

EXECUTIVE SUMMARY

INTRODUCTION

The National Home Mortgage Finance Corporation (NHMFC) was created by virtue of Presidential Decree No. 1267 dated December 21, 1977, as amended by Executive Order (EO) No. 90 on December 17, 1986 identifying NHMFC as one of the key agencies in the implementation of the National Shelter Program that was tasked as the major government home mortgage institution. Executive Order No. 357 dated May 24, 1989 places NHMFC under the administrative supervision of the Housing and Urban Development Coordinating Council (HUDCC).

The NHMFC's original mandate was transformed by EO No. 90 into one serving as a major government home mortgage institution to operate a viable mortgage market, utilizing long-term funds principally provided by the Social Security System (SSS), the Government Service Insurance System (GSIS), and the Home Development Mutual Fund (HDMF), to purchase mortgages originated by both private and public institutions that are within government-approved guidelines.

On January 24, 1990, Republic Act (RA) No. 6846 was enacted creating the Abot-Kaya Pabahay Fund (AKPF), otherwise known as the Social Housing Support Fund, which mandated NHMFC to administer the developmental loan financing assistance and amortization support components of the fund. Later, RA No. 7279 was approved on March 24, 1992 mandating NHMFC to administer the Community Mortgage Program (CMP).

On January 20, 2004 EO No. 272 was signed by the President of the Philippines which mandated the NHMFC to organize and establish the Social Housing Finance Corporation (SHFC). The creation of the SHFC, a NHMFC wholly owned subsidiary was in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). Its main mandate is to be the lead government agency to undertake financing of social housing programs that will cater to the formal and informal sector in the low-income bracket. Thus, in October 2005, the NHMFC transferred to SHFC the funds and assets of the Community Mortgage Program and the amortization support fund of the AKPF.

The governing board of NHMFC which exercises corporate powers and determines policies is composed of the following:

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| 1. The Vice-President of the Philippines and Chairman, HUDCC | Chairman |
| 2. The President, NHMFC | Vice-Chairman |
| 3. The Secretary, Department of Finance | Member |
| 4. The Secretary, Department of Budget and Management | Member |
| 5. The Governor, Bangko Sentral ng Pilipinas | Member |
| 6. The Secretary General, HUDCC | Permanent
Alternate |

The President, Mr. Joseph Peter S. Sison is assisted in the management of the Corporation by the Executive Vice-President, three Vice-Presidents and ten Department Managers.

The three Groups headed by Vice-Presidents are the Collection and Accounts Management Group, Corporate Support Services Group and the Securitization Group. NHMFC has satellite offices located in Laguna and Cavite provinces, Bacolod and Cagayan de Oro cities, a zonal office in Davao City and desk offices in Cebu and General Santos cities.

The primary objectives of the Corporation are (1) to develop and provide for a secondary market for home mortgages granted by public and/or private home financing institutions; (2) to develop a system that will attract private institutional funds into long-term housing mortgages; and (3) to provide amortization support to borrowers during the first five years of the term of their housing loans under the Abot – Kaya Pabahay Fund.

The approved corporate operating budget of NHMFC during the calendar year 2009 totalled P7.50 billion.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2009	2008 (As Restated)	Increase (Decrease)
Assets	34,494,158,573	37,749,763,204	(3,255,604,631)
Liabilities	41,823,820,540	46,179,408,318	(4,355,587,778)
Capital deficiency	7,329,661,967	8,429,645,114	(1,099,983,147)

II. Comparative Results of Operations

Particulars	2009	2008 (As Restated)	Increase (Decrease)
Gross income	2,141,264,701	1,956,996,201	184,268,500
Expenses:			
Personal services	133,833,002	132,723,556	1,109,446
Maintenance and other operating expenses	424,484,602	254,994,114	169,490,488
Financial expenses	482,963,950	452,750,102	30,213,848
	1,041,281,554	840,467,772	200,813,782
Net income	1,099,983,147	1,116,528,429	(16,545,282)

SCOPE OF AUDIT

The audit covered the examination on a test basis, of the accounts and financial transactions of the NHMFC for the period January 2 to December 31, 2009 in accordance with the Philippine Standards on Auditing. Our audit was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered an unqualified opinion on the fairness of presentation of the financial statements with emphasis on NHMFC's non-provision of its guaranty obligation to the Bureau of Treasury, which was computed by the former at P678.559 million, pending confirmation and acceptance of its proposal by the Department of Finance.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

Significant audit observations and the corresponding recommendations are as follows:

1. Out of the 272 Community Mortgage Program (CMP) accounts retained by NHMFC totaling P1.108 billion, 221 accounts with total billed amounts of P841.957 million have arrearages of 27 to 272 months, 177 of which had collections of only P103.743 million out of the total billing of P761.059 million or 14 per cent collection efficiency ratio which is way below the acceptable standard of 80 per cent.

We recommend that Management:

- a. Strictly comply with the accreditation criteria for originators per Corporate Circular No. CMP - 018 that the Originator should have a collection efficiency track record of 80 per cent; and
- b. Regularly monitor collection and assess the cause/s or failure of Community Associations (CAs) to collect monthly amortizations and take appropriate actions under existing regulations.

2. Out of the 11,635 securitized accounts, 3,978 borrowers with a total outstanding principal balance of P654.338 million have missed one to 15 payments totaling P34.017 million as at December 31, 2009, thus, placing the securitization operations at risk.

We recommend that Management re-evaluate/re-assess the strategies/schemes being adopted for the collection of securitized accounts to determine causes/reasons why the ratio of outstanding principal balance of securitized accounts with cumulative missed payments reached 36.60 per cent, of the total outstanding diminishing principal balance of the securitized portfolio as at December 31, 2009.

3. The quality of the loan receivable accounts backing up the securitization process can not be effectively monitored because the Monthly Service Reports do not quantify in peso amounts the missed payments which could have been constantly analysed in relation to the amounts that should be billed and collected monthly.

We recommend that the quality of the mortgage receivable accounts backing up the securitization process be constantly monitored and evaluated by providing on the Monthly Service Report the amounts of missed amortization payments of borrowers and their relationships with the amounts billed Vis a Vis actual collections.

4. Deposits for taken-out mortgages in 1994 and 1995 delivered by the NHA to the NHMFC without the corresponding TTS amounting to P48.172 million and those pertaining to bid/performance bonds aggregating P0.826 million on expired/terminated contracts were still included in the Guaranty Deposits Payable account, resulting in the misstatement of the payable and other related accounts.

We recommend that Management:

- a. Coordinate with NHA for the delivery of TTS and make the necessary entries in the books for delivered TTS and applied deposits; and
- b. Adjust the books for various deposits which should have already been applied or served, as the case maybe.

5. The Collection Efficiency Ratio (CER) of 31.92 per cent as at November 2009 for Long Term Receivables - Past Due - Folio II accounts totalling P20.573 billion aging 25 to over 48 months overdue did not improve significantly, as compared to last year's 32.62 per cent, thus, indicating that collection strategies being adopted are not effective under existing conditions.

We recommend that Management:

- a. Undertake more aggressive collection strategies to improve collection efficiency on LTR past due Folio II accounts; and
- b. Inform the borrowers on the extension of penalty condonation, housing loan payment incentives, and restructuring programs in order to encourage them to pay regularly.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 20 audit recommendations embodied in the prior years' Annual Audit Reports, five were fully implemented, 13 were partially implemented and two were not implemented.