liberalized economy that calls for governments to play an enabling role in the market and to weave an appropriate regulatory framework that ensures consumer safety and welfare. To use a cliché, it has to "reinvent itself" by shedding off interventions, such as the type of housing subsidies analyzed in this book, that distort the market and weaken the incentive for private sector participation in the economy.

The findings of the book indeed casts a challenge to policymakers to redesign the housing subsidy approach that will provide access to decent shelter by as many low-income households as possible. The current housing subsidy schemes are provided at a huge fiscal cost and create incentive problems for various players in the housing market. Those subsidies have benefited mostly the nonpoor and not the intended beneficiaries—the low-income households.

In this light, we invite the government to review its role in the housing market. The housing market does not seem to efficiently function not because of a lack of government presence in that market; rather, it is inefficient because of very heavy government intervention that tends to stifle private sector participation. Allowing greater sector private participation in the housing market and providing for more competitive financial markets will enable the government to focus its scarce resources to the most needy households and to realize its objective of providing shelter to a greater number of the poor.

At this point, we will be remiss in our duty and violate time-honored "utang ng loob" if we do not acknowledge the following persons who have

helped shaped the book in its present form through their invaluable comments and suggestions: Zorayda Amelia Alonzo, Antonio Hidalgo, Gonzalo Jurado, Tom Zearley, Jose Antonio League, Tom Glaessner, McDonald Benjamin, Lawrence Hanna, Marcelo Bueno and Joselito Gallardo. We acknowledge the funding support provided by the World Bank to the HUDCC that made possible the preparation of a report on which this study was based. We also would like to acknowledge the able assistance of the following: our excellent associates, Maria Teresa Sanchez and Marie Christine Tang, Mary Ann Dizon, and the technical staff of HUDCC and Pag-Ibig Fund for data and various information. We apologize to those whose names might have been inadvertently omitted in this acknowledgment. Any error in this book is ours.

Ad Maiorem Dei Gloriam

The Authors

Abbreviations/Acronyms

AKPF	-	*Abot-Kaya Pabahay* Fund
CISFA	-	Comprehensive and Integrated Shelter Finance Act
CMP	-	Community Mortgage Program
CREBA	-	Chamber of Real Estate and Builders Association, Inc.
DBM	-	Department of Budget and Management
DBP	-	Development Bank of the Philippines
DDLP	-	Direct Development Loan Program
EHAP	-	Emergency Housing Assistance Program
EHLP	-	Expanded Housing Loan Program
FI	-	Financial Institution
FIES	-	Family Income and Expenditure Survey
GLAD	-	Group Land Acquisition and Development Program
GDP	-	gross domestic product
GNP	-	gross national product
GSIS	-	Government Service Insurance System
HDMF	-	Home Development Mutual Fund (also known as *Pag-ibig* Fund)
HIGC	-	Home Insurance Guarantee Corporation
HLURB	-	Housing and Land Use Regulatory Board
HUDCC	-	Housing and Urban Development Coordinating Council
IHLP	-	Individual Housing Loan Program
LGHP	-	Local Government Housing Program
LGU	-	local government unit
NDCC	-	National Disaster Coordinating Council
NHA	-	National Housing Authority
NHMFC	-	National Home Mortgage Finance Corporation
NSP	-	National Shelter Program
PCIBank	-	Philippine Commercial and Industrial Bank
PCL	-	purchase commitment line
PNB	-	Philippine National Bank
SHDLP	-	Social Housing Development Loan Program
SSS	-	Social Security System
UHLP	-	Unified Home Lending Program

Introduction

Rationale

For the period 1993-1998, the government estimated that approximately 3.7 million new housing units were needed. On the other hand, renovation and upgrading of old housing units would have involved another 1.3 million units for the same period. The rapid formation of new households, especially in urban areas, has contributed to an acute demand for housing that has not been adequately met by the supply side of the market. The demand-supply gap is mostly noticeable at the lower end of the housing market as the poorer households failed to get access to decent housing. In turn, the government has intervened in the housing market to make it more responsive to demand, especially of the poor households. Government intervention consists of regulatory, production and financing measures.

This study is concerned with housing subsidies,[1] one of the principal instruments the government uses to provide targeted households access to decent housing either by making available low-cost, subsidized housing units or by imposing rental ceilings on housing units. A review of the housing subsidy program is critical from a public policy standpoint.

First, the fiscal resources used in subsidy programs, especially those targeted to a very large segment of the population, are nontrivial. Those resources have competing, alternative uses and thus, any misallocation of resources imposes costs to society. Scarce fiscal resources have their alternative demands and appropriate public policy requires that the social benefits from the housing subsidies exceed the social cost of those subsidies. This study uses social cost-benefit analysis as the framework of analysis for housing interventions. The total fiscal resources devoted to subsidies, given their alternative uses, are used to measure the social costs. The magnitude of the subsidies captured by the intended beneficiaries as well as the public goods arising from better housing

[1]See Annex 1.1. for a brief review of literature on housing subsidies. Most of the studies on housing subsidies have been done in developed countries. We are not aware of any local studies on housing subsidy.

conditions of the poor such as better sanitation and improved social cohesion are indications of the social benefits.

Second, the housing subsidies target the relatively poor members of society. It is important to find out whether the target beneficiaries are indeed the actual beneficiaries of the subsidies.

Third, apart from the determination of the fiscal cost or burden and the incidence of benefits of housing subsidies, it is equally important to assess how the incentive structure created by the subsidy schemes has affected the behavior of economic agents, i.e., borrowers, private banks, private developers, public housing agencies, policymakers, legislators, and how these relate to the objective of making housing markets more efficient. Efficiency refers to the larger market role of private agents in the production, financing and distribution of housing units, with the government and the housing agencies providing a favorable environment for private sector participation in the housing market.

Objectives

The study aims to:

(a) measure the different types of subsidies provided in the housing sector;
(b) determine the incidence of benefits of the subsidies;
(c) identify who bears the burden of the subsidies; and
(d) recommend alternative options for providing subsidies to the most deserving beneficiaries.

The study is organized into eight sections. After the introductory chapter on the rationale and objectives of the study comes Chapter 2, a discussion of the policy framework of the housing subsidies. Chapter 3 describes the government's housing subsidy programs. Chapter 4 presents the research design used in the study. Chapter 5 discusses the estimated magnitude of the subsidies and Chapter 6, the estimated incidence of the housing subsidies. Chapter 7 discusses the incentive problems created by the present housing subsidy programs.

The last chapter gives the study's conclusions and recommendations, including an alternative subsidy scheme.

Annex 1.1 . Brief review of literature on housing subsidies

Were markets complete and perfectly competitive, subsidies, like taxes, would only create distortions and lead to welfare loss for the society. However, markets are, more often than not, incomplete and imperfect. Cases of externalities, public goods, imperfect competition and increasing returns to scale in production characterize market failure. Hence, subsidies are provided to correct these market-induced inefficiencies.

The housing market is a case in point. Several authors have described how market failure arises in the housing sector, arguing for, among other forms of government intervention, the provision of subsidies. The problem, then, lies in the form of subsidy that should be given.

Housing subsidies (explicit or implicit) are commonly of the following types:

- public housing
- rent controls
- rent supplements
- income tax benefits
- loans at interest rates below-market
- mortgage insurance and guarantees

Since the overall impact of any one of these subsidies is potentially large, it is important to analyze carefully how each program works and how each affects the different sectors of the economy.

On the demand side, housing subsidies generally work by lowering the price of housing services or by increasing households' disposable income. The standard approach to analyzing the impact of a housing subsidy is to first measure its effect on the price of housing. The magnitude of price reduction influences demand which changes according to its price elasticity. Through this price reduction effect, subsidies correct existing market failures in the housing market. However, to the extent that subsidies are not well targeted or that an inappropriate subsidy is provided, inefficiency or "deadweight loss" is introduced, aggravating the original market condition.

Using this analytical framework, several computational issues follow. Among these are:

- how to quantify (i.e., estimate the monetary value) the different types of subsidies
- how to estimate the effect on housing prices of the subsidies
- how to estimate the effect of the price changes on consumer behavior

- how to calculate deadweight loss and the distribution of benefits and losses among different groups (e.g., income class, tenure groups).

In addition to the question of efficiency, another important concern is the issue of equity—both horizontal and vertical. Horizontal equity refers to the distribution of net benefits among different groups (e.g., tenure groups) belonging to the same income class while vertical equity pertains to the distribution of net benefits across income groups. How to measure the distribution of costs and benefits and thus, identify the losers and gainers, is likewise a major concern in the housing literature.

The ensuing sections review literature dealing with the above methodological issues, starting with the quantification of subsidies to the measurement of losses and benefits.

Quantifying subsidies

The methodology for quantifying subsidies varies according to the type of subsidy. The main concern, nonetheless, is to measure the difference between the observable subsidized price and the unobservable market price of the same housing unit. The literature, thus far reviewed, has concentrated on three types of subsidies: (i) rental subsidy on public housing; (ii) rent control; and (iii) income tax exemptions. Annex 3.3 in Chapter 3 summarizes the different methodologies used to measure housing subsidies.

Rent subsidy on public housing. Subsidies to public housing tenants arise due to the lower-than-market rents that government charges on these units. The subsidy's magnitude is thus the difference between (i) the actual rent paid on the unit and (ii) the market rent of the same unit (adjusted for other factors such as management and maintenance costs, depreciation rate, return on housing and capital gain). Several studies used survey data to obtain the actual rent of a unit. On the other hand, estimation of the imputed market rent basically followed two approaches.

Robinson (1981) simply used a quadratic relationship between house sale prices and their gross rateable values.[a] However, as Hills (1991) pointed out, this approach ignores a number of questions about housing

[a]Rateable values, as defined in Hills (1991), are the valuations of dwellings made in England to give the tax base for the U.K. local property tax.

characteristics. What he and other authors did was to estimate housing values from a hedonic price index.

A hedonic price is estimated from the various characteristics of housing units—number of rooms, location of the unit, age of the structure, etc. The set of characteristics used vary from one study to another, usually depending on the availability of data. Hills (1991), for instance, adopted the variables (i) region, (ii) "rateable value", (iii) number of rooms in the property, (iv) construction date, (v) dwelling type and (vi) whether the property includes a garage. Walker and Marsh (1993) and Agrawal (1988), on the other hand, concentrated only on three variables—number of bedrooms, type of dwelling and geographical location.

Tax expenditures. Several studies for the United States and the United Kingdom have been done to estimate the impact of tax expenditure subsidies. Tax expenditures refer to a number of housing-related exclusions from income taxation that are available to owner-occupiers. Among these are the imputed rental income on owner-occupied housing,[b] capital gains from house sale, and deductions from taxable income of mortgage interest and property taxes.

The measurement of tax expenditures is based on existing tax rates for the different income groups and for the different types of transactions. For imputed rental income, Walker and Marsh (1993) computed the subsidy as the difference between (i) the marginal tax rate times the value of occupied dwelling times the real rate of return on housing[c] and (ii) deductible housing expenditure (which includes maintenance and expenditure). Incorporating capital gains into the analysis, Robinson (1981) simply added a subsidy as the sum of (i) the marginal income tax rate times the average imputed rent and (ii) the capital gains tax rate times the average annual appreciation of housing.

Rent control. There is almost universal agreement that rent controls are inefficient and should be resorted to only as a short-run response to abnormal market conditions. Nonetheless, governments continue to use

[b] The subsidy arises due to the differential treatment (in U.S. and U.K. tax laws) of income from house rentals (which is subjected to taxes) and the imputed rent income from owner-occupied houses (which is not subject to tax).

[c] The value of occupied housing was estimated via hedonic pricing while the real rate of return on housing was proxied by the average Treasury bill and building society mortgage interest rate.

rent control to make housing affordable for renters, who usually belong to the lower income groups.

The analysis of rent controls largely follows that of public housing rent subsidy. Gyourko and Linneman (1989) defined subsidy as the difference between (i) a controlled unit's actual rent and (ii) its estimated uncontrolled rent. The latter variable is estimated via a hedonic rent equation expressed as a function of housing traits (house condition, age, number of rooms, amenities, etc.) and tenancy duration.

Tax exemption on public housing bonds. Solomon (1974) defined this type of subsidy as the revenue foregone due to the exemption of interest payments on public housing bonds from income taxes, net of the interest cost saving to the government associated with tax-exempt bonds. He estimated the interest cost saving as the difference between tax-exempt bonds and fully taxable bonds (proxied by corporate bonds with the same credit category and maturity). Hence,

$$I = \sum_{j=1}^{j=15} Bj\,(a_c - a_{PH})$$

where:

I = value of federal interest cost saving

Bj = value of public housing bond issue

a_c = monthly payment needed to amortize a loan of $1 on a 0.0703 interest rate 40-year corporate bond

a_{PH} = monthly payment needed to amortize a loan of $1 on a 0.0554 interest rate 40-year public housing bond

On the other hand, Solomon estimated the foregone revenue by multiplying the annual income from interest payments by the respective average marginal tax rates:

$$F = \sum_{j=1}^{j=15} (B_j\,\bar{y}\bar{r})$$

where:

F = annual value of foregone revenue

B_j = value of bond issue

$\bar{y}$ = average annual interest payment on corporate bonds per $1000

$\bar{r}$ = weighted average marginal tax rate

Chapter 2

Philippine Policy Framework on Housing Subsidies

Homeownership vs. access to decent shelter

Housing is a major expenditure item for households. It is the households' largest and most widely owned asset. To substantially improve the conditions of the targeted sectors, such as the poor's access to housing, the Philippine government has provided subsidies that are expected to bring down housing costs. The subsidies in the housing markets are meant to enable the majority of the population to afford housing units that are made available to them at a lower cost.

The prevailing public viewpoint is that every household must own a house, no matter how humble it may be. Its opposite, renting a house, is a less preferred, second best situation. Home ownership is preferred because of the assurance of a place to live in, its investment value, the status given by society to home ownership and the uncertainties of its opposite—renting. Private homebuilders have reinforced the policy bias for homeownership by declaring that the National Shelter Program (NSP) targets can be attained given adequate funding from the government.

This policy has led the government to try raising as much funding as possible to realize homeownership by households, especially by the low-income group, to make housing units available as cheaply as can be provided. Making cheap funds available became synonymous with providing interest subsidies to prospective homeowners, as well as other types of subsidies to the housing sector in general. Thus, the NSP has four major programs that are largely subsidized and are all intended for home production and ownership. These are mortgage financing, direct housing production for low and marginal income families, development loans and community programs.

However, the prevailing bias for homeownership, regardless of econpmic status of the potential owner, rests on the wrong assumption. Not everyone in society can afford to buy and own a house. There will always be a segment of society that is too poor and destitute to even think of purchasing a housing unit, but nevertheless, needs decent shelter.

In fact, even in developed countries, homeownership is available only to some 55 percent (Singapore) or at most, 65 percent (United States) of the population. Thus, the real problem is not how to provide everyone a house to own, rather, it is how to provide access to decent shelter through (1) renting out by the private sector, (2) ownership by individuals through purchase or private transfer (e.g., through inheritance, donation) or (3) renting out public housing to certain sectors of society (e.g., the bottom poor).

The bias for homeownership has created a huge fiscal burden on society and the wrong incentive structure for efficient private sector participation in the housing markets.[2] The end result is a huge burden that may prove to be very disproportionate to the government's ability to muster resources for the housing sector, let alone other sectors.

An important dimension of the housing markets is the neglected role of the private financial system in moving resources to a potentially profitable housing market. The hard reality is that the government does not have the resources to finance a very costly program that seeks to provide access to housing units to all sectors of society. Unless private resources are effectively harnessed to meet the huge demand for housing, and unless the government directs its subsidies to those most in need and in the most transparent way, the huge demand for decent shelter will remain unsatisfied. However, given inappropriate policies and incentives, the private sector will avoid risking its own resources to the housing markets, and instead, follow the line of least resistance: let government produce all the monies it can to build homes and to make them available in the form of subsidized loans to private parties. The agency relationship between private parties and government effectively transfers the credit risk to the government and profits to intermediate agents.

Finally, while a case may be made for providing direct or indirect subsidies to targeted beneficiaries, it is equally compelling to have a transparent policy framework for housing subsidies. This means that society knows who actually benefits from subsidies, who pays for them and the form the subsidies take, e.g., direct grants. The subsidy policy framework must also ensure that the subsidies provided are fiscally sustainable in the sense that the opportunity costs of housing subsidies and the government's budgetary constraint are considered in the design of those subsidies.

[2] See Chapter 7 for a discussion of incentive problems in the housing markets.

Philippine housing subsidies: how they work, who they benefit and their implications on the budget

The nominal beneficiaries of the housing subsidies may differ from the actual beneficiaries. There are several reasons behind this phenomenon.

First, weak or flawed targeting mechanisms allow the unintended beneficiaries to capture the subsidies that the state offers. Typically, the unintended beneficiaries are better educated (and sometimes, better connected politically), and can present themselves as worthy beneficiaries of government subsidy programs to the prejudice of the intended beneficiaries. This has happened not only in the housing subsidy programs but also in other government subsidy programs.

A second reason may be the imperfections arising from the transfer mechanisms. The transfer of subsidies occurs through institutions such as banks or lending institutions that may be biased against the intended beneficiaries who mostly come from the low-income group. High transaction costs, information asymmetry and perception of high credit risks prevent poor households from accessing the financial markets. The literature points out that banks or lending institutions tend to ration credit among intended beneficiaries and to cater to the more creditworthy segment of the borrowing population, the high-income group.[3]

Third, the present housing subsidy programs may have created the wrong incentives to encourage the participation in the housing markets of borrowers, lenders, developers and even public housing agencies. Formula lending, which until recently, was practiced by financial institutions, does not recognize the borrowers' lack of capacity to pay. Thus, regardless of lack of capacity to pay or to incur additional indebtedness, borrowers are encouraged or attracted to take a housing loan because it is accessible. Entitlement to the housing loan is an outcome of formula lending.

On the other hand, private agents, i.e., private developers or lending institutions, have no incentive to really screen out those who cannot repay the loan because the government, through the National Home Mortgage Finance Corporation (NHMFC), automatically takes out the loan exposure from them. Thus, one may very well argue that under the present housing subsidy policy framework, private institutions participate in the

[3]As pointed out in Llanto (1990), incomplete information and in some instances, the lack of it, prevents the realization of loan contracts between formal financial intermediaries and numerous rural borrowers.

government's housing programs, especially the "socialized" programs if these are subsidized. This is to say that the private marketplace for housing cannot flourish given a flawed incentive structure that motivates participation only because the government is prepared to assume the full burden and risk of those housing programs.

In a situation where there is limited available funding while competing demand for such funds is high, a fundamental issue facing government policymakers in the housing sector is how to allocate the limited public sector resources to their most efficient alternative use. In particular, it is critical for government to use those resources efficiently by establishing a more effective system of providing subsidies to those who really need them.

Effective targeting of subsidies requires a transparent housing subsidy policy, effective identification of beneficiaries, a knowledge of the amount of subsidies that the public sector can bear, and awareness of the economic agents that shoulder the actual burden of the subsidies. Knowing the actual beneficiaries as well as the agents bearing the burden is important in designing efficient and effective housing subsidies. This is a vital input to the overall housing policy framework.

The budgetary implication of housing subsidies should not be underestimated. The housing subsidy program involves huge transfers of resources to private individuals. Thus, knowing the extent of subsidization and the distribution of subsidy benefits could help the government's housing policy. This is even more critical as government faces tough budget constraints.

The Government's Housing Subsidy Programs

Brief overview

During the 1970s and up to the mid-1980s, the government was involved in the direct production and provision of housing and related services and it imposed rent control in an attempt to make housing more accessible to the low- and middle-income groups. It also initiated the creation of a secondary mortgage system operated through the National Home Mortgage Finance Corporation (NHMFC) that purchased the mortgages of loan-originating financial institutions. The NHMFC drew funding from the Home Development Mutual Fund (HDMF), paying 12.75 percent per annum. Those funds were then lent to HDMF members at subsidized interest rates.

In 1987, to rationalize the housing sector, the Aquino government created, through Executive Order No. 90, the Housing and Urban Development Coordinating Council (HUDCC), the highest policymaking and coordinating body for urban and housing development. It formulates policies and guidelines to accomplish the National Shelter Program, a scheme intended to deal with the housing backlog. HUDCC coordinates, monitors and exercises oversight functions over the activities of government housing agencies such as the National Housing Authority (NHA), NHMFC, Home Insurance Guaranty Corporation (HIGC)[4], and the Housing and Land Use Regulatory Board (HLRB). NHA is the sole government agency responsible for housing production. The HDMF, Social Security System (SSS) and Government Service Insurance System (GSIS) provide funds to the NHMFC which is tasked to administer the government's Unified Home Lending Program (UHLP).

The UHLP distinguishes "socialized" housing from "economic" housing and maintains different financing approaches and regulations in each of these categories. EO 90 enlists the support and cooperation of

[4] HIGC is now called the Home Guaranty Corporation (HGC) by virtue of Republic Act 8763 (March 7, 2000) that provided it a new mandate: to pursue the development of a secondary market for housing mortgages, bonds, debentures, notes and guarantees.

the private sector in the production and financing of low-cost or "socialized" housing. The government encourages both private builders and financial institutions to cater to the lower segment of the housing market by providing them a package of mostly financial incentives and subsidies. Under the Urban Housing and Development Act of 1992 (RA 7279), a major piece of social legislation under the Aquino administration, the government seeks to undertake the following objectives: (1) provide decent shelter to the poor; (2) develop a framework for the use of urban land; (3) involve the community in shelter development and construction; (4) maximize local government participation in socialized housing; and (5) employ the services of the private sector in socialized housing programs. A companion piece of legislation, the Local Government Code of 1991 (RA 7160), provides that local government units (LGUs) be jointly responsible over the provision of socialized housing and regulation of shelter-related activities.

The National Shelter Program

The National Shelter Program (NSP) is the government's comprehensive strategy to address the country's housing problem. It rests on three basic principles, namely: (1) reliance on the initiative and capability of beneficiaries to solve their housing problem with minimum assistance from the government; (2) the private sector as the principal player in providing decent and affordable housing; and (3) the government as enabler, facilitator and catalyst in the housing market, while focusing assistance to families within the poverty line.

The NSP has four major programs: (1) production of housing units, (2) mortgage financing, (3) developmental loans and (4) community programs. These programs target either direct end-beneficiaries/households or private developers/private banks—the intermediary institutions used by the government to direct assistance to beneficiaries.

The specific features of government housing programs are shown in Annex 3.1. Through these programs, the NSP was able "to extend housing assistance to a total of 323,700 families for the period 1993 to May 1995. This represents 26 percent of the targeted 1,239,702 households for the Plan Period 1993-1998 and 95 percent of the 341,492 households to be given housing assistance for the period 1993 to May 1995" (HUDCC 1995).

The housing finance system and housing subsidies

The agencies involved in housing finance are the NHMFC, SSS, GSIS and HDMF. These agencies provide mortgage loans to low- and middle-income borrowers. The NHMFC provides takeout funding to public and private institutions using funds provided by GSIS, SSS and HDMF. Four programs are currently being administered by the NHMFC: the Community Mortgage Program (CMP); the UHLP; Social Housing Development Loan Program; and the *Abot-Kaya Pabahay* Fund. The GSIS, SSS and HDMF, while channelling funds to the NHMFC, also provide housing loans to their respective members. The different housing programs, the source of funds and the target beneficiaries are shown in Figure 3.1. Meanwhile, the amount of loans granted, guarantees extended and direct subsidies provided by the housing agencies from 1993 to 1995 are shown in Table 3.1.

To expand the available funding for the housing sector, Congress passed the Comprehensive and Integrated Shelter Finance Act or CISFA (RA 7835) in 1994 that provides an additional P38 billion funding allocation for housing over the next five years. The Law or RA 7835 allocates the largest funding to the CMP (P12.8 billion) and the resettlement program (P5.2 billion). The *Abot-Kaya Pabahay* Fund will get about P1.1 billion in the next five years. The Act also increased the capitalization of NHMFC from P500 million to P5.5 billion and that of HIGC from P1.0 billion to P2.5 billion.

Another important piece of legislation is RA 7742 enacted in 1994 that made membership mandatory in the HDMF, otherwise known as *Pag-Ibig* Fund. HDMF with over P29 billion in total resources is a nationwide provident fund for housing that pools employees' and employers' contributions to generate long-term housing funds. *Pag-ibig* Fund membership was mandatory in 1981 but was made voluntary in 1987. In addition to providing funds for the UHLP, HDMF also has its own retail and institutional home lending programs.

In sum, housing finance draws funding from GSIS, SSS and HDMF, which are off-budget,[5] and more recently, from budgetary appropriation provided under CISFA. The NHMFC uses those funds to take out mortgage loans originated by private developers and private banks using the so-called "formula lending" approach.[6]

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[5] Funding does not come from the General Appropriations Act.

[6] Housing loans, which are a certain multiple of monthly incomes, are provided to those who have contributed to the pension funds.

Figure 3.1

Flow of funds for government housing programs

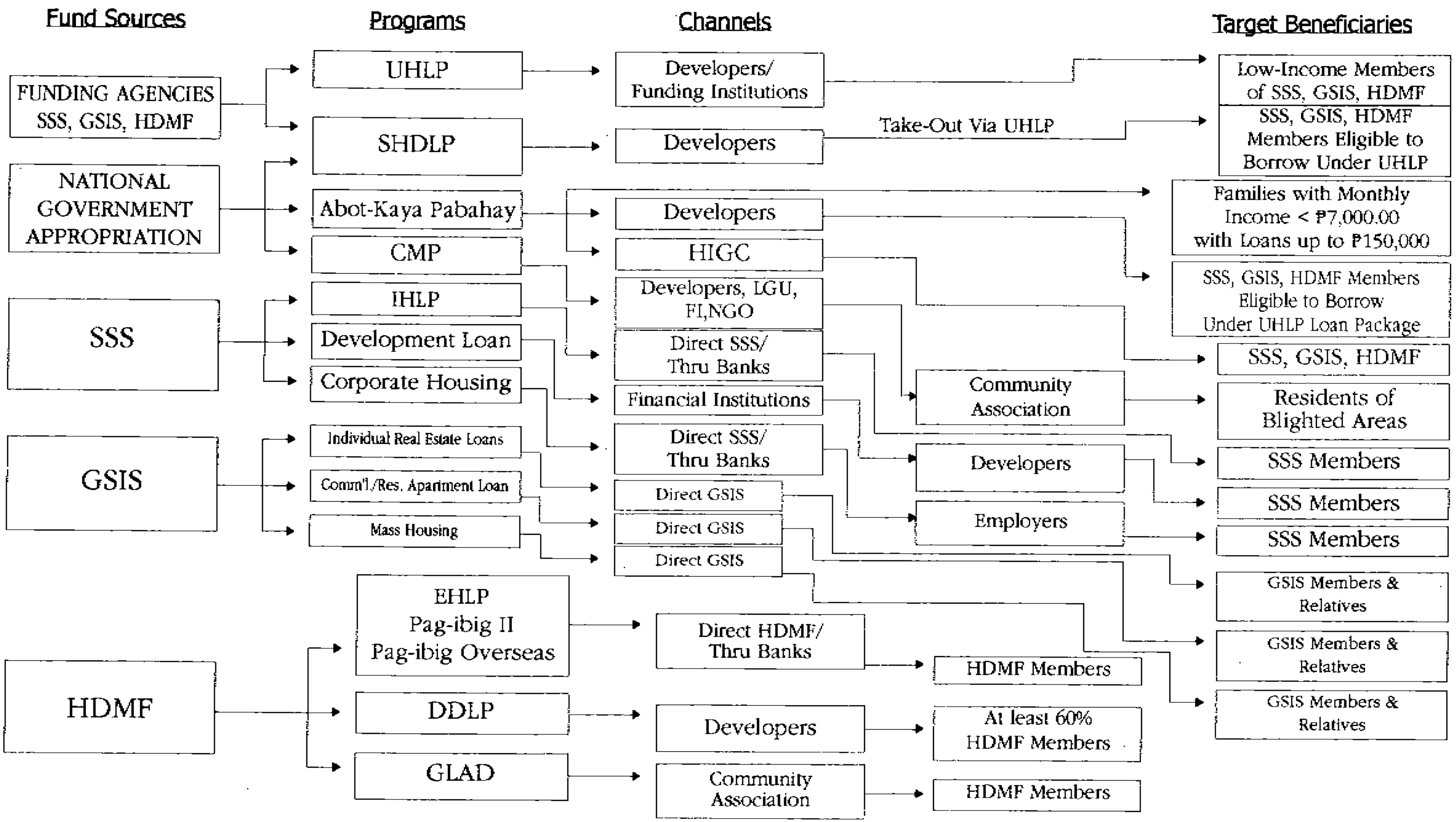

Table 3.1. Summary of loans granted/guarantees extended, 1993-1995 (in ₱ million)

Program/Packages	Total loans/Guarantees
UHLP	
9 percent	7,632.53
12 percent	9,637.50
16 percent	12,130.28
Total	29,400.32
EHLP	
9 percent	1,776.13
12 percent	1,402.24
16 percent	1,253.07
17 percent	18.37
Total	4,449.81
CMP	807.57
SHDLP	715.76
Abot-Kaya Program	
Amortization support	3.50
Developmental loan	12.10
Cashflow guarantee	1,700.00
HIGC Retail Guarantees	
Cash	3,358.40
Bond	12,178.40
HIGC Developmental Guarantees	
Cash	223.20
Bond	809.20
NHA Resettlement Program	1,415.00
Total	55,073.26
Loans	35,385.56
Guarantees	18,269.20
Direct subsidies	1,418.50

Sources: HDMF, HUDCC, HIGC

The government uses a combination of direct subsidies through concessional interest rates, and indirect subsidies, e.g., tax breaks, guarantee schemes, etc. Indirect subsidies also include periodic recapitalization to strengthen insolvent housing agencies.[7] The various forms of subsidies provided to beneficiaries and the housing sector are shown in Annex 3.2 while the various types of housing subsidies, their features and estimation methodology found in the literature are given in Annex 3.3.

Housing subsidy programs[8]

Unified Home Lending Program (UHLP)[9]. The program has four principal players: the funding agencies, the NHMFC, the loan originators, and the final beneficiaries.

There are three levels of transactions. In the first level, the SSS, GSIS and HDMF negotiate with NHMFC on an annual funding commitment to UHLP based on their annual investible funds.

In the second stage, the NHMFC re-lends the funds to eligible home buyers through accredited loan originators such as financial institutions, developers and corporate employers. Prospective loan originators apply for a purchase commitment line (PCL) with the NHMFC. Once approved, the NHMFC will purchase the mortgage deliveries of the loan originators up to the granted commitment line following an agreed upon drawdown schedule. This arrangement gives originators the liquidity to undertake more housing projects since they are able to immediately swap for cash their mortgage investments.[10] The mortgages taken out from the originators are then assigned to the funders.[11]

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[7] By "direct" subsidies, we mean those that go to or are enjoyed directly by end-beneficiaries, in contrast to "indirect" subsidies that reach the beneficiaries through the housing agencies, private developers and private banks. Part of the subsidies arises from low loan recovery rates that effectively become an income transfer scheme for those not paying their housing loans.

[8] Brief descriptions of other programs not included in this section may be found in Annex 3.4.

[9] UHLP was closed down/terminated after the study was done because of huge losses sustained by the government. In its place, the Multi-Window Lending System (MWLS) was created by the Estrada administration which provides separate lending windows for target beneficiaries, e.g., GSIS for its members.

[10] Under the program, UHLP originators are allowed to charge a maximum origination fee of 2.5 percent of the loan amount. Thus, origination cost for the borrower equals 5 percent, with the other 2.5 percent going to the NHMFC.

[11] The interest rates charged by the SSS and HDMF vary from contract to contract, depending on their agreement with the NHMFC. For 1993-1995, the two agencies charged the NHMFC, on the average, 12.29 percent and 11.33 percent, respectively, for the use of their funds. The GSIS, on the other hand, charges a fixed rate of 10.25 percent.

Finally, in the third stage, the NHMFC collects from the borrowers their monthly loan payments. The NHMFC is obligated to pay the funders the yearly loan amortizations arising from the loan originations made by the private banks/developers, regardless of whether or not it collects from the borrowers. Thus, the whole process of lending, re-lending, mortgage takeout and loan repayment revolves around the NHMFC and the ability of the funders to provide a continuous stream of liquidity.

There are three loan packages under the UHLP carrying different interest rates and with maximum maturity of 25 years. For loans up to ₱150,000, the interest rate is 9 percent; for loans over ₱150,000 up to ₱225,000, 12 percent; and for loans over ₱225,000 up to ₱375,000, 16 percent. The interest rates were set to give NHMFC an average return of 12.25 percent to cover its cost of funds as well as its administration cost. As designed, the UHLP was envisioned to operate on the principle of cross-subsidization where borrowers of the higher loan packages would subsidize borrowers of the lowest loan package.

NHMFC has no initial contact with the borrowers because the loan originators screen the borrowers. Borrower eligibility is based solely on the borrower's monthly income and no effort is expended to determine the person's capacity to pay. This is the so-called "formula lending" approach used by originators where the actual loan is based on the borrower's monthly income times 30, with monthly amortization not to exceed 1/3 the borrower's monthly income. The NHMFC comes into contact with the borrowers only upon turnover of the mortgage by the loan originators.

Loan repayment is done through NHMFC-accredited collecting banks such as the Development Bank of the Philippines and the Philippine National Bank, which are paid a collection fee of 1 percent of gross repayment. In case of default, a penalty of 1/5 of 1 percent of the loan for every day of delay is charged against the borrower. Failure to pay three monthly amortizations makes the entire loan, including interest and other charges, due and demandable. Foreclosure may be initiated at this time. However, under existing laws, the borrower has a year to redeem the foreclosed property.

Between 1987 and July 1996, UHLP mortgage takeouts reached a total of ₱45.6 billion, equivalent to 2.3 percent of the gross national product (GNP) in 1995. This makes the UHLP the single largest mortgage program in the country. In all, 235,695 housing units were built benefiting 271,020 people.[12] The UHLP's growth has particularly been impressive in

[12] The difference between the two figures is due to "tacked-in" borrowers (up to three individuals related to the second degree of consanguinity) who jointly borrow a single loan.

the past three years (1993-1995), with mortgage takeouts totaling ₱29.4 billion compared with the ₱15.3 billion recorded from 1987 to 1992. Out of the ₱29.4 billion mortgages taken out from 1993 to 1995, only 26 percent are mortgages below ₱150,000; mortgages in the ₱225,000 and ₱375,000 range make up 41 percent of the mortgage portfolio while those from ₱150,000 and ₱225,000 amount to 33 percent. On the other hand, of the 133,700 units given assistance from 1993 to 1995, units financed with loans up to P150,000 numbered 53,480 or 40 percent of the total units while those financed under the middle and highest loan packages comprised 33 percent and 27 percent, respectively, of total assisted units.

Despite its growth in meeting the country's housing backlog, the UHLP has increasingly met difficulties prompting the government to review the entire system. During the program's nine-year implementation, the most serious problems it has encountered are the low repayment rate, the huge amount of uncollected loans, and the inadequate funding support for the government's main housing program.

From 1993 to 1995, the loan collection efficiency rate is estimated at only 63.5 percent.[13] The NHMFC has been saddled with uncollected accounts. As of year-end 1995, some 108,722 accounts, representing 63 percent of total accounts numbering 172,654, were delinquent for over three months. This prompted the NHMFC to undertake a two-year (1994-1996) loan restructuring program involving penalty condonation. To date, only 5,816 accounts representing 3.4 percent of delinquent accounts, have been restructured under this program.[14]

Data from the NHMFC show that from 1988 to 1992, the three funding agencies released only 75 percent of their total commitment to the UHLP. Although this figure improved to 94 percent for the period 1993-1995, the UHLP had, by then, already incurred a deficit of P6.2 million. By 1996, large uncollected loan accounts under the UHLP made the funding agencies reluctant to provide more funding because they did not want to risk more of their members' contributions.[15] At the same time, the funding agencies were meeting their members' mortgage loan needs through their own, respective mortgage programs.

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[13] Loan collection efficiency varies depending on loan type and originator type. That is, the collection performance for high-priced loans (carrying higher interest rates) are generally lower than low-priced loans (57 percent for 16 percent loans compared with 73 percent for 9 percent loans). Also, loan collection efficiency for developer-originated loans are lower than that for loans originated by financial institutions (59 percent vs. 69 percent, respectively). Source: Board Committee Findings, NHMFC.

[14] The figure includes Community Mortgage loans restructured under the program.

[15] HDMF recently provided P7 billion to enable the continued implementation of UHLP.

The program also encountered other problems, including: (1) the worsening financial position of the NHMFC as takeouts increased while loan collection slumped; (2) labor constraints at NHMFC which made it increasingly difficult for the agency to handle the UHLP's loans and attend to collection as well; (3) perceived conflict of interest on the part of developers who act both as loan originators and house builders; and (4) tedious and relatively expensive foreclosure procedures.

In response, HUDCC, under Council Resolution No. 12 (April 1996), implemented the following changes to the UHLP: (1) a multiwindow lending system was created in which the funds will no longer be coursed through the NHMFC but to be handled directly by the funders or through financial institutions; (2) origination of mortgages by developers was made limited to those below ₱150,000; (3) mortgages more than ₱150,000 up to ₱375,000 will be approved based on the borrower's capacity to repay; and (4) loan ceiling was increased from ₱150,000 to ₱180,000 under the lowest housing package, with the additional ₱30,000 to be charged a 12-percent interest rate. These changes took effect after a six-month transition period, during which time, the HDMF acted as sole takeout window. Interest rates for the higher packages would be market-driven instead of being fixed at 12 and 16 percent.

Community Mortgage Program. The Community Mortgage Program (CMP) is a mass housing program that seeks to respond to land tenurial problems in marginalized communities. NHMFC has administered the program since it was put in place in 1988. Under RA 7835 or the Comprehensive and Integrated Shelter Finance Act (CISFA of 1994), additional funding support totaling ₱12.78 billion will be sourced for CMP from the National Government over a period of five years. At the same time, the program also gets funds from the unutilized portion of the *Abot-Kaya Pabahay* Fund to cover the interest subsidy. In 1995, ₱264.9 million were sourced from the *Abot-Kaya* Fund.

The CMP works through organized associations of slum dwellers, with accredited CMP originators assisting the associations in securing the loans.[16] To be eligible for loans under the program, the beneficiaries must first organize themselves into associations that must be accredited by the

[16] The CMP originator may be a government agency such as the NHA, a local government unit, a developer, a financial institution, or a community-based nongovernment organization. These originators are entitled to an origination fee of 2 percent of the loan amount, or ₱500 per household-beneficiary, whichever is higher.

NHMFC.[17] Then, with the originator acting as the creditor-mortgagee, the community association collectively borrows and initially, owns and mortgages the land.[18] The originator, in turn, assigns the rights to the loan and mortgage to the NHMFC, which then collects the loan from the community association.

Financing under the CMP is done in three stages. Stage 1 involves land acquisition; stage 2, site development; and stage 3, individual housing loans. Loan limits per household for the various activities are as follows: (1) P30,000 for the acquisition of an undeveloped property (P60,000 for lots located in Metro Manila); (2) P45,000 for the acquisition of a developed property; and (3) P80,000 for lot acquisition, development and house construction or improvement.

The total community loan is equivalent to the sum of the individual household loans. On the other hand, individual household loans are based on the household members' monthly income times 30. Up to three individuals may be tacked-in under one household loan. Loans under the CMP are charged 6 percent annual interest rate payable in 25 years.

The CMP operates on the principle of self-help. The various activities of the program revolve around the community association, which in many cases, proved to be the key to a project's success. Community cohesion (i.e., willingness of members to cooperate and participate in the program, minimal factionalism, closely organized groups) is a major factor for a CMP project's success. Thus, it is the association's responsibility to collect from its members the monthly loan amortizations on their loan allocations. It earns 1 percent from actual collections as collection fee. In case of payment default by any member, it is the association's duty to find a qualified substitute borrower to assume the obligations of the defaulting borrower.[19] It is also the responsibility of the association to individualize the title of the land through lease purchase agreement and to assign the loans to its members. Once this is done, individual member loans are treated as UHLP loans, with loan servicing guided by UHLP policies.

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[17] The community association is organized with the help of CMP originators.

[18] The community association negotiates with the landowner for the purchase of the property, which will be paid directly by the NHMFC. The land may be public or private land and its sale is exempted from capital gains tax.

[19] If the community association fails to turn over the amount due the NHMFC, it will be charged 1/15 of 1 percent of the amount for every day of delay. The property will be foreclosed after nonpayment of three monthly amortizations.

Nonetheless, loans contracted prior to individualization of the community loan will continue to enjoy the 6 percent interest rate of the CMP[20].

Since the program started until September 1996, 524 community projects were provided CMP loans. Total mortgage takeout from these projects amounted to ₱1.5 billion, with 63,221 beneficiaries. While the CMP is an innovative approach to the slum dwellers' housing needs, the program performed below the targets set under the NSP. For instance, for the period 1993-1995, only 51 percent of the targeted 60,443 units of assistance under the CMP were achieved.

Like the UHLP, there are problems on the sustainability of CMP. For one, while the interest rate subsidy to the program is substantial, the program does not have a source for long-term funds. Moreover, loan collection efficiency is estimated at only 75 percent. Nevertheless, on an annual basis, loan collection efficiency has improved from 69 percent in 1993 to 83 percent in 1995. Various administrative and institutional inefficiencies (e.g., lack of effective monitoring system) likewise hamper the CMP's success.

Social Housing Development Loan Program (SHDLP). The SHDLP is an inhouse program of the NHMFC, which aims to complement the UHLP through financial assistance to private developers, nongovernment organizations, landowners and LGUs in undertaking social housing projects. Funding for the program is internally generated by the NHMFC. The SHDLP fund, set up in 1988, is now more than ₱1 billion.

Developmental loans are granted to housing projects with at least 20 units, with the selling price of each not exceeding ₱150,000. These loans are charged an annual interest rate of 14 percent. Housing packages that sell at a price higher than ₱150,000 and limited to just 25 percent of the constructed housing units are charged higher interest rates on a pro rate basis.[21] Loan amount is determined bilaterally between the NHMFC and the borrower. The SHDLP, thus, offers developers a cheaper alternative to bank financing. At the same time, loan repayment is tied with the UHLP by way of assigning portions of takeout proceeds to the NHFMC.

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[20] M. Benjamin calls this a "built-in incentive not to individualize the loan."

[21] In 1997, the rate structure of SHDLP loans was changed with ₱150,000 houses charged a 12-percent interest rate and higher priced packages charged 14 percent per annum.

This is done by accrediting SHDLP borrowers as UHLP originators, with a corresponding purchase commitment line (PCL). Mortgage takeout then follows UHLP guidelines. Since only members of the SSS, GSIS and HDMF are eligible to borrow under the UHLP, final beneficiaries of the SHDLP are members of these agencies.

In addition to direct developmental loans, the SHDLP provides interim financing to developers to speed up housing production and avert a cash drain on developers while takeout of units through UHLP is being processed. The financial assistance is up to 70 percent of takeout value of units priced P150,000 and below. It is on a 30-day term with interest at 16 percent per annum.

From 1987 to July 1996, some 111 projects, amounting to P1.4 billion, drew financial assistance under the SHDLP. These projects yielded a total of 49,812 units, representing 21 percent of the 235,695 units assisted under the UHLP.

Abot-Kaya Pabahay Fund. The *Abot-Kaya Pabahay* Fund, another NHMFC program, aims to enhance the affordability of low-cost housing by low-income families. Republic Act 6846 provided the capital for *Abot-Kaya Pabahay* Fund at P2.5 billion to be sourced from the National Government appropriations. The budgetary allocation was subsequently increased to P5.5 billion under RA 7835.

The *Abot-Kaya Pabahay* Fund, as amended under RA 7835, consists of four housing assistance packages: (1) loan amortization support; (2) developmental loan; (3) cash flow guarantee; and (4) interest subsidy and liquidity support. Except for the cash flow guarantee that is administered by the HIGC, the NHMFC implements the rest of the program. The law mandates an annual allocation of funds as follows: (1) P200 million for amortization support; (2) P100 million for developmental loan; (3) P300 million for cash flow guarantee; and (4) P500 million for interest and liquidity support. The latter is intended to support the secondary mortgage market operation of the NHMFC.

The following explains the features of the four housing assistance packages of the *Abot-Kaya Pabahay* Fund.

1) Amortization Support

The loan amortization support represents an outright subsidy to low-income families and applies to loans having a maturity period of not less than 15 years with the interest rate fixed at between 9 and 12 percent per annum. It is granted only to two types of borrowers: (a) level A borrowers, those with monthly income not exceeding P6,000 applying for loans not exceeding P144,000;[22] and (b) level B, those with monthly income not exceeding P7,000 applying for loans not exceeding P180,000.

Borrowers wishing to avail of this facility should apply directly at the NHMFC, which processes and approves applications on a first-come, first-served basis. Amortization support is given during the first five years of the loan amortization period. For level A borrowers, the support declines by 5 percent per year, from 35 percent of the amortization payment due in year one to 14 percent in year five; for level B borrowers, amortization support falls from 25 percent to 7 percent of amortization due during the five-year period.

Since the fund started in 1990 up to July 1996, a total of 497 beneficiaries availed of the amortization support. Overall, the transfer from the government to the beneficiaries amounted to P4.25 million.

2) Developmental financing

This component is geared toward government and private proponents of low-cost housing projects. To avail of the loan, a project should have a minimum of 20 housing units, at least 75 percent of which should have a selling price not exceeding P144,000. The other 25 percent should be priced at not more than P180,000.[23] Also, lot (only) sales are allowed up to 30 percent of total production.

The maximum loan is set at not more than 80 percent of the total project development cost with interest rate of 9 percent per annum. Just like the SHDLP, the project obtains automatic PCL under the UHLP upon loan approval. Loan repayment is tied with the UHLP by assigning portions of takeout proceeds to the NHMFC. Thus, inasmuch as only members of the SSS, GSIS and HDMF are eligible to borrow under the UHLP, final beneficiaries of this loan component are low-income members of the three funding institutions.

As of July 1996, only four projects have been granted developmental loans totaling P12.1 million. This is equivalent to less than 1 percent of the SHDLP's total loan portfolio.

[22] Computed at 20 percent below the maximum loanable amount under the lowest UHLP loan package (which is P180,000 under HUDCC Resolution 12 of April 1996). Prior to Resolution 12, level A borrowers refer to those with income not exceeding P4,000 whose maximum loanable amount is P80,000; level B borrowers, on the other hand, refer to those with income not exceeding P5,000 whose maximum loanable amount is P100,000.

[23] The original ruling prescribed that the selling price be only up to P150,000 for house and lot packages and P45,000 to P60,000 for developed lot packages.

3) Cash flow guarantee

This component is managed by the HIGC and provided to direct loans of the SSS, GSIS and HDMF as well as to loans under the UHLP. It is HIGC's main involvement in socialized housing. The guarantee is provided for free and aims to eliminate credit risks for the three funding agencies.

Under the system, loans eligible for coverage are regularly enrolled to the *Abot-Kaya* Fund that then issues a promissory note corresponding to the enrolled loans. The guarantee covers only loans not exceeding ₱150,000 and bearing an interest not exceeding 12 percent per annum. In case of borrower default and upon assignment to HIGC of a foreclosed mortgage, the *Abot-Kaya* Fund takes over and pays out 80 percent of the total amount due as of date of foreclosure, including 100 percent of related expenses. The funding agency can recover the balance of its loan depending on proceeds realized from the disposition of the assigned property, after the *Abot-Kaya* Fund has recovered its exposure on the guarantee.

Depending on the borrower's capacity to pay, the HIGC may opt to restructure the loan, in which case, the monthly loan amortizations are payable to the *Abot-Kaya* Fund for the remaining term of the loan. Otherwise, foreclosure proceedings start and the borrower is given a year to redeem the property. If no redemption takes place, the property is sold via public bidding.

For the period 1993-1995, the amount of loans enrolled under the cash flow guarantee system totaled ₱1.7 billion, representing only 22.4 percent of total UHLP loans during the period. As of September 1996, the funders have made calls on 231 accounts, amounting to ₱22.25 million. The HIGC has approved the payment of ₱19.7 million for these called accounts. Under the law, however, disposition of the foreclosed collateral is put off until the expiration of the one-year redemption period given to borrowers.

4) Liquidity and interest subsidy support

This component was intended to support the secondary mortgage market operation of NHMFC. It serves as an alternative mechanism for sourcing housing funds.

HIGC Programs. The HIGC is the mortgage insurance arm of the NSP. Its guarantee programs aim to encourage private sector participation in home lending and mass housing production. Its two most popular programs, the Retail Guarantee Program and the Developmental Guarantee

Program, offer mortgage financiers such incentives as: (1) the government's unconditional guarantee as to principal and interest up to 8.5 percent per annum;[24] and (2) exemption from all forms of taxes of interest income up to 8.5 percent (including gross receipts tax and corporate income tax).

Applicants for retail or developmental guarantees may opt for either cash or bond coverage. The amount of cash coverage is up to 90 percent of the outstanding loan amount enrolled with the HIGC while that of bond coverage is up to 80 percent of the enrolled amount. In case of default, cash coverage allows the funder to immediately get back in cash the outstanding principal plus interest up to 8.5 percent per annum. For those who opt for bond coverage, HIGC issues two- to five-year bonds (with warranty from the National Government) whose face value is equal to the outstanding principal plus 8.5 percent interest. The bonds carry interest rates based on Treasury bill rates. In general, bond coverage offers two advantages: it is cheaper and it allows the financier to avail of a higher amount of guarantee line.

Following is the fee structure of HIGC retail and developmental guarantee:

		Developmental		
Guaranty Facility	Retail	<P150,000	<P225,000	>P225,000
Premium / year				
– Cash	1.25%	1.25%	1.25%	1.25%
– Bond	0.75%	0.75%	0.75%	0.75%
Audit fee / year	–	0.25%	0.25%	0.25%
Application fee	–	P5,000	P5,000	P10,000
Enrolment fee	–	P5,000	P5,000	P10,000
Tax exemption	8.50%	10%	9.50%	8.50%

As of August 31, 1996, 78 percent of HIGC guarantees totaling P22.4 billion involve bond coverage, while only 22 percent is covered by cash. Of the total guarantees, P16.2 billion (73 percent) are retail guarantees while P6.1 billion (27 percent) are developmental guarantees.

[24] The sovereign guarantee implies that the guaranteed mortgages assume the nature of Government Securities and are classified as risk-free and hence, are not included in the computation of net worth-to-risk asset ratio. Other benefits of the program include: (a) exemption of financial institution from the single borrowers limit of 25 percent of net worth; (b) exemption of loans from directors, officers, shareholders and related interest (DOSRI) account computations; and (c) exemption of developers from the 70 percent loan-value collateral limit.

The following summarizes the key features of the different HIGC programs:

1) Retail Guarantee Program

This facility is open to both financial institutions and real estate developers. For financial institutions, the facility accredits funders for automatic insurance coverage of housing loans granted to individual borrowers. For developers, the facility guarantees existing and prospective installment receivables from buyers. HIGC accredits financiers according to the latter's finacial and administrative capabilities, credit policies and guidelines and track record. Moreover, HIGC requires various warranties from the financial institutions and developers for enrollment of a loan. These include a warranty that the account being enrolled has not been in default for six consecutive months prior to enrollment with the HIGC and a warranty that the loan-to-collateral ratio does not exceed 70 percent.

2) Developmental Guarantee Program

The program offers insurance coverage to developmental loans that financial institutions extend to real estate developers. The guarantee may involve either (a) insurance coverage of developmental loans for individual projects or (b) accreditation of funders to process developmental loans, thereby assuring them of automatic insurance coverage upon enrollment of the loan with the HIGC. The program likewise accredits funders applying for developmental guarantee lines.

NHA Resettlement Program. The NHA's Resettlement Program is designed for families belonging to the lowest 30 percent income group who have been displaced from sites earmarked for government infrastructure projects and from areas designated as danger zones.[25] The program relies on subsidy support from the National Government for land acquisition and site development. Housing construction is on a self-help basis, with the NHA providing free housing materials and carpentry tools. Under RA 7835, a total of ₱5.2 billion is to be appropriated to the program over five years. For the period 1994-1995, a total of ₱885.6 million was released to the NHA for this program.

The program is implemented either through direct delivery by the NHA or through joint venture with LGUs. In the former case, the NHA assumes all the costs for land acquisition and development. Beneficiaries are required to pay from ₱30 to ₱50 per month (depending on the size

[25] Families with income below the official poverty line.

and location of the home lots) for 25 years after which, land ownership is turned over to them. In the case of joint ventures, the LGU provides the land and if it opts to, finances land development. The NHA contributes funds for land development as well as provides technical assistance for project planning, implementation and management. The end product, a serviced home lot, is turned over to the LGU for maintenance and operation, with no obligation to the NHA. The LGU prescribes the cost recovery scheme for these projects. The LGU holds the proceeds from the cost recovery scheme for the maintenance and improvement of existing projects or other resettlement projects.

HDMF Expanded Housing Loan Program (EHLP). This is the HDMF's own mortgage finance program. It essentially has the same features as the UHLP except that it caters exclusively to HDMF members. Funding for this and other HDMF programs comes from government-imposed mandatory contributions of workers and their employers to the fund.

Under the EHLP, borrowers may secure a loan directly from HDMF offices or through accredited originating banks. The maximum loan amount is ₱500,000 and is computed based on the borrower's monthly income. Thus, member-borrowers with employer counterpart contributions to the fund may borrow up to 46 times their monthly income, while those without counterpart employer contributions may borrow up to 36 times their monthly income. The EHLP requires that the loans be amortized in equal monthly payments, in amounts not exceeding 30 percent of borrower's gross income. Just as in the UHLP, there seems to be no effort to look into the borrower's capacity to pay.

For loans up to ₱375,000, the interest rates on EHLP loans are similar to those on UHLP loans. Beginning 1995, however, the EHLP added a fourth tier for loans ranging from ₱375,000 to ₱500,000 which bear an interest rate of 17 percent per annum. Loans are payable over a maximum period of 25 years. Payments are made either through the originating bank, which processed the loan application, or directly to HDMF offices. Payment for default carries a penalty of 1/20 of 1 percent on the unpaid amount, or 18 percent per annum.

For the period 1993-1995, loans under the EHLP totaled ₱4.4 billion, equivalent to 27,198 units of assistance. Compared to the UHLP, the loans under the EHLP is only 15 percent of total UHLP takeouts. The loans are divided among the four loan packages: 40 percent for packages ₱150,000 and below; 31.6 percent for loan packages more than ₱150,000 to ₱225,000; 28 percent for packages more than ₱225,000 to ₱375,000; and 0.4 percent for the highest loan package.

Annex 3.1. Government housing programs

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Community Mortgage Program	NHMFC	To enable urban poor squatter communities to purchase the land they occupy or to purchase a land where they can resettle	Organized community to avail of communal financing for purchase of property or for land development; individual beneficiaries, after securing land titles, may avail of loan for home improvement/construction. Stage 1: Involves land acquisition. Stage 2: Consists of land development and individual titling of lots to the member - beneficiaries. Stage 3: Involves individual housing loans for house construction and improvement.	Slum dwellers and residents of blighted areas	<u>Loans:</u> • ₱30,000 for undeveloped lot • ₱45,000 for developed lot • ₱80,000 for house and lot all loans at 6% interest rate. <u>Fees:</u> • Origination fee = 2% or P500 per household beneficiaries whichever is higher. Penalty rate = 1/15 of 1% of the amount for every day of delay.
UHLP	NHMFC	To provide loans for financing purchases of residential lot or new house and lot for the construction of housing units	Provides loans from the SSS, GSIS and HDMF for purchasing residential lots, purchase of lots and construction of dwelling units, purchase of newly constructed units or existing units foreclosed by the government or for construction of a new house.	SSS, GSIS and HDMF members	<u>Loans:</u> • up to ₱150,000, 9% per annum[a] • over ₱150,000 – ₱225,000, 12% per annum • over ₱225,000 – ₱375,000, 16% per annum Term of loan: up to 25 years; Amortization not to exceed 33.33% of monthly income <u>Fees:</u> Origination fee = 5% of the loan amount Penalty rate = 1/5 of 1% of the loan per day of delay

[a]Under the new guidelines, the highest loanable amount under the lowest UHLP package was increased to P180,000; the additional ₱30,000, however, will be charged a 12% interest rate.

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Medium-rise Housing	NHA	To maximize the use of urban land through density development; to promote house ownership among low-income groups	Entails construction of three- to five-storey residential buildings, which are sold through mortgage takeouts under the UHLP	Low-income families eligible to borrow under the UHLP	Implementation is done either solely by the NHA or through joint ventures with LGUs; cross-subsidy schemes are adopted to ensure program viability
Complete Housing	NHA	To harness and promote private participation in socialized housing development in terms of capital resources, land and expertise for the provision of low-cost housing to low-salaried government and private sector employees	Entails the acquisition and development of raw land and the construction of core housing units	Low-income families up to the 50th percentile qualified for homebuyers' financing from government institutions	Implemented under joint venture arrangement with the private sector and/or of LGUs; full cost recovery from the beneficiaries
Local Housing	NHA	To ensure equitable distribution of housing benefits nationwide	Entails the development of cost recoverable socialized housing projects in urban and urbanizing areas	Low-income families up to the 50th percentile qualified for homebuyers' financing from government institutions	Implemented under joint venture arrangement with LGUs; full cost recovery from the beneficiaries
Resettlement Program	NHA	To provide resettlement sites for families displaced from danger areas and land needed by the government for its programs	Entails development of sites to generate serviced home lots	Families displaced due to government projects, Mt. Pinatubo eruption, etc.	Beneficiaries pay from ₱30 to ₱50 per month as rental for the lots they occupy

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Programs	Agency	Objective	Description	Target Beneficiaries	Features
Sites and Services	NHA	To provide serviced lots for low-income families as catchment areas for in-migration and population growth	The government, private sector or NGO would provide land for the urban poor which will be improved by the developer or the government with basic infrastructure facilities; other housing activities will be achieved by the beneficiaries with financing from the UHLP	Families within the lowest 30% income percentile qualified for homebuyers' financing from government agencies	Buying and development financing provided thru NHMFC under the UHLP.
Slum Improvement Program	NHA	To provide an alternative to slum clearance and resettlement; to resolve the issue of squatting and slum dwelling	Entails the acquisition of land and the on-site improvement of occupied land through the introduction of basic urban services; the land tenure issue is resolved through the sale of home lots to bonafide occupants	Slum dwellers	The basic strategy is reblocking and improvement of dwelling units through self-help; program depends on effective community participation; program may be undertaken directly by NHA or by LGUs or through joint venture arrangements among parties concerned
Joint Venture Program	NHA	To attract the private sector and LGUs into low-income housing	Government shares in the financial burden of project development while utilizing the expertise of the nongovernment sector	Low-income families within the 50th percentile of the income structure	NHA contribution up to 40% of total project cost (funds or land); selling price of at least 60% of the constructed house and lot should be alloted for low-income families.

iv

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Abot-Kaya Pababay Fund	NHMFC	To enhance the affordability of low-cost housing among low-income families	The program consists of four components: • Amortization support • Developmental financing • Cashflow guarantee: guarantee system that eliminates the risk of noncollection from loans of ₱150,000 and below, • Interest subsidy and liquidity support	Families with gross income not exceeding ₱5,000 per month[b]	A. For amortization support: Families with gross monthly income <₱4,000, maximum loan of ₱80,000 with the following amortization support for the first five years: (i) amortization period from 1 to 12 months, 35% monthly amortization; (ii) 13-24 months, 30% , (iii) 25-36 months, 25%; (iv) 37-48 months, 20%; and (v) 49-60 months, 14%. Families with gross monthly income <₱5,000, maximum loan of ₱100,000 with the following amortization support for the first five years: (i) amortization period from 1 to 24 months, 25% of monthly amortization; (ii) 13-24 months, 25%; (iii) 25-36 months, 20%; (iv) 37-48 months, 14%; and (v) 49-60 months, 7%. B. For development financing: Minimum of 20 units per project with selling cost of not more than ₱150,000 for house and lot packages; and from ₱45,000 to ₱60,000 for lot packages. Interest rate of loans at 9% per annum, payable in 25 years.

[b] Maximum income eligible for amortization support was subsequently increased to ₱7,000 with loanable amount up to ₱180,000.

V

Programs	Agency	Objective	Description	Target Beneficiaries	Features
	HIGC	To ensure a viable cash flow for the SSS, GSIS and HDMF		SSS, GSIS, HDMF members	C. Cashflow guarantee: Free guarantee for loans of SSS, GSIS and HDMF not exceeding ₱150,000 with interest rate not exceeding 12%. Eligible loans: those not exceeding ₱150,000 bearing interest not exceeding 12% per annum; in case of default, the fund takes over and pays out the 80% of the total amount due.
Social Housing Development Loan Program	NHMFC	To provide low-income families in key urban areas with affordable housing packages through the development of a property and/or construction of housing units	Extends financial assistance for the development of property and/or construction of housing units; the SHDLP offers a low-cost fund wherein the selling price of housing packages should not exceed ₱150,000	Developers, NGOs, land-owners, LGUs, members of SSS, GSIS and HDMF	Loan amount bilaterally determined by the NHMFC and the borrowers. Loans for house and lot packages: • up to ₱100,000, 12% per annum • ₱100,000 to ₱150,000, 14% • over ₱150,000, 16%
Retail Guaranty	HIGC	To provide incentives for private sector participation in housing finance by making bank loans risk free	Provides guarantees to individual residential mortgages underwritten by private or government lending institutions to finance the purchase of homebuyers of housing units	Lending institutions	Unconditional guarantee of principal and interest up to 8.5% per annum; guaranteed mortgages are classified risk-free; interest income up to 8.5% is free from all taxes.
Developmental Guaranty	HIGC	To ensure the developmental loans extended by financial institutions to developers of subdivisions, townhouses, condominiums and apartment or rental units	Offers insurance coverage to developmental loans extended by financial institutions to real estate developers.	Lending institutions	Guaranty may involve either (a) insurance coverage of developmental loans for individual projects or (b) accreditation of funders to process developmental loans Fees: Audit fee/year = 0.25% Application fee = ₱5,000 for loans <₱225,000 and ₱10,000 for loans >₱225,000

Annex 3.1 (Continued)

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Municipal Pabahay Bonds	HIGC	To insure the face value of housing-related municipal bonds	Enables LGUs to float municipal bonds as a means of generating funds for housing or housing-related programs	Local government units (LGUs)	Insuring the face value of the bonds and the interest to the extent of 8.5%. Housing packages generated from the projects enjoy the following tax exemptions: • Packages <₱150,000: 10% • ₱150,000 – ₱225,000: 9.5% • Packages > ₱225,000: 8.5%
Expanded Housing Loan Program (EHLP)	HDMF	To provide homeownership to member-households of the HDMF	Refers to housing loans with purposes same as the UHLP	Members	Same as UHLP plus: • over ₱375,000 – ₱500,000: 17% per annum Fees: Penalty rate = 1/20 of 1% of the unpaid amount or 18% per annum
GLAD	HDMF	To provide financial assistance to organized groups of HDMF members	Extends financial assistance to organized groups of fund members for the acquisition and development of raw land or partially developed land which will serve as a site of their housing units	Members	Maximum loan entitlement per individual is 46x and 36x the fund salary for employees w/o employer counterpart, respectively; payable in 25 years. Applicable rates: Interest rate = 9% per annum Penalty rate = 1/10 of 1%
Development Loan	HDMF	To create additional housing inventories	Provides financial assistance at lower interest rates and easier terms to developers for the development of housing projects	Private developers, landowners, NGOs, LGUs and other government agencies	Maximum loan of ₱15 million per project phase per site. Applicable rates: • 11% per annum for loan of ₱150,000 and below • 13% for over ₱150,000 to ₱225,000 • 15% for over ₱225,000 to ₱375,000 • 17% for over ₱375,000 to ₱500,000

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Local Government Pabahay Program	HDMF	To provide LGUs with the necessary financial support to fast-track the development and implementation of housing projects	Loan proceeds to be used for: (a) acquisition and development of raw land; (b) land development of a project site; and (c) construction of housing units	I[illegible] employees ([illegible]ndividuals/ e[illegible]ployees ([illegible]in an eligi- [illegible]GU's area of jurisdiction) that are members of HDMF	Maximum amount of P20 million per project phase per site to be paid over a maximum period of 24 months from date of loan release; sells units to households at below market prices.
Individual Housing Loan Program	SSS	To provide members an alternative way of financing the construction and/or purchase of housing packages	Established to provide an alternative source to finance the construction and/ or purchase of housing packages other than thru NHMFC	SSS members	• Max. loanable amount = ₱375,000 or whichever is lower of the amount applied for • Term = in multiples of 5 up to a maximum of 25 years • Interest rates charges are similar to those under the UHLP. The program is also available through accredited financial institutions.
Corporate Housing Program	SSS	To support the government's low-cost housing project, help accelerate economic activity, and promote good labor management relations and industrial peace	Targeted at employers willing to put up 20% of the project cost, to undertake an employee housing program. The program consists of two components: • The developmental loan (for land development and house construction) • The commitment line (for employers who plan to utilize the IHLP and who are willing to undertake collections and amortization remittance to SSS)	Employers of SSS members	• Projects must have at least 20 housing units with the selling price of each not exceeding ₱375,000. • Loanable amount for developmental loan = ₱10 million with interest rate of 12% per annum and with individual loan ceilings at ₱375,000. The interest rate for the individual borrowers: **For loan amount,** • ₱100,000 and below = 6% • over ₱100,000 – ₱150,000 = 8% • over ₱150,000 – ₱225,000 = 11% • over ₱225,000 – ₱375,000 = 15%

Programs	Agency	Objective	Description	Target Beneficiaries	Features
Housing Development Program	SSS	To provide low-income families in key urban areas with affordable housing packages for the development of a property and/or construction of housing units	A lending program of the SSS designed to support the social housing project of the government as well as to provide affordable and decent houses to all homeless SSS members	Housing developers (corporation or partnerships) and/or low-income SSS members	• Max. loanable amount = ₱20 million • Loan term = 2 years from initial release of the loan The loan is subject to a condition that the selling price of the house and lot package should not exceed ₱375,000 subject to review and approval by the SSS. The loan may only be used for land development and house construction. Fee(s): • Interest rate = 16% per annum maximum • Penalty rate = 24% per annum additional interest
Individual Real Estate Loan	GSIS	To provide GSIS members with homebuyers financing	Conceptually similar to the UHLP and SSS' EHLP in that it provides homebuyers financing for members of the GSIS	GSIS members	Loan packages and loan terms follow those of the UHLP plus • over ₱375,000 – ₱1 million = 18% per annum Max. allowable loan amount: • Repair loans = ₱500,000 • House and lot purchase = ₱1 m. Application Fees: • Loans ₱50,000 and below = ₱250 • Loans ₱51,000 and above = ₱500
Commercial/ Residential Apartment Loan	GSIS	To provide GSIS members with homebuyers financing	Focuses exclusively on apartment repairs, purchases and construction	GSIS members and relatives (as co-borrower) up to the second degree of consanguinity	Max. loanable amount = ₱2 million Loan term = multiples of 5 up to 25 years Interest rates: • Loans ≤ ₱100,000 = 9% per annum • ₱101,000 ≤ ₱180,000 = 12% per annum • ₱181,000 ≤ ₱300,000 = 16% per annum • ₱301,000 ≤ ₱2 million = 18% per annum Fee(s): • Application = ₱1,000 per borrower

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Programs	Agency	Objective	Description	Target Beneficiaries	Features
Mass Housing	GSIS	To provide GSIS members with homebuyers financing	Caters to borrowers who want to buy lot only or house and lot packages from GSIS-financed housing projects	GSIS members and relatives (as co-borrower) up to the second degree of consanguinity	Max. loanable amount: • ₱1 million for GSIS members • ₱500,000 for nonmembers Interest rate: • 0 ≤ ₱150,000 = 9% per annum • over ₱150,000 ≤ ₱225,000 = 12% per annum • over ₱225,000 ≤ ₱375,000 = 16% per annum • over ₱375,000 ≤ ₱1 million = 18% per annum Non-GSIS members are required to make a 30% downpayment on the housing unit's total cost and are charged an additional 2% interest rate with repayment period limited to 15 years. Collectible fees: • Application = ₱500 • First monthly amortization

Source documents: HUDCC Summary of Housing Programs
Implementing Rules and Regulations of Housing Programs
Primer of Housing Programs

Annex 3.2. Forms of subsidies in existing housing programs

Programs	Housing Sector Budget[a]	Housing Sector Assets	Housing Sector Regulation	Beneficiaries Loans	Beneficiaries Assets	Beneficiaries Tax Exempt
NHA						
Complete housing units	x	x		x	x	
Sites and services	x	x		x	x	
Resettlement	x	x				
Emergency housing assistance	x	x				
Slum upgrading	x					
Dormitory/apartment loan program	x					
CMP deliveries	x					
Joint venture program	x	x			x	
NHMFC						
Regular UHLP	x		x	x		
Social housing development loan fund	x			x		
Community mortgage program	x			x		
Abot-Kaya Pabahay Fund	x			x		
HIGC						
Guaranty Programs						
Retail	x		x	x		x
Development	x			x		x
Others	x			x		x
Securitization	x			x		
Cash flow guaranty	x					
Municipal finance	x					
Acquired Assets Program						
Retail	x					
Development	x					
Managed Assets Program						
BDC projects	x					
CMP projects	x					
Cooperative housing	x					
Special projects	x					
HDMF[b]						
Regular						
EHLP			x	x		
Pag-IBIG II			x	x		
Pag-IBIG overseas program			x	x		
Group land acquisition and development			x	x		

[a] Includes administrative budget

[b] Regulatory subsidy arising from compulsory savings

Annex 3.2 (continued)

Programs	Housing Sector			Beneficiaries		
	Budget[1]	Assets	Regulation	Loans	Assets	Tax Exempt
Development Financing						
Direct developmental loan			x	x		
Developmental loans (thru banks)			x	x		
Credit facility/Interim financing			x	x		
Retail financing for house construction			x	x		
Local Government Pabahay		x	x	x	x	
Other Housing-related Loans			x	x		
SSS						
Pari-passu			x	x		
Repair/Reconstruction			x	x		
Individual program			x	x		
Corporate housing program			x	x		
GSIS						
Individual housing (REM)			x			
Mass housing program			x			

Annex 3.3. Housing subsidies: types, features and estimation methodology

Type of Subsidy	Target Clientele	Definition	How to Estimate
Rent subsidy	Public housing tenants	Difference between (i) the market rate of the public housing unit occupied plus management and maintenance (m&m) costs and (ii) the actual rent paid on the unit	Actual rent sourced from household survey data; m&m assumed at 3%; market rent is a function of the housing unit's capital value (which is estimated using a quadratic relationship between the capital value and the rateable value) – Robinson (1981); Market rent = M + dV +rV – pV, where M - annual m&M cost, d – depreciation rate, r – required real return, p – annual real capital gain, V – capital value of dwelling estimated via a hedonic price index – Hills (1991); Market rent estimated by the real rate of return to housing times the value of dwelling occupied (hedonic price) – Walker and Marsh (1993); Market rent estimated based on (i) number of bedrooms, (ii) type of dwelling and (iii) geographical location. For rents that were too low (<actual rent), the figures were adjusted upwards: until the figures implied that each tenant was receiving at least A$1 in subsidy (i.e., by the maximum negative subsidy and by the average negative subsidy being received) – Agrawal (1988)

Annex 3.3 (continued)

Type of Subsidy	Target Clientele	Definition	How to Estimate
Tax expenditures	Owner-occupiers	Exclusion from taxes on (i) imputed rental income and (ii) capital gains when the housing is sold	Sum of (i) marginal income tax rate times average imputed rent and (ii) capital gains tax rate times the average annual appreciation of housing (the change in capital value) – Robinson (1981);
		Nontaxation of imputed rental income	Difference between (i) marginal rate times the value occupied dwelling times the real rate of return on housing and (ii) deductible housing expenditure – Walker and Marsh (1993);
		Exemption of imputed rent from income tax calculations but allows mortgage interest and property taxes as deductions. The subsidy to the owner is defined as the difference in taxable income between an owner and a renter with the same gross income, times the tax rate on marginal income.	Product of (i) marginal income tax rate, (ii) (1 – depreciation rate) and (iii) post-subsidy unit price of housing – White and White (1977);
Loans on attractive terms	Housing consumers/ producers	Proportion of the regulated interest rate falling below the market interest rate times the unit price of housing - Albon (1984).	
Rent control	Renters	Difference between (i) a rent-controlled unit's actual rent and (ii) its estimated uncontrolled rent.	Uncontrolled rent for a controlled unit is estimated via a hedonic rent equation expressed as a function of housing traits and tenancy duration – Gyourko and Linneman (1989).

Annex 3.4. Other government housing programs

Guarantee Fund for the Pabahay Municipal Bonds

The Pabahay Municipal Bonds are instruments of indebtedness of LGUs backed up by a pool of real estate properties issued by the LGU. With the proceeds from the bond sale, the LGU is given additional funds for housing development. The HIGC's role is to insure the face value of the municipal bonds and of the unpaid interest up to 8.5 percent.

LGU-issued bonds are on a per project basis with the amount of issue equivalent to the fund requirement of the housing project. The bonds may carry fixed interest rates or may be pegged against the Treasury bill rate, with interest paid semiannually. The bonds mature in two or three years or until the project ends. Housing packages generated from the projects enjoy exemptions from all forms of taxes on interest according to the following schedule: (a) up to 10 percent for sales packages ₱150,000 and below; (b) 8.5 percent for packages above ₱225,000; and (c) 9.5 percent for packages in-between.

Cooperative Housing

The Cooperative Housing Program aims to encourage the nontraditional production of houses by the homeseekers themselves through a cooperative housing association (CHA) organized for the purpose. Homeseekers do not rely on developers for their housing needs, thus, the association members are directly benefited by the savings generated from the program through the elimination of developer's margins. Funds for the program are sourced from government and private financial institutions, with the CHA members providing 10 percent of their loan packages as their equity contribution. The loan amounts and terms are based on the guidelines of the funding institutions. HIGC' s role is to provide technical assistance to the CHA in the preparation of the project study and other documentary requirements. Also, it acts as the financial controller during the loan's term.

Sites and Services

The NHA's Sites and Services Development Program is geared toward families within the lowest 30 percent income percentile, particularly renters and sharers qualified for buyer's financing of the SSS, GSIS and HDMF. The program entails the acquisition and development of raw land into serviced home lots which will serve as catchment areas for in-migration and population growth. Depending on the beneficiaries' willingness to pay, project packages range from a minimal level of surveyed lot, an intermediate level of serviced site and an upper level of core housing (with complete utilities and access to community-based services). Mortgage takeout is done via UHLP.

The program is delivered either solely by the NHA (which shoulders the land and land development costs) or through joint venture with private sector partners where the project's partner contributes the land or funds for land development. In the latter case, NHA contributes a maximum of (a) 40 percent of project cost if the partner is from the private sector or (b) 80 percent of project cost if the partner is an LGU. Housing construction is again, carried out by the beneficiaries themselves. Upon completion, the project is turned over to the homeowners association or to the LGU for maintenance and operation.

Medium-rise Housing

The construction of three- to five-storey residential buildings aims to maximize the use of urban land (through density development) and promote house ownership by low-income groups. The program is targeted at low-income heads of families, eligible to borrow under the UHLP. Units constructed under the program are sold through mortgage takeout under the UHLP. In pricing the units, cross-subsidy schemes are adopted to enhance program viability.

The NHA implements these projects directly with funds from the National Government (P3 billion annually for five years, under the CISFA), or through joint ventures with LGUs and the private sector. For joint venture public housing projects, the participating LGU or private sector partner provides the project site and administers the completed project with the NHA providing funds for land development and building construction. For joint venture private housing projects, NHA' s contribution is up to a maximum of (a) 40 percent of project cost if partner is from private sector or (b) 80 percent of project cost if partner is an LGU.

Completed Housing Programs

This entails the acquisition and development of raw land and the construction of core housing units. The program caters to low-income families up to the 50th income percentile, particularly low-salaried employees qualified for homebuyer's financing of the NHMFC, HDMF and other government financing institutions. The NHA implements it under joint venture arrangement with the private sector and/or LGUs. Equity contribution is in the form of land or funds for land development and house construction. Just as in medium-rise private housing projects, the NHA's maximum contribution is 40 percent of project cost for private sector partners and 80 percent of project cost for LGU partners. Upon completion, the project is turned over for maintenance and operation to the homeowners association or the LGU. The project's full cost is expected to be recovered from the beneficiaries.

Emergency Housing Assistance Program (EHAP)

The NHA, by itself, also provides temporary and permanent housing for families rendered homeless by natural and man-made disasters. Temporary shelters involve bunkhouses in schools, military camps and other evacuation centers, with communal sanitary and cooking facilities. Permanent sites, on the other hand, are serviced home lots or serviced lots with core housing units. The National Disaster Coordinating Council (NDCC) assumes all costs involved in these projects with the NHA providing technical support and supervision for project development.

Local Housing Program

The Local Housing Program is a joint venture between the NHA and the LGU and entails the development of cost-recoverable socialized housing projects in urban and urbanizing areas in all congressional districts in the country. The program was created under the CISFA, with National Government funding of ₱3 billion annually for five years. Under the program, the NHA provides funding support for land development and housing construction of up to ₱15 million per congressional district. The LGU, on the other hand, provides the land or funds for land acquisition and facilitates the provision of utilities and community facilities. The end product may, depending on the preference and affordability of the market, be a serviced home lot, a housing unit in a three- to five-storey building or a serviced lot with core housing. The Program is targeted at low-income families up to the 50th income percentile, particularly low-salaried government and private sector employees. These beneficiaries should be those families qualified for homebuyers' financing offered by the NHMFC, the HDMF or other government financing institutions. Full cost of the project is recovered from the beneficiaries to ensure program continuity.

HDMF Programs

(1) Pag-ibig II

The Pag-ibig II program was originally conceived to accommodate loans of up to ₱500,000 that were not covered under Pag-ibig I (EHLP).

However, with the expansion of the EHLP to include the higher loan package, the two programs have become one and the same. HDMF, however, continues to keep separate accounts for the two programs.

(2) Direct Developmental Loan Program (DDLP)

The program's objective follows that of the SHDLP. However, whereas the SHDLP caters exclusively to socialized housing development activities, the DDLP has a wider coverage. Nonetheless, to the extent that the latter accommodates socialized housing packages, there is an overlap between the two programs.

Under the DDLP, HDMF provides financing for private developers, LGUs and other project proponents to create additional housing inventories, 60 percent of which should benefit HDMF members. The loan may only be used for land development and housing construction, not for land acquisition. Loans under the program are up to a maximum of ₱20 million per project phase per site. The borrower may avail of additional loans for succeeding phases of the project upon payment of at least 50 percent of the previous loan.

Applicable interest rates are based on the price of the generated housing packages as follows: (a) 11 percent per annum for packages ₱150,000 and below; (b) 13 percent per annum for those over ₱150,000 up to ₱225,000; (c) 15 percent per annum for those over ₱225,000 up to ₱375,000; and (d) 17 percent per annum for those over ₱375,000 up to ₱500,000. Unlike the SHLDP where loan repayments are tied in with UHLP takeouts, the developers in this case take charge of selling the units, with no takeouts by HDMF. Developers, however, have the option to sell the units to the HDMF. Loan releases must be paid over a maximum period of 36 months from date of initial loan release.

From 1993 to 1995, HDMF's development loan amounted to ₱557.26 million, which is nearly 80 percent the value of the SHDLP. In terms of units generated, however, the HDMF development loan program assisted 14,150 units which is only a little more than a third of SHDLP's output, indicating the former's higher priced units.

(3) Group Land Acquisition and Development (GLAD) Program

HDMF's GLAD Program is conceptually similar to the CMP in that financial assistance for land acquisition and development is directed at organized groups of individuals. However, while the CMP targets slum dwellers, the GLAD caters only to Fund members. Direct loans are given to the community association for land acquisition and site development while loans for house construction are coursed through originating banks.

The total allowable loan for the group is equal to the sum of the maximum loan entitlement per individual member-beneficiary following the formula set out under the EHLP (i.e., 36 times or 46 times the member's monthly income depending on his membership status). The terms of the loan differ depending on whether it will be used for land acquisition, site development or house construction. From the aggregate loan entitlement, up to 30 percent may be used for land acquisition, 20 percent for land development, and 50 percent for house construction. Interest rate on loans for land acquisition and site development is set at 9 percent per annum while that for house construction is based on prevailing rates under the EHLP. The total loan is paid over a maximum of 25 years. Individual loans for house construction may be availed of only after completion of site development and issuance of individual titles to member-beneficiaries.

The loan proceeds for land acquisition and site development are released directly to the landowners and the developers, respectively. Just as in the CMP, until there is transfer of land title, the community association is responsible for collecting loan amortizations from member-beneficiaries. Failure to pay loan obligations when due is subject to a penalty rate of 1/10 of 1 percent for every day of delay.

From 1993 to 1995, the GLAD program loaned out a total of ₱628.55 million, equivalent to 9,031 units of assistance.

(4) Local Government Housing Program (LGHP)

The LGHP loan facility is targeted at LGUs' housing projects. Beneficiaries are thus LGU employees or individuals within an LGU's area of jurisdiction. The HDMF provides funds for land acquisition and development as well as for construction of housing units. LGUs are also required to put in equity such as land for project site, subsidy to project beneficiaries for land acquisition, developmental financing, or free use of its resources. The program is designed so that loan releases by the HDMF are made directly to landowners for land acquisition and to developers for site development and construction. Loan packages, amounts and terms follow those of the Direct Developmental Loan Program with interest rates similarly based on the selling price. The LGHP further requires that at least 60 percent of the product packages to be sold by a project be with housing components.

SSS Programs

(1) Individual Housing Loan Program (IHLP)

Just as the EHLP is to the HDMF, the IHLP is the SSS' inhouse home lending program that provides SSS members an alternative to the UHLP. The loanable amount, loan term, and interest rates charged are all similar to those under the UHLP. The program is also available through accredited financial institutions.

(2) Corporate Housing Program

The SSS' Corporate Housing Program is targeted at employers willing to put up 20 percent of the project cost to undertake an employee housing program. The program consists of two components: the developmental loan (for land development and house construction) and the commitment line (for employers who plan to utilize the IHLP and who are willing to handle collection and amortization remittance to SSS). The SSS has allocated funds amounting to ₱300 million for the development loan and ₱1 billion for individual borrowers.

To qualify, projects must have at least 20 housing units whose selling price would not exceed ₱375,000 each. Loanable amount is up to ₱10 million for the development loan with individual loan ceilings at ₱375,000. For the development loan, the interest rate is fixed at 12 percent per annum. On the other hand, interest rates for individual borrowers depend on the loan amount: (a) for loans ₱100,000 and below, 6 percent; (b) loans over ₱100,000 up to ₱150,000, 8 percent; (c) loans over ₱150,000 up to ₱225,000, 11 percent; and (d) loans over ₱225,000 up to ₱375,000, 15 percent. The employee-borrower's credit capacity is verified by the SSS.

(3) Housing Development Loan

The facility is available to developers wishing to undertake low-cost housing development projects of at least 20 output units. The program's target beneficiaries are low-income members of the SSS who are eligible to borrow under the UHLP. The program's concept is basically similar to the SHDLP except that the selling price ceiling of the resulting housing packages is higher at ₱375,000. The maximum loanable amount under the program is set at ₱20 million with interest rate at 16 percent. The loan may only be used for land development and house construction, and not for land acquisition.

GSIS Programs

(1) Individual Real Estate Loan

This facility is conceptually similar to the UHLP and the SSS' EHLP in that it provides homebuyers' financing for GSIS members.[a] Loan packages and loan terms follow those of the UHLP, except that a higher loan package is available under the GSIS program. Thus, loans from ₱375,000 to ₱1 million, carrying an interest rate of 18 percent, are available under the facility. The maximum allowable loan amounts differ depending on loan purpose. Thus, for instance, the ceiling for repair loans is ₱500,000 while the limit for house and lot purchases is ₱1 million. The actual loan amount is the lower of: (a) amount applied for; (b) the actual need as determined by GSIS; (c) loan value of collateral; and (d) 46 times the basic salary of the borrower. Loan releases are patterned after the schedule of project activities and loan repayment is done through payroll deductions. Application fees of ₱250 to ₱500 are charged to the borrower.

(2) Commercial/Residential Apartment Loan

This facility focuses exclusively on apartment repairs, purchases and construction. Just as in other GSIS housing programs, the principal borrower should be a GSIS member; a co-borrower who is not a GSIS member may also participate as long as he/she is related to the principal borrower within the second degree of consanguinity. The maximum loanable amount is ₱2 million with the following interest rates: (a) up to ₱100,000, 9 percent; (b) above ₱100,000 up to ₱180,000, 12 percent; (c) above ₱180,000 up to ₱300,000, 16 percent; and (d) above ₱300,000 up to ₱2 million, 18 percent. The loan is payable up to 25 years, with monthly amortizations done through salary deductions. Loan releases are similarly based on the project schedule, with an application fee of ₱1,000 charged to the borrower.

(3) Mass Housing

The program caters to borrowers who want to buy lot only or house and lot packages from GSIS-financed housing projects. It is open to GSIS members and relatives who co-borrow. For GSIS members, the maximum loanable amount is ₱1 million while for non-GSIS members, the limit is ₱500,000.[2] The amount of loan and interest rate charges are as

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[a] Non-GSIS members, related to the principal borrower, may also participate under the program as co-borrowers.

[b] To avail of the loan, non-GSIS members are required to make a 30 percent downpayment on the housing unit's total cost. At the same time, these loans are charged an additional 2 percent interest rate, with repayment period limited to 15 years.

follows: (a) up to P150,000, 9 percent; (b) above P150,000 up to P225,000, 12 percent; (c) above P225,000 up to P375,000, 16 percent; and (d) above P375,000 up to P1 million, 18 percent. The total loanable amount is equal to 46 times the basic salary of the borrower. The loan is payable in 25 years with monthly payments done through salary deduction.

Research Design

Analyzing the social cost and benefit of government housing intervention

The single biggest investment that a household typically will make in its lifetime is the purchase or construction of a housing unit. In a competitive housing market, decent shelter, whether rented, owned or provided by the state, is generally accessible to the majority of the population. Preference for one or another type of dwelling unit is largely defined by the taste, lifestyle, and income opportunities of the individual households. For example, the more mobile households will prefer renting to homeownership because of their particular lifestyle or their income sources. Others will own a home because of the need to establish a more permanent residence.

The investment expenditure for a housing unit tends to be lumpy and indivisible and requires a relatively huge amount of money. However, many poor households cannot make that investment because they can neither self-finance nor borrow money from the loan markets. Thus, governments intervene to improve the poor households' access to the housing market. The justification for these interventions includes the existence of public goods arising from better housing conditions of the poor such as better sanitation, improved social cohesion, among others. Government intervention in the housing market can be in production, financing, site preparation and allied services such as community programs. More specifically, government provides subsidies to enable the target population to acquire a house.

Housing subsidies can come in a variety of forms. One can distinguish between subsidies going to the housing sector in general and those going to final (actual) beneficiaries. The former consists of direct budgetary transfers to the different housing institutions and/or housing programs, public asset in-kind used in socialized housing, mandated transfers from particular institutions (e.g., pension funds) to housing intermediaries and grant of tax exemptions to participating institutions. The latter is composed of loans priced below-market, sale of public assets priced below-market, grant of exemptions from taxation and/or other levies, and straight grants.

Thus, housing subsidies are usually provided to specific households through public sector agencies. Conceptually, one can distinguish between the National Government's subsidy to the public agency and the agency's subsidy to the target beneficiary household. In principle, however, these two are equal if one considers the operation of housing agencies as consisting of programs, except that the operating cost of the agency could not be attributed to a specific program.

Housing subsidies are not without cost to society. Scarce fiscal resources have their alternative uses. These represent the cost to society of any amount of subsidy given to the sector. To simplify the valuation of alternative uses, the study considers the market value of the assets as the indicator of the value of alternative uses.

Given the foregoing, the basic framework that the paper uses to analyze government interventions in the housing market is **social cost-benefit analysis.** The social cost of the housing program is the amount of subsidy provided by the programs in various forms. The social benefit consists of two components. The first consists of the subsidies that intended beneficiaries have availed of since these represent transfers. Those transfers captured by unintended beneficiaries cannot be considered social benefits as these are not the program's objectives. The second component are public goods arising from better housing conditions of the poor, such as better sanitation and improved social cohesion. Based on this framework, the interventions should only be considered socially beneficial if the net social benefits are non-negative. Since most of the interventions are multi-period, the timing of the flows should also be considered in the valuation.[26]

Over and above the determination of the social cost and benefits of government intervention in the housing market, it is equally important to assess how the incentive structure created by the interventions has affected the behavior of different economic agents in the housing markets. The underlying theme here is that given the economy's scarce resources, there is a very strong case for greater private sector role in the production and financing of housing. It is critical for that incentive structure to motivate private sector participation in the housing markets and to have government play out its comparative advantage in creating an appropriate policy environment for markets to work efficiently.

[26] See Notes on Subsidies in Housing Sector in the Philippines, unpublished World Bank document.

The study adheres to the following principles:

1. Efficiency in housing finance will improve if distortions in the housing finance markets are removed. The study proposes that more market-oriented interest and credit policies, improved loan repayment, termination of public sector involvement in the direct production of dwelling units affordable only to the higher income group, and more transparent and better targeted subsidies will improve efficiency in housing markets.
2. Budgetary constraints require a well-directed and targeted subsidy scheme(s). Any government subsidy should be transparent and well targeted to reach the most deserving, i.e., the low-income group, the most financially incapable members of society.

The appropriate policies and incentives will ensure private sector participation in the primary housing market and lessen the housing sector's pressure on the public sector's budget. The incentives include profitability of housing production, low transaction cost, and greater opportunity to market other products and services to homeowners, among others.

The government must assume a subsidiary role in the provision of housing and must instead focus its assistance to those that cannot participate in the private housing market. The government's chief role is to create the appropriate policy and institutional environment for private markets to work. Housing subsidies must be transparent, well directed, effectively and efficiently targeted. In addition, the development of a viable secondary mortgage market must be a joint effort between government and the private sector to ensure the liquidity, viability and sustainability of the primary housing market.

Methodology, data and limitations

The following are the four guidelines employed in the computation and analysis of housing interventions:

1. Computing the magnitude of social costs and benefits is by type of intervention rather than by program. This is because programs usually have one or more types of subsidies. The subsidies generated by a program are computed as the sum of subsidies generated by each housing intervention in that program.

2. In accounting for who benefits and who pays for the interventions, the different perspectives of specific actors are taken. Here, the program design is important; hence, the discussion is by program. Accounting for the full amount of subsidies, who got which part and who the payors are, is given.
3. When transactions extend beyond one period, the present value of the implied stream of flows is used to account for the total subsidy arising from the transaction.[27] The discount rate used for all present value calculations is 12 percent following the estimate by Medalla (1996). The discount rate measures the rate of compensation that will make a decisionmaker agree to forego using his money today and use it instead in the next period.

To make the amount of subsidies more significant, subsidies per housing unit, per beneficiary and per peso loan are also presented.

In the estimation of the actual incidence of the subsidies, stock estimation is used.

Social cost and benefit computation

This section discusses the method of computing the social cost for each type of intervention in the Philippine housing sector. The interventions are interest subsidy, guarantee coverage, tax exemption, resettlement and straight grant. Subsequently, we discuss the computation of the social benefits.

(1) Interest subsidy

Whenever a program sells loans at below market rate, an interest subsidy is given. To compute for the interest subsidy of a loan of a given maturity, the present value of the stream of interest payments under the market interest rate and the actual interest rate are computed. The difference between these two values is the implied subsidy for the loan transaction.

For example, in the case of UHLP, the program offers three loan packages, namely, up to P150,000, over P150,000 to P225,000 and over

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[27] $\sum_{t=1}^{t=T} \frac{values_t}{(1 + rate)^t}$ This formula computes the net present value of a stream of values for each period t and for T periods where "rate" is the discount rate.

₱225,000 to ₱375,000. It is assumed that loans have a uniform maturity of 25 years. To compute for the equivalent market rate of a UHLP loan, the study applied the best estimate of an equivalent loan from private banks and the principle that smaller loan packages are more costly to administer per peso than larger ones.[28] The lowest loan size entertained by private banks is ₱500,000. The common rate for a five-year fixed-rate loan of this size is 19 percent per annum. Since a UHLP loan is much smaller and has a much longer term than this, we added 2 percent to this prevailing market rate for the largest UHLP loan package.

The computation of the social cost (SC) of an interest subsidy is as follows:

(1) $$SC_{is} = \sum_{t=0}^{t=T} \frac{A_t\,(r\text{-}s) + M_t}{(1 + r)^t},$$

where

A = amortization,
M = management/administration cost,
r = market interest rate,
s = subsidized rate, s<r,
t = time, and
T = end of program/account.

2) Guarantee coverage

To calculate the subsidy implications of a pure guarantee program, the present value of the stream of premium revenues (premium payments) compared with the present value of losses from guarantee calls (loan losses avoided) need to be computed. The difference between the two is the amount of subsidy.

For instance, in the HIGC guarantee programs, the subsidy from the beneficiary's point of view is the present value of the stream of loans losses avoided due to the guarantee cover and the premium payments over the loan's lifespan. From the point of view of HIGC, it is the difference between the present value of premium revenues and the present value of losses from guarantee calls.

[28] An earlier draft of the study assumed that smaller loans are riskier and thus adjusted the market rate according to loan size. However, it was pointed out in a technical workshop organized by HUDCC on the results of the study that smaller loans are not necessarily riskier than larger loans.

In the retail guarantee, loans are assumed to have a 15-year term while developmental loans are assumed to have a five-year term. When losses from guarantee calls are considered, the study assumes that this is kept at 1 percent of the amount guaranteed.

The computation of the social cost of a guarantee cover is as follows:

$$(2) \quad SC_{gc} = \sum_{t=0}^{t=T} \frac{C_t + M_t - P_t}{(1 + r)^t},$$

where the variables not earlier defined are

C = calls, sum of guarantee calls for the period, and

P = premium, sum of premiums from guaranteed loans.

3) Tax exemption

Subsidies from a tax exemption is simply the present value of the stream of the tax exemption implied by a transaction that provides for exemption on tax payments. For example, HIGC guarantee programs provide tax exemptions on interest income from loans guaranteed. The subsidy implied by this program is the present value of the difference between the tax due on interest income with and without the tax exemption.

The computation of the social cost of a tax exemption is as follows:

$$(3) \quad SC_{te} = \sum_{t=0}^{t=T} \frac{\tau r A_t + M_t}{(1 + r)^t},$$

where the variable not earlier defined is

τ = tax rate.

(4) Resettlement

The subsidy in a resettlement program is the difference between the cost of resettlement and the present value of the stream of repayments required from the beneficiaries. If there is any undervaluation of any asset, such as land or site development, this is added to the subsidy.

The subsidy is the difference between the present value of the stream of repayments and the total resettlement cost. The valuation of the resettlement cost considers the undervaluation of assets, such as land, building materials, etc., that have been used in constructing the housing unit.

The computation of the social cost of a resettlement is as follows:

$$(4) \quad SC_r = RC_r - \sum_{t=0}^{t=T} \frac{A_t(1+r) + M_t}{(1+r)^t},$$

where the variable not earlier defined is

RC = resettlement cost, valued at market rates.

5) Straight grant

A component of the *Abot-Kaya Pababay* program is amortization support which is a straight grant to the beneficiary. The subsidy cost under this program is identical to the value of the grant.

The computation of the social cost of the straight grant is as follows:

$$(5) \quad SC_g = \sum_{t=0}^{t=T} \frac{G_t + M_t}{(1+r)^t},$$

where the variable not earlier defined is

G = grants.

6) Total social cost

The total social cost of the housing subsidies is

$$(6) \quad TSC = SC_{is} + SC_{gc} + SC_{le} + SC_r + SC_g$$

7) Administration cost

If the cost of administering the program is not built into the cost of the intervention, then this needs to be added to the TSC. For instance, for the NHMFC-administered programs where imputation of administrative costs per intervention is not specified, we assume a 0.82 percent administration cost. This is computed as the ratio of NHMFC's administrative and operating expenses (plus, loan loss provisions) to outstanding mortgage contract receivables.

8) Total social benefit

Given the discussions earlier, the total social benefit is

$$(7) \quad TSB = p_{is}SC_{is} + p_{gc}SC_{gc} + p_{te}SC_{te} + p_{r}SC_{r} + p_{g}SC_{g} + \sum_{t=0}^{t=T} \frac{E_t}{(1+r)^t},$$

where the variables not earlier defined are

E = public goods arising from the housing programs, e.g., better sanitation, better social cohesion, and

p = proportion of the subsidy received by the intended beneficiaries, i.e, the poor, $p \leq 1$.

9) Net social benefit

The net social benefit of the housing programs is the difference between the total social benefit and the social cost or

$$(8)\ NSB = TSB - TSC$$

The interventions in the housing sector are only justified if NSB is positive or TSB is greater than TSC. It is clear from (7) that the better the targeting of the programs (higher values of p) is, the more likely NSB will be positive.

Who benefits and who pays for the subsidy

This section discusses how the study determines who benefits and who pays for the subsidy. To simplify matters and to appreciate the subsidy's implications, we analyze the different perspectives of program actors. The study looks at the subsidy both from the demand (beneficiary) side and the supply (funding agencies, government) side to create a complete picture of who benefits and who pays for the subsidy as per program design.

Unified Home Lending Program (UHLP). In the UHLP, the NHMFC promises to pay 10.25 percent to funding agencies (HDMF, GSIS SSS) and manages its portfolio of three loan packages with loan size up P150,000, over P150,000 to P225,000 and over P225,000 to P375,(and bearing interest rates of 9, 12 and 16 percent, respectively, to ha margin of at least 2 percent to cover the program's administration cost.[29] It must be noted that the beneficiaries of the program are limited to members of the respective funding agencies.

There are three perspectives that must be considered in the analysis of the interest subsidy under the UHLP. These are the perspectives of the borrower, the funding agency and NHMFC.

From the borrower's point of view, the interest subsidy is the difference between what the borrower would have otherwise paid for the loan and what was actually paid for a UHLP loan. For instance, if an equivalent loan in a private bank fetched a 23 percent interest rate while a UHLP loan charges only 9 percent, then the interest subsidy benefit for the borrower is the present value of the difference between the interest payment stream at 23 percent and the interest payment stream at 9 percent discounted over the term of the loan.

From the funding agencies' point of view, NHMFC pays them 10.25 percent and they lose the opportunity of earning greater yields from alternative investments, e.g., government securities. The funding agency's contribution to the total subsidy is the present value of these interest earnings forgone discounted over the life of the loan. The NHMFC, assuming it manages its portfolio well and lives within the 2 percent administration cost, does not incur any extra costs.

Thus, the subsidy under the UHLP program, by design, accrues to and is being paid for by the members of the funding agencies, namely, HDMF, GSIS and SSS. It remains to be seen whether, within funding institutions, the actual borrowers by income group correspond to the intended beneficiaries.

Unpaid loans, including interest foregone from unpaid amortization, and penalty condonation constitute another form of subsidy to (delinquent) borrowers. To measure the interest foregone from unpaid loans, the study used the conservative interest earnings from a riskless asset—the Treasury bill of the National Government. For the penalty condonation, the amount of penalty condoned is also the measure of the subsidy.

Community Mortgage Program. This program provides loans at subsidized rates, thus, the benefits from the point of view of the borrower is identical to UHLP. What differs is the source of financing for the subsidies.

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[29] Two percent is NHMFC's estimated administration cost for its lending programs. We used in our computation an administration cost of 0.82 percent based on actual figures submitted to us.

Funding comes from the National Government through the CISFA and from unutilized funds of the *Abot-Kaya* program. By program design, therefore, the subsidy costs are being borne by the National Government through budgetary appropriation, and through NHMFC which implements it.

Socialized Housing Development Loan Program (SHDLP). This program likewise provides subsidized lending but the direct beneficiaries are private developers. The subsidy implications are identical to UHLP, except in this case, the beneficiaries are not the final homeowners but developers.

Under this program, subsidy benefits are potentially shared between developers and final homeowners. If housing units are sold at market prices, then the subsidy fully accrues to developers. However, actual selling prices indicate that developers and homeowners share the subsidy.

Since this program is funded from internally generated funds of NHMFC, the government is the payor of the subsidy.

Abot-Kaya Pabahay Program. The subsidy computation will be based on three components of the program, namely, loan amortization support, developmental loans and cash flow guarantee.[30]

For the loan amortization support component, the beneficiaries get a straight grant that is fully financed by the National Government. For the development loans component, the sharing of the subsidy benefits is identical to SHDLP. Since this is fully funded by government funds, the National Government pays for the subsidy. The third component is a cash flow guarantee. The accounting of subsidies is identical to the HIGC cash flow guarantee program except that the guarantee cover is free.

HIGC Guarantee. The HIGC guarantee program offers coverage to the outstanding principal due and up to 8.5 percent of the interest income for a premium payment of 1.25 percent for cash guarantee and 0.75 percent for a bond guarantee. To simplify matters, the study assumes that the bond earnings are sufficient to cover for the loss of cash value of the bond until maturity. On top of these, the program also exempts the first 8.5 percent of interest income from all forms of taxation.

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[30] Due to data limitations, we were unable to include the fourth component, liquidity support and interest subsidy, in our computation.

There are three perspectives one needs to look into in analyzing the subsidy implications of the program. These are the perspectives of the insured, the HIGC and the government, particularly, the Department of Finance (DOF).

From the point of view of the insured, the benefits are the difference between the present value of the losses avoided given the guarantee cover and the premium payments. Because tax exemption is also provided, the present value of the tax exemptions has to be added.

From the point of view of HIGC, the cost of the subsidy is the difference between the present value of premium revenues and the losses from guarantee calls. From the point of view of the DOF, program cost is the present value of the tax revenues foregone, and the cost of supporting HIGC via implicit guarantees.

If HIGC manages its portfolio well and avoids losses, it is effectively providing subsidy in the form of tax exemption at the expense of the DOF.

National Housing Authority (NHA) Resettlement Program. This program tasks the NHA to move families to a relocation site and provide them with housing for a repayment stream of ₱30 to ₱50 per month for 25 years depending on size and location of home lots.

From the point of view of the beneficiary, the subsidy benefits are the difference between the value of the housing provided to him and the present value of the repayment stream he has to make.

From the point of view of the government, as represented by NHA, the subsidy implication is also the difference between the actual resettlement expenditure and the present value of the repayment payment stream.

Thus, under the program, whatever subsidy the beneficiary receives is being paid for solely by the National Government.

HDMF Expanded Housing Loan Program (EHLP). The mechanics of this program is identical to UHLP except that this is an internal program of HMDF. The subsidy accounting is also identical with UHLP under the assumption that the true cost of administering the program is 2 percent of the loan amount.

Assumptions, data and limitations

1) Assumptions

Market rate for housing loans (UHLP, EHLP and CMP). This is based on the 19 percent interest rate charged by PCIBank for its five-year fixed rate housing loan. Since the minimum loan amount for PCIBank is ₱500,000 and the maximum maturity period is 20 years, two percent was added to the market rate to account for the longer maturity period of UHLP and EHLP loans as well as the higher transactions costs associated with lower loan amounts.[31]

Cost of funds to NHMFC. This is computed as the average interest rate charged by the SSS, GSIS and HDMF on their loans to NHMFC. The interest rate to be paid is negotiated with NHMFC. For 1993, 1994 and 1995, the average rates charged are 11.04, 11.11 and 11.72 percent, respectively.

Cost of funds to funders. This is based on the highest yield on alternative investments of the funding agencies, i.e., stocks. Based on the rate of return on investments of four blue-chip stocks for 1995, an average return of 22 percent was used. The four chosen stocks and their ROI are Meralco (13 percent), PLDT (12 percent), San Miguel (39 percent) and Ayala Corporation (26 percent).

Foregone interest. The opportunity cost of unpaid amounts is represented by the 1995 average 91-day Treasury bill rate of 11 percent.

Market rate for developmental loans. This is based on BPI Family Bank's rate of 16.5 percent for developmental loans. Since the minimum loan amount for this loan is ₱5 million, the market rate was adjusted upwards to account for the additional risk associated with lower loan amounts.

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[31] PCIBank also offers housing loans at 16 percent interest with similar loan amount and maturity. However, the 16 percent rate is fixed up to one year only in contrast to the 19 percent interest rate that is fixed for five years. Other banks such as the Planters Development Bank offer rates at 18.5 percent for one-year fixed rate loan. These packages contrast with the UHLP's and EHLP's 25-year fixed housing loan rate.

HIGC guarantee programs. Retail bank loans are assumed to have a typical interest rate of 16 percent payable over 15 years; developer's contracts to sell are assumed to carry 16 percent interest rate payable over five years; developmental loans are assumed to have an interest rate of 16 percent, payable over two years. The tax rate applied on developer's interest income is 20 percent, while for banks, 5 percent, representing the gross receipts tax that was added.

2) Actual data gathered

The following is the list of data gathered by program:

For UHLP:

1. Loan values per loan package
2. Number of units and number of beneficiaries per loan package
3. Ageing of accounts
4. Interest rates charged by SSS, GSIS, HDMF
5. Fund releases of SSS, GSIS, HDMF to the UHLP
6. Collection efficiency of NHMFC

For CMP, SHDLP:

1. Total loans released
2. Number of units funded

For Abot-Kaya:

1. Amount of loan amortization support granted
2. Loans released under developmental component
3. Amount guaranteed under cashflow component
4. Called accounts on cashflow guarantees

For EHLP:

1. Loan values per loan package
2. Number of units and number of beneficiaries per loan package

For NHA Resettlement:

1. Value of resettlement program per NSP
2. Project Profile of Area D-3, Phases I and II
3. Land and land development costs of resettlement joint venture projects with LGUs

For HIGC Guarantees:

1. Amount of newly enrolled loans per guarantee type
2. Called accounts

3) Scope and limitations

1. Subsidy computations were made only for a select group of programs. Other programs were not covered primarily due to insufficient data. The estimates for the magnitude of subsides are all present values. The subsidies estimated for the incidence of the benefits were stock estimates.
2. Subsidy computations covered only transactions recorded from 1993 to 1995.
3. Subsidies on mortgage programs should ideally include not only the interest subsidies but also arrearages, bad debts and penalties condoned. However, data on these were inaccessible. Our estimates for UHLP included some figures on interest foregone on arrearages. In other programs, only the interest subsidies were estimated.
4. The difficulty of getting data on the profile of borrowers/ beneficiaries, e.g., income data, income class and demographic statistics, is a limitation on our analysis of the incidence of housing subsidies.

Extent of Housing Subsidies: What It Costs the Philippine Government

The various subsidies in the housing sector may be classified into four general types: interest rate subsidy, land cost subsidy, tax exemption, and cash transfer. The magnitude of these subsidies for the period 1993-1995 is summarized in Table 5.1. The second column gives the gain to participants of the different subsidy programs while the rest of the columns show the cost of the programs to the various parties shouldering the subsidy.

Three things should be noted in interpreting the subsidy data, particularly with respect to the interest rate subsidies and tax exemptions. First, not all the subsidy figures represent budgetary outlays, i.e., they are not actual funds outflow. Second, the calculated benefits do not reflect how much the beneficiaries themselves value the subsidies since this requires looking into their demand patterns. Rather, the interest rate subsidies simply show how concessionary the loans are for the borrower (i.e., UHLP loan vs. market-rated loan). Third, it is important to note that the numbers do not represent real money readily available in government coffers. Rather, most of them are present value estimates of the subsidies involved. The only actual cost figures are the amounts for amortization support, the imputed losses on called loans under the cashflow guarantee program, the government's budget releases and the losses on NHMFC's operations.

Looking at the table from the beneficiaries' viewpoint (column two), housing subsidies from 1993 to 1995 totaled P25.4 billion, or 1.3 percent of GNP in 1995. From the payers' viewpoint (columns three to six), however, the subsidies amount to a lower P11.5 million, which represent either income (interest earnings or taxes) foregone, direct budgetary outlays or losses on the NHMFC's operations.

Figure 5.1 shows that the bulk (90 percent) of the subsidies to the housing sector consists of interest subsidies provided through the home mortgage programs (UHLP and EHLP) and the developmental loan programs (CMP, SHDLP and *Abot-Kaya* Developmental Loan). Among these programs, the UHLP loans carry the largest subsidy totaling P18.8 billion or 74.1 percent of total housing subsidies from 1993 to 1995 (Figure 5.2.) This amount is almost six times bigger than the second biggest subsidy program, the HDMF's EHLP, and 20 times the subsidy under the

Table 5.1. Summary of housing subsidies: all programs, 1993-1995 (in P million)

Programs/1 (1)	Beneficiaries/3 (2)	Payers/3 Government (3)	Fund Members (4)	NHMFC (5)	Total (6)
UHLP					
Interest subsidy/2	18,825.9		8,007.6	(1,835.1)	6,493.5
NHMFC losses		321.0			
CMP					
Interest subsidy/2	933.8				
CISFA contributions		380.0			
NHMFC losses		8.8			388.8
SHDLP					
Interest subsidy	24.1				
EHLP					
Interest subsidy/2	3,166.1		990.9		990.9
Abot-Kaya Fund					
Cash transfer	3.5				
Interest subsidy	1.2				
Coverage/admin. subsidy	21.5				
Losses on called accounts	1.8				
CISFA releases		1,430.0			1,430.0
HIGC Retail					
Tax Exemption	1,782.0	1,782.0			
Premium Income	(681.0)	(681.0)			
Loan losses		155.0			1,256.0
HIGC Developmental					
Tax Exemption	29.3	29.3			
Premium Income	(12.4)	(12.4)			
Loan losses		9.2			26.1
NHA Resettlement					
Resettlement subsidy	1,302.0				
Budget Releases		885.7			885.7
TOTAL /4	25,397.8	4,307.6	8,998.5	(1,835.1)	11,471.0

/1 For HIGC guarantees, refers to HIGC and DoF.

/2 Subsidy figures from borrowers' perspective based on 21% market rate assumption.

/3 Figures in parentheses represent income to the government. Thus, the figure under column 5 shows that based on actual administration costs, NHMFC should earn from the UHLP's cross-subsidy scheme.

/4 Differences arise due to: (a) market interest rate assumptions from the beneficiaries' and payers' viewpoint; (b) losses on operations; and (c) minimal usage of government funds released to the *Abot-Kaya* Program.

TOTALS (Beneficiaries' Viewpoint)

	Levels	*% of Total*
Interest subsidy	*22,951.1*	*90.4*
Tax exemption	*1,141.1*	*4.5*
Cash transfer	*3.5*	*0.0*
Land cost subsidy	*1,302.0*	*5.1*
Total	*25,397.7*	*100.0*

CMP. In fact, it is nearly three times the total subsidy of all the other programs taken together. The magnitude of the subsidies under the developmental loan programs is only 4.4 percent of the subsidies under the mortgage programs. Of the developmental programs, the CMP provides the largest subsidy amounting to ₱933.8 million, or 3.7 percent of the total housing subsidies over the three-year period.

Next to the interest subsidy programs, land cost subsidy under the NHA's resettlement program constitutes the largest subsidy program. Total subsidies under this program equaled ₱1.3 billion, or 5.1 percent of the total subsidy to the housing sector. Among individual programs, it ranks third in terms of subsidy size.

Figure 5.1. Housing subsidies by type, 1993-1995 (in ₱ million)

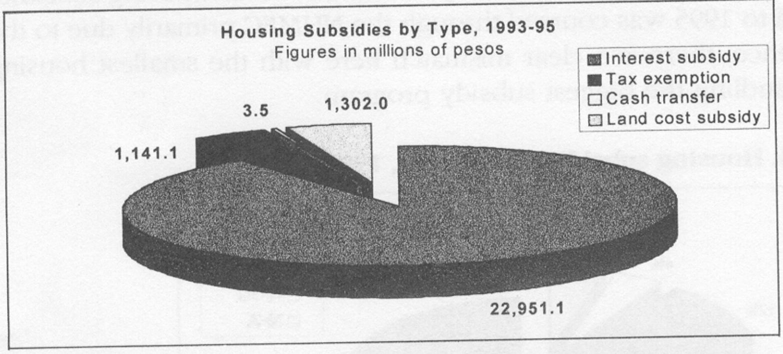
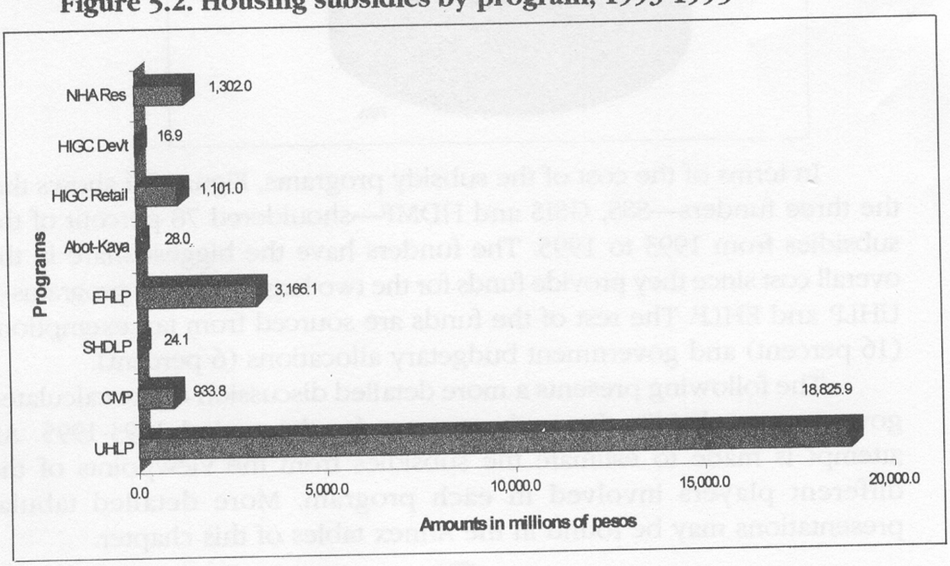


Figure 5.2. Housing subsidies by program, 1993-1995

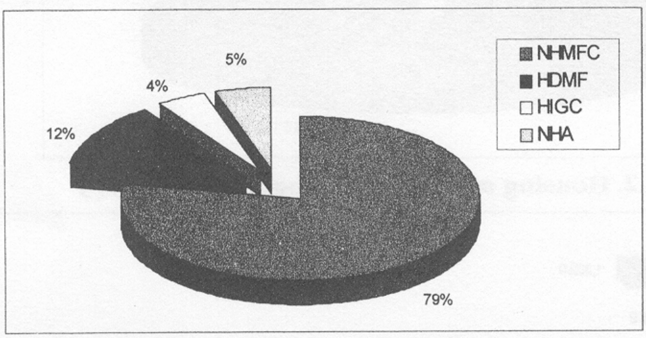


Another significant subsidy is the tax-exempt feature of the HIGC guarantees. As a whole, these subsidies comprised 4.5 percent of total housing subsidies from 1993 to 1995 and almost 2/5 of 1 percent of government tax revenues in 1995. Among the guarantee programs, the retail guarantees carry the biggest tax subsidy amounting to ₱1 billion. This makes it the fourth largest housing subsidy program, bigger than any of the developmental loan programs.

The total subsidy of the three components of the *Abot-Kaya* Fund amounted to ₱28 million, which is 1/10 of 1 percent of the overall housing subsidy. The amortization support component of the *Abot-Kaya* Fund, which is basically a cash transfer to the beneficiaries, amounted only to ₱3.5 million during the three-year period.

In terms of government housing agencies managing the subsidy programs, Figure 5.3 shows that 79 percent of the total housing subsidies from 1993 to 1995 was coursed through the NHMFC primarily due to the UHLP. Hence, there is a clear mismatch here with the smallest housing agency handling the biggest subsidy program.

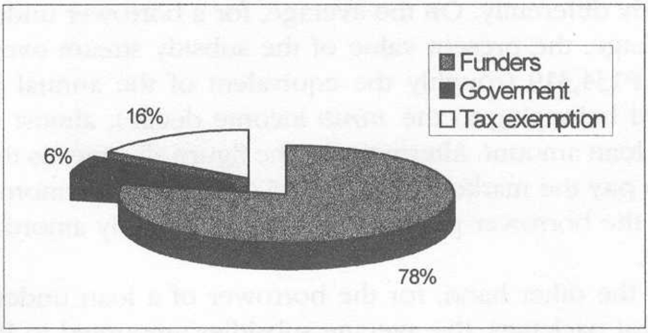
Figure 5.3. Housing subsidies by agency, 1993-1995



In terms of the cost of the subsidy programs, Figure 5.4 shows that the three funders—SSS, GSIS and HDMF—shouldered 78 percent of the subsidies from 1993 to 1995. The funders have the biggest share in the overall cost since they provide funds for the two largest subsidy programs—UHLP and EHLP. The rest of the funds are sourced from tax exemptions (16 percent) and government budgetary allocations (6 percent).

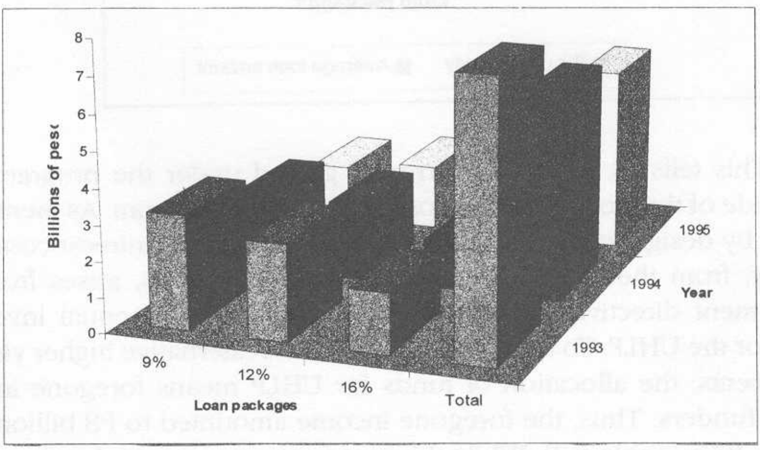
The following presents a more detailed discussion of the calculated government subsidies for each program for the period 1993-1995. An attempt is made to estimate the subsidies from the viewpoints of the different players involved in each program. More detailed tabular presentations may be found in the Annex tables of this chapter.

Figure 5.4. Cost of housing subsidies by payer, 1993-1995



Unified Home Lending Program (UHLP). The magnitude of the subsidy under the UHLP is estimated from four different perspectives—the borrowers', the NHMFC's, the funders' and the National Government itself. From the borrower's viewpoint, the subsidy under the UHLP is the difference between what he/she should pay on the loan if he/she were to obtain it from the market and what he/she would actually pay if it were under the UHLP. Based on the value of all UHLP loans granted from 1993 to 1995, this subsidy totaled ₱18.8 billion, or almost 1 percent of GNP in 1995. This subsidy is not distributed equally among the borrowers but varies depending on the loan amount (Figure 5.5). The entire subsidy is distributed among the borrowers of the three loan packages as follows: 38 percent to those borrowing up to ₱150,000; 36 percent to those borrowing higher than ₱150,000 up to ₱225,000; and 26 percent to those borrowing from over ₱225,000 up to ₱375,000.

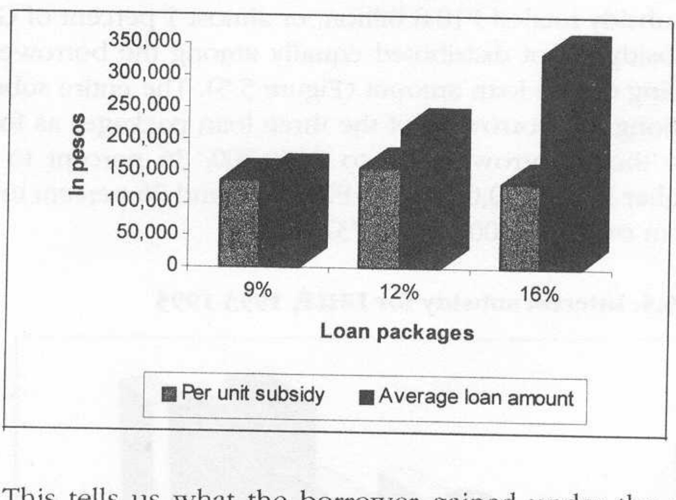
Figure 5.5. Interest subsidy for UHLP, 1993-1995



Hence, borrowers of different loan amounts view the magnitude of the subsidy differently. On the average, for a borrower under the lowest loan package, the present value of the subsidy stream over 25 years is equal to P134,319 (roughly the equivalent of the annual income of a household belonging to the *ninth* income decile), almost equal to the P150,000 loan amount. Alternatively, the figure also means that instead of having to pay the market value of P2,527 in monthly amortizations over 25 years, the borrower pays only P1,215 in monthly amortization under the UHLP.

On the other hand, for the borrower of a loan under the middle and highest packages, the average subsidies amounted to P155,206 and P132,840, respectively (ninth decile). Hence, the subsidy per housing unit is highest for the middle loan package borrowers and lowest for the highest loan group. As a percentage of average loan amounts, however, the subsidy per unit is highest for the lowest loan package (94 percent) and smallest for the highest loan package (40 percent) (Figure 5.6).

Figure 5.6. Subsidy per unit vs. loan amount: UHLP



This tells us what the borrower gained under the program. The other side of the story gives the cost of having the program. As mentioned earlier, by design, only the funders bear the program's interest costs. The subsidy, from the SSS', GSIS' and HDMF's viewpoints, arises from the government directive to set aside a portion of their annual investible funds for the UHLP. To the extent that there are alternative higher yielding investments, the allocation of funds for UHLP means foregone income for the funders. Thus, the foregone income amounted to P8 billion from 1993 to 1995 (Table 5.2). While this amount is not an actual expenditure, it represents income foregone for the funders because of UHLP. Moreover, participation in the program weakens the financial position of the funders as loan defaults and loan collection problems lead to threats of bankruptcy for the housing agencies and pressure for the government to re-capitalize them. To the extent that this happens, taxpayers ultimately bear the cost of the program. It also matters to society whether (or not): (a) the subsidies within the funding institutions follow some perverse pattern, i.e., the lower income members subsidizing the higher income group; (b) actual beneficiaries of the program are not the targeted group; and (c) the other parties to the program—the NHMFC and the National Government—are shouldering additional costs.

Table 5.2. Interest subsidy to the UHLP

	Cost of Subsidy (in ₱ million)	Subsidy/house unit
9 percent	2,055.5	38,552
12 percent	2,621.2	59,435
16 percent	3,330.9	91,807
Total	8,007.6	59,892

If everything works well under the UHLP setup with all due amounts collected promptly, the NHMFC should break even and live within the two percent of loan amount budgeted for administration expenses. The NHMFC's true administration cost, based on its 1993-1995 financial statements, is only 0.82 percent of the loan amount. This means that the NHMFC's actual cost of administering the UHLP is lower than commonly known so that the cross-subsidy scheme should be effective. The estimates show that for loans granted during the three-year period, the present value of the 25-year subsidy stream involved in the three loan packages is ***negative***, i.e., the earnings from the 16 percent loans were more than enough to cover the subsidy under the 9 percent and 12 percent loans so that the NHMFC should be able to earn a net amount of ₱1.8 billion from the UHLP.

Despite the above, the NHMFC, after nearly 10 years of administering the UHLP, still ended up in the red. The agency incurred net losses of ₱64.1 million in 1993, ₱251.7 million in 1994, and another ₱243.7 million in 1995, signaling problems in the UHLP's actual implementation.

The subsidy figures above assume that the UHLP works perfectly, with borrowers repaying all the loans. However, the collection efficiency of UHLP is very low. As a result, NHMFC is not only unable to realize its expected income but is also incurring extra costs associated with foregone interest earnings and foreclosure expenses (including the amounts by which the asset disposition price falls below the outstanding loan amount). As of April 1996, unpaid loan amortizations for one month and above have reached ₱29.3 billion. Under the law, 79 percent of these loans are already in default and 40 percent of them are beyond the one-year redemption period for foreclosures. From the unpaid amortizations on these loans, the government already lost ₱10.9 million in interest income as of April 1996, not to mention the opportunity losses of these funds. Thus, the government is simply providing free housing to the delinquent borrowers, with taxpayers, ultimately, shouldering the costs.

Indeed, this can be seen from the government's equity contributions to the NHMFC to support the latter's operations. The losses incurred by the NHMFC on its loan operations constitute an actual cash outflow from the government's coffers. The UHLP's share in the NHMFC's losses from 1993 to 1995 is estimated at ₱321 million.[32] This direct subsidy from the government to the UHLP represents the actual cost to the government of having the UHLP program in place. At the same time, the government continues to lose for as long as the loans remain uncollected and foreclosure proceedings are not pursued.

Further, additional subsidy is provided through the penalty condonation program, where delinquent borrowers get a percentage of their penalties written off upon payment of certain amounts of their unpaid loans. The subsidy here is equal to the total amount of condoned penalties. While no data on the latter are available, the design of the penalty condonation program gives larger subsidies to "older" loans. Thus, on a ₱150,000 loan, the one-year delinquent borrower receives only ₱358 as subsidy compared to an all-time delinquent (10 years) who receives ₱42,411 (or 75 times more).[33] Moreover, the condoned amount for the former is just 14 percent of the downpayment the borrower is required to put up as against the latter's 65 percent. What makes the penalty condonation

[32] This is computed based on the "loan loss provision" item in the NHMFC's financial statements from 1993 to 1995. During the three-year period, the average shares of the UHLP, CMP and SHDLP (based on the sizes of these programs) are 95.1, 2.6 and 2.3 percent, respectively.

[33] Refer to Annex 5.4.

program even worse is the disincentive it gives borrowers to repay their loans on time. Condonation induces people to expect similar treatment in the future, which will erode even more the willingness to repay the loans.[34]

Community Mortgage Program (CMP). The subsidy under the CMP may be viewed from two different perspectives—at the receiving end are the final beneficiaries and at the giving end is the National Government. Just like the UHLP, the subsidy to the beneficiaries under the CMP is the difference between interest payment for a market-determined loan and a CMP loan. For loans granted from 1993 to 1995, the total subsidy to CMP borrowers is equal to ₱ 933.8 million (Table 5.3). Relative to the UHLP, this subsidy is very small despite the huge interest subsidy involved in CMP loans. This may be explained by the fact that loan sizes under CMP are actually very small, averaging ₱25,951 per borrower. Nonetheless, even with the small CMP loan size, the government is still giving a subsidy of ₱30,009 per borrower (roughly the annual income of a household in the second income decile).

Table 5.3. Interest subsidy to the CMP

Year	Subsidy amount (in ₱ million)	Subsidy/house unit
1995	278.9	27,513
1994	327.6	28,027
1993	327.3	35,227
Total	933.8	30,009

Looking at the program from the government's side, the program's main source of funding is the CISFA (Table 5.4). Under the CISFA, ₱380 million were directly released to the program from 1994 to 1995. However, NHMFC actually gets additional funding for the CMP from the unutilized funds appropriated by the government to the *Abot-Kaya* Program. According to the NHMFC, the CMP received a total of ₱189.3 million from 1993 to 1995 as interest subsidy under this component. Moreover, based on the NHMFC's loan losses during the period, the estimated share of the CMP in these losses totaled ₱8.8 million.[35] Thus, the budgetary cost to the government of the CMP subsidy during the period equaled ₱570 million.

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[34] The program has no credible threat of foreclosure that may instill fear on the delinquents.

[35] Refer to footnote 37.

Table 5.4. Government subsidy releases to selected housing programs (in P million), 1993-1995

Programs	1993	1994	1995	Total
NHMFC				
Abot-Kaya Pabahay Fund (AKPF)				
Amortization Support	190.0	127.0	253.0	570.0
Developmental Loan	95.0	63.0	127.0	285.0
Community Mortgage Program		190.0	190.0	380.0
HIGC				
AKPF - Cashflow Guarantee	190.0	100.0	285.0	575.0
NHA				
Resettlement		398.1	487.6	885.7
Cost Recoverable Program			103.0	103.0

Social Housing Development Loan Program (SHDLP). The subsidy under the SHDLP accrues directly to the developer who gains access to developmental loans at interest rates below the prevailing market rate. Based on the amount of the loans released under the program from 1993 to 1995, the total subsidy to the developer equaled P24.1 million during the three-year period or 3.4 percent of the entire loan amount under the SHDLP (Table 5.5). Given that some 31,119 units were built with these funds, the subsidy per unit of housing constructed is P774, which is less than 1 percent of the estimated land development and house construction cost of a P150,000 unit.

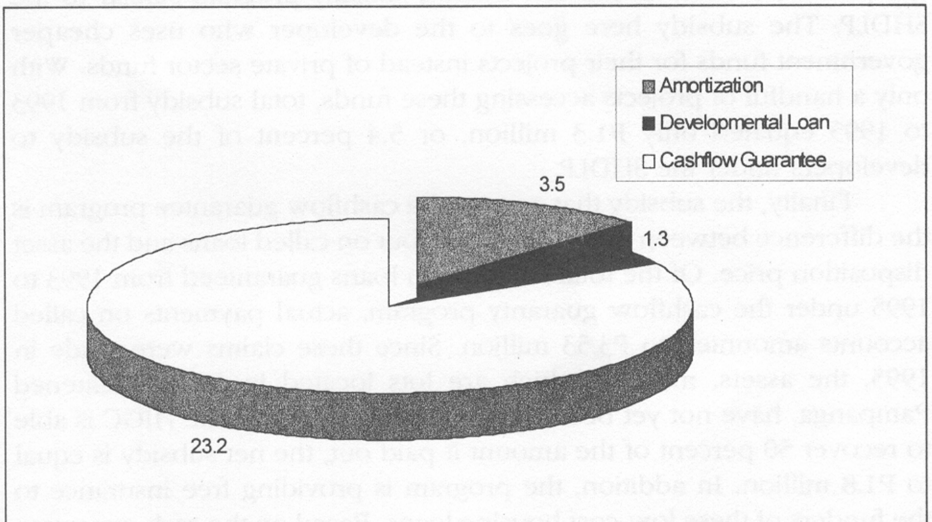
Table 5.5. Interest subsidy to the SHDLP

Year	Subsidy amount (in P million)	Subsidy/house unit
1995	9.4	925
1994	10.6	908
1993	4.1	441
Total	24.1	774

The subsidy under the SHDLP is more likely to be captured by the developer rather than passed on to the final homeowners through lower prices on the housing units. This is because the ceiling set by the NHMFC on the selling price of the final units (P150,000) is already considered low by many in view of rising building costs. The only way, then, for the developer to make additional profits is to scrimp on the materials used.[36] Thus, the computed subsidy for this program more likely represents benefits accruing to the developer only.

Abot-Kaya Pabahay Program. The subsidy under the *Abot-Kaya* may be computed either from the beneficiaries' (home buyers, developers, funders) or the government's viewpoint. The agencies involved in administering the program—NHMFC and HIGC—do not incur additional costs since the *Abot-Kaya* Fund bears all the associated administration costs. Overall, the magnitude of the *Abot-Kaya* subsidies is equal to the sum of the subsidies of its three components, including the associated administration costs (Figure 5.7).[37]

Figure 5.7. Subsidy under the three components of the *Abot-Kaya* program (in P million), 1993-1995



[36] Still, the design and features of the units should conform to a set of minimum standards as prescribed under Batas Pambansa 220.

[37] It should be noted that the three components carry different subsidy measures. The amortization support represents an actual cash transfer that must be taken at its face value. On the other hand, the subsidy on developmental loan is computed as the present value of the two-year interest rate subsidy while the subsidy on the cashflow guarantee is estimated by adding (a) an imputed value of the insurance premiums foregone and (b) the estimated losses on called accounts.

For the amortization support component, the subsidy to the beneficiary is exactly equal to the *Abot-Kaya's* counterpart in the monthly amortization of the beneficiary's loan, plus an estimated 1/2 of 1 percent of the amount to cover for administration costs.[38] From 1993 to 1995, the subsidy totaled ₱3.5 million, which is very small relative to the subsidies involved in other programs. Moreover, unlike the other programs that essentially carry hidden subsidies, the amortization support program represents an outright subsidy and thus, can be traced back to actual budget releases from the National Government. From the government's side, releases to the program from 1993 to 1995 under the CISFA reached ₱570 million. The huge difference in the two points of view on the magnitude of the amortization support subsidy may represent some of the amount channeled by the NHMFC to the CMP for the latter's interest subsidy program.

The second component of the *Abot-Kaya*, the developmental loan component, constitutes another interest subsidy program similar to the SHDLP. The subsidy here goes to the developer who uses cheaper government funds for their projects instead of private sector funds. With only a handful of projects accessing these funds, total subsidy from 1993 to 1995 equaled only ₱1.3 million, or 5.4 percent of the subsidy to developers under the SHDLP.

Finally, the subsidy that goes to the cashflow guarantee program is the difference between the amount paid out on called loans and the asset disposition price. Of the total ₱1.7 billion loans guaranteed from 1993 to 1995 under the cashflow guaranty program, actual payments on called accounts amounted to ₱3.53 million. Since these claims were made in 1995, the assets, most of which are lots located in *lahar*-threatened Pampanga, have not yet been disposed. Assuming that the HIGC is able to recover 50 percent of the amount it paid out, the net subsidy is equal to ₱1.8 million. In addition, the program is providing free insurance to the funders of these low-cost housing loans. Based on the cash guarantee fee of 1.25 percent of the loan amount, the subsidy in terms of free insurance (which in normal cases would cover for administration costs) totaled ₱21.4 million from 1993 to 1995.[39]

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[38] The rationale for using a 1 percent administration cost is that unlike the UHLP, the amortization support program does not involve loan repayment collection; hence, the associated administration cost is lower.

[39] The ₱1.8 million is computed as 50 percent of ₱3.53 million. The free insurance of ₱21.4 million is computed as 1.25 percent of the ₱1.7 billion guarantees.

Meanwhile, from the government's viewpoint, a total of P285 million and P575 million, respectively, were released to the developmental loan and to the cashflow guarantee components from 1993 to 1995 (Table 5.4). Together with the amortization support component, these direct subsidy funds from the National Government to the *Abot-Kaya* program, during the three-year period, totaled P1.4 billion.

HIGC Guarantee Programs. There are principally two parties involved in these programs—the government (as represented by the Department of Finance (DOF) and the HIGC on the one hand and the private sector financiers of the guaranteed loans (banks and developers) on the other. The subsidy under these programs comes through the tax break on interest income given to the financiers of housing loans. From the side of the government (in particular, the DOF), this tax incentive represents a revenue loss. However, inasmuch as guarantee fees are paid to the HIGC, the government also earns insurance income. Overall, the difference between the two is the net subsidy government provided to the program.[40] What the government loses, the private financiers gain.[41] For the latter group, the subsidy is the difference between the premium they pay for the guarantee and the income they realize from tax savings.

For a typical bank retail loan with an interest rate of 16 percent and maturity period up to 15 years, calculations show the HIGC guarantee actually leads to losses for the government. The computation shows that for every peso the HICG guarantees (cash or bond), the government loses 13 centavos of tax revenue. It, however, gains seven centavos as premium income on cash guarantees and five centavos on bond guarantees. In the end, though, it still loses six centavos on cash guarantee and eight centavos on a bond guarantee per peso guarantee (Table 5.6). Hence, bond guarantees are more expensive for the government than cash guarantees.

The government's net losses represent the amount that is transferred to the bank. For the bank, what this means is that the tax savings it gets is more than enough to cover for its premium expenses, such that in the end, the government is not only giving it free insurance, but an extra six

[40] Another aspect that the study has not accounted for due to the unavailability of data are the dividends HIGC remits to the National Government. When these dividends are included in the estimates, the net subsidy provided by the government should be lower than the figures in the study.

[41] The estimates do not include the gain captured by the HIGC via a larger volume of business.

centavos as well (or eight centavos for bond guarantees). Moreover, the government is bearing most of the default risk on its housing loan guarantees and is obligated to pay up any related insurance claim. Assuming a 1 percent loss on insurance claims, the cost to the government increases to seven centavos for cash guarantees and nine centavos for bond guarantees.[42]

Other guarantee programs share the same story. Table 5.6 gives the per peso losses of the government for each of the guarantee programs. The costliest of the guarantee programs is the retail bank loan guarantee line, where the loan term is at an average of 15 years as compared to just five years for developers' contracts to sell and two years for developmental loans. In the case of the higher priced developmental cash guarantees (2.25 percent), however, the government is able to obtain a net gain of 0.1 centavo per peso guarantee. Nonetheless, the DOF still loses three centavos for every peso guarantee on a developmental loan.

Table 5.6. Per peso subsidy on HIGC guarantees

Guarantee Type	Fiscal Cost		Premium Income		Loss to Government			
					Cash		Bond	
	Cash	Bond	Cash	Bond	w/o claims	w/claims	w/o claims	w/claims
Retail								
Bank	0.13	0.13	0.07	0.05	0.06	0.07	0.08	0.09
Developer	0.04	0.04	0.03	0.01	0.01	0.02	0.03	0.04
Developmental								
<P225,000	0.03	0.03	0.02	0.01	0.01	0.02	0.02	0.03
>P225,000	0.03	0.03	0.03	0.01	-0.001	0.01	0.02	0.03

Using these calculations, the actual losses incurred by the government on the tax incentive given to HIGC guaranteed loans were computed (Table 5.7) From 1993 to 1995, on the total coverage of P16.6 billion, the government lost P1.8 billion in tax revenue and gained P693 million in premium income, for a net loss (without claims) of P1.1 billion. This is about 1/3 of 1 percent of tax revenues in 1995. Further, providing for possible losses associated with claims on the guarantees, the net subsidy

[42] HIGC claims that it has a 50 percent recovery on loan defaults. Based on the actual percentage of claims on HIGC to its outstanding guarantees, the losses associated with loan defaults would be very small (0.01 percent of outstanding guarantees). Hence, the study's computations, assuming no claims, would be a good approximation of the total subsidy on the HIGC guarantees. The estimates assuming a 1 percent loss on insurance claims show by how much the subsidy will increase given the 1 percent loss.

under the program is higher at P1.3 billion (or 2/5 of 1 percent of 1995 tax revenues).

The largest subsidy group, with net subsidies amounting to P1 billion (or 94 percent of the total net subsidy on HIGC guarantees), is the retail loan guarantee for banks. The bulk of these subsidies, or P886 million (or 1/3 of 1 percent of 1995 tax revenues), is associated with subsidies to retail bond guarantees while subsidies to cash guarantees amount to only P165 million (1/20 of 1 percent of tax revenues in 1995). In comparison, net subsidies to developers' retail guarantees represent only 5 percent of the subsidies to banks' retail guarantees. On the other hand, subsidies to developmental loan guarantees are a much smaller component of the guarantee subsidy program, totaling only P17 million.

NHA Resettlement Program. The subsidy under this program is the sale of government assets (i.e., developed land) to beneficiaries at subsidized prices (P30 to P50 per month for 25 years). Based on the average resettlement cost from 1993 to 1995, the subsidy per unit of home lot is P53,536 for a P50 rental unit and P55,435 for a P30 rental unit (Table 5.8). These amounts are roughly the equivalent of the annual income of a household belonging to the fifth income decile. Further, these subsidies are between 92 and 95 percent of the per unit resettlement cost. While the share of the subsidy to total cost is large, the resettlement program gives, at most, only 41 percent of the amount of subsidy given to a P150,000 UHLP loan borrower, considering that it is supposed to be a program targeted to the poorest of the poor.

Given the total number of units (24,278) generated from 1993 to 1995 under the resettlement program, the total subsidy to the beneficiaries would be around P1.3 billion (or 1/15 of 1 percent of 1995 GNP). However, these estimates did not consider the fact that some of the projects were undertaken under joint venture arrangements with LGUs. For these projects, the subsidy would be less since the NHA's share of the cost would only be equal to the cost of land development.[43] Looking at the program from the Department of Budget and Management's side, the government's actual releases to the program totaled P885.7 million during the period.

[43] Data from the NHA showed that the total NHA counterpart for land development in joint venture projects with LGUs totaled P330 million on 18,498 units. Ideally, the amount can be deducted from the total resettlement cost to get the cost of NHA-administered projects. However, the authors encountered problems with reconciling the two sets of data.

Table 5.7. Subsidy due to HIGC guarantees (in P million) New enrollments, 1993-1995

	Total		Developmental/3		
	Bank	Developer	<P225,000	>P225,000	Total
Amount of Guarantees 1/					
Cash	2,878.8	479.6	174.1	49.1	3,581.6
Bond	10,439.2	1,739.2	631.2	178.0	12,987.6
Fiscal Cost					
Cash	364.0	21.0	4.9	1.4	391.3
Bond	1,320.0	77.0	18.0	5.0	1,420.0
Total	1,684.0	98.0	22.9	6.4	1,811.3
Premium Income					
Cash	199.0	15.0	2.9	1.5	218.4
Bond	434.0	33.0	6.0	2.0	475.0
Total	633.0	48.0	8.9	3.5	693.4
Loss to Gov't/Gain to Funders/2					
Cash					
w/o claims	165.0	6.0	2.1	(0.1)	173.0
w/claims	193.0	11.0	3.8	0.4	208.2
Bond					
w/o claims	886.0	44.0	12.0	3.0	945.0
w/claims	990.0	62.0	18.0	4.0	1,074.0
Total					
w/o claims	1,051.0	50.0	14.1	2.9	1,118.0
w/claims	1,183.0	73.0	21.8	4.4	1,282.2

/1 Distribution between cash and bond guarantees based on the shares of each to total guarantees as of June 30, 1996 (cash - 21.6 percent; bond - 78.4 percent).
/2 Claims assumed at 1 percent. Refer to footnote 41.
/3 Loan value classification based on the average 1993-1995 developmental guarantee portfolio of HIGC (<P225,000 - 78 percent; >P225,000 - 22 percent).

Table 5.8. Subsidy to resettlement program, 1993-1995

	Rental = P30/month	Rental = P50/month
Subsidy per unit	55,435	53,536
Subsidy per peso cost	95	92
Total subsidy (in P million)	1,344	1,302
1995	667	646
1994	530	514
1993	147	142

Notes:

Total resettlement cost (in P million)	*1,415*
Number of units	*24,278*
Resettlement cost/unit	*58,284*

Further, it should be noted that the above figures do not include yet the underpricing of the land cost by the NHA. Box 5 gives a case study of how to factor in the difference between the government's and the market's valuation of the land in computing for the total subsidies provided by NHA.

Box 5. NHA Resettlement Program

The National Housing Authority (NHA) carried out the Area D-3 Phase I-II resettlement project in 1994 as a relocation site for Metro Manila squatters. Located in Dasmariñas, Cavite, the project targeted Department of Public Works and Highways squatters as well as those near the Pasig River, the Ninoy Aquino International Airport and Philippine Ports Authorities as beneficiaries. The project sought to create 3,733 home lots for the construction of the beneficiaries' individual housing units.

Land area for the entire project totaled 303,731 sq.m. with individual lot sizes at 50 sq.m. Land cost equaled ₱9.1 million while land development cost covering roads, drainage, sewer, water and power systems as well as community facilities, reached ₱61.5 million. Overall, the project cost the government ₱70.6 million to complete.

Beneficiaries of each unit were required to pay P50 per month for 25 years. After this period, the land is turned over to them.

Given the above figures, the magnitude of the subsidy is the difference between the resettlement cost and the present value of the beneficiaries' repayment stream; plus, any difference in land cost between the NHA's and the market's valuation. The subsidy on resettlement is computed thus:

Resettlement cost per household (₱70.6M/3,733):[1]	₱ 18,926	(a)
Present Value of Payment stream (₱50 month; discount rate of 12 percent; 300 months):	4,747	(b)
Resettlement subsidy per household (a-c):	14,179	(c)
Resettlement subsidy per peso cost (c/a):	0.75	(d)

This means that for every peso the NHA spent on relocating the squatters to Dasmariñas, Cavite, it is giving out a subsidy equal to 75 centavos. On the average, each household-beneficiary of the project received a subsidy of ₱14,179. This amount, however, should be adjusted to reflect the fact that the market valued the Cavite land at ₱450 per sq.m. whereas the NHA set the land cost at only ₱30 per sq.m.[2] This undervaluation of the land should be considered as additional subsidy. Thus,

Land subsidy per household ((₱450-₱30)*50 square meters.):	₱21,000	(e)
Total subsidy per household (c+e):	35,179	(f)
Subsidy per peso cost (f /a):	1.86	(g)

The final figure means that the NHA actually spent 86 centavos more for every peso cost it incurred from the project, and each household, in fact, received a subsidy of ₱35,179.

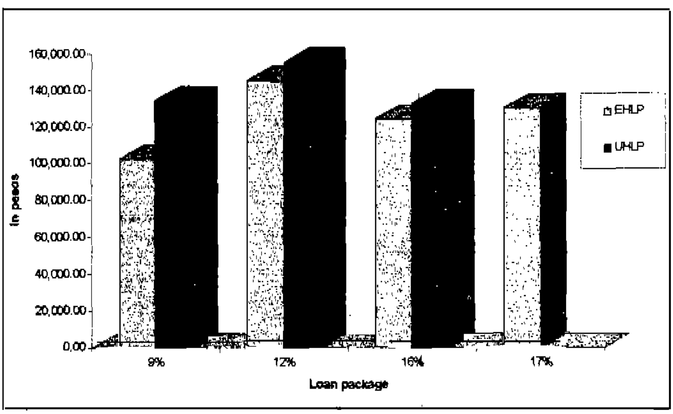
[1] Basic data sourced from NHA, project profile of Area D-3 Phase I-II.

[2] Market price of raw land in Dasmariñas, Cavite, sourced from Real Estate Monitor published by Econotech.

HDMF Expanded Housing Loan Program (EHLP). Accounting for the subsidy under the EHLP is similar to the procedure used for UHLP. In this case, on one side are the final beneficiaries who are members of the HDMF, while on the other side is the HDMF itself which is providing the subsidized loans.

For the beneficiaries, the total subsidy they received from 1993 to 1995 amounted to P3.2 billion, or 17 percent of total UHLP subsidies (Table 5.9). This represents the difference between what the borrowers should have paid for a similar market loan and what they actually paid on the EHLP loan. On a per unit basis, borrowers under the lowest loan package received, on the average, a subsidy of P102,244 (equivalent to the annual income of household in eighth decile). This is 24 percent lower than the per unit subsidy of the same loan package under the UHLP (Figure 5.8). This may be explained by the fact that the average loan size of the 9 percent EHLP loan package is smaller than the UHLP average loan. The ratio of the subsidy to the size of the loan (94 percent), however, is the same as that under the UHLP. The same pattern holds for the higher loan packages, where borrowers received average subsidies of P161,859 equivalent to the annual income of ninth decile households for the second level package, P124,160 equivalent to the annual income of ninth decile household for the third level package, and P97,356 equivalent to annual income of eighth decile household for the highest package.

Figure 5.8. Per unit subsidy: UHLP vs. EHLP



From the HDMF's viewpoint, the cost associated with the EHLP is the foregone earnings from alternative investments that yield higher returns. Based on the loan value from 1993 to 1995, this cost amounted to ₱990.9 million (Table 5.9).

Table 5.9. Interest subsidy to the UHLP (in P million), 1993-1995

Loan Packages	Subsidy from Borrower's Viewpoint	Subsidy from HDMF's Viewpoint
9 percent	1,666.5	797.0
12 percent	995.9	309.5
16 percent	497.9	(115.6)
17 percent	5.8	(3.1)
Total	3,166.1	990.9

Annex 5.1. Magnitude of housing subsidies under different market rate assumptions, 1993-1995 (in P million)

Market rate/ Loan Package	19 percent	21 percent	Difference
UHLP			
up to ₱150,000	5945.2	7161.3	1216.1
>150,000 to 225,000	5309.2	6844.9	1535.7
>225,000 to 375,000	2886.9	4819.7	1932.8
Total	14141.3	18825.9	4684.6
CMP	805.2	933.8	128.6
EHLP			
up to ₱150,000	1383.5	1666.5	283.0
>150,000 to 225,000	772.5	995.9	223.4
>225,000 to 375,000	298.2	497.9	199.7
>375,000 to 500,000	2.9	5.8	2.9
Total	2457.1	3166.1	709.0

* The 19 percent market rate is based on PCIB's five-year fixed rate housing loan with maturity of 20 years and minimum loan value of ₱500,000. The 21 percent rate adjusts the former rate to account for the higher maturity and lower loanable amounts in the government's housing programs.

Annex 5.2a. Interest subsidy to the UHLP (Borrower's viewpoint), 1993-1995

Assuming 19 percent market rate

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to ₱150,000	1995	9	19	3,428,167,707	2,670,288,439	22,825	116,990	23,303	114,590
	1994	9	19	2,455,874,211	1,912,943,903	16,689	114,623	18,243	104,859
	1993	9	19	1,748,490,087	1,361,944,124	13,802	98,677	14,777	92,166
	Total			7,632,532,005	5,945,176,466	53,316	111,508	56,323	105,555
> 150,000 to 225,000	1995	12	19	3,831,194,492	2,110,582,567	17,704	119,215	18,934	111,471
	1994	12	19	3,132,698,992	1,725,785,494	14,254	121,074	15,698	109,937
	1993	12	19	2,673,609,347	1,472,875,702	12,144	121,284	13,889	106,046
	Total			9,637,502,831	5,309,243,763	44,102	120,386	48,521	109,422
>225,000 to 375,000	1995	16	19	4,258,801,139	1,013,548,084	12,749	79,500	14,700	68,949
	1994	16	19	3,507,965,874	834,857,504	10,351	80,655	12,240	68,207
	1993	16	19	4,363,514,019	1,038,468,604	13,182	78,779	16,121	64,417
	Total			12,130,281,032	2,886,874,192	36,282	79,568	43,061	67,042
TOTAL				29,400,315,868	14,141,294,421	133,700	105,769	147,905	95,611
1995				11,518,163,338	5,794,419,090	53,278	108,758	56,937	101,769
1994				9,096,539,077	4,473,586,901	41,294	108,335	46,181	96,871
1993				8,785,613,453	3,873,288,430	39,128	98,990	44,787	86,482

* Based on bank rate adjusted for risk, loan maturity.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.2b. Interest subsidy to the UHLP (Borrower's viewpoint), 1993-1995

Assuming 21 percent market rate

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to P150,000	1995	9	21	3,428,167,707	3,216,532,630	22,825	140,921	23,303	138,031
	1994	9	21	2,455,874,211	2,304,262,863	16,689	138,071	18,243	126,309
	1993	9	21	1,748,490,087	1,640,548,508	13,802	118,863	14,777	111,020
	Total			7,632,532,005	7,161,344,001	53,316	134,319	56,323	127,148
> 150,000 to 225,000	1995	12	21	3,831,194,492	2,721,045,040	17,704	153,697	18,934	143,712
	1994	12	21	3,132,698,992	2,224,949,704	14,254	156,093	15,698	141,735
	1993	12	21	2,673,609,347	1,898,888,575	12,144	156,364	13,889	136,719
	Total			9,637,502,831	6,844,883,319	44,102	155,206	48,521	141,071
>225,000 to 375,000	1995	16	21	4,258,801,139	1,692,145,394	12,749	132,728	14,700	115,112
	1994	16	21	3,507,965,874	1,393,816,734	10,351	134,655	12,240	113,874
	1993	16	21	4,363,514,019	1,733,750,862	13,182	131,524	16,121	107,546
	Total			12,130,281,032	4,819,712,990	36,282	132,840	43,061	111,928
TOTAL				29,400,315,868	18,825,940,310	133,700	140,807	147,905	127,284
1995				11,518,163,338	7,629,723,064	53,278	143,206	56,937	134,003
1994				9,096,539,077	5,923,029,301	41,294	143,436	46,181	128,257
1993				8,785,613,453	5,273,187,945	39,128	134,768	44,787	117,739

* Based on bank rate adjusted for risk, loan maturity.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.3a. Interest subsidy to the UHLP (NHMFC's viewpoint), 1993-1995

Using actual administration cost of 0.82 percent

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to P150,000	1995	9	12.54	3,428,167,707	908,745,486	22,825	39,814	23,303	38,997
	1994	9	11.93	2,455,874,211	535,134,041	16,689	32,065	18,243	29,334
	1993	9	11.86	1,748,490,087	371,555,177	13,802	26,920	14,777	25,144
	Total			7,632,532,005	1,815,434,704	53,316	34,050	56,323	32,233
> 150,000 to 225,000	1995	12	12.54	3,831,194,492	144,424,181	17,704	8,158	18,934	7,628
	1994	12	11.93	3,132,698,992	(29,715,094)	14,254	(2,085)	15,698	(1,893)
	1993	12	11.86	2,673,609,347	(39,795,293)	12,144	(3,277)	13,889	(2,865)
	Total			9,637,502,831	74,913,794	44,102	1,699	48,521	1,544
>225,000 to 375,000	1995	16	12.54	4,258,801,139	(1,169,300,954)	12,749	(91,717)	14,700	(79,544)
	1994	16	11.93	3,507,965,874	(1,128,664,963)	10,351	(109,039)	12,240	(92,211)
	1993	16	11.86	4,363,514,019	(1,427,490,664)	13,182	(108,291)	16,121	(88,549)
	Total			12,130,281,032	(3,725,456,581)	36,282	(102,681)	43,061	(86,516)
TOTAL				29,400,315,868	(1,835,108,083)	133,700	(13,726)	147,905	(12,407)
1995				11,518,163,338	(116,131,287)	53,278	(2,180)	56,937	(2,040)
1994				9,096,539,077	(623,246,016)	41,294	(15,093)	46,181	(13,496)
1993				8,785,613,453	(1,095,730,780)	39,128	(28,004)	44,787	(24,465)

* Based on the average interest rates charged by the SSS, GSIS, and HDMF + 0.82 percent for NHMFC's administration cost; computed as the ratio of total administrative and operating expenses (including loan loss provisions) to the outstanding balance of Mortgage Contract Receivables (current + long term), average from 1993 to 1995; data sourced from NHMFC's financial statements.

** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.3b. Interest subsidy to the UHLP (NHMFC's viewpoint), 1993-1995

Using 2 percent budgeted administration cost

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to ₱150,000	1995	9	13.72	3,428,167,707	1,223,713,426	22,825	53,613	23,303	52,513
	1994	9	13.11	2,455,874,211	759,775,883	16,689	45,526	18,243	41,648
	1993	9	13.04	1,748,490,087	531,404,893	13,802	38,502	14,777	35,962
	Total			7,632,532,005	2,514,894,202	53,316	47,170	56,323	44,651
> 150,000 to 225,000	1995	12	13.72	3,831,194,492	496,420,799	17,704	28,040	18,934	26,218
	1994	12	13.11	3,132,698,992	256,836,746	14,254	18,019	15,698	16,361
	1993	12	13.04	2,673,609,347	204,630,283	12,144	16,850	13,889	14,733
	Total			9,637,502,831	957,887,828	44,102	21,720	48,521	19,742
>225,000 to 375,000	1995	16	13.72	4,258,801,139	(778,017,348)	12,749	(61,026)	14,700	(52,926)
	1994	16	13.11	3,507,965,874	(807,786,999)	10,351	(78,040)	12,240	(65,996)
	1993	16	13.04	4,363,514,019	(1,028,571,343)	13,182	(78,028)	16,121	(63,803)
	Total			12,130,281,032	(2,614,375,690)	36,282	(72,057)	43,061	(60,713)
TOTAL				29,400,315,868	858,406,340	133,700	6,420	147,905	5,804
1995				11,518,163,338	942,116,877	53,278	17,683	56,937	16,547
1994				9,096,539,077	208,825,630	41,294	5,057	46,181	4,522
1993				8,785,613,453	(292,536,167)	39,128	(7,476)	44,787	(6,532)

* Based on the average interest rates charged by the SSS, GSIS and HDMF + 2 percent for NHMFC's administration cost.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.4. Interest subsidy to the UHLP (Funder's viewpoint), 1993-1995

Loan Package	Year (1)	Lending rate (2)	Market yield (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to P150,000	1995	11.72	14.83	3,428,167,707	830,551.221	22,825	36,388	23,303	35,641
	1994	11.11	14.83	2,455,874,211	710,029,174	16,689	42,545	18,243	38,921
	1993	11.04	14.83	1,748,490,087	514,881,574	13,802	37,305	14,777	34,843
	Total			7,632,532,005	2,055,461,969	53,316	38,552	56,323	36,494
> 150,000 to 225,000	1995	11.72	14.83	3,831,194,492	928,193,582	17,704	52,428	18,934	49,023
	1994	11.11	14.83	3,132,698,992	905,709,123	14,254	63,541	15,698	57,696
	1993	11.04	14.83	2,673,609,347	787,303,399	12,144	64,831	13,889	56,685
	Total			9,637,502,831	2,621,206,104	44,102	59,435	48,521	54,022
>225,000 to 375,000	1995	11.72	14.83	4,258,801,139	1,031,790,970	12,749	80,931	14,700	70,190
	1994	11.11	14.83	3,507,965,874	1,014,204,271	10,351	97,981	12,240	82,860
	1993	11.04	14.83	4,363,514,019	1,284,933,202	13,182	97,476	16,121	79,706
	Total			12,130,281,032	3,330,928,443	36,282	91,807	43,061	77,354
TOTAL				29,400,315,868	8,007,596,516	133,700	59,892	147,905	54,140
1995				11,518,163,338	2,790,535,773	53,278	52,377	56,937	49,011
1994				9,096,539,077	2,629,942,568	41,294	63,688	46,181	56,949
1993				8,785,613,453	2,587,118,175	39,128	66,119	44,787	57,765

* Based on average lending rate of the three funders to NHMFC.
** Based on the actual 1994 weighted average yield on alternative investments of Pag-ibig: T-bills (13.98%); T-notes (11.82%); and stocks (20%).

Annex 5.5. Interest earnings foregone on unpaid debts*
As of April 1996 (in ₱ million)

Loan size	Case I**	Case II***
up to ₱150,000	1.38	1.8
>150,000 to 225,000	3.83	5.1
>225,000 to 375,000	5.74	7.6
Total	10.95	14.5

* Interest rate based on 1995 average T-bill rate of 11 percent.
** Assumes that all loans are 25-year loans.
*** Assumes that 50 percent are 25-year loans and 50 percent are 15-year loans.

Notes:
Unpaid loans > 1 month ₱29,263 billion
Unpaid loans > 3 months ₱23,118 billion
Unpaid loans > 1 year ₱11,705 billion

Annex 5.6a. Subsidy associated with penalty condonation*
For loan = ₱150,000

Percent condoned penalty/years in default	15 percent	20 percent	25 percent	30 percent	35 percent	40 percent
1/2	23	64	105	146	187	228
1	358	511	664	817	969	1,122
2	1,667	2,256	2,845	3,433	4,022	4,611
3	3,825	5,134	6,442	7,751	9,059	10,363
4	6,834	9,145	11,441	13,729	16,018	18,306
5	10,685	14,247	17,808	21,370	24,931	28,493
6	15,347	20,462	25,578	30,694	35,809	40,925
7	20,850	27,800	34,751	41,701	48,651	55,601
8	27,195	36,261	45,326	54,391	63,456	72,521
9	34,382	45,843	57,304	68,764	80,225	91,686
10	42,411	56,548	70,684	84,821	98,958	100,000
11	51,281	68,374	85,468	100,000	100,000	100,000
12	60,992	81,323	100,000	100,000	100,000	100,000
13	71,546	95,394	100,000	100,000	100,000	100,000
14	82,941	100,000	100,000	100,000	100,000	100,000
15	95,177	100,000	100,000	100,000	100,000	100,000

* Computed as the difference between total penalty condoned minus processing fee.

Annex 5.6b. Required downpayment vs. penalty condonation For Loan = P150,000

Percent condoned penalty/years in default	15 percent	20 percent	25 percent	30 percent	35 percent	40 percent
1/2	2.2	3.7	4.3	4.7	4.9	5.0
1	14.4	12.3	11.4	10.9	10.6	10.4
2	27.7	22.5	20.3	19.0	18.2	17.7
3	36.8	29.6	26.6	24.9	23.8	23.0
4	43.7	35.1	31.4	29.3	29.0	27.0
5	49.2	39.4	35.2	32.8	31.3	30.3
6	53.6	42.9	38.3	35.7	34.1	33.0
7	57.3	45.8	40.9	38.2	36.4	35.2
8	60.4	48.3	43.1	40.3	38.4	37.2
9	63.1	50.5	45.0	42.0	40.1	38.8
10	65.4	52.3	46.7	43.6	41.6	35.6

Annex 5.7a. Interest subsidy to the CMP, 1993-1995

Assuming 19 percent market rate

Year (1)	Loan amount (PM) (2)	CMP Interest (3)	Market rate* (4)	Subsidy (PV)**	No. of units (6)	Subsidy/unit (7)
1995	241,230,000	6	19	240,512,853	10,139	23,722
1994	283,330,000	6	19	282,487,695	11,690	24,165
1993	283,010,000	6	19	282,168,647	9,290	30,373
Total	807,570,000			805,169,195	31,119	25,874

* Based on bank rate adjusted for risk.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.7b. Interest subsidy to the CMP, 1993-1995

Assuming 21 percent market rate

Year (1)	Loan amount (PM) (2)	CMP Interest (3)	Market rate* (4)	Subsidy (PV)**	No. of units (6)	Subsidy/unit (7)
1995	241,230,000	6	21	278,950,438	10,139	27,513
1994	283,330,000	6	21	327,633,493	11,690	28,027
1993	283,010,000	6	21	327,263,456	9,290	35,227
Total	807,570,000			933,847,387	31,119	30,009

* Based on bank rate adjusted for risk.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.8. Interest subsidy to the SHDLP, 1993-1995

Year (1)	Loan amount (PM) (2)	SHDLP Interest (3)	Market rate* (4)	Subsidy (PV)**	No. of units (6)	Subsidy/unit (7)
1995	278,650,000	14	16.5	9,376,024	10,139	925
1994	315,350,000	14	16.5	10,610,906	11,690	908
1993	121,760,000	14	16.5	4,096,984	9,290	441
Total	715,760,000			24,083,914	31,119	774

* Based on bank rate.
** Present value computed using annual discount rate = 12 percent; loan term = 2 years.

Annex 5.9. Summary of subsidy under the *Abot-Kaya* Program 1993-1995 (in ₱ million)

Program Components	Amount	% of Total
Amortization Support	3.5	12.7
Cash Transfer	3.5	12.6
Administrative cost	0.0	0.1
Developmental Loan	1.3	4.7
Interest subsidy	1.2	4.3
Administrative cost	0.1	0.4
Cashflow Guarantee	23.2	83.1
Losses on called accounts*	1.8	6.3
Coverage subsidy/Administrative cost	21.4	76.8
Total	28.0	100.0

* Assumed equal to 50% of HIGC payment on called accounts (80% of which consists of lots located in *lahar*-threatened areas in Pampanga.

Annex 5.10a. Interest subsidy to the HDMF Expanded Housing Loan Program (Borrower's viewpoint), 1993-1995

Assuming 19 percent market rate

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to ₱150,000	1995	9	19	652,258,000	508,060,616	6,098	83,316	6,483	78,368
	1994	9	19	613,316,000	477,727,685	5,298	90,171	5,878	81,274
	1993	9	19	510,554,000	397,683,707	4,903	81,110	5,010	79,378
	Total			1,776,128,000	1,383,472,008	16,299	84,881	17,371	79,643
> 150,000 to 225,000	1995	12	19	663,947,000	365,764,507	3,267	111,957	3,503	104,415
	1994	12	19	428,359,000	235,980,460	2,030	116,247	2,327	101,410
	1993	12	19	309,934,000	170,740,822	1,547	110,369	1,811	94,280
	Total			1,402,240,000	772,485,789	6,844	112,871	7,641	101,097
>225,000 to 375,000	1995	16	19	454,847,000	108,248,610	1,420	76,231	1,966	55,060
	1994	16	19	500,161,000	119,032,847	1,507	78,987	2,012	59,161
	1993	16	19	298,060,000	70,935,020	1,083	65,499	1,444	49,124
	Total			1,253,068,000	298,216,477	4,010	74,368	5,422	55,001
>375,000 to 500,000	1995	17	19	18,370,000	2,918,226	45	64,849	52	56,120
TOTAL				4,431,436,000	2,457,092,500	27,153	90,491	30,434	80,735
1995				1,789,422,000	984,991,959	10,830	90,950	11,952	82,412
1994				1,541,836,000	832,740,992	8,835	94,255	10,217	81,505
1993				1,118,548,000	639,359,549	7,533	84,874	8,265	77,357

* Based on PCIB's five-year fixed rate housing loans with maturity up to 20 years.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.10b. Interest subsidy to the HDMF Expanded Housing Loan Program (Borrower's viewpoint), 1993-1995

Assuming 21 percent market rate

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to P150,000	1995	9	21	652,258,000	611,991,396	6,098	100,359	6,483	94,399
	1994	9	21	613,316,000	575,453,448	5,298	108,617	5,878	97,900
	1993	9	21	510,554,000	479,035,374	4,903	97,703	5,010	95,616
	Total			1,776,128,000	1,666,480,218	16,299	102,244	17,371	95,935
> 150,000 to 225,000	1995	12	21	663,947,000	471,557,812	3,267	144,340	3,503	134,615
	1994	12	21	428,359,000	304,235,176	2,030	149,870	2,327	130,741
	1993	12	21	309,934,000	220,125,701	1,547	142,292	1,811	121,549
	Total			1,402,240,000	995,918,689	6,844	145,517	7,641	130,339
>225,000 to 375,000	1995	16	21	454,847,000	180,723,925	1,420	127,270	1,966	91,925
	1994	16	21	500,161,000	198,728,493	1,507	131,870	2,012	98,772
	1993	16	21	298,060,000	118,427,895	1,083	109,352	1,444	82,014
	Total			1,253,068,000	497,880,313	4,010	124,160	5,422	91,826
>375,000 to 500,000	1995	17	21	18,370,000	5,845,301	45	129,896	52	112,410
TOTAL				4,431,436,000	3,166,124,521	27,153	116,603	30,434	104,032
1995				1,789,422,000	1,270,118,434	10,830	117,278	11,952	106,268
1994				1,541,836,000	1,078,417,117	8,835	122,062	10,217	105,551
1993				1,118,548,000	817,588,971	7,533	108,534	8,265	98,922

* Based on PCIB's five-year fixed rate housing loans with maturity up to 20 years; adjusted for maturity and transactions cost.
** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Annex 5.11. Interest subsidy to the Expanded Housing Loan Program (HDMF's viewpoint), 1993-1995

Assuming 21 percent market rate

Loan Package	Year (1)	UHLP rate (%) (2)	Market rate (%)* (3)	Loan amount (4)	Subsidy (PV) ** (6)	No. of units (7)	Subsidy/unit (8)=(6)/(7)	No. of beneficiaries (9)	Subsidy/beneficiary (10)=(6)/(9)
up to ₱150,000	1995	9	14.83	652,258,000	292,677,926	6,098	47,996	6,483	45,145
	1994	9	14.83	613,316,000	275,204,068	5,298	51,945	5,878	46,819
	1993	9	14.83	510,554,000	229,093,221	4,903	46,725	5,010	45,727
	Total			1,776,128,000	796,975,215	16,299	48,897	17,371	45,880
> 150,000 to 225,000	1995	12	14.83	663,947,000	146,521,982	3,267	44,849	3,503	41,828
	1994	12	14.83	428,359,000	94,531,657	2,030	46,567	2,327	40,624
	1993	12	14.83	309,934,000	68,397,243	1,547	44,213	1,811	37,768
	Total			1,402,240,000	309,450,882	6,844	45,215	7,641	40,499
>225,000 to 375,000	1995	16	14.83	454,847,000	(41,946,819)	1,420	(29,540)	1,966	(21,336)
	1994	16	14.83	500,161,000	(46,125,758)	1,507	(30,608)	2,012	(22,925)
	1993	16	14.83	298,060,000	(27,487,636)	1,083	(25,381)	1,444	(19,036)
	Total			1,253,068,000	(115,560,213)	4,010	(28,818)	5,422	(21,313)
>375,000 to 500,000	1995	17	14.83	18,370,000	(3,147,748)	45	(69,950)	52	(60,534)
TOTAL				4,449,806,000	987,713,137	27,198	36,316	30,434	32,454
1995				1,771,052,000	394,105,342	10,830	36,390	11,952	32,974
1994				1,541,836,000	323,609,967	8,835	36,628	10,217	31,674
1993				1,118,548,000	270,002,828	7,533	35,843	8,265	32,668

* Based on the actual 1994 weighted average yields on Pag-ibig's alternative investments: T-bills (13.98%); T-notes (11.82%) and stocks (20%) Data sourced from Pag-ibig's 1994 Annual Report.

** Present value computed using annual discount rate = 12 percent; loan term = 25 years.

Housing Subsidies: How Effective Are They?

This section estimates the incidence of housing subsidies. The objective is to identify who benefits from the subsidies by tracing the flow of resources, from their origin through the intermediate agents, to the final beneficiaries. The analysis will determine whether the government's objective of providing decent housing to the low-income group through the different housing subsidy programs is met. In the final analysis, those who benefit from housing subsidies are individuals/households who are beneficiaries of housing programs and economic agents who benefit from tax exemptions and other receipts related to housing. On the other hand, the sources of funds used to finance housing subsidies are national and local taxpayers, members of pension funds and institutions required to provide funds to the housing sector at below-market rates. Mortgage records data that describe the resource flows' end points, complemented by institutional data that indicate the budgetary funds provided to the housing agencies, are utilized in the estimation.

To assess the effectiveness of the housing subsidy programs in terms of reaching the intended beneficiaries, the eligibility requirements are first evaluated. Then, the actual beneficiaries of the housing programs are identified and compared with the target beneficiaries. Analysis of the distribution of subsidies by income level is done to assess the subsidies across income groups. The information on both the distribution of beneficiaries across loan packages and the total amount of the loans is utilized. The average loan value is computed based on the total amount of loans and the number of beneficiaries per loan package. The average income is computed on the basis of the information on how the loan amount under a particular program is determined. The minimum monthly income required to qualify for a given loan amount is compared to the mean family income by decile to assess the affordability of a given loan package.

This is done to verify the claims of the housing agencies that housing programs, particularly the mortgage programs, operate on the principle of cross subsidization wherein the higher income groups subsidize the lower income groups. The analysis also tries to determine whether (or not) there is inequity in the housing subsidy schemes in terms of substantial proportion of benefits being diverted to or captured by individuals outside the target population. Tests of horizontal and vertical equity would determine whether subsidies are distributed in proportion to need as proxied by income level.

The analysis of the incidence and effectiveness of the housing subsidies focuses on the subsidies provided through concessional interest rates, loan arrears, land development costs and tax exemption. The discussions on the last two types of subsidies are essentially qualitative due to the lack of information on the income profile of the beneficiaries. Moreover, the incidence of the loan amortization support is not analyzed due to severe data constraints.

Most of the discussion focuses on the borrowers who are the final beneficiaries of the housing programs. The variables of interest are the number of beneficiaries and their income levels, the amount of loan granted to these beneficiaries and the corresponding interest rates, the values of loans, the number of units and the average income for loans which are considered delinquent, and the minimum income to qualify for the housing loan. The analysis is done for the UHLP, CMP, EHLP, SSS Individual Housing Loan Program, HIGC, and NHA Resettlement Program.

Stock estimates of the average income of mortgagors and the average income to qualify for a loan are used. The estimates do not take into consideration the present value of incomes as well as the present values of the subsidies. To verify if the actual beneficiaries coincide with the intended beneficiaries, the stock estimates are used. Since the analysis is more concerned with the distribution of the subsidies across income groups and the verification of the actual beneficiaries, stock estimation is used. In the estimation of the subsidies' magnitude, the present value approach is more appropriate.

Table 6.1 summarizes the incidence of the major housing programs. In the case of the UHLP, only 38 percent of the beneficiaries belonged to the low-income group while 33 percent and 29 percent (or a total of 62 percent) belonged to the middle- and high-income brackets, respectively. In terms of loan value, only 26 percent of the mortgages were availed of by the low-income group while 33 percent and 41 percent of the mortgages were availed of by the middle- and the high-income groups, respectively. In terms of delinquent accounts, about 53 percent of the delinquent accounts were incurred by high-income mortgagors. The middle- and low-income mortgagors incurred 36 percent and 11 percent of the total delinquent loans, respectively.

In the case of the EHLP, the bulk of the beneficiaries (67 percent) were middle-income mortgagors while only 12 percent and 21 percent

Table 6.1. Incidence of the housing subsidies

Programs	Income Group		
	Low	Middle	High
UHLP			
Percent of Beneficiaries	38	33	29
Percent of Loan Value	26	33	41
Percent of Delinquent Loans	11	36	53
EHLP (Percent of Beneficiaries)	12	67	21
CMP	Yes	No	No

Note: In the absence of the distribution of CMP beneficiaries by income group, the program effectiveness is evaluated qualitatively. Yes - benefited; No - did not benefit

Definition of income groups:
Low - households with monthly income below ₱5,000
Middle - households with monthly incomes ₱5,000 to less than ₱7,500
High - households with monthly income above ₱7,500

Note:
The income groups were classified based on the national and NCR monthly poverty income threshold for 1994. For instance, the national annual per capita income threshold was ₱8,969. For a family of six (average family size), the annual income threshold was ₱53,814 while the monthly family income was estimated at ₱4,485. Thus, families with income below the threshold are classified as poor.

were from the low- and high- income groups, respectively. On the other hand, the CMP benefited families belonging to the low-income group (bottom 30 percent of the income distribution).

Our estimates indicate that the UHLP is a program actively participated in by the middle- and high-income members of the pension funds. The government's policy of cross subsidization does not seem to work in this program since high-income borrowers captured most of the interest rate and loan arrears subsidies.

On the other hand, the EHLP is a program actively participated in by the middle-income group. A major feature of the program is the presence of the employer counterpart contribution that shifts part of the cost of the subsidy to the employers, which therefore increases the program participation by the middle-income group.

The CMP is a well-targeted program because it is the low-income group who availed of the subsidies provided.

Unified Home Lending Program (UHLP). The funds for UHLP are sourced from the traditional funders—SSS, GSIS and HDMF. These institutions committed investable funds annually to NHMFC, which in turn implemented the program. In effect, the members of the pension funds bear the brunt of financing the UHLP. For the period 1989-1995, the

GSIS provided ₱5.895 billion to the program.[44] On the other hand, the SSS housing portfolio showed that ₱12.485 million were provided to the UHLP for the years 1994-1995.

With the objective of providing comprehensive and integrated home mortgage financing programs, the UHLP targets the low-income members of these funds as beneficiaries. How effective is the program in reaching its intended beneficiaries? Table 6.2 shows the number of beneficiaries, average loan value and percentage shares of the mortgages taken out and delinquent loans under the regular UHLP program for the period 1993-1995. The average income was computed from the average loan value using the information wherein under the program, the loan amount is equal to the monthly income of the borrower times 30.[45] From 1993-1995, the UHLP benefited about 147,905 individuals.

Table 6.2. Mortgages taken out under the UHLP, 1993-1995

Loan Bracket	No. of Beneficiaries/ Units	Percent to Total		Average Loan Value	Average Income
		Beneficiaries/ Units	Loan Value		
>0 to ₱150,000	56,323	38.1	26.0	135,513.6	4,517.1
>₱150,000 to ₱225,000	48,521	32.8	32.8	198,625.4	6,620.8
>₱225,000 to ₱375,000	43,061	29.1	41.3	281,699.9	9,390.0
TOTAL	147,905	100.0	100.0	198,778.4	6,625.9

Did the low-income mortgagors comprise a large proportion of the total borrowers under the UHLP? About 38.1 percent of the borrowers availed of the ₱150,000 and below loan package while 62 percent availed of the over ₱150,000 to ₱225,000 and over ₱225,000 to ₱375,000 loan packages (Table 6.3).

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44 The figure was provided by GSIS.

45 It should be noted that the figures for average income of mortgagors and the average income to qualify for a loan are stock estimates and do not take into consideration the present value of the incomes. The stock estimates of average incomes are used since the analysis is concerned with the distribution of the beneficiaries to verify whether the actual coincides with the intended beneficiaries.

In terms of the loan value, how much did the low-income mortgagors get relative to the higher income mortgagors? Only 26 percent of the total mortgages were mortgages ₱150,000 and below while 41.3 percent and 32.8 percent (or 74.1) percent) were mortgages for the highest and the middle loan packages, respectively. While the benefits and the costs at each income level are not quantified, it is clear that despite the progressive structure of the interest rates for the various loan packages, the interest subsidies went to the high-income groups. This is the reality notwithstanding the large proportion of the mortgagors paying the 12 and the 16 percent interest rates. In this case, the interest subsidies depend more on the loan size rather than on the interest rate level. Thus, higher income borrowers who availed of bigger loans captured the bulk of the subsidies. While ostensibly, the low-income groups stand to benefit from the subsidized interest rates, the outcome is the reverse: because of their bigger loan sizes, the middle and high-income groups enjoy the bulk of the subsidies.

To be more precise, the average income of the borrowers for the various loan packages and the mean family income data by income decile are compared. The comparison of the average income of the borrowers for the various loan packages and the mean family income by income decile reveals that the lowest loan package catered to borrowers with average monthly income of ₱4,517.12. These borrowers belong to the fifth decile of the income distribution. The middle and the highest loan packages catered to borrowers with average incomes of P6,620.85 and P9,390, respectively. These borrowers belong to the seventh up to the tenth decile of the income distribution.

These observations indicate that the UHLP is a program where the population belonging to the top 60 percent of the income distribution actively participate. One can also say that the interest subsidies were not distributed according to the government policy of cross subsidization by income level. Since the borrowers with higher average incomes were able to get the bulk (74.1 percent) of the mortgages, they were also able to capture most of the interest subsidies. Perversely, the lower income members of the pension funds subsidize the higher income members who were able to obtain mortgages under the program. The irony is that the higher income groups do not need the subsidies in order to obtain housing. They can very well access the regular commercial loan sources. The situation is worsened by the fact that many low-income pension fund members are not borrowers of the UHLP.[46]

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[46] For instance, CREBA's Social Housing Survey in 1995 of Metro Manila squatter-families reveals that 76 percent of the total employed family members of squatter families are members of SSS, GSIS and PAG-IBIG. Although members of the pension funds, these individuals are not borrowers of the UHLP

Table 6.3. Detailed profile of mortgages taken out (Regular UHLP), 1993-1995

Loan Bracket (in thousand)	No. of Beneficiaries	% to Total Beneficiaries	Loan Value	Average Loan Value	Average Income
> 0 - 15	192	0.13	0.01	11,787.17	392.91
> 15 - 30	362	0.24	0.03	23,331.44	777.71
> 30 - 45	1,682	1.14	0.25	43,760.97	1,458.70
> 45 - 60	275	0.19	0.05	56,838.78	1,894.63
> 60 - 75	29	0.02	0.01	65,675.76	2,189.19
> 75 - 90	788	0.53	0.20	74,475.87	2,482.53
> 90 - 105	1,358	0.92	0.43	93,380.74	3,112.69
> 105 - 120	2,091	1.41	0.76	106,202.07	3,540.07
> 120 - 135	3,027	2.05	1.27	123,111.93	4,103.73
> 135 - 150	46,519	31.45	22.96	145,111.79	4,837.06
Subtotal	56,323	38.08	25.96	135,513.59	4,517.12
> 150 - 165	1,764	1.19	0.95	157,978.20	5,265.94
> 165 - 180	5,064	3.42	2.92	169,441.97	5,648.07
> 180 - 195	4,920	3.33	3.03	180,806.41	6,026.88
> 195 - 210	6,114	4.13	4.03	193,687.37	6,456.25
> 210 - 225	30,659	20.73	21.86	209,628.59	6,987.62
Subtotal	48,521	32.81	32.78	198,625.40	6,620.85
> 225 - 240	876	0.59	0.64	216,438.58	7,214.62
> 240 - 255	3,150	2.13	2.42	225,787.78	7,526.26
> 255 - 270	3,058	2.07	2.45	235,842.48	7,861.42
> 270 - 285	4,126	2.79	3.42	243,815.86	8,127.20
> 285 - 300	4,505	3.05	3.91	255,162.30	8,505.41
> 300 - 315	3,800	2.57	3.48	269,460.75	8,982.02
> 315 - 330	4,614	3.12	4.44	282,956.43	9,431.88
> 330 - 345	3,505	2.37	3.46	290,356.00	9,678.53
> 345 - 360	3,282	2.22	3.44	308,020.72	10,267.36
> 360 - 375	12,146	8.21	13.59	328,883.50	10,962.78
Subtotal	43,062	29.12	41.26	281,699.94	9,390.00
Grand Total	147,906	100.00	100.00	198,778.38	6,625.95

The perverse results can be partly attributed to the use of the formula lending approach in determining the actual loan amount that a borrower can avail of under the program, as well as the affordability[47] of the loan packages to the lower income groups. Under the UHLP, the minimum monthly income to qualify for a loan as low as P50,000 was estimated at P1,666.67 (Table 6.4). This loan amount would require about P555.56 per month in amortization.[48] The P555.56 monthly amortization is about 22 percent of the mean monthly income of families belonging to the bottom 30 percent of the income distribution.[49]

However, lower shares of housing expenditure to total income can be observed across the income deciles (Table 6.5). For instance, the families belonging to the first decile of the income distribution devote 6.7 percent of their total income to housing while those in the second and third deciles devote 7 and 7.4 percent, respectively. Overall, the families belonging to the bottom 30 percent of the income ladder devote only about 7 percent of their total income to housing. On the other hand, the housing expenditures of the families in the first decile is only about 6 percent of their total expenditure while those in the second and third deciles are 6.9 and 7.8 percent, respectively.

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[47] The loan package is affordable if the amount devoted to housing by the family is equal to or greater than the monthly amortization.

[48] The maximum monthly amortization is equivalent to one-third of monthly income to qualify for a given loan amount.

[49] Families belonging to the bottom 30 percent of the income distribution are classified as poor.

Table 6.4. Loan amount and minimum income to qualify for a loan under the UHLP

Amount of Loan (P)	Interest Rate (%)	Minimum Income to Qualify for a Loan	Maximum Monthly Amortization (P)
50,000	9	1,666.7	555.6
100,000	9	3,333.3	1,111.1
150,000	9	5,000.0	1,666.7
175,000	12	5,833.3	1,944.4
200,000	12	6,666.7	2,222.2
225,000	12	7,500.0	2,500.0
250,000	16	8,333.3	2,777.8
300,000	16	10,000.0	3,333.3
375,000	16	12,500.0	4,166.7
400,000			
500,000			

Note: Maximum monthly amortization is one-third of monthly income.

On the average, the housing expenditure of the poor families is only 7 percent of their total expenditure. The monthly amortization of P555.56 for a loan as low as P50,000 is greater than P180.00 per month, the amount of income that families in the bottom 30 percent of the income distribution devote to housing. This implies that the households particularly in the lowest income decile cannot afford to pay the monthly amortization and this hinders their active participation in a home mortgage program like the UHLP.

Table 6.5. Mean family income and percent share of housing expenditure to total expenditure and total income, by income decile, 1994

Income Decile	Mean Monthly Income (P)	Percent to Total Expenditure	Percent to Total Income
First	1,908.14	6.0	6.7
Second	2,629.65	6.9	7.0
third	3,178.12	7.8	7.4
Fourth	3,728.98	8.8	8.1
Fifth	4,513.38	10.0	9.1
Sixth	5,441.38	10.9	9.6
Seventh	6,603.70	12.2	10.6
Eighth	8,394.62	14.0	11.8
Ninth	11,265.84	15.4	12.6
Tenth	27,276.67	21.0	16.2

Source: Family Income and Expenditure Survey 1994, (National Statistics Office)

Loans amounting to ₱150,000 and above require a minimum monthly income of ₱5,000 and up, and monthly amortization of ₱1,666.67 and above. To qualify for the loan ceiling of ₱375,000, a borrower should have a monthly income of at least ₱12,500 and should pay a monthly amortization of ₱4,166.67. Under the ₱150,000 and above loan packages, the maximum monthly amortization ranges from ₱1,666.67 to ₱4,166.67. Obviously, the middle- and the higher income groups can afford such amounts.

Thus, the interest subsidy from the housing loans under the UHLP does not reach the low-income groups because affordability is not improved in any way by credit subsidies provided by the program. Neither is formula lending approach of much help to the low-income borrowers. High-income members of the pension funds, who can avail of the bigger loan packages and can afford to pay the required monthly amortization, capture almost all of the interest subsidies.

Table 6.6. Delinquent loans under the UHLP, as of April 1996

Loan Bracket	No. of Loans	Percent to Total		Average Loan Value	Average Income
		No. of Loans	Loan Value		
Delinquent Loans	105,084	100.0	100.0	201,820.1	6,727.3
>0 to ₱150,000	22,465	21.4	11.1	104,415.0	3,480.5
>₱150,000 to ₱225,000	44,004	41.9	36.0	173,443.2	5,781.4
>₱225,000 to ₱375,000	38,615	36.7	53.0	290,824.6	9,694.2

Did low-income mortgagors receive larger subsidies in terms of arrears than those with higher incomes? Table 6.6 shows the number of beneficiaries and the average loan value of delinquent loans under the regular UHLP. Loans that are not paid three monthly amortizations are considered as delinquent. As of April 1996, about 105,084 accounts were considered delinquent. These accounts have a total loan value of ₱21.2 billion. The data reveal that large subsidies in arrears can be found among higher income mortgagors. The delinquent loans of mortgagors who availed of loan packages of over ₱150,000 and with average monthly incomes of ₱5,820.07 and above comprised about 88.9 percent of the total amount of delinquent loans. In terms of the number of accounts or units, 92.2 percent of the total delinquent accounts were for loans above ₱150,000. These observations are supported by the information provided by the NHMFC's Board Committee findings that collection efficiency for higher priced loans are generally lower than that of lower priced loans. Collection efficiency for loans with 16 percent interest rate was 57 percent compared to 73 percent for loans with 9 percent rate.

Fund originators[50] and the NHMFC capture a portion of the interest subsidy in the form of origination fee that is charged to the borrower. The borrower is charged an origination fee of 5 percent of the loan amount where 2.5 percent goes to the originators and the remaining 2.5 percent goes to the NHMFC. The amount of the subsidy that goes to the originators and the NHMFC increases with the amount of the loan. For instance, the origination fee for a ₱150,000 loan is ₱7,500 while the corresponding fee for a ₱375,000 loan is ₱18,750.

The UHLP's effectiveness in reaching its target beneficiaries has been hampered by factors that are inherent in the program itself. The size of the housing loans and the income requirements discourage participation of the many low-income households who are the target beneficiaries of socialized housing. Conversely, these encourage greater participation of higher income groups who can afford the monthly loan amortization for the different loan packages and can meet the income requirements for borrowing. Thus, the UHLP is largely an ineffective intervention for the low-income group.

Community Mortgage Program (CMP). The CMP is funded through budgetary allocation from the National Government under CISFA. The budgetary appropriation under the CISFA is equivalent to ₱12.78 billion for five years starting in 1994. The program was allocated ₱272.6 million and ₱700 million for 1994 and 1995, respectively. However, the funds released were much lower and only amounted to ₱380 million for 1994-1995. This indicates that of the ₱972.6 million funds allocated to the program for the period 1994-1995, only 39.6 percent was released. The unutilized portion of the *Abot-Kaya Pabahay* program was also used to cover the interest subsidy which amounted to ₱264.7 million in 1995. Fiscal constraints prevented the release of funds to programs under CISFA.

[50] The originators may be financial institutions, developers or corporate employers.

The CMP targets households in squatter communities and informal settlements and operates under the principle of self-help. The CMP is an example of a program that aims to redistribute housing resources to the very poor and to the most depressed areas. An example of a CMP beneficiary is given in Box 6.1.

As of September 1996, 524 projects were undertaken under the CMP, which benefited 63,221 households and amounted to a total mortgage value of ₱1.54 billion. The distribution of mortgages under the CMP reveals that 54.3 percent of the mortgages went to families in the NCR. This is understandable considering that a large proportion of squatter colonies are located in the NCR. About 14.3 percent of the mortgages went to families in Region IV while the rest were in other regions.

For NCR projects, the average mortgage value was estimated at ₱30,940.76. The average monthly income was estimated at ₱1,031.36. This implies that, on the average, the beneficiaries of the CMP loans were households belonging to the lowest decile of the income distribution.

Box 6.1 A case of a CMP beneficiary

One particular case of a CMP beneficiary is a family in Doña Maria CMP Housing project in Sta. Mesa, Manila. The family now has a secured land tenure and pays a monthly amortization of ₱271.43 for the 43 square meter property for 25 years.

Table 6.7 shows the minimum income required for mortgages under the CMP. The figures reveal that a minimum monthly household income of ₱2,000 for Metro Manila and ₱1,000 for the other regions is required for a household to qualify for the ₱60,000 and ₱30,000 loan, respectively, for the acquisition of undeveloped property. At least ₱1,500 and ₱2,666.67 monthly household incomes are required to qualify for the ₱45,000 loan (for acquisition of a developed property) and ₱80,000 loan (for lot acquisition, development and house construction), respectively.

Comparison of the minimum monthly income required to qualify for CMP loans and the income distribution reveals that the CMP is a program where the population belonging to the bottom 30 percent of the income distribution can participate. The loans under the program seem affordable from the point of view of the poor households since up to three individuals may be tacked-in under one household loan. The monthly amortization for the loans[51] is also affordable since the urban poor, on the average, pay as much as ₱500 rent per month.[52] The loans are charged a low interest rate of 6 percent.

Table 6.7. Loan limit and minimum family income to qualify for a loan under the CMP

Activities	Loan Limit (₱)	Minimum Family Income to Qualify for CMP Loan (₱)
Acquisition of an undeveloped property		
Outside Metro Manila	30,000.00	1,000.00
Metro Manila	60,000.00	2,000.00
Acquisition of a developed property	45,000.00	1,500.00
Lot acquisition, development, house construction or improvement	80,000.00	2,666.67

The CMP appears to be a well-targeted program. Although the interest subsidy to the program may be substantial, the intended beneficiaries captured much of the benefits. However, the program's success has been hindered by the lack of long-term sources of funds as well as various administrative and institutional inefficiencies related to collection and monitoring. This experience indicates that program effectiveness relies on better targeting complemented by appropriate administrative and institutional support. A critical issue, however, concerns the sustainability of such programs given the subsidies that they require.

HDMF Expanded Housing Loan Program (EHLP). The Expanded Housing Loan Program (EHLP) of the HDMF is funded by the government-imposed mandatory contributions made by the members and their employers. The full cost of the subsidy is borne by the funders, and in effect, the members of the HMDF. For the period 1993-1995, total loans given under the EHLP amounted to some ₱4.4 billion for 27,198 units and benefited 30,486 borrowers.

[51] Note that in the case cited above a family beneficiary of CMP pays about P271 a month for a 43 sq. m. lot.

[52] This information was obtained from a purposive sample of squatter families in Manila.

Table 6.8. Monthly income by interest rate and by loan value: HDMF-EHLP borrowers*, National Capital Region, 1993-1995

A. By interest rate

Monthly Income	Interest Rate (%)				Total	Percent distribution
	9	12	16	17		
0 income	24	7	6	4	41	5.09
> 0 to ₱1,000	1	0	2	0	3	0.37
> ₱1,000 to ₱2,000	7	0	2	0	9	1.12
> ₱2,000 to ₱3,000	31	4	7	0	42	5.22
> ₱3,000 to ₱4,000	139	14	11	1	165	20.50
> ₱4,000 to ₱5,000	198	132	42	2	374	46.46
> ₱5,000	37	16	85	33	171	21.24
Total	437	173	155	40	805	100.0

B. By loan value

Monthly Income	Loan Value (₱)				Total	Percent distribution
	>0 to 150,000	>150,000 to 225,000	>225,000 to 375,000	>375,000 to 500,000		
0 income	19	8	8	6	41	5.09
> 0 to ₱1,000	1	0	2	0	3	0.37
> ₱1,000 to ₱2,000	4	4	1	0	9	1.12
> ₱2,000 to ₱3,000	30	5	6	1	42	5.22
> ₱3,000 to ₱4,000	120	34	11	0	165	20.50
> ₱4,000 to ₱5,000	149	160	58	7	374	46.46
> ₱5,000	27	25	80	39	171	21.24
Total	350	236	166	53	805	100.0

* Sample of 805 EHLP borrowers in NCR.

Table 6.8 shows the distribution of a sample of EHLP borrowers by monthly income, interest rate and loan value for the NCR. The sample is composed of 805 borrowers. For the period 1993-1995, 67.7 percent of the sample borrowers under the program have incomes over ₱4,000. These borrowers belong to the upper 60 percent of the income distribution. This implies that a larger proportion of the interest subsidies from EHLP loans have been captured by mortgagors with higher incomes. In effect, the lower income members are subsidizing the higher income members of the pension funds.

It can be observed that there are differences in the level of subsidy for mortgagors at the same income range. In a sample of 805 EHLP borrowers in NCR, it can be observed that among the 42 mortgagors with monthly incomes of over ₱2,000 to ₱3,000, 30 were able to get loans below ₱150,000, five were granted loans over ₱150,000 to ₱225,000, six were granted loans over ₱225,000 to ₱375,000, and one was granted a loan of over ₱375,000. Among the 165 mortgagors with monthly incomes of over ₱3,000 to ₱4,000, 120 were granted loans below ₱150,000, 34 were able to avail of the over ₱150,000 to ₱225,000 loan, and 11 were granted loans of over ₱225,000 to ₱375,000. These imply that some of the mortgagors at a given income level are in effect subsidizing the others at the same income level.

An examination of the minimum monthly income to qualify for a ₱50,000 EHLP loan reveals that the minimum monthly incomes were estimated at ₱1,086.96 for HMDF members with employer counterpart contributions, and ₱1,388.89 for members without employer counterpart contributions (Table 6.9). These figures are slightly lower than the minimum monthly income required to qualify for a ₱50,000 loan under the UHLP. Loans amounting to ₱150,000 and above require minimum monthly incomes of ₱3,260.87 for HDMF members with employer counterpart contributions and ₱4,166.67 for members without employer counterpart contributions. To qualify for the loan ceiling of ₱500,000, a borrower should have monthly incomes of at least ₱10,869.57 for members with employer counterpart contributions and ₱13,888.89 for members without employer counterpart contributions.

The presence of the employer counterpart contributions appears to have lowered the minimum income required to qualify for EHLP loans. The formula lending approach applied under the EHLP[53] increased the maximum amount of loan that can be availed. For instance, a member with a monthly income of ₱5,000 can borrow a ₱230,000 instead of a ₱150,000 loan (UHLP). In this case, the maximum amount of the loan increases by 53.3 percent. To put it differently, a ₱150,000 loan under the EHLP requires minimum monthly incomes of ₱3,260.87 for those with employer counterpart contributions and ₱4,166.67 for those without, while the UHLP requires ₱5,000. This factor can increase program participation by the lower income groups and minimize the subsidies being captured by the higher income groups. The presence of the employer counterpart contribution shifts part of the cost of the subsidy to employers and increases the probability that a lower income member would qualify for a loan.

[53] The member-borrowers with employer counterpart contributions may borrow up to 46 times their monthly income while those without employer counterpart contributions may borrow up to 36 times their monthly income.

Table 6.9. Loan amount and minimum income to qualify for a loan under the EHLP

Amount of Loan (P)	Interest Rate (%)	Minimum Income to Qualify (P)		Maximum Monthly Amortization (P)	
		With Employer counterpart	Without Employer counterpart	With Employer counterpart	Without Employer counterpart
50,000	9	1,087.0	1,388.9	362.3	463.0
100,000	9	2,173.9	2,777.8	724.6	925.9
150,000	9	3,260.9	4,166.7	1,087.0	1,388.9
200,000	12	4,347.8	5,555.6	1,449.3	1,851.9
225,000	12	4,891.3	6,250.0	1,630.4	2,083.3
250,000	16	5,434.8	6,944.4	1,811.6	2,314.8
300,000	16	6,521.7	8,333.3	2,173.9	2,777.8
375,000	16	8,152.2	10,416.7	2,717.4	3,472.2
400,000	17	8,695.7	11,111.1	2,898.6	3,703.7
500,000	17	10,869.6	13,888.9	3,623.2	4,629.6

Note: Maximum monthly amortization is one-third of monthly income.

SSS Individual Housing Loan Program (IHLP) and GSIS Individual Real Estate Loan. The IHLP and the Individual Real Estate Loan Program are the inhouse home lending programs of SSS and GSIS, respectively. They are intended to provide their respective members an alternative to the UHLP. The funds for the programs are sourced from the contributions of the members of these pension funds. For the period 1994-1995, the total loans provided under the SSS-IHLP amounted to P347.01 million. No information was provided on the GSIS program. The absence of information and data on the profile of beneficiaries of the SSS and the GSIS inhouse home lending programs limits the discussion and analysis of the incidence of such programs. However, it can be inferred that since the programs are similar to the UHLP in terms of the various loan packages being offered, the terms and conditions of the loans and the eligibility requirements for borrowers, the distribution of the interest subsidy may also be biased in favor of the higher income borrowers. Moreover, the GSIS program offers a loan package of P375,000 to P1 million with an annual interest rate of 18 percent. This loan package obviously caters to the higher income groups.

HIGC Guarantee Programs. The two major programs of the Home Insurance Guarantee Corporation (HICG) are the Retail Guarantee Program and the Developmental Guarantee Program. These programs provide incentives to private sector participation in home lending and mass housing production. Although the borrowers of the housing loans are the final beneficiaries of this type of subsidy, important features of the programs create an incentive structure for other economic agents involved in the programs to capture some portion of the subsidy. For instance, the HIGC derives benefits in terms of earnings equivalent to the amount of the premium minus the losses incurred. The financial institutions and the real estate developers capture the benefits of the subsidies in terms of the exemptions from gross receipts and corporate income taxes. On the other hand, the government bears the cost of the subsidy through its budgetary support to the HIGC and through foregone tax earnings due to tax exemptions. For the period 1994-1995, the appropriation for the regular cash flow guarantee under the CISFA was ₱500 million of which ₱385 million (or 77 percent) was released. Appropriations for capitalization of the HIGC for the same period was ₱500 million.

NHA Resettlement Program. Resettlement programs provide direct housing assistance to the poor particularly those who have been displaced from sites earmarked for government infrastructure projects and from areas designated as danger zones (see Box 6.2). The full cost of the resettlement is borne by the government under the CISFA. The cost includes the actual amount of resettlement, i.e., the cost of land acquisition, and site development. The program had allocation of ₱425 million and ₱736.5 million for 1994 and 1995, respectively. However, the funds released were

1994-1995, only about 74 percent was released.

Box 6.2. Smokey Mountain Development and Resettlement Project

An example of a resettlement program is the Smokey Mountain Development and Resettlement Project, the structure site of the Helping Foundation Livelihood and Productivity Center located in Vitas, Tondo, Manila. The structure was inaugurated in September 1995. The occupants of the structure are the displaced squatter families in Smokey Mountain. While waiting for the construction of houses in the permanent housing project site, families formerly residing in shanties were temporarily relocated to units located near it. Temporary housing units were constructed in what used to be warehouses of firms engaged in cargo forwarding. The entire community is housed in 34 buildings, 29 of which are presently occupied. There are 87 units in each building. The families are assigned to units measuring about 10 feet (width) by 12 feet (length). There are about 14,000 families composed, on the average, of six to nine members. Families share water source and toilet facilities with other families. The doors of the bathroom/toilet are locked for use only of the families assigned. Within the community, there is one health clinic provided by the Department of Health. The physical characteristics of the relocation site induce self-selection assuring that the target beneficiaries are the ones served by the program. *Source: HUDCC*

Incentive Issues and Problems in Government's Housing Subsidy Programs

The subsidy schemes in the housing sector are all well intentioned. They are meant to give the low-income group access to adequate and decent housing. However, apart from the fiscal costs and the ineffectiveness of the present subsidy schemes, incentive problems arise on the part of various players (borrowers, private developers, banks, government housing agencies and legislators) in the housing market. Given the present structure of incentives motivated by the subsidies, these agents choose the best action for themselves which results in the achievement of their respective goals at great fiscal burden to the government. Unfortunately, their strategic behavior that maximizes their self-interested goals threatens or undermines the achievement of society's stated housing policy objectives.

Borrowers. Under the formula lending approach, borrowers take a housing loan on the basis of their monthly incomes and contributions to the pension funds and *not* on their capacity to repay that loan. The government and the private sector have set aside the creditworthiness criterion for a loan in the desire to increase home ownership. Thus, borrowers who might not normally have qualified for a loan do get a loan and end up not repaying it. Delinquent borrowers perceive that the housing loan is a typical government loan which need not be repaid at all or can be repaid at a later time. In addition, condonation of penalties, the high cost of foreclosure and the lack of effective monitoring of loans encourage loan delinquencies. In time, the loan arrears and the condoned penalties effectively become income transfers mostly to the high-income groups who get the bigger loans.

Banks. At present, private commercial lenders do not provide financing for low-cost housing. The transaction cost and information problem associated with relatively small loans deter their active participation in this market. The design of housing finance for socialized housing further aggravates the situation. The loanable funds are sourced from the pension funds and to some extent from government's budgetary appropriation which are lent at subsidized rates. This discourages the private commercial lender's participation. Even if they are willing to lend for low-cost housing purposes, they do not because they cannot compete with the subsidized loans that government provides. The private commercial lenders have been enlisted simply as credit conduits for a fee and thus, take no credit risks for lending to the sector. The origination fee of 5 percent of the outstanding loan for underwriting, approving and channelling public loanable funds to the target clientele seems to be very high. The end result is that they get rents from the sure income provided by the high origination fees and the subsidies from HIGC's 100 percent retail guarantee and special tax exemption.

Private developers. The formula lending finance scheme allows private developers to produce houses and market them to eligible, but not necessarily, creditworthy borrowers. Their loan exposure is immediately extinguished by the takeout agreement with the government's housing agencies. They also earn sure income and do not have credit risk exposure except insofar as there are delays in getting reimbursement from the housing agencies through the takeout mechanism. In this case, they incur opportunity losses.[54] On the other hand, the lack of credit risk, the ability to exploit information asymmetry in the production of houses and auxiliary infrastructure such as sewerage, piping etc., and the guaranteed takeouts by the government's housing agencies create incentives for supplying substandard housing units and defective infrastructure to the most number of borrowers who could be persuaded to have housing loans.[55]

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[54] The developers have complained about the failure of the housing agencies, more specifically, the NHMFC to finance the takeouts which led them to raise the possibility of suspending their participation in the NSP. The government responded with several measures to appease them, including the designation of HDMF as the secondary mortgage institution in view of of NHMFC's financial difficulties.

[55] An umbrella organization of the private shelter and real estate industry believes otherwise. The organization has been quoted in local papers as saying that it supports the retention of formula lending to allow more people to acquire their houses and that it finds fault with NHMFC's management of the UHLP, which it believes, has led to large collection problems. As an alternative to formula lending, it offers the creation of a "contract-to-sell mechanism" (CTS) through which the developers will act as collection agents of NHMFC. In the case of loan defaults, the developers will liquidate the loan value with NHMFC or pay the arrears and get new buyers for the properties in question. In the case of defective documentation or substandard units discovered during the first year of the collection agreement, the developers will be required to liquidate their accounts or be subject to the proper sanctions. It believes that this will lead to easier foreclosure or cancellation of bad home mortgages. Our comment here is that building and, at the same time, selling houses to just about anyone without following proper creditworthiness criteria and through loans from the public with a guaranteed takeout create tremendous moral hazard problems.

Public housing agencies. The funders (HDMF, SSS and GSIS) are caught in a bind. The government, which has taken a social responsibility to provide people with affordable homes, is using the funds accumulated from member-contributions and being managed by those agencies to support and finance a *public* policy objective. In other words, the government is, to some extent, using *private* (i.e., member) contributions to finance an activity that should draw from publicly appropriated funds. It is no wonder, therefore, that there are insufficient resources deployed to address the massive housing targets. This likewise explains the cautious attitude adopted by the funders in bankrolling the housing programs.

Another point is that there are so many public housing agencies under the coordination of HUDCC with overlapping functions and competing programs, which affect the efficiency of the housing finance system. Figure 3.1 shows the complicated flow of funds to the final beneficiaries through the government's different housing programs. Because of the absence of one single agency that will be on top of housing policy and program implementation, public housing agencies have produced competing and overlapping programs for the same beneficiaries in their earnest desire to meet NSP targets. As a result, little attention has been given to the overall budgetary feasibility of the whole exercise and the inefficiency brought about by uncoordinated housing programs. Worse, the overlapping housing programs failed to provide the low-income group access to decent shelter.

On the other hand, the NHMFC is mandated to develop the secondary mortgage market. It is committed to buy mortgages originated by banks and private developers using money from funders. It charges the funders a management fee for doing the job. With inadequate staff, inappropriate accounting systems and standards, and saddled with the burden created by formula lending, the NHMFC faces severe difficulties in serving its mandate.

Legislators/policymakers. As long as government views its role as providing low-cost housing to almost every household, a populist Congress might have a simplistic look at the housing problem: it lacks funding. A knee-jerk solution is the money solution: throwing money to the problem by mandating the continued use of member-contributions in the pension funds, legislating budgetary appropriation for subsidized lending without or little regard for financial sustainability, and imposing loan quotas on financial institutions to force them to lend to target beneficiaries. However, with careful research and informed discussion, it may be possible to convince policymakers to consider instead more sustainable approaches to the housing problem.

Conclusions and Recommendations

The government's housing programs provide implicit and explicit subsidies that do not reach the target clientele, the low-income households. The subsidy schemes are provided at a huge fiscal cost and create incentive problems for various players in the housing market. In particular, the government's subsidized housing finance hinders the participation of private sector financing in the housing market. There is a case for redesigning the housing subsidy approach in light of the government's new role of enabling markets to perform more efficiently.

The fiscal cost of the subsidies

The total fiscal costs consist of (1) subsidies directly provided through concessional interest rates charged under the various programs, tax exemption, the condoned penalties and nonpayment of housing loans (effectively, income transfers to the lucky borrowers), the loan amortizition support under the CISFA and the NHA's involvement in production of houses and resettlement; and (2) indirect subsidies provided through the re-capitalization of the NHMFC. Estimated subsidies, excluding condoned penalties and nonpayment of housing loans, comprise around 1.3 percent of GNP in 1995.

Our estimates did not take into account the fiscal costs associated with loan losses from nonperforming portfolios of public housing agencies. Lack of access to data prevented a more thorough analysis of fiscal costs. Thus, we were only able to present a partial picture of these costs through very rough calculations of the explicit subsidies arising from loan arrears, condonation of penalties and nonpayment of housing loans.

A more serious concern is the financial losses sustained by the NHMFC and the estimated amount of about ₱23 billion in re-capitalization that it would require to continue functioning as a secondary mortgage institutions for the UHLP. The amount needed to re-capitalize the NHMFC is equivalent to about 10 percent of total outstanding construction and real estate lending in 1995.

Thus, the total fiscal costs inclusive of the re-capitalization requirement of NHMFC amounted to some ₱50.9 billion or 2.7 percent of GNP in 1995.

The fiscal costs of the housing subsidies are large but they are transparent neither to the public nor to the policymakers because this is the nature of subsidies operating through the financial system.

Actual incidence of the subsidies

There is evidence that the housing subsidies have mostly benefited the high-income group and not the intended beneficiaries—the low-income group who does not have access to housing finance. The only exception is the CMP that seems to effectively target the poor.

The relatively larger interest rate subsidies provided by UHLP and other housing programs to the low-income group are offset by the bigger loan amounts availed of by the high-income group. Indeed, our calculations show that the size of the housing subsidies is directly correlated to the loan size. In terms of loan values, 41 percent of the mortgages were availed of by the high-income group. Bigger loans enjoy bigger subsidies.

The conclusion is that the actual incidence of the housing subsidies is regressive. It is bad enough that the incidence is regressive but the fact that low-income members of the pension funds finance the subsidies aggravates the situation. The low-income members shoulder the burden of financing what rightfully is a government budgetary obligation.

Unsustainability of the housing subsidy programs

Our analysis indicates the unsustainability of the housing programs. This is explained by the huge fiscal requirement in providing direct subsidies, the leakage of the benefits to the unintended beneficiaries, and distortions introduced into financial markets that prevent the flow of the private sector financing to the housing market. The expectation seems to be that government should and can pour an indeterminate amount of funds to the housing market notwithstanding competing public policy goals requiring funding support.

The study pointed out the perverse rent-seeking behavior triggered by the housing subsidy schemes that hinder the achievement of the housing policy goals and increase the fiscal costs of the housing programs. The distortion introduced into the finacial system by the incentive structure of the subsidies discourages private sector financing that could have been tapped for the government's housing program. Consequently, low-cost housing became totally dependent on public sector resources and the contributions of the members of the pension funds—sources of financing that cannot adequately meet the huge housing demand requirements.

The housing finance sytem, in particular, failed to direct private sector financing to low-cost housing because of the inappropriate incentive structure for private sector participation. The erroneous assumption seems to be that the private financial markets will not touch low-cost housing and thus, the need for an elaborate system of credit subsidies from the taxpayer in order to make such housing available to low-income households.

Toward an alternative housing subsidy scheme

There are alternative forms of subsidies that may be more efficient than those presently provided. Alternative subsidy schemes should satisfy criteria of transparency and effective targeting and should introduce, as much as possible, the least distortion to the financial markets.

Targeting the most needy. The scarcity of public sector resources imposes a budgetary constraint to any attempt to provide subsidies to target clientele. To avoid a leakage of the subsidies to unintended beneficiaries, the government must carefully target the intended clientele. Targeting can be made more effective by (1) identifying the target clientele based on a desired income level and (2) specifying a housing unit that is appropriate to the requirements of a low-income household in order to exclude the high-income group from capturing the subsidies. This approach presumes that those who can avail of "economic" housing will not be eligible for the subsidy. The government will provide a subsidy only for "socialized" or low-cost housing demanded by a carefully targeted clientele.

Transparency of the subsidy. There is great merit in keeping the subsidies transparent to society and policymakers. For one, society can vote on whether a particular subsidy is meritorious, and if so, it can also choose a particular magnitude consistent with the fiscal constraints faced by society. The determination of what society can afford and sustain is not a very difficult exercise. The more difficult decision lies in targeting the clientele, choosing between alternative forms of subsidies, determining the relevant magnitude of the chosen subsidy and resisting the temptation to promise more than what the economy can realistically sustain. Transparency also induces greater fiscal discipline on the part of bureaucrats and legislators.

Budgetary appropriation. It is not equitable to use (private) member-contributions to fund government's social responsibility, unless the government is determined to pay the members' funds their opportunity cost. Under the UHLP approach, members' funds are not paid a competitive yield. In view of government's fiscal constraints, the line of least resistance is to use contractual savings to finance the housing programs. Awareness of the funding requirements to implement the subsidy and the evaluation of competing demands for scarce public sector resources contribute to greater fiscal discipline and consensus in society as to what particular activity/activities or which particular members of the community merit public subsidy.[56]

Avoiding distortions in the credit markets. There is a very large literature on distortion in the credit markets brought about by subsidized interest rates. The concessionality in the interest rates of the government's housing programs is no exception. On the other hand, a subsidy such as a one-time capital grant or housing allowance to well-targeted households does not interfere with the pricing of the loan based on market conditions. It does not distort the credit markets. It neither encourages credit rationing that takes place when the financial system is forced to provide concessional loans to target borrowers. In the latter case, the large borrowers crowd out the small borrowers as banks become more selective in choosing clients. On the other hand, formula lending leads to huge moral hazard problems. Formula lending has cultivated the culture of entitlement to a housing loan among borrowers. One result of formula lending is excessive risk-taking by the loan originators who ironically do not bear any share in the credit risks. Entitlement to a loan also weakens the willingness to repay a loan that is commonly perceived as a "government" loan whose payment can be postponed or never provided at all!

Greater private sector participation. It is important to eliminate the incentive problems faced by various players, especially the private sector, in the housing market. We recommend the use of the private banks' own resources for funding market-rated mortgage loans to eligible household-borrowers. Thus, the banks will screen the loan applicants on the basis of their creditworthiness rather than relying on formula lending to target clientele to generate business for the bank. In this respect, the government may well consider a wholesale fund from which private banks may rediscount the promissory notes generated from the home mortgage business.[57] The wholesale fund may be raised if a designated secondary

[56] Of course, this does not preclude use of contractual savings. However, we emphasize that in fairness to members of the pension funds, the government must pay market rates of interest for the use of those savings.

[57] Because government provides the majority equity, the private banks will rediscount say, only some 80 percent of the value of the promissory notes. The balance will be the risk money of the bank in the transaction.

market institution (such as the re-capitalized and strengthened NHMFC or HDMF itself) borrows from pension fund members at market terms through bond flotation, asset securitization, foreign borrowing, and other fund raising activities. On the other hand, the private developers can concentrate on their own area of comparative advantage—developing and building housing units. With a more efficient home mortgage market, the developers would not have to worry about their own funds being tied up to unliquidated takeouts. Potential borrowers may be encouraged to save in the bank and accumulate deposits that may be used as equity to a bank loan. The government may, in turn, put up a matching equity that can be provided as a grant. This will lower the borrowing requirements and subsequently, the monthly loan amortizations, making the housing loan affordable to targeted clientele.

An example of an alternative housing subsidy scheme

The provision of housing allowances has been a recommended reform to housing policy in many countries (Fallis 1990). One form of housing allowance is the "housing gap type", where the allowance received by the *i*th household is calculated using the formula:

$$A_t = C_1 - C_2Y_t$$

where C_1 and C_2 are parameters chosen by the government, and Y_t is household income. The gap allowance can be thought of as equal to the gap between the cost of modest housing C_1 and what the household could reasonably be expected to spend on housing, $C_2 Y_t$.

In this approach, the government may give a one-time lump-sum cash grant or transfer to the targeted household. The cash grant can be used as downpayment for the purchase of a housing unit. The government will, thus, give a direct subsidy to an intended beneficiary household to improve its ability to purchase a housing unit rather than subsidize the purchase of a housing unit through a subsidized loan.

The literature on small borrower credit markets indicates that the problem of small borrowers lies not as much in the *cost of credit* but in the *accessibility of credit*. More particularly, the purchase of a housing unit tends to be lumpy and requires a relatively large amount of long-term cash outlay. This implies that access to formal credit, not the cost of credit is the main problem faced by households. To make possible this lumpy investment, a poor household will need a bank loan but finds that it is not accessible because of several reasons such as its inability to put up the equity portion of the loan.

We, therefore, propose, a one-time, lump-sum capital grant to targeted households as an alternative housing subsidy scheme. This grant will be given directly only to qualified low-income household and only for the acquisition of owner-occupied housing.[58]

The proposed one-time capital grant has the following components:

- mandatory minimum savings of, for example, 5 percent of the total cost of a low-cost housing unit deposited in a bank chosen by the household;
- a one-time capital grant of 20 percent of the total cost of a low-cost housing to eligible households from the government to be provided directly in the form of a voucher, which, together with the 5 percent savings, constitutes a 25 percent downpayment or equity for a low-cost housing unit; and
- participation of private and government banks that will provide a mortgage loan at market rates of interest to the eligible household.[59]

Under this scheme, the eligible households will assign the voucher to the private developer or seller. The voucher, which can only be used for home acquisition, is redeemable from the government. The voucher plus savings will be the downpayment for a housing unit, with the balance of the cost of the unit to be paid to the developer by the mortgage bank. The households will then amortize the mortgage loan that is secured by a lien on the unit. Note that the bigger the household's savings, the bigger

[58] This subsidy scheme is similar to a scheme employed in Indonesia and Chile. The households are given a one-time, lump sum grant. The grant is designed to be part of a downpayment or equity on a low cost housing unit. The other component of the downpayment is the savings households generated prior to availment of the one-time grant. The qualified households are required to save in a bank. Together, the grant and savings constitute a downpayment of at least 25 percent of the total cost of the housing unit. Market rates are charged on the housing loan (see USAID "Policies for Financial Housing in Chile" (1995) , Habitat "Sustainable Financing Strategies for Housing and Urban Development" (1996) and USAID/Indonesia "Lump Sum Housing Subsidy Fund Study" (1995).

[59] To further reduce the cost of borrowing, the government may choose to provide a larger one-time capital grant. For example, the government may provide as much as 35 percent of the equity. This, plus the mandatory 5 percent savings in the concerned mortgage bank, will mean an equity of as much as 40 percent. Alternatively, household may be motivated to put up a larger amount of savings as their equity. With this, the low-income household may be able to afford a market-rated mortgage loan on the remaining 60 percent of the cost of the housing unit.

the equity components of the loan. The loan size shrinks together with the loan amortization requirements. The one-time capital grant is a policy handle that goverment can use to reach more low-income households.

The one-time grant to target households has the following characteristics:

- carefully targets the most needy;
- transparent to the public and policymakers;
- funded from budgetary appropriation because the provision of low-cost housing is a public sector policy goal;
- avoids, as much as possible, distortions in the credit markets;
- creates incentive for greater participation by the private sector, especially the banks; and
- encourages the risk sharing on the part of the borrower, government and the private sector finance.

Under this alternative subsidy scheme, those who are creditworthy can take a housing loan. The direct capital grant to a well-targeted low-income group will resolve its inability to put up the required equity or downpayment for a housing unit. With this form of subsidy, the low-income group will be able to borrow from financial institutions at competitive terms. This will then enable the government to direct its scarce resources to housing programs such as the CMP and NHA's resettlement programs that clearly benefit the very poor. This study has observed that of the government's housing programs, it is only the CMP and NHA's resettlement of squatters where there is a matching or convergence of intended and actual beneficiaries of the subsidy. Thus, the government can use resources for direct welfare assistance to the chronic poor[60] who for one reason or another cannot really afford a housing loan.[61] The welfare assistance can come in the form of public housing where those in welfare can stay temporarily until their economic status improves, enabling them to move to a more permanent shelter.[62]

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[60] In contrast to the "transient" poor who has the economic potential to leave the poverty threshold. The "transient" poor are also potential clients of the private banking system.

[61] Our view here is that housing assistance should be considered as part of an overall welfare package that includes basic health and nutrition services, basic education, etc.

[62] The public housing for the chronic poor such as homeless, street people who live in push-carts, public places, etc. will be available on a temporary basis.

Those who cannot get a housing loan despite the one-time capital grant should not be forced or encouraged to get into debt. This is precisely what the formula lending approach does: encourage indebtedness despite the lack of capacity to repay a loan.[63] This is bad both for the borrower and the lender because both lose under a shaky credit transaction. Worse, the ultimate lender, the low-income members of the pension funds are heavily penalized by irresponsible indebtedness encouraged among other members.

Sharing credit risks is an important condition for the integrity of credit market transactions. The mandatory savings and the one-time capital grant will encourage households to repay the mortgage loan. The mandatory savings and the matching equity from the government in the form of one-time capital grant will create incentives for timely repayment of loans and efficient loan collection. This will ensure the continuity and sustainability of the government's housing program. The side bonus is the accumulated savings of households in the formal financial system which will help address the economy's huge savings-investment gap. On the other hand, the private banks will endeavor to originate creditworthy loans. They can be allowed to rediscount their housing promissory notes with the government financial institutions which will provide them access to wholesale loan funds.

Rethinking government's role in the housing market[64]

The strategy of providing credit subsidies through the financial system for the purchase of housing units is not only costly but appears to be unsustainable in view of the huge, unmet demand for those resources; the inability to recover a large portion of the subsidized loans; the substantial leakage of benefits to unintended beneficiaries; and fiscal constraints.

The prevailing bias for homeownership regardless of the ability of the potential owner or borrower to repay the loan for home acquisition rests on the wrong assumption. Not everyone in society can afford to buy and own a house. There will always be a segment of society too poor and destitute to even think of purchasing a housing unit but who need decent shelter. The trouble with the bias for homeownership and control

[63] One can observe that this is good business for loan originators who earn high origination fees and tax exemptions, enjoy HIGC's guarantees, and get reimbursement of their investments through the takeout mechanism. In case of loan default or outright nonpayment of the loans, the losers are the borrowers, the NHMFC, the funders, the National Government and ultimately, the low-income members of the pension funds.

[64] This and the succeeding paragraphs are taken from Llanto (1998).

over the rental market is that these invariably raise the cost of the National Shelter Program. The bias for the provision of economic or socialized housing raises huge expectations and motivate private economic agents who benefit from the subsidy transfer schemes to lobby for more subsidized funding to an unsustainable housing program.

The real problem, therefore, is not how to provide everyone a house to own but to provide access to decent shelter through several mechanisms: (1) renting; (2) ownership through purchase or private transfer; or (3) public housing to certain sectors of society (e.g., poorest of the poor). For households to have access to decent shelter, housing markets including housing finance markets, should be able to work efficiently.

In this light, the government should review its role in the housing market. The housing market does not seem to efficiently function not because of a lack of government presence in that market; rather, it is inefficient because of very heavy government intervention that tends to exclude private effort quite effectively. Thus, an important dimension lost in the government's housing strategy is the critical role of the private sector in the housing market. Unless private resources are effectively and efficiently harnessed and unless public sector resources are directed in a transparent and measurable way to those households most in need, the government shall continue to experience tremendous pressure to produce the resources to satisfy the huge, unmet demand. On the other hand, allowing greater sector participation in the housing market and providing for more competitive financial markets will enable the government to focus its scarce resources to the most needy households.

This points to the role of government to provide the policy and regulatory environment for competitive housing markets, including competitive housing finance market. A market-oriented housing strategy seems the only way to have a sustainable housing program that will make it possible for a greater number of low-income households to have access to decent shelter. A market-based housing finance that taps on contractual savings as source of long-term finance and allows the interest rate to play its role of allocating credit resources should be considered. This means that private financial institutions should be able to offer adjustable mortgage loans even to socialized housing clients even as government provides well-targeted, transparent subsidies to poor households. At the same time, freeing the rental market from arbitrary control should pave the way for greater investments in housing.

Because of the scarcity of public sector resources, government housing effort, e.g., provision of subsidies, should focus mainly at the bottom

40 percent of the income distribution in view of the poor households' lack of access to decent shelter. It does not make sense to deploy scarce public resources to serve the need of the nonpoor who do not need the credit subsidies they now enjoy to access the housing credit markets.

There is also a need to address various supply side constraints that hamper the efficiency of the housing market. Escalating land prices drive up the production cost of housing units. This constrains the production of more affordable housing units. It has been estimated that the cost of the housing lot constitutes more than 30 percent of the cost of the housing unit. Part of the explanation for rising land prices is the difficulty of releasing more lands for housing due to problems in establishing title to raw land, assigning development rights over raw land owned by the government and land conversion problems attendant to the agrarian reform program.

The country's zonal regulations, building code and infrastructure standards are at par with those of other countries in a similar level of development. There is a need to re-examine them since unnecessary regulations and overly strict standards could increase transaction cost in the housing market and thus, unwittingly restrict the supply of housing. Government, therefore, should ensure appropriate standards for cost, design and materials for housing. New housing technologies that make available decent shelter at least cost should be supported.

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The State of Philippine Housing Programs

is a critical study on housing subsidies, one of the principal instruments the government uses to provide the lower income segment of the population access to decent housing.

Each year, the government spends large fiscal resources to finance the subsidy programs. These resources have competing, alternative uses, and any misallocation imposes costs to society. And with the huge fiscal deficit that the country is currently facing, it is but both utilitarian and timely to review the allocation and expenditure of scarce public resources, especially the various subsidies.

Despite the provision of these housing subsidies, a large majority of the urban poor are still housed in overcrowded shanties within slum settlements or in makeshift dwellings. Does this mean that the housing subsidies have not been successful in helping their intended beneficiaries get a decent shelter? Find out the answers from this book.

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