



Guam Housing Corporation FY 2012 Financial Highlights

February 11, 2013

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2012 with an increase in net assets of \$501 thousand (K), which was mainly attributed to the transfer of ten abandoned properties in Sagan Linahyan from the Department of Land Management (DLM) as per Public Law (P.L.) 31-215. GHC received an unqualified (clean) opinion from independent auditors, Ernst & Young LLP, however, there was one recurring significant deficiency related to its allowance for loan and lease losses (ALLL) and three recurring internal control deficiencies relative to loan documentation, rental policy, and stale-dated checks.

Revenues Increase by \$350K

GHC's revenues increased by \$350K (going from \$2.6 million (M) in FY 2011 to \$3M in FY 2012) from sundry and rental income. Sundry income dramatically increased by \$513K, from \$147K in 2011 to \$661K in 2012. According to PL 31-215, ten abandoned properties located within the Sagan Linahyan Subdivision were transferred from the DLM to GHC for the purposes of rehabilitating the lots to provide affordable rental housing. The donated land and its improvements were recorded based on the appraised value of \$601K and is recorded as sundry income. Rental income nominally increased in FY 2012 by \$29K, from \$829K in 2011 to \$858K in 2012 as a result of increases in rent at Lada Gardens. These rates increased by \$50 per month effective February 2012.

Expenditures Decrease by \$152K

During FY 2011, GHC recorded impairment loss of \$392K on the Lada Estates project. In January 2012, the impairment loss was cleared when the Superior Court of Guam approved the Settlement Agreement between GHC and Maeda Pacific Corporation (MPC). As a result, the \$10.6M owed to MPC in settlement was cleared.

GHC's total operating expenses decreased by \$152K from \$2.6M in 2011 to \$2.5M in 2012. While it appears expenses decreased, there were increases in expenses, such as salaries and Retirement and Medicare contributions. The largest increase in GHC's operating expense is the reestablished First-Time Homeowner Assistance Program (FTHAP) totaling \$108K. Salaries increased by \$62K from \$1.1M in FY 2011 to \$1.2M in FY 2012 due to three new employees and increments and merit accruals in FY 2012. With increase in salaries, the rate of contribution for Retirement and Medicare increased by \$46K from \$314K in FY 2011 to \$360K in FY 2012.

GHC's Loan Portfolio Declines

GHC's loan portfolio, which consists of loans from the Direct Loan Program and Revolving Loan Program, decreased by \$437K, going from \$31.3M in FY 2011 to \$30.8M in FY 2012. GHC originated 18 loans totaling \$2.5M in FY 2012 compare to the 15 loans originated totaling \$1.6M in FY 2011. Due to the lack of funds available for loans under the Direct Loan Program,

only one loan totaling \$90K was originated under this program in FY 2012. Thirteen loans were originated totaling \$2.3M under the Revolving Loan Program. Under the Community Affordable Housing Action Trust (CAHAT) Program, four loans were originated totaling \$150K. Additionally, GHC had 27 loan payoffs amounting to \$1.3M in FY 2012 in comparison to 25 loan payoffs totaling \$1.2M in FY 2011.

Delinquency Rate and Foreclosures

GHC experienced 61 delinquent loans with a principal balance of \$4.6M in FY 2012, an increase of seven loans and \$910K over the previous year. Accordingly, GHC has an overall delinquency rate of 15%, which is considered high for the industry. In FY 2012, GHC foreclosed on one loan totaling \$133K. Foreclosed assets held for resale increased from four properties totaling \$248K in FY 2011 to five properties totaling \$394K at the end of FY 2012. One foreclosed property was sold for a gain of \$53K in FY 2011.

Compliance Report and Management Letter

One recurring significant deficiency was identified in the Report on Compliance with Laws and Regulations related to GHC's 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 three recurring deficiencies in internal control relative to loan documentation (no typhoon insurance coverage, no duly approved typhoon insurance waiver on file, and one missing original loan file), rental policy (no regular re-certifications conducted to ensure tenants compliance with eligibility requirements of the rental program), and stale-dated checks.

New Initiatives and Current Challenges

In FY 2012, GHC re-established the FTHAP as per P.L. 31-227 and the Housing Trust Fund Act as per P.L. 31-166. The FTHAP provides first-time homeowners up to \$10K to be used for down-payment assistance or closing cost. The Housing Trust Fund Act is to support the affordability and accessibility of housing for the residents of Guam, and to finance support services that assist low-income households in obtaining and maintaining affordable housing. One of the authorized programs the Housing Trust Fund funds is the FTHAP. However, there are challenges to the Housing Trust Fund, such as learning how to fund itself and create new programs instead of borrowing.

GHC's most apparent challenge is the ability to secure additional lending capital at the least possible cost. The result will translate to providing low interest rates for mortgages and higher buying power for residents. GHC's management had made many strides in educating both the executive and legislative branches with respect to the "Trust Fund" initiative which will address the issue of funding various programs and projects. The result of their efforts is evident with the passage of P.L. 31-166.

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.