



Guam Housing Corporation FY 2011 Financial Highlights

February 7, 2012

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2011 with a nominal decrease in net assets of \$206, which was mainly attributed to an impairment loss of \$392 thousand (K) related to a settlement with the Lada Estates project. Were it not for this impairment loss, GHC would have experienced a gain of \$392K. GHC received an unqualified (clean) opinion from independent auditors, Ernst & Young LLP, however, there was one significant deficiency related to its allowance for loan and lease losses and five internal control deficiencies related to loan documentation, foreclosed assets held for resale, rental policy, vacation leave, and stale-dated checks.

Lada Estates Lawsuit Settlement

In 1997, GHC entered into a contract with a construction company to furnish materials and labor for the construction of the Lada Estates Affordable Subdivision Improvement Project at a cost of \$10.6 million (M). For various reasons, the project was unsuccessful and GHC experienced cash flow problems associated with additional development expenses, increased personnel expenses, and increased competition in the affordable housing market. Additionally, the construction company was never paid for its work, and in 2004, filed a lawsuit to recover its losses.

In 2010, an agreement was entered between GHC and the construction company to convey the property and require them to build the proposed houses on the site. The agreement also stipulated that the \$10.5M claimed liability will be removed from the GHC's books and the construction company will eventually be compensated for its long outstanding debt via a grant deed. The agreement also reserves the right for the construction company to collect \$2.9M against the Government of Guam for off-site improvement for this project. In January 2012, the Superior Court approved the settlement. As a result of the Lada Estates project, GHC incurred an impairment loss of \$5.2M in 2010 as a prior year adjustment and an additional impairment loss \$392K was recorded in 2011.

Revenues Increase by \$174K

GHC's revenues nominally increased by \$174K (going from \$2.5M in FY 10 to \$2.6M in FY11) from interest earned from loans, rental income, and gain on disposal of assets. Rental Income increased in FY 2011 by \$44K, from \$785K in 2010 to \$829K in 2011 as a result of increases in rent for the newly renovated apartments of As-Atdas, which was vacated from October 2009 to March 2010 due to restorations. The new rates established were \$500 for a two bedroom unit and \$600 for a three bedroom unit. GHC has over 141 units available for rent.

Hay Study Reimplementation

In October 2010, the Government of Guam implemented the Competitive Wage Act of 2011, also known as the Hay Study. Effective January 30, 2011, through Executive order 2011-02, the

new executive administration rescinded the implementation of the Hay Study, although GHC continued to accrue this expense. In November 2011, the GHC Board of Directors voted to reinstate the Hay Study retroactive to February 1, 2011. As a result, a payout of \$89K to GHC's 26 employees was made in December 2011.

Expenditures Increase by \$590K

GHC's total operating expenses increased by \$590K, going from \$2M in 2010 to \$2.6M in 2011. The largest increase in GHC's operating expenses was attributed to salaries, wages and benefits, going from \$1.5M in 2010 to \$1.7M in 2011, an increase of \$151K. Rent increased by \$21K, going from \$75K in 2010 to \$95K in 2011. Contractual expense increased by \$20K, going from \$79K in 2010 to \$100K in 2011. Bad debts increased by \$12K, going from \$16K in 2010 to \$28K in 2011.

GHC's Loan Portfolio Declines

GHC's loan portfolio, which consists of loans from the Direct Loan Program and Revolving Loan Program, decreased by \$697K, going from \$32 million (M) in FY 2010 to \$31.3M in FY 2011. GHC originated 15 loans totaling \$1.6M in FY 2011 compared to the 62 loans originated totaling \$8.6M in FY 2010. The decrease can be attributed to the higher interest rate of 6% of GHC loan programs, which is considered high at this time and makes it difficult for applicants to qualify for GHC loan amounts needed to purchase a house. Although the loan portfolio decreased, the average interest bearing loan portfolio increased by \$2.6M, going from \$27M in 2010 to \$29.6M in 2011. Additionally, GHC had 25 loan payoffs amounting to \$1.2M in FY 2011 in comparison to 25 payoffs totaling \$869K in FY 2010.

Delinquency Rate and Foreclosures

GHC experienced 54 delinquent loans with a principal balance of \$3.7M in FY 2011, an increase of 21 loans and \$1.6M over the previous year. In FY 2011, GHC foreclosed on two loans totaling \$184K. GHC did not foreclose on any loans in FY 2010. In FY 2010, there were three foreclosed assets held for resale totaling \$116K, which increased in FY 2011 to four foreclosed assets totaling \$248K. GHC had one foreclosed property that was sold for a gain of \$53K in FY 2011.

Compliance Report and Management Letter

In GHC's compliance report, independent auditors identified one significant deficiency related to GHC's allowance for loan and lease losses (ALLL) of no less than 3% of the gross loan portfolio. According to the auditors, the Corporation has no documentation that supports the ALLL policy.

Independent auditors also issued a separate management letter identifying five deficiencies in internal control relating to the completeness of loan documentation, recording of foreclosed assets held for resale, recertifying tenant eligibility as required by GHC's rental policy, deducting vacation leave, and reversing stale-dated checks.

For a more detailed commentary, refer to the Management Discussion and Analysis in the audit report. Visit GHC's website at www.guamhousing.org or OPA's website at www.guamopa.org to view the reports in their entirety.