



Guam Housing Corporation FY 2008 Financial Highlights

March 16, 2009

The Guam Housing Corporation (GHC) closed the year with an increase in net assets of \$785 thousand (K), a 22% decrease from the prior year of \$1.01 million (M). The decrease was primarily attributed to a \$166K decline in revenues and the \$131K increase in expenses. Of the \$785K increase in nets assets, GHC's Rental Division contributed 44% or \$347K and the Housing Division contributed 56% or \$438K. During the year, GHC's loan portfolio nominally declined by \$26,267 to \$25M. The FY 2008 financial audit conducted by J. Scott Magliari & Co., received an unqualified or clean opinion. Independent auditors identified four audit findings with no questioned cost.

Decline in Revenues and Increase in Expenditures

Total operating revenues decreased by \$166K from \$3M to \$2.8M. The \$166K decline in revenues was comprised of a \$120K decrease in interest on loan receivables, a \$42K decrease in rental income, and the \$11K decline in loan origination fees and other income. Total operating expenses increased by \$131K, from \$2.6M to \$2.7M. The rise in expenses is a result of notable increases of \$189K for Retirement Contributions and cost of living allowance (COLA). COLA and retirement supplemental expenses increased \$122K or 206% from \$59K to \$182K. Retirement Contributions increased 32% or \$67K, from \$208K to \$275K.

Seven Year Decline in Loan Portfolio

Since 2002, GHC's portfolio has been on a continual decline going from \$39.4M to \$25M in 2008, and overall decrease of 36%. The reduction in GHC's portfolio was a result of lower interest rates offered by financial institutions and the build-up of equity in potential borrowers. In addition, the total number of loans over the seven-year period has decreased by 42% from 769 in FY 2002 to 450 in FY 2008.

During FY 2008, GHC approved 18 new loans totaling \$2.1M, an increase of \$838K, from the 17 new loans totaling \$1.2M in FY 2007. However, this increase in new loans was offset by loan payoffs of \$1.3M due to refinancing, and \$800K in regular loan amortization.

GHC's mandate is to help first-time borrowers secure mortgage financing who cannot otherwise qualify as borrowers through conventional means. However, GHC has been unable to increase its loan portfolio and induce activity for loan originations. This is the result of several factors to include lower interest rates offered by commercial lenders, the lack of inventory for affordable housing within the \$100K to \$160K range, and the build- up of equity which allows borrowers to refinance their loans at lower rates.

Loans Originated and Delinquency Rate

Total loan delinquencies dropped .70% from 13.86% to 13.15%. The principal balance decreased from \$3.4M in FY 2007 to \$3.2M in FY 2008, an improvement of \$170K. While GHC has made a concerted effort in collections and servicing, the delinquency rate remains high compared to most mortgage lending institutions, which average a 5% delinquency rate.

Healthy Cash Balance

In August 2002, Public Law (P.L.) 26-123, forgave GHC debt to the General fund comprised of \$13,650,013, and accrued interest of \$517,000. Consequently, GHC recorded revenue of \$14M resulting for the debt forgiveness. Since then, GHC has maintained a strong cash position. In FY 2002, GHC cash and investments was \$1.4M, and over the last seven years, this has steadily grown to \$12.8M as of the end of FY 2008, due in part to the General Fund debt forgiveness and the lack of growth in its loan portfolio. Given the General Fund deficit of \$510M, GHC's cash can be a ready source of funds to pay the General Fund obligations, such as tax refunds and the court ordered COLA payments.

Lada Estates

In 1991, P.L. 20-225 authorized the transfer of 46 acres of land to GHC for the purpose of developing affordable housing units for sale to first-time home buyers. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented completion of the Lada Estates project. In 2004, Maeda Pacific Corporation brought suit against GHC for costs incurred totaling \$10.5M. The \$10.5M is recorded as a long-term liability of GHC. The issue of Lada Estates remains unresolved as of the end of FY 2008.

Report on Compliance and Internal Control

Independent auditors issued an unqualified opinion; however the auditors identified four findings, with no associated questioned costs. The audit findings were associated with loans receivable.

- ***First Time Homeowners:*** Total household income exceeded GHC's income requirements; however the loan was applied for using one individual's income.
- ***Delinquency and Loan Servicing:*** Six delinquent loans were identified outstanding in excess of 90 days, with one loan past due 1,128 days. The total unpaid balances derived from these loans amount to \$512K.
- ***Insurance Coverage:*** 13% of loans tested did not have the adequate insurance coverage. As a result GHC has assumed additional collateral risk.
- ***Title Reports:*** Loan files lacked the proper file management and documentation.

Three of the four findings dealing with delinquency and loan servicing, insurance coverage, and title reports were repeat findings from the prior year. In a separate management letter, auditors identified two findings related to corporate governance and payroll administration. See the Management's Discussion and Analysis for further details. These reports may be downloaded at www.guamopa.org or www.guamhousing.org.