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Philippine Institute for Development Studies

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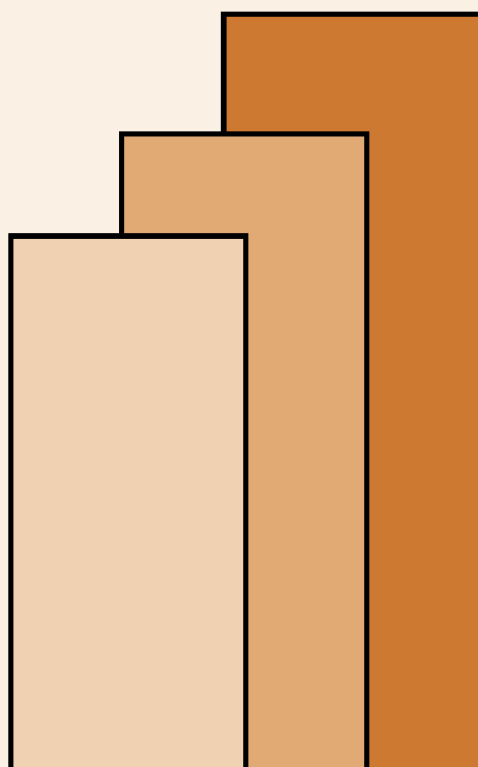
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A STUDY OF HOUSING SUBSIDIES IN THE PHILIPPINES

*Gilberto M. Llanto, Aniceto Orbeta, Jr., Ma. Teresa C. Sanchez and
Marie Christine G. Tang¹*

I. MOTIVATION AND OBJECTIVES OF THE STUDY

I.1. Motivation of the Study

The government has estimated that approximately 3.7 million new housing units will be needed for the period 1993-1998. Renovation and upgrading of old housing units will involve 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 subsidies² one of the principal instruments used by the government to provide targeted households access to decent housing either by making available low-cost, subsidized housing units or imposing rental ceilings on housing units.³ It is

¹Research Fellow, Research Fellow, Research Associate and Research Associate, respectively. The authors would like to acknowledge the assistance of Mary Ann Dizon, Alvin Lacanlalay and Grace Becongco. The views and position expressed in this study are solely the authors' and do not in any way reflect the official position of the Housing and Urban Development Coordinating Council (HUDCC) and the Philippine Institute for Development Studies (PIDS). This study benefited from the comments of Lawrence Hannah, Tom Zearley, McDonald Benjamin, Marcelo Bueno, Joselito Gallardo and Antonio Hidalgo.

²Please see *Annex I-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.

³There is a recent move by Congress to extend the effectivity of the housing rental law which is due to expire this year.

critical from the public policy stand point to review the housing subsidy program of government for several reasons.

First, the fiscal resources used in subsidy programs, especially those targeted to a very large segment of the population, are non-trivial. 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. In this study, the social cost is measured by the total fiscal resources devoted to subsidies given their alternative uses. The social benefits are indicated by the magnitude of the subsidies and their intended compared to actual incidence.

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

I.2. Objective of the Study

The Study has the following objectives:

- (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 section on motivation and objectives of the study comes Section II, a discussion of the policy framework of the housing

subsidies. Section III describes the government's housing subsidy programs. Section IV presents the approach, methodology and data used in the study. Section V discusses the estimated magnitude of the subsidies and Section VI, the estimated incidence of the housing subsidies. Section VII discusses the incentive compatibility problems created by the present housing subsidy programs.

The last section gives the conclusions and recommendations of the study, including an alternative subsidy scheme.

II. POLICY FRAMEWORK OF HOUSING SUBSIDIES

II.1. Policy Framework of Housing Subsidies

Housing is a major expenditure item for households. It is the largest and most widely owned asset by households. To substantially improve access to housing by targeted sectors such as the poor, the Philippine government has provided subsidies that are expected to bring down the cost of housing. The motivation behind the subsidies in the housing markets is the conviction that the majority of the population will not be able to afford housing units unless some form of subsidy is made available to them that brings down the cost of production of housing units, or brings down the cost of a housing unit for the end-user.

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 government to try to raise as much funding as possible for home ownership by households, especially the low income group and make it available as cheaply as can be provided. Making cheap funds available became synonymous to providing interest subsidies to prospective homeowners, and other types of subsidies to the housing sector in general. Thus, the National Shelter Program has four major programs that are largely subsidized and 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 economic status of the potential owner rests on the wrong assumption. Not everyone in society can afford to buy and own a house. There always will be a segment of society too poor and destitute to even think of purchasing a housing unit, but who need decent shelter. In fact, even in developed countries homeownership is available only to some 55% (Singapore) or at most, 65% (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 (i) renting out by the private sector, (ii) ownership by individuals through purchase, private transfer (e.g., through inheritance, donation) or (iii) 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 as well as the wrong incentive structure for efficient private sector participation in the housing markets.⁴ 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, but instead follow the line of least resistance: let government produce all the monies it can to build homes made available through subsidized loans originated for the government by 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 policy framework for housing subsidies that is transparent. 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 must be 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.

⁴ See Section VIII for a discussion of incentive compatibility problems in the housing markets.

II.2. Beneficiaries, Payers, Transfer Mechanisms and Budgetary Implications

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 will allow the unintended beneficiaries to capture the subsidies offered by the state. 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 as well.

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, mostly the low income group. High transaction costs, information asymmetry, perception of high credit risks prevent poor households from accessing the financial markets. The literature points out the tendency of banks or lending institutions tend to credit ration the intended beneficiaries and to cater to the more creditworthy segment of the borrowing population, the high income group.

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

On the other hand, on the part of private agents, there is no incentive to really screen out those who cannot repay the loan because the government through the National Home Mortgage Finance Corporation (NHMFC) will automatically take out the loan exposure from the hands of those private agents, whether they be private developers or lending institutions. Thus, one may very well argue that under the present housing subsidy policy framework, private institutions will participate in the government's housing programs, especially the "socialized" programs only under conditions of continuing government subsidization. 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 world of limited funding and competing demand for funds, a fundamental issue facing government policy makers 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 more effectively providing subsidies to those who really need those subsidies.

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 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 critical input to the overall housing policy framework.

The budgetary implication of housing subsidies is not to be underestimated. The housing subsidy program involves huge transfers of resources to private individuals that are funded from the public coffers. Thus, knowing the extent of subsidization and the distribution of subsidy benefits will inform the government's housing policy. This is even more critical as government faces tough budget constraints.

III. THE GOVERNMENT'S HOUSING SUBSIDY PROGRAMS

III.1. 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 imposed rent control in an attempt to make housing more accessible to the low and middle income groups. It is 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% 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 policy making and coordinative 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 the government housing agencies such as the National Housing Authority (NHA), National Home Mortgage Finance Corporation (NHMFC), Home Insurance Guaranty Corporation (HIGC), and Housing and Land Use Regulatory Board (HLRB). NHA is the sole government agency responsible for housing production and HDMF, SSS and GSIS for providing funds to the NHMFC that has been 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 to each of these categories. Executive Order 90 enlists the support and cooperation of 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) which shared with local government units responsibilities over the provision of socialized housing and regulation of shelter-related activities.

III.2. The National Shelter Program

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

The NSP has four major programs: (a) production of housing units, (b) mortgages, (c) development loans and (d) 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 III-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 26.1% of the targeted 1,239,702 households for the Plan Period 1993-1998 and 95% of the 341,492 households to be given housing assistance for the period 1993 to May 1995."⁵

III.3. The Housing Finance System and Housing Subsidies

The agencies involved in housing finance are the NHMFC, SSS, GSIS and the HDMF. These agencies provide mortgage loans to low and middle income borrowers. The NHMFC provides take-out 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, 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. *Figure III-1* shows the different housing programs, the source of funds and the target beneficiaries; while *Table III-1* shows the amount of loans granted, guarantees extended and direct subsidies provided by the housing agencies from 1993-1995.

To expand the available funding for the housing sector, Congress passed in 1994 the Comprehensive and Integrated Shelter Finance Act (RA 7835) that provides an additional P38 billion funding allocation for housing over the next 5 years. The Act allocates the largest funding to the Community Mortgage Program (P12.8 billion) and the resettlement program (P5.2 billion). The Abot Kaya Pabahay Fund will get about P1.1 billion in the next 5 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 1995 that made mandatory membership 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 became voluntary in 1987. In addition to providing funds for the UHLP, HDMF also has its own retail and institutional homelending programs.

⁵ Housing and Urban Development Coordinating Council, unpublished report on the National Shelter Program

In sum, housing finance draws funding from GSIS, SSS and HDMF, which are off-budget, and more recently from budgetary appropriation provided under the Comprehensive and Integrated Shelter Finance Act. The NHMFC uses those funds to take out mortgage loans originated by private developers and private banks using the so-called "formula lending" approach⁶.

Thus, the government uses a combination of (i) direct subsidies through concessional interest rates, and (ii) indirect subsidies, e.g., tax breaks, guarantee schemes, etc. In addition, the periodic recapitalization to strengthen insolvent housing agencies also forms part of indirect subsidies.⁷ *Annex III-2* shows the various forms of subsidies provided to beneficiaries and the housing sector. *Table I-3* shows the various forms of subsidies provided to beneficiaries and the housing sector.

III.4. Housing Subsidy Programs⁸

Unified Home Lending Program (UHLP)

Under this program are four principal players: the funders, the NHMFC, the originators and the final beneficiaries, and three levels of transactions. In the first level of transactions, 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 relends the funds to eligible home buyers through accredited originators such as financial institutions, developers and corporate employers. Prospective originators apply for a Purchase Commitment Line (PCL) with the NHMFC. Once approved, the NHMFC will purchase up to the granted commitment line the mortgage deliveries of the originators following an agreed upon drawdown schedule. This arrangement gives originators the liquidity to undertake more housing projects since they are able to immediately

Performance for the period January to May 1995.

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

⁷By "direct" subsidies, we mean those going to or 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 is that arising from low loan recovery rates that is effectively an income transfer scheme for those not paying their housing loans.

⁸Brief descriptions of other programs not included in this section may be found in *Annex III*.

swap for cash their mortgage investments.⁹ The mortgages taken-out from the originators are then assigned to the funders.¹⁰

Finally, in the third stage, the NHMFC collects from the borrowers their monthly loan payments which are then turned over to the funders. 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, relending, mortgage take-out and loan repayment revolves around the NHMFC.

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%; for loans over ₱150,000 up to ₱225,000, 12%; and for loans over ₱225,000 up to ₱375,000, 16%. The interest rates were set to give NHMFC an average return of 12.25% 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 it is the originators who screen the borrowers. Up until recently, borrower eligibility is based solely on his monthly income and no effort is expended to determine his 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 his monthly income. Only upon turnover of the mortgages by the originators to the NHMFC would the latter come in contact with the borrowers.

Loan repayment is done through NHMFC-accredited collecting banks such as the DBP and the PNB, which are paid a collection fee of 1% of gross payment. In case of default, a penalty of 1/5 of 1% of the loan for every day of delay is charged against the borrower. Failure to pay any 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 take-outs have reached a total of ₱45.6 billion, equivalent to 2.3% of gross national product (GNP) in 1995. This makes the UHLP the

⁹Under the program, UHLP originators are allowed to charge a maximum origination fee of 2.5% of the loan amount. Thus, origination cost for the borrower equals 5%, with the other 2.5% going to the NHMFC.

¹⁰The interest rates charged by the SSS and HDMF vary from contract to contract, depending on their agreement with the NHMFC. For 1993-95, the two agencies charged the NHMFC, on the average, 12.29% and 11.33%, respectively for the use of their funds. The GSIS, on the other hand, charges a fixed rate of 10.25%.

single largest mortgage program in the country. In all, 235,695 housing units were built benefiting 271,020 people.¹¹ The UHLP's growth has particularly been impressive in the past three years (1993-95), with mortgage take-outs totalling P29.4 billion compared with the P15.3 billion recorded from 1987-92. Out of the P29.4 billion mortgages taken out from 1993-95, only 26% are mortgages below P150,000; mortgages in the P225,000 and P375,000 range make up 41% of the mortgage portfolio while those from P150,000 and P225,000 amount to 33%. On the other hand, of the 133,700 units given assistance from 1993-95, units financed with loans up to P150,000 numbered 53,480 or 40% of the total units while those financed under the middle and highest loan packages comprised 33% and 27%, respectively of total assisted units.

Despite its growth in meeting the country's housing backlog, the UHLP has increasingly met with difficulties prompting the government to review the entire system. Among the problems realized during the program's nine-year implementation, the most serious are perhaps the low repayment rate and the inadequate funding support for the government's main housing program.

During the three year period from 1993-95, the collection efficiency rate is estimated at only 63.5%.¹² The NHMFC is saddled with uncollected accounts. As of end-1995, some 108,722 accounts, representing 63% 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% of delinquent accounts, have been restructured under this program.¹³

Data from the NHMFC show that from 1988-1992, the three funding agencies released only 75% of their total commitment to the UHLP. Albeit this figure improved to 94% for the period 1993-1995, the UHLP has by then, incurred a deficit of P6.2 million. By 1996, large uncollected loan accounts under the UHLP made the funders feel reluctant to provide more funding because they did not want to risk more of their members' contributions.¹⁴ At the same time, the funding agencies were meeting their members' mortgage loan needs through their own, respective mortgage programs.

¹¹The 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 for a single loan.

¹²Collection 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% for 16% loans compared with 73% for 9% loans). Also, collection efficiency for developer-originated loans are lower than that for loans originated by financial institutions (59% vs. 69%, respectively). *Source: Board Committee Findings.*

¹³The figure includes Community Mortgage loans restructured under the program.

¹⁴HDMF recently provided P7 billion to enable continuing implementation of UHLP.

In addition, the program encountered other problems, including: (a) the worsening financial position of the NHMFC as take-outs increased while loan collection slumped; (b) manpower constraints at NHMFC which made it increasingly difficult for the agency to handle the UHLP's loans and attend to collection as well; (c) a perceived conflict of interest on the part of developers who act both as loan originators and house builders; and (d) tedious and relatively expensive foreclosure procedures.

Because of these, HUDCC, under Council Resolution No. 12 (April 1996), implemented the following changes to the UHLP: (a) the creation of a multi-window lending system for the UHLP in which the funds will no longer be coursed through the NHMFC but will be handled directly by the funders themselves, or through financial institutions; (b) origination of mortgages by developers limited to those below ₱150,000; loan approval will still be based on formula lending; (c) mortgages more than ₱150,000 up to ₱375,000 will be approved based on the borrower's capacity to repay; and (d) adjustment upwards of the loan ceiling (from ₱150,000 to ₱180,000) under the lowest housing package, with the additional ₱30,000 charged a 12% interest rate. These changes will take effect after a six-month transition period, during which time, the HDMF acts as sole take-out window. Interest rates for the higher packages were proposed to be market-oriented instead of being fixed at 12% and 16%.

Community Mortgage Program

The Community Mortgage Program (CMP) is a mass housing program that seeks to respond to land tenurial problems in blighted communities. NHMFC has administered the program since it was put in place in 1988. Under R.A. 7835 (CISFA of 1994), additional funding support totaling ₱12.78 billion will be sourced for CMP from the National Government over five years. At the same time, the program 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.

The CMP works through organized associations of slum dwellers, with accredited CMP originators assisting the associations in securing the loans.¹⁵ To be eligible for loans under the program, the beneficiaries must first organize themselves into associations which must be accredited by the NHMFC.¹⁶ Then, with the originator acting as the creditor-mortgagee, the

¹⁵The CMP originator may be a government agency such as the NHA, a local government unit, a developer, a financial institution, or a community-based non-government organization. These are entitled to an origination fee of 2% of the loan amount; or ₱500 per household-beneficiary, whichever is higher.

¹⁶The community association is organized with the help of CMP originators.

community association collectively borrows and initially, owns and mortgages the land.¹⁷ 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: (a) ₱30,000 for the acquisition of an undeveloped property (₱60,000 for lots located in Metro Manila); (b) ₱45,000 for the acquisition of a developed property; and (c) ₱80,000 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% 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% of 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.¹⁸ It is also the responsibility of the association to individualize the title of the land through lease purchase agreement and 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. Nonetheless, loans contracted prior to individualization of the community loan will continue to enjoy the 6% interest rate of the CMP¹⁹.

Since the program's start until September 1996, 524 community projects have been provided CMP loans. Total mortgage take-out from these projects amounts to ₱1.5 billion, with 63,221 beneficiaries. While the CMP is an innovative approach to the slum dwellers' housing

¹⁷The community association negotiates with the landowner for the purchase of the property, payment of which is made directly by the NHMFC. The land may be public or private land and its sale is exempted from capital gains tax.

¹⁸If the community association fails to turn over the amount due the NHMFC, it will be charged 1/15 of 1% of the amount for every day of delay. The property will be foreclosed after non-payment of three monthly amortizations.

¹⁹M. Benjamin calls this a "built-in incentive not to individualize the loan."

needs, the program has been performing below targets set under the NSP. For instance, for the period 1993-95, of the targeted 60,443 units of assistance under the CMP, only 51% were achieved.

Like the UHLP, the CMP has its own problems which render the program unsustainable.²⁰ For one, while the interest rate subsidy to the program is substantial, the program does not have a source of long-term funds. Moreover, loan collection efficiency, albeit higher than that of the UHLP, is estimated at only 75%. Nevertheless, on an annual basis, loan collection efficiency has improved from 69% in 1993 to 83% 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 in-house program of the NHMFC which aims to complement the UHLP through financial assistance to private developers, non-government organizations, landowners and local government units for 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, the selling price of each of which does not exceed ₱150,000. These loans are charged an annual interest rate of 14%. Housing packages that sell at a price higher than ₱150,000, which are limited to just 25% of the constructed housing units, are charged higher interest rates on a pro rata 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 take-out proceeds to the NHFMC. This is done by accrediting SHDLP borrowers as UHLP originators, with a corresponding purchase commitment line (PCL). Mortgage take-out 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 finance to developers to speed up housing production and avert cash drain on developers while take-out of units through UHLP is being processed. The financial assistance is up to 70% of take-out value of units priced ₱150,000 and below. It is on a 30-day term with interest at 16% per annum.

²⁰ Refer to Morato (1993).

²¹ Early this year, the rate structure of SHDLP loans was changed with ₱150,000 houses charged a 12% interest rate and higher-priced packages charged 14% p.a.

From 1987 to July 1996, some 111 projects, amounting to ₱1.4 billion, drew financial assistance under the SHDLP. These projects have yielded a total of 49,812 units, representing 21% 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 capitalized Abot-Kaya Pabahay Fund at ₱2.5 billion to be sourced from national government appropriations. The budgetary allocation was subsequently increased to ₱5.5 billion under R.A. 7835.

The Abot-Kaya Pabahay Fund, as amended under R.A. 7835, consists of four housing assistance packages: (a) loan amortization support; (b) developmental loan; (c) cash flow guarantee and (d) interest subsidy and liquidity support. Except for the cash flow guarantee which is administered by the HIGC, the NHMFC implements the rest of the program. The law mandates an annual allocation of funds as follows: (a) ₱200 million for amortization support; (b) ₱100 million for developmental loan ; (c) ₱300 million for cash flow guarantee; and (d) ₱500 for interest and liquidity support. The latter is intended to support the secondary mortgage market operation of the NHMFC.

(a) **Amortization Support.** The loan amortization support represents an outright subsidy to low-income families and applies to loans having a maturity period not less than 15 years with the interest rate fixed at between 9% to 12% per annum. It is granted only to two types of borrowers: (a) level A borrowers, those with monthly income not exceeding ₱6,000 applying for loans not exceeding ₱144,000²²; and (b) level B, those with monthly income not exceeding ₱7,000 applying for loans not exceeding ₱180,000.

Borrowers wishing to avail themselves of this facility should apply directly to the NHMFC which then, 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% per year, from 35% of the amortization payment due in year one to 14% in year five; for level B borrowers, amortization support falls from 25% to 7% of amortization due during the five-year period.

Since the fund started in 1990 up to July 1996, a total of 497 beneficiaries have availed of the amortization support. Overall, the transfer from the government to the beneficiaries amounted to ₱4.25 million.

²² Computed at 20% below the maximum loanable amount under the lowest UHLP loan package (which is ₱180,000 under HUDCC Resolution 12 of April 1996). Prior to Resolution 12, level A borrowers refer to those with income not exceeding ₱4,000 whose maximum loanable amount is ₱80,000; level B borrowers, on the other hand, refer to those with income not exceeding ₱5,000 whose maximum loanable amount is ₱100,000.

(b) **Developmental financing.** This component is geared towards government and private proponents of low-cost housing projects. To be able to avail itself of the loan, a project should have a minimum of twenty housing units, at least 75% of which should have a selling price not exceeding ₱144,000. The other 25% should be priced at not more than ₱180,000.²³ Also, lot (only) sales are allowed up to 30% of total production.

The maximum loan is set at not more than 80% of the total project development cost with interest rate of 9% 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 way of assigning portions of take-out 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 ₱12.1 million. This is equivalent to less than 1% of the SHDLP's total loan portfolio.

(c) **Cash flow guarantee.** This component is managed by the HIGC and is provided to direct loans of the SSS, the GSIS and the HDMF as well as loans under the UHLP. It is HIGC's main involvement with 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 which will then issue a promissory note corresponding to the enrolled loans. The guarantee covers only loans not exceeding ₱150,000 bearing an interest not exceeding 12% 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% of the total amount due as of date of foreclosure, including 100% 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 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 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 1993-95, the amount of loans enrolled under the cash flow guarantee system totaled ₱1.7 billion, representing only 22.4% of total UHLP loans during the period. As of September 1996, the funders have made calls on 231 accounts, amounting to ₱22.25 million.

²³ The original ruling prescribed that the selling price be only up to ₱150,000 for house and lot packages and ₱45,000 to ₱60,000 for developed lot packages.

The HIGC has approved the payment of ₱19.7 million for these called accounts. However, disposition of the foreclosed collateral is put off until the expiration of the one-year redemption period given borrowers under the law.

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: (a) unconditional guarantee by the Republic of the Philippines as to principal and interest up to 8.5% per annum;²⁴ and (b) interest income up to 8.5% is free from all forms of taxes (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% of the outstanding loan amount enrolled with the HIGC while that of bond coverage is up to 80% of the enrolled amount. In case of default, cash coverage allows the funder to get back immediately in cash the outstanding principal plus interest up to 8.5% p.a. On the other hand, for bond coverage, HIGC issues two- to five-year bonds (with warranty from the national government), the face value of which is equal to the outstanding principal plus 8.5% 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.

The fee structure of HIGC retail and developmental guarantee is as follows:

Guaranty Facility	Retail	Developmental		
		<P150K	<P225K	>P225K
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%

²⁴The 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 borrower's limit of 25% of net worth; (b) exemption of loans from DOSRI account computations; and (c) exemption of developers from 70% loan-value collateral limit.

In a 1995 study on the Philippine housing sector,²⁵ Fannie Mae noted that the HIGC guarantees are relatively low-risk since: (a) collection efficiency of private lenders are high, so that delinquencies are low; (b) borrowers are the higher income borrowers; and (c) with rising property values, the private lenders rarely take advantage of the guarantee, but opt to sell the property themselves. Indeed, call payments by the HIGC for its retail guarantees from 1993-95 totaled only ₱14 million as against an average guarantee portfolio of ₱10 billion during the period.

As of August 31, 1996, 78% of HIGC guarantees totaling ₱22.4 billion involve bond coverage, while only 22% is covered by cash. Of the total guarantees, ₱16.2 billion (73%) are retail guarantees while ₱6.1 billion (27%) are developmental guarantees.

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

(a) 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 on the other hand, the facility guarantees existing and prospective installment receivables from buyers. Accreditation of financiers by the HIGC is based on the former's financial and administration capabilities, credit policies and guidelines and track record. Moreover, various warranties are required from the financial institutions and developers for enrollment of a loan with the HIGC. These include: a warranty that (a) the account being enrolled has not been in default for any six months prior to enrollment with the HIGC; and (b) the loan to collateral ratio does not exceed 70%.

(b) Developmental Guarantee Program

The program extends insurance coverage to developmental loans extended by financial institutions 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. An accreditation of funders applying for developmental guarantee lines is also undertaken.

NHA Resettlement Program

The NHA's Resettlement Program is designed for families belonging to the lowest 30% income group who are displaced from sites earmarked for government infrastructure projects and

²⁵Technical Assistance in Housing Sector - Philippines: Final Report, August 1995.

from areas designated as danger zones.²⁶ 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 for free, housing materials and carpentry tools. Under R.A. 7835, a total of ₱5.2 billion is to be appropriated to the program over five years. For the period 1994-95, 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 local government units (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 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. Proceeds from the recovery schemes are held by the LGU 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 to the fund by workers and their employers.

Under the EHLP, borrowers may secure a loan directly from HDMF offices or through accredited originating banks. The loan amount is up to a maximum ₱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 46x their monthly income, while those without counterpart employer contributions may borrow up to 36x their monthly income. The EHLP requires that the loans be amortized in equal monthly payments, in amounts not exceeding 30% of borrower's gross income. Just as in the UHLP, there is 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% per annum. Loans are payable over a maximum period of 25 years. Payments are made 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% on the unpaid amount, or 18% per annum.

²⁶ ie., families with income below the official poverty line.

For the period 1993-95, loans under the EHLP totaled ₱4,431 million, equivalent to 27,198 units of assistance. Compared to the UHLP, the loans under the EHLP is only 15% of total UHLP takeouts. The loans are divided among the four loan packages thus: 40% for packages ₱150,000 and below, 31.6% for loan packages ₱150,000 to ₱225,000; 28% for packages ₱225,000 to ₱375,000; and 0.4% for the highest loan package.

IV. APPROACH, METHODOLOGY AND DATA

IV.1. General Approach

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 to very poor people 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, indivisible and requires a relatively huge amount of money. However, many poor households in the economy cannot make that investment because they can neither self-finance nor borrow money from the loan markets. Thus, governments intervene to ensure the poor households' access to the housing market. Government intervention in the housing market can be in production, financing, site preparation, allied services such as community programs. More specifically, government provides subsidies to enable the target population to acquire a house.

Subsidies are non-market, direct or indirect transfers of resources by the government to a particular sector. A common form of subsidy is an interest rate subsidy where the government provides housing funds that are lent at below market interest rates.

Housing subsidies are 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, these two are equal, except for the operating cost of the agency. However, problems of valuation and timing of

flows make it difficult to compare them simultaneously.²⁷

Housing subsidies can come in a variety of forms: one can distinguish *between (a) subsidies going to the housing sector in general; and (b) those going to final (actual) beneficiaries*. The former consists of (i) direct budgetary transfers to the different housing institutions and/or housing programs (ii) public asset in-kind used in socialized housing, (iii) mandated transfers from particular institutions, e.g., pension funds, to housing intermediaries, and (iv) grant of tax exemptions to participating institutions.

The latter is composed of (i) below-market loans, (ii) sale of public assets below-market, (iii) grant of exemptions from taxation and/or other levies, and (iv) straight grants.

The housing subsidies are not provided without cost to society. Scarce fiscal resources have their alternative uses and thus, the social benefits of the subsidies must exceed their social cost. As mentioned in the introductory section, in this study, social cost is measured by the total fiscal resources devoted to housing subsidies while social benefits are indicated by the magnitude of the subsidies and their incidence. If the subsidies are enjoyed by the intended targeted sector, e.g., bottom poor, we count this as part of the social benefits. On the other hand, a perverse incidence distribution with the high income groups enjoying the subsidies is counted as part of the social cost of the subsidy.

Apart from the determination of the fiscal cost and incidence of the subsidies, it is equally important to assess how the incentive structure created by the subsidies has affected the behavior of different economic agents in the housing markets. The underlying theme here is scarcity of resources of the economy and the potential 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.

The guiding principles of the study are the following:

- 1. Efficiency in housing finance will be improved by removing distortions in the housing finance markets.*** More market-oriented interest and credit policies, improved loan repayment, termination of public sector involvement in the direct production of dwelling units affordable to the higher income group, more transparent

²⁷See “Notes on Subsidies in Housing Sector in the Philippines,” unpublished World Bank document.

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 well-targeted to reach the most deserving, i.e., the low income group, the most financially incapable members of society.
3. ***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.
4. ***The government must assume a subsidiary role in the provision of housing, and 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 and effectively targeted. In addition, the development of a viable secondary market must be a joint effort between government and the private sector to ensure the liquidity, viability and sustainability of the primary housing market.

IV.2. Methodology, Data and Limitations

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

1. The computation of the magnitude of subsidies is done according to the type of subsidy rather than by program. This is because programs usually consist of one or more types of subsidies. The subsidies generated by 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 subsidies, 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 are the payors by program is given.
-

3. When transactions extend beyond one period, the present value²⁸ of the implied stream of flows is used to account for the total subsidy arising from the transaction. The discount rate used for all present value calculations is 12%²⁹. The discount rate measures the amount of compensation that will make a decision maker agree to forego using his money today and use it instead in the next period.
4. To make the amount of subsidies more meaningful, subsidies per housing unit, per beneficiary and per peso loan are also presented.
5. In the estimation of the actual incidence of the subsidies, stock estimation is used.

IV.2.1. Subsidy Computation

We discuss in this section the method of computing each type of subsidy in the Philippine housing sector. The subsidies are as follows: (1) interest subsidy, (2) guarantee coverage, (3) tax exemption, (4) resettlement, and (5) straight grant.

(a) 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 Php150,000, Php150,000-Php225,000, Php225,000-Php375,000. 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

²⁸
$$NPV = \sum_{t=1}^{t=N} \frac{values_t}{(1 + rate)^t}$$
 . This formula computes the net present value of a stream of *values* for each period *t* and for *N* periods where the rate of discount is *rate*.

²⁹Medalla, E. et al. (1996). “Shadow Cost of Capital - A Reestimation,” PIDS processed manuscript .

smaller loan packages are more costly to administer per peso than larger ones.³⁰ The lowest loan size private banks entertain is Php500,000. The common rate for a 5-year fixed-rate loan of this size is 19%. Since a UHLP loan is much smaller and much longer than this, we added 2% to this prevailing market rate for the largest UHLP loan package.

(b) Guarantee Coverage

To compute 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 point of view of the beneficiary is the present value of the stream of loans losses avoided due to the guarantee cover and the premium payments over the life of the loan. 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.

In the retail guarantee, loans are assumed to have a term of 15 years while developmental loans are assumed to have a term of 5 years. When losses from guarantee calls are considered, the study assumes that this is kept at 1% of the amount guaranteed.

(c) 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 provides 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.

(d) Resettlement

The subsidy in a resettlement program is the difference between the cost of resettlement

³⁰ The earlier draft assumed that smaller loans are riskier and adjusted the market rate according to loan size. However, one of the comments on the earlier draft is that smaller loans are actually not riskier as evidenced by the extensive experience in microfinance program.

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, then 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 considered whatever undervaluation of assets, such as land, building materials, etc. used in the housing unit constructed.

(e) **Straight Grant**

A component of the Abot-Kaya Pabahay 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.

(f) **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 subsidy. For the NHMFC-administered programs, we assume a 0.82% administration cost. This is computed as the ratio of NHMFC's administrative and operating expenses (plus, loan loss provisions) to outstanding mortgage contract receivables.

IV.2.2 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, we analyze the different perspectives of program actors to appreciate the implications of the subsidy. 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 National Home Mortgage Finance Corporation (NHMFC) promises to pay 10.25% to funding agencies (HDMF, GSIS, SSS) and manages its portfolio of three loan packages with loan sizes of up Php150,000, Php150,000-Php225,000, Php225-Php375,000 and bearing interest rates of 9%, 12% and 16%, respectively, to have a margin of at least 2% to cover

the administration cost of the program.³¹ 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: (a) the borrower, (b) the funding agency and (c) NHMFC.

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

From the point of view of the funding agencies, NHMFC pays them 10.25% and they lose the opportunity of earning greater yields from alternative investments, e.g., government securities. The contribution of the funding agency 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% administration cost, does not incur any extra costs.

Thus, under the UHLP program the subsidy, 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.

Additional subsidies are provided to borrowers due to unpaid debts and penalty condonation. The subsidy from unpaid debts consists of the interest forgone from unpaid amortization. To measure the interest forgone from unpaid debts, the study used the conservative interest earnings from a riskless asset -- treasury bill. For the penalty condonation, on the other hand, 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. Funding comes from the national government through the CISFA and from unutilized funds of

³¹ 2% is NHMFC's estimated administration cost for its lending programs.

the Abot-Kaya program. By program design, therefore, the subsidy costs are being borne by the national government through budgetary appropriation, and the NHMFC which implements it.

Socialized Housing Development Loan Program (SHDLP)

This program also consists of 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 home owners 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 some of the subsidy is received by the developers and some by the homeowner.

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

Abot-Kaya Pabahay Program

There are three components of the program, namely: loan amortization support, developmental loans, and cash flow guarantee.

For the loan amortization support component, the beneficiaries get a straight grant which 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% of the interest income for a premium payment of 1.25% for cash guarantee and 0.75% for a bond guarantee. To simplify matters, the study assumes that the bond earnings is 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% of interest income from all forms of taxation.

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

From the point of view of the insured, the benefits is 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, cost of the program is the present value of the tax revenues foregone, and of supporting HGC via implicit guarantees.

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

National Housing Authority (NHA) Resettlement

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 pesos per month for 25 years depending on size and location of homelots.

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

From the point of view of the government, here 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 received is being paid for solely by the national government.

HMDF Expanded Home Lending Program (EHLP)

The mechanics of this program is identical to UHLP except that this is an internal program of HMDF. Thus the subsidy accounting is also identical with UHLP under the assumption that the true cost of administering the program is 2% of the loan amount.³²

IV.2.3. Assumptions, Data and Limitations

(a) Assumptions

Market rate for housing loans (UHLP, EHLP and CMP). This is based on the 19% interest rate charged by PCIBank for its 5-year fixed rate housing loan. Since the minimum loan amount for PCIBank is ₱500,000 and the maximum maturity period is 20 years, an additional 2% 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.³³

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%.

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% was used. The four chosen stocks and their ROI are: Meralco (13%); PLDT (12%); San Miguel (39%); and Ayala Corp. (26%).

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

³² The 2% administrative cost assumption follows that of the UHLP. The UHLP cost was rejected during the Technical Workshop on Housing last 12 September 1996.

³³ PCIBank also offers housing loans at 16% interest with similar loanable amount and maturity. However, the 16% rate is fixed up to one year only in contrast to the 19% interest rate which is fixed for five years. Other banks such as the Planters Development Bank offer rates at 18.5% for one-year fixed rate loan. These packages contrast with the UHLP's and EHLP's 25-year fixed housing loan rate.

Market rate for developmental loans. Based on BPI Family Bank rate of 16.5% 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.

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

IV.3 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. Aging 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 amortization support granted
2. Loans released under developmental component
3. Amount guaranteed under cashflow component
4. Called accounts on cashflow guarantees

For EHLA:

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, Phase 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

(c) **Scope and Limitations**

1. Subsidy computations were made only for a select group of programs. Other programs were not covered primarily due to insufficiency of data. The estimates for the magnitude of subsidies are all present values. The subsidies estimated for the incidence of the benefits were stock estimates.
2. Subsidy computations covered only transactions recorded from 1993-95.
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.

V. MAGNITUDE OF HOUSING SUBSIDIES

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 1993-95 is summarized in **Table V-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 1993-95 totaled ₱25.4 billion, or 1.3% of GNP in 1995. From the payers' viewpoint (columns three to six), however, the subsidies amount to a lower ₱11.5 million, which represent either income (interest earnings or taxes) foregone, direct budgetary outlays or losses on the NHMFC's operations.

Figure V-1 shows that the bulk (90%) 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 ₱18.8 billion or 74.1% of total housing subsidies from 1993-95 (**Figure IVA-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 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 are only 4.4% 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% 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% of the total subsidy to the housing sector. Among individual programs, it ranks third in terms of subsidy size.

Table V-1
Summary of Housing Subsidies: All Programs
 1993-95, in millions of pesos

Programs (1)	Beneficiaries (2)	Payers			
		Government (3)	Fund Members (4)	NHMFC (5)	Total (6)
<i>UHLP</i>					
Interest subsidy/2	18,825.9		8,007.6	(1,835.1)	
NHMFC losses		321.0			6,493.5
<i>CMP</i>					
Interest subsidy/2	933.8				
CISFA contributions		380.0			
NHMFC losses		8.8			388.8
<i>SHDLP</i>					
Interest subsidy	24.1				-
<i>EHLP</i>					
Interest subsidy/2	3,166.1		990.9		990.9
<i>Abot-Kaya Fund</i>					
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
<i>HIGC Retail</i>					
Tax Exemption	1,782.0	1,782.0			
Premium Income	(681.0)	(681.0)			
Loan losses		155.0			1,256.0
<i>HIGC Developmental</i>					
Tax Exemption	29.3	29.3			
Premium Income	(12.4)	(12.4)			
Loan losses		9.2			26.1
<i>NHA Resettlement</i>					
Resettlement subsidy	1,302.0				
Budget releases		885.7			885.7
TOTAL /4	25,397.8	3,421.9	8,998.5	(1,835.1)	10,585.3

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

/2 Subsidy figures from borrowers' perspective based on the 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)

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

Figure V- 1

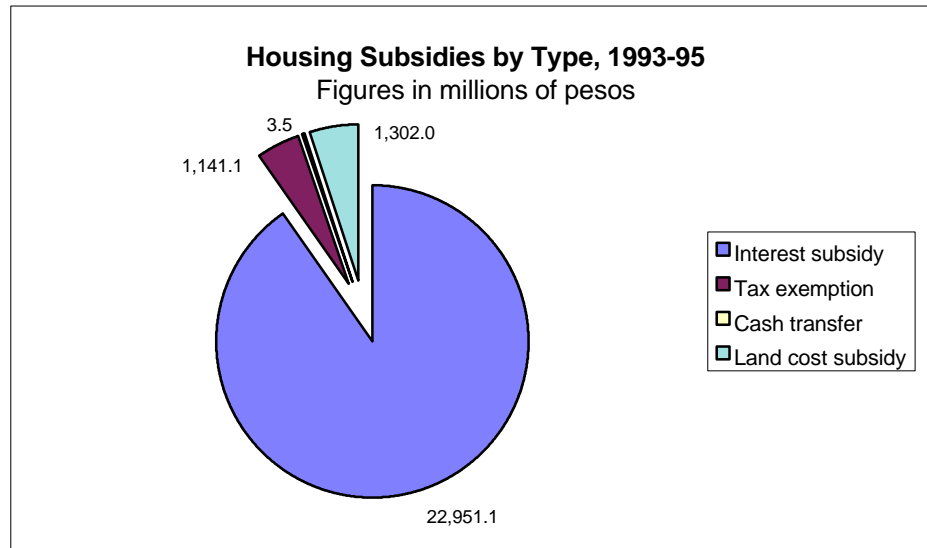
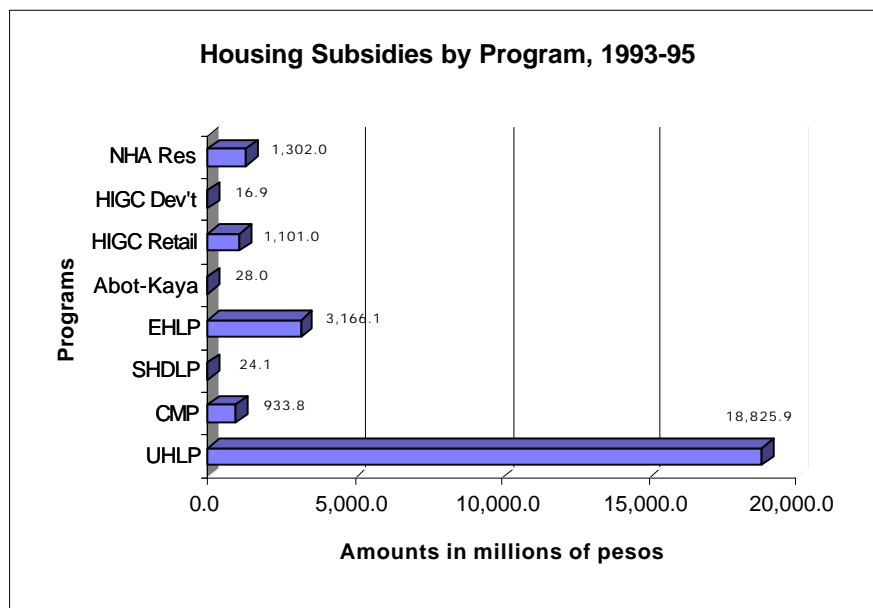


Figure V- 2



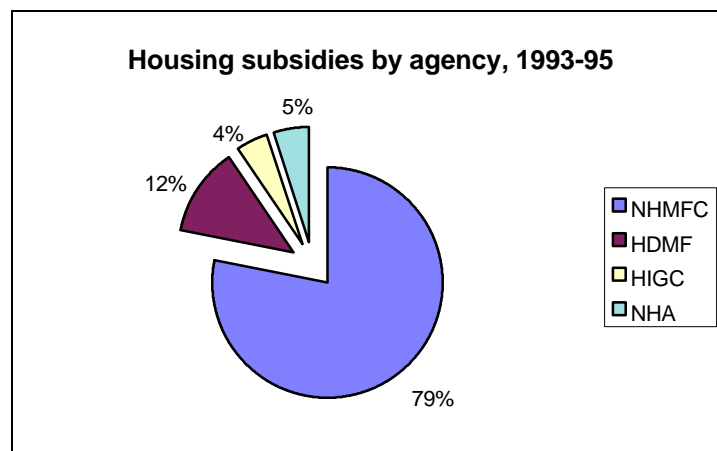
Another significant subsidy is the tax-exempt feature of the HIGC guarantees. As a whole, these subsidies comprised 4.5% of total housing subsidies from 1993-95 and almost 2/5 of 1% of government tax revenues in 1995. Among the guarantee programs, the retail guarantees

carry the biggest tax subsidy amounting to ₱1.1 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 amount to ₱28 million, which is 1/10 of 1% 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 V-3* shows that 78% of the total housing subsidies from 1993-95 was coursed through the NHMFC due primarily to the UHLP. Hence, there is a clear mismatch here with the smallest housing agency handling the biggest subsidy program.

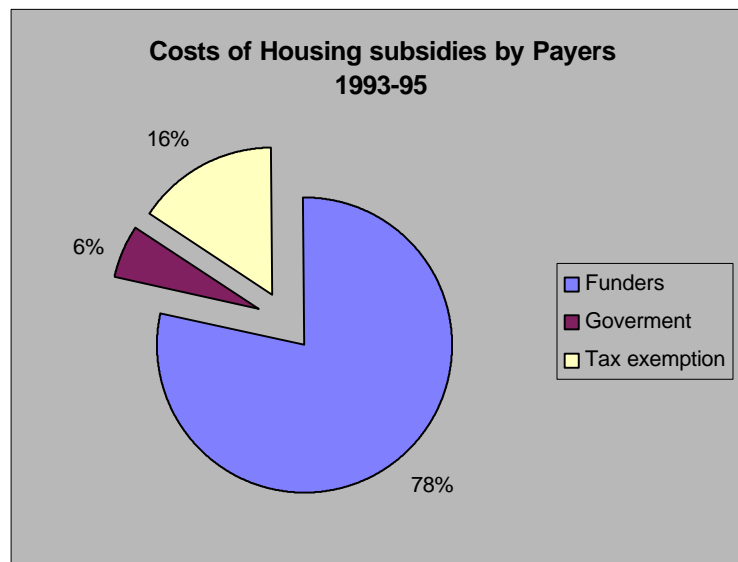
Figure V- 3



In terms of the cost of the subsidy programs, *Figure V-4* shows that the three funders - the SSS, GSIS and HDMF - shouldered 78% of the subsidies from 1993-95. The funders have the biggest share in the overall cost since they provide funds for the two largest subsidy programs - the UHLP and the EHLP. The rest of the funds are sourced from tax exemptions (16%) and government budgetary allocations (6%).

The following presents a more detailed discussion of the calculated government subsidies for each program for the period 1993-95. 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**.

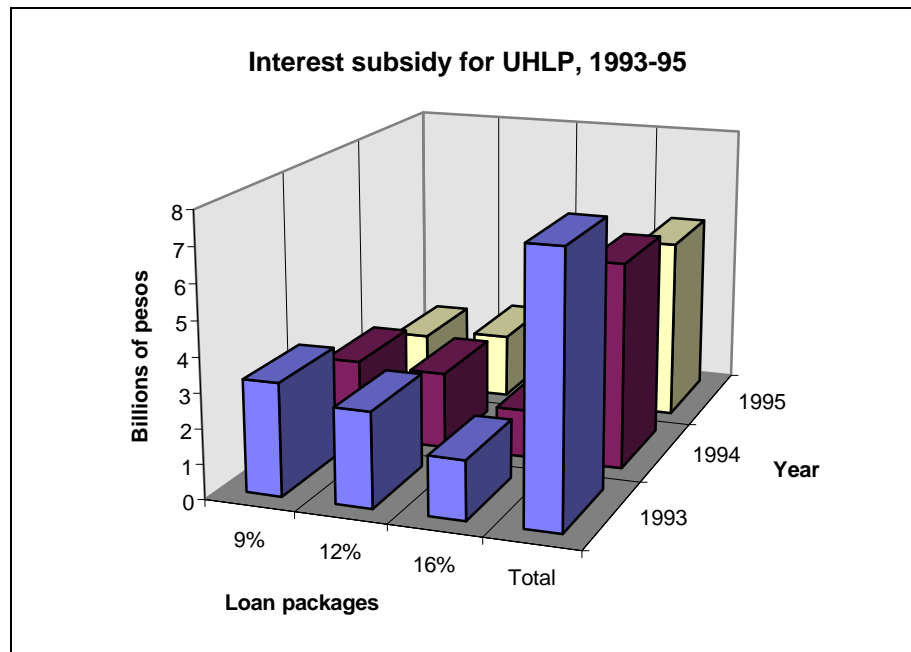
Figure V- 4



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 should pay on the loan were he to obtain it from the market and what he actually paid for it under the UHLP. Based on the value of all UHLP loans granted from 1993-95, this subsidy totaled ₱18.8 billion, or almost 1% of GNP in 1995. This subsidy is not distributed equally among the borrowers but varies depending on the loan amount (**Figure V-5**). The entire subsidy is distributed among the borrowers of the three loan packages as follows: 38% to those borrowing up to ₱150,000; 36% to those borrowing higher than ₱150,000 up to ₱225,000; and 26% to those borrowing from ₱225,000 to ₱375,000.

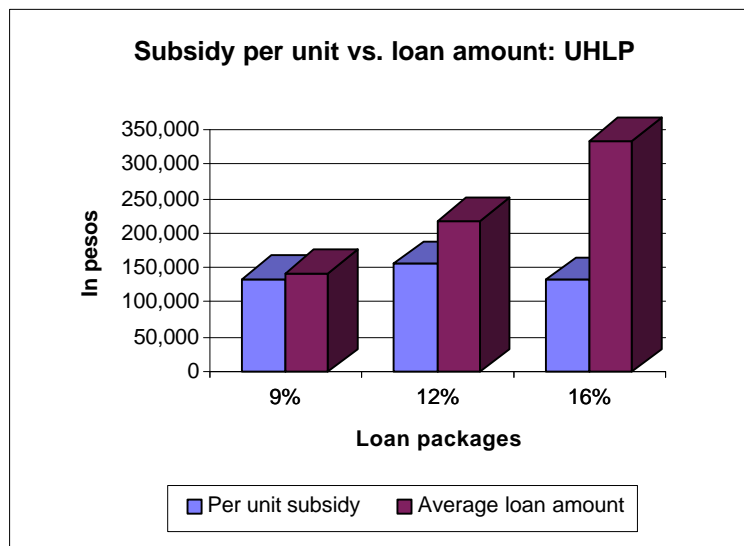
Figure V- 5



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 ₱134,319 (roughly the equivalent of the annual income of a household belonging to the *ninth* income decile), almost equal to the ₱150,000 loan amount. Alternatively, the figure also means that instead of having to pay the market value of ₱2,527 in monthly amortizations over 25 years, the borrower pays only ₱1,215 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 ₱155,206 and ₱132,840 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%) and smallest for the highest loan package (40%). (*Figure V-6*).

Figure V-6



The above tells what the borrower gained by borrowing under the program. The other side of the story gives the cost of having the program. As mentioned in Section IIID, by design, only the funders bear the program's interest costs. The subsidy, from the SSS's, GSIS's 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 ₱8 billion from 1993-95 (*Table V-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 (which are government institutions) as loan defaults and loan collection problems lead to a threat of bankruptcy for the housing agencies and pressure for the government to recapitalize them. To the extent that this happens, taxpayers ultimately bear the cost of the program.³⁴

³⁴ It also matters to society: (a) whether the subsidies within the funding institutions follow some perverse pattern, i.e., the lower income members subsidizing the higher income group (refer to Section VI); (b) whether the actual beneficiaries of the program are not the targeted group; and (c) whether the other parties to the program - the NHMFC and the National Government - are shouldering additional costs.

Table V-2: Interest Subsidy to the UHLP, Funders and NHMFC's Viewpoints, 1993-95

	Cost of Subsidy (₱ mil)	Subsidy/house unit
Funders		
9%	2,055.5	₱ 38,552
12%	2,621.2	59,435
16%	3,330.9	91,807
<i>Total</i>	<i>8,007.6</i>	<i>59,892</i>
NHMFC		
9%	1,815.4	34,050
12%	74.9	1,699
16%	(3,725.5)	(102,681)
<i>Total</i>	<i>(1,835.1)</i>	<i>(13,726)</i>

If everything works well under the UHLP setup with all due amounts collected promptly, the NHMFC should break even and live within the 2% of loan amount budgeted for administration expenses. But the NHMFC's true administration cost, based on its 1993-95 financial statements, is only 0.82% of the loan amount. This means that the NHMFC's actual cost of administering the UHLP is lower than anticipated 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% loans were more than enough to cover the subsidy under the 9% and 12% loans so that the NHMFC is 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 actual implementation of the UHLP.

The subsidy figures above assume that the UHLP works perfectly with borrowers repaying all the loans. However, as described in Section IIID, the collection efficiency of UHLP is less than perfect. 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 amortizations for one month and above have reached ₱29.3 billion. Under the law, 79% of these loans are already in default and 40% 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 constitutes an actual cash outflow from the government's coffers. The UHLP's share in the NHMFC's losses from 1993-95 is estimated at ₱321 million.³⁵ 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 compared to an all-time delinquent (ten years) who receives ₱42,411 (or 75 times more).³⁶ Moreover, the condoned amount for the former is just 14% of the downpayment he is required to put up as against the latter's 65%. What makes this 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 willingness to repay the loans.³⁷

Community Mortgage Program (CMP)

The subsidy under the CMP may be viewed from two different perspectives - at the receiving end are the final beneficiaries while 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 1993-95, the total subsidy to CMP borrowers is equal to ₱933.8 million (**Table V-3**). Relative to the UHLP, this subsidy is very small despite the huge interest subsidy involved in CMP loans. This may be

³⁵ This is computed based on the "loan loss provision" item in the NHMFC's financial statements from 1993-95. 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%, respectively.

³⁶ Refer to Appendix V-4a and V-4b.

³⁷ The program has no credible threat of foreclosure which may instill fear in the hearts of delinquents.

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 V-3: Interest Subsidy to the CMP

Year	Subsidy amount (₱ mil)	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 V-4**). Under the CISFA, ₱380 million were directly released to the program from 1994-95. 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 1993-95 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.³⁸ Thus, the budgetary cost to the government of the CMP subsidy during the period equaled ₱570 million.

³⁸ Refer to footnote 36.

Table V-4
Government Subsidy Releases to Housing Programs
1993-95, In millions of pesos

Programs	1993	1994	1995	Total
NHMFC				
Abot-Kaya Pabahay Fund				
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 1993-95, the total subsidy to the developer equaled ₱24.1 million during the three-year period or 3.4% of the entire loan amount under the SHDLP (*Table V-5*). Given that some 31,119 units were built with these funds, the subsidy per unit of housing constructed is ₱774, which is less than 1% of the estimated land development and house construction cost of a ₱150,000 unit.

Table V-5: Interest Subsidy to the SHDLP

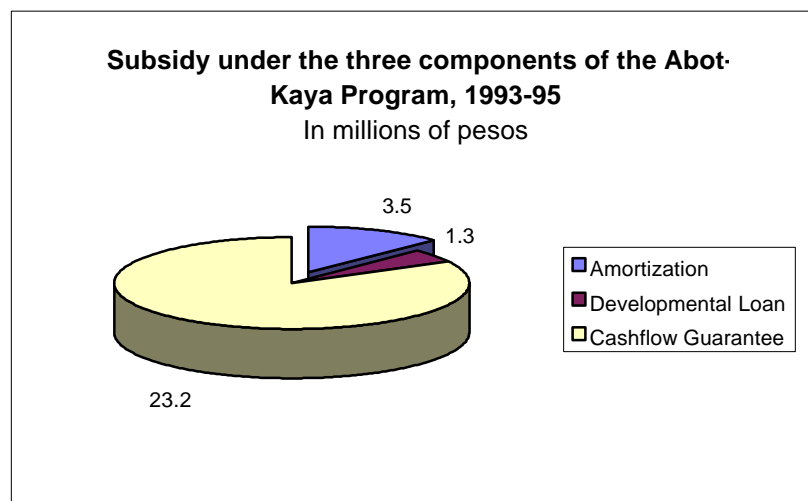
Year	Subsidy amount (₱ mil)	Subsidy/house unit
1995	9.4	925
1994	10.6	908
1993	4.1	441
Total	24.1	774

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 (₱150,000) 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.³⁹ 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 - the NHMFC and the HIGC - do not incur additional costs since the Abot-Kaya Fund bears all the associated administrative costs. Overall, the magnitude of the Abot-Kaya subsidies is equal to the sum of the subsidies of its three components, including the associated administrative costs (*Figure V-7*).⁴⁰

Figure V-7



³⁹ Still, the design and features of the units should conform to a set of minimum standards as prescribed under Batas Pambansa 220 issued by the Housing and Land Use Regulatory Board (HLURB).

⁴⁰ It should be noted that the three components carry different subsidy measures. The amortization support represents an actual cash transfer which 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% of the amount to cover for administrative costs.⁴¹ From 1993-95, the subsidy comes up to ₱3.5 million, which is very small relative to the subsidies involved in other programs. Moreover, unlike the other programs which, essentially, carry hidden subsidies, the amortization support program represents an outright subsidy and can, thus, be traced back to actual budget releases from the national government. From the government's side, releases to the program from 1993-95 under the CISFA, reached ₱570 million. The huge differential 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 (*refer to Chapter IIID*), total subsidy from 1993-95 equaled only ₱1.3 million, or 5.4% 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 1993-95 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% 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% of loan amount, the subsidy in terms of free insurance (which in normal cases would cover for administration costs) totaled ₱21.4 million from 1993-95.⁴²

Meanwhile, from the government's viewpoint, a total of ₱285 million and ₱575 million were released to the developmental loan and the cashflow guarantee components, respectively from 1993-95 (*Table V-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 ₱1.4 billion.

HIGC Guarantee Programs

There are principally two parties involved in these programs - the government (as represented by the Department of Finance (DOF) and HIGC) and the private sector financiers of

⁴¹ The rationale for using a 1% administration cost is that unlike the UHLP, the amortization support program does not involve payment collection; hence, the associated administration cost is lower.

⁴² The ₱1.8 million is computed as 50% of ₱3.53 million. The free insurance of ₱21.4 million is computed as 1.25% of the ₱1.7 billion guarantees.

the guaranteed loans (banks and developers). 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, in as much as guarantee fees are paid to the HIGC, the government also earns insurance income. Overall, thus, the difference between the two is the net subsidy provided by the government to the program.⁴³ What the government loses, the private financiers gain.⁴⁴ 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% and maturity period up to 15 years, calculations show the HIGC guarantee actually leads to losses for the government. The figures say that for every peso guarantee by the HIGC (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 a cash guarantee and eight centavos on a bond guarantee per peso guarantee (*Table V-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 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% loss on insurance claims, the cost to the government increases to seven centavos for cash guarantees and nine centavos for bond guarantees.⁴⁵

Other guarantee programs share the same story. *Table V-6* gives 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 term of the loan 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%), 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.

⁴³ 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 paper.

⁴⁴ The estimates do not include the gain captured by the HIGC via a larger volume of business.

⁴⁵ HIGC claims that it has a 50% 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% of outstanding guarantees). Hence, the paper's computations assuming no claims would be a good approximation of the total subsidy on the HIGC guarantees. The estimates assuming a 1% loss on insurance claims show by how much the subsidy will increase given the 1% loss.

Table V-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								
< 225K	0.03	0.03	0.02	0.01	0.01	0.02	0.02	0.03
> 225K	0.03	0.03	0.03	0.01	-0.001	0.01	0.02	0.03

Using these calculations, *Table V-7* gives the actual losses incurred by the government on the tax incentive given to HIGC guaranteed loans. From 1993-95, on the total coverage of ₱16.6 billion, the government lost ₱1.8 billion in tax revenue and gained ₱693 million in premium income, for a net loss (without claims) of ₱1.1 billion. This is about 1/3 of the government's tax revenue in 1995. Further, providing for possible losses associated with claims on the guarantees, the net subsidy under the program is a higher ₱1.3 billion (or 2/5 of 1995 tax revenue).

The largest subsidy group, with net subsidies amounting to ₱1 billion (or 94% of the total net subsidy on HIGC guarantees), is the retail loan guarantee for banks. The bulk of these subsidies, or ₱886 million (or 1/3 of 1% of 1995 tax revenues), are associated with subsidies to retail bond guarantees while subsidies to cash guarantees amount to only ₱165 million (1/20 of 1% of tax revenues). In comparison, net subsidies to developers' retail guarantees represent only 5% 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 ₱17 million.

NHA Resettlement Program

The subsidy under this program is the sale of government assets (i.e., developed land) to beneficiaries at subsidized prices (₱30 to ₱50 per month for 25 years). Based on the average resettlement cost from 1993-95, the subsidy per unit of homelot is ₱53,536 for a ₱50 rental unit and ₱55,435 for a ₱30 rental unit (*Table V-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% to 95% of the per unit resettlement cost. While the share of the subsidy to total cost is large, at most, the resettlement program gives only 41% of the amount of subsidy given to

a P150,000 UHLP loan borrower; and this is supposed to be a program targeted at the poorest of the poor.

Table V-7
Subsidy Due to HIGC Guarantees
New Enrollments, 1993-95
Amounts in millions of pesos

	Retail		Developmental/ ³		Total
	Bank	Developer	< P225K	> P225K	
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%; bond - 78.4%).

/2 Claims assumed at 1%. Refer to footnote 12.

/3 Loan value classification based on the average 1993-95 developmental guarantee portfolio of HIGC (<P225K - 78%; >P225K - 22%)

Table V-8
**Subsidy to Resettlement Program
1993-95**

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

Notes:

<i>Total Resettlement Cost (PMil)</i>	1,415
<i>Number of Units</i>	24,278
<i>Resettlement Cost/Unit</i>	58,284

Given then the total number of units (24,278) generated from 1993-95 under the resettlement program, the total subsidy to the beneficiaries would be around ₱1.3 billion (or 1/15 of 1% of 1995 GNP). However, these estimates do not consider yet 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.⁴⁶ Looking at the program from DBM's side, the actual releases of the government to the program totaled ₱885.7 million during the period.

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

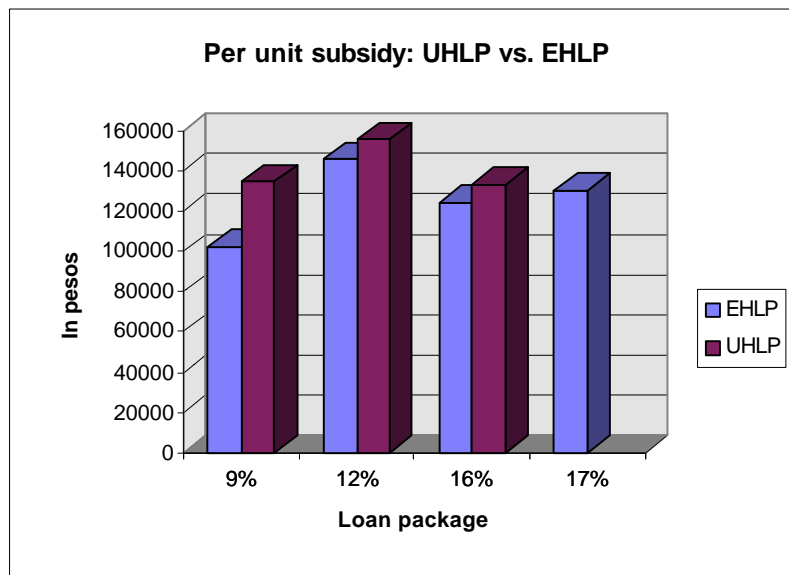
HDMF Expanded Home Lending Program (EHLP)

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.

⁴⁶ Data from the NHA showed that the total NHA counterpart for land development in joint venture projects with LGUs totaled ₱330 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 have encountered problems with reconciling the two sets of data.

For the beneficiaries, the total subsidy they received from 1993-95 amounted to ₱3.2 billion or 17% of total UHLP subsidies (**Table V-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 ₱102,244 (annual income of household in eight decile). This is 24% lower than the per unit subsidy of the same loan package under the UHLP (**Figure V-8**). This may be explained by the fact that the average loan size of the 9% EHLP loan package is smaller than the UHLP average loan. The ratio of the subsidy to the size of the loan (94%), however, is the same as that under the UHLP. The same pattern holds for the higher loan packages, where borrowers received average subsidies of ₱161,859 (annual income of ninth decile households) for the second level package, ₱124,160 (ninth decile) for the third level package, and ₱97,356 (eight decile) for the highest package.

Figure V-8



Box V: Case Study: NHA Resettlement Program

The NHA carried out the Area D-3 Phase I-II resettlement project in 1994 as a relocation site for Metro Manila squatters. Located in Dasmarinas, Cavite, the project targeted DPWH squatters as well as those near Ilog Pasig, NAIA and PPA as beneficiaries. The project sought to create 3,733 homelots 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 thus, the project, cost the government ₱70.6 million to complete.

Beneficiaries of each unit were required to pay ₱50 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): ⁴⁷	₱ 18,926	(a)
PV of Payment stream (₱50, disc. 12%, 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 says that for every peso the NHA spent on relocating the squatters to Dasmarinas, Cavite, it is giving out a subsidy equal to 75 centavos. On the average, thus, 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.⁴⁸ This undervaluation of the land should be considered as additional subsidy. Thus,

Land subsidy / household ((₱450-₱30)*50sq.m.):	₱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.

⁴⁷ Basic data sourced from NHA, project profile of AREA D-3 PHASE I-II (BAUTISTA).

⁴⁸ Market price of rawland in Dasmarinas, Cavite sourced from Real Estate Monitor published by Econotech.

From the HDMF's viewpoint, the cost associated with the EHLF is the foregone earnings from alternative investments yielding higher returns. Based on the loan value from 1993-95, this cost amounted to P990.9 million (*Table V-9*).

Table V-9: Interest Subsidy on EHLF, 1993-95
In million pesos

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

VI. INCIDENCE AND EFFECTIVENESS OF HOUSING SUBSIDIES

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 the sources of the subsidies 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. The final beneficiaries of housing subsidies include individuals/households who are beneficiaries of housing programs and other 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 which 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 effectivity 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 the distribution of beneficiaries across loan packages and the total amount of

the loans are 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 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 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, the CMP, the EHLP, the SSS Individual Housing Loan Program, the HIGC, and the 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 whether 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 magnitude of the subsidies the present value approach is more appropriate.

Table VI-1 Incidence of the Housing Subsidies

<i>Programs</i>	<i>Income Group</i>		
	<i>Low</i>	<i>Middle</i>	<i>High</i>
UHLP			
% of Beneficiaries	38	33	29
% of Loan Value	26	33	41
% of Delinquent Loans	11	36	53
EHLP (% 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 income ₱5,000 - below ₱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, the monthly family income was estimated at ₱4,485, thus families with income below the threshold are classified as poor (lowest income group).

Table VI-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. In terms of loan value, only 26 percent of the mortgages were availed by the low income group while 33 percent and 41 percent of the mortgages were availed by the middle and the high income groups. 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 were from the low and high income groups, respectively. On the other hand, the CMP benefitted families belonging to the low income group (bottom 30 percent of the income distribution).

Our estimates indicate that the UHLP is a program where there is active participation by the middle and the high income members of the pension funds. The principle of cross subsidization does not seem to work well 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 and increases the probability of program participation by the low income group.

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

Unified Home Lending Program (UHLP)

The funds for the Unified Home Lending Program (UHLP) are sourced from the traditional funders --- the Social Security System (SSS), the Government Service Insurance System (GSIS) and the Home Development Mutual Fund (HDMF). These institutions committed investable funds annually to the National Home Mortgage Finance Corporation (NHMFC) which in turn implemented the program. In effect, the members of the pension funds bear the brunt of financing UHLP. For the period 1989-1995, the GSIS provided P5.895 billion to the program.⁴⁹ On the other hand, the SSS housing portfolio showed that P12.485 million were provided to the UHLP for the years 1994-1995.

Table VI-2
MORTGAGES TAKEN-OUT UNDER THE UHLP PROGRAM
For the period 1993-1995

<i>Loan Bracket (in thousand)</i>	<i>1993-95</i>				
	<i>No. of Beneficiaries/ Units</i>	<i>% to Total</i>		<i>Average Loan Value</i>	<i>Average Income</i>
		<i>Beneficiaries/ Units</i>	<i>Loan Value</i>		
>0 to P150,000	56,323	38.1	26.0	135,513.6	4,517.1
> P150,000 to P225,000	48,521	32.8	32.8	198,625.4	6,620.8
> P225,000 to P375,00	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

⁴⁹ The figure was provided by GSIS.

With the objective of providing a 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 VI-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 that under the program, the loan amount is equal to the monthly income of the borrower times 30.⁵⁰ From 1993-1995, the UHLP benefited about 147,905 individuals.

Did the low income mortgagors comprise a large proportion of the total borrowers under the UHLP? About 38.1 percent of the borrowers availed themselves of the ₱150,000 and below loan package while 62 percent availed themselves of the over ₱150,000 to ₱225,000, and over ₱225,000 to ₱375,000 loan packages. (*Annex VI-1*)

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. 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 level of interest rate. Thus, higher income borrowers who availed themselves 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 decile⁵¹ 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 ₱6,620.85 and ₱9,390, respectively. These borrowers belong to the seventh up to the tenth decile of the income

⁵⁰ 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.

⁵¹ The mean family income data by decile were obtained from the 1994 Family Income and Expenditures Survey.

distribution.

The above 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 principle 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. In effect, the lower income members of the pension funds subsidize the higher income members who were able to obtain mortgages under the program. The situation is worsened by the fact that many low income pension fund members are not borrowers of the UHLP.⁵²

The observations can be partly attributed to the use of the A formula lending approach in determining the actual amount of a loan that a borrower can avail under the program as well as the affordability⁵³ of the loan packages to the lower income groups. Under the UHLP, the minimum monthly income to qualify for a loan as low as ₱50,000 was estimated at ₱1,666.67 (*Table VI-3*). This loan amount would require about ₱555.56 per month in amortization.⁵⁴ The ₱555.56 monthly amortization is about 22 percent of the mean monthly income of families belonging to the bottom 30 percent of the income distribution.⁵⁵

⁵² For instance, the survey of Metro Manila squatter families by CREBA Social Housing Foundation in 1995 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 and thus, their families remain in squatter areas.

⁵³ The loan package is affordable if the amount devoted to housing by the family is equal or greater than the monthly amortization.

⁵⁴ The maximum monthly amortization is equivalent to one-third of the minimum income to qualify for a given loan amount.

⁵⁵ The families belonging to the bottom 30 percent of the income distribution are classified as poor.

Table VI-3
LOAN AMOUNT AND MINIMUM INCOME TO QUALIFY FOR A LOAN
UHLP

<i>Amount of Loan (in pesos)</i>	<i>Interest Rate (in %)</i>	<i>Minimum Income to Qualify for a Loan (in Pesos)</i>	<i>Maximum Monthly Amortization (in Pesos)</i>
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

However, lower shares of housing expenditure to total income can be observed across the income decile (**Table VI-4**). 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 percent 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 percent and 7.8 percent, respectively.

Table VI-4
MEAN FAMILY INCOME AND PERCENT
SHARE OF HOUSING EXPENDITURE TO
TOTAL EXPENDITURE AND TOTAL INCOME
BY INCOME DECILE 1994

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

Source: FIES 1994, NSO

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 devoted to housing of the families in the bottom 30 percent of the income distribution. This implies that the households particularly in lowest income decile cannot afford to pay the monthly amortization and this hinders their active participation in a home mortgage program like the UHLP.

Loans amounting to P150,000 and above require minimum monthly income of P5,000 and up, and monthly amortization of P1,666.67 and above. To qualify for the loan ceiling of P375,000, a borrower should have a monthly income of at least P12,500 and should pay a monthly amortization of P4,166.67. Under the P150,000 and above loan packages, the maximum monthly amortization ranges from P1,666.67 to P4,166.67. Only the middle and the higher income groups can afford such amounts.

Thus, the interest subsidy from the housing loans under the UHLP does not seem to reach the low income groups because affordability is not improved in any way by the use of the formula lending approach. High income members of the pension funds who can avail themselves of the bigger loan packages and afford to pay the required monthly amortization, capture almost all of the interest subsidies.

Table VI-5
DELINQUENT LOANS UNDER UHLP PROGRAM
As of April 1996

<i>Loan Bracket (in thousand)</i>	<i>No. of Loans</i>	<i>% to Total</i>		<i>Average Loan Value</i>	<i>Average Income</i>
		<i>No. of Loans</i>	<i>Loan Value</i>		
Delinquent Loans	105,084	100.0	100.0	201,820.1	6,727.3
>0 to P150,000	22,465	21.4	11.1	104,415.0	3,480.5
> P150,000 to P225,000	44,004	41.9	36.0	173,443.2	5,781.4
> P225,000 to P375,00	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 VI-5** shows the number of beneficiaries and average loan value of delinquent loans under the regular UHLP. The detailed aging per loan bracket of the NHMFC's regular accounts are presented in **Annex VI-2**. Loans which are not paid three monthly amortization are considered as delinquent. As of April 1996, about 105,084 accounts were considered delinquent. These accounts have a total loan value of P21.2 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 P150,000 and with average monthly incomes of P5,820.07 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 P150,000. 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 at 16 percent

interest rate was 57 percent compared to 73 percent for loans at 9 percent rate.

A portion of the interest subsidy in the form of origination fee charged to the borrower is captured by the originators⁵⁶ and the NHMFC. 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 effectiveness of the UHLP in reaching its target beneficiaries has been hampered by factors which 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 Community Mortgage Program (CMP) is funded by budgetary allocation from the national government under the Comprehensive and Integrated Shelter Finance Act (CISFA) of 1994. The budgetary appropriation under the CISFA is equivalent to ₱12.78 billion for five years starting in 1994. The budget allocation to the program amounted to ₱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.

The CMP is targeted to households in slum communities and is operated under the principle of self-help. The CMP is an example of a program which aims to redistribute housing resources to the very poor and to the most depressed areas. Please see **Box VI-1**. The detailed summary of projects taken-out under the CMP are shown in **Annex VI-2**.

As of September 1996, 524 projects were undertaken under the CMP benefitting 63,221 households and amounting to total mortgage value of ₱1.54 billion. The spatial dimension of the 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

⁵⁶ The originators may be financial institutions, developers or corporate employers.

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 VI-1.

A Case of CMP Beneficiary

One particular case of beneficiary of the CMP 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 PhP271.43 for the 43 square meter property for 25 years.

Source: NHA Annual Report 1994.

Table VI-6 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 are required for a household to qualify for the ₱60,000 and ₱30,000 loan for acquisition of undeveloped property, respectively. 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 to be 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 loans⁵⁷ are also affordable since the urban poor on the average, pay as much as ₱500 rent per month.⁵⁸ Moreover, the loans are charged a low interest rate of 6 percent.

⁵⁷ Note the case cited above that a family beneficiary of CMP pays about P271 a month for a 43 square meter lot.

⁵⁸ This information was obtained from a purposive sample of squatter families in Manila.

Table VI-6
COMMUNITY MORTGAGE PROGRAM

<i>Activities</i>	<i>Loan Limit (in pesos)</i>	<i>Minimum Family Income to Qualify for CMP Loan (in pesos)</i>
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, much of the benefits are captured by the intended beneficiaries. However, the success of the program has been hindered by the lack of long-term sources of funds and 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.

Pag-ibig Expanded Housing Loan Program (EHLF)

The Expanded Housing Loan Program (EHLF) of the Home Development Mutual Fund 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 EHLF amounted to some ₱4.4 billion for 27,198 units and benefiting 30,486 borrowers.

TABLE VI-7

**A. MONTHLY INCOME BY INTEREST RATE: HDMF - EHLBP BORROWERS FOR NCR
1993-1995**

<i>Monthly Income</i>	<i>Interest Rate</i>				<i>TOTAL</i>	<i>% Distribution</i>
	<i>9%</i>	<i>12%</i>	<i>16%</i>	<i>17%</i>		
0 income	24	7	6	4	41	5.09
over 0 to P1,000	1	0	2	0	3	0.37
over P1,000 to P2,000	7	0	2	0	9	1.12
over P2,000 to P3,000	31	4	7	0	42	5.22
over P3,000 to P 4,000	139	14	11	1	165	20.50
over P4,000 to P 5,000	198	132	42	2	374	46.46
over P5,000	37	16	85	33	171	21.24
TOTAL	437	173	155	40	805	100.00

**B. MONTHLY INCOME BY LOAN VALUE: HDMF - EHLBP BORROWERS FOR NCR
1993-1995**

<i>Monthly Income</i>	<i>LOAN VALUE</i>				<i>TOTAL</i>	<i>% Distribution</i>
	<i>> 0 to 150K</i>	<i>> 150K - 225K</i>	<i>> 225K - 375K</i>	<i>> 375K - 500K</i>		
0 income	19	8	8	6	41	5.09
over 0 to P1,000	1	0	2	0	3	0.37
over P1,000 to P2,000	4	4	1	0	9	1.12
over P2,000 to P3,000	30	5	6	1	42	5.22
over P3,000 to P 4,000	120	34	11	0	165	20.50
over P4,000 to P 5,000	149	160	58	7	374	46.46
over P5,000	27	25	80	39	171	21.24
TOTAL	350	236	166	53	805	100.00

Source: Sample of 805 EHLBP Borrowers in
NCR, HDMF

Table VI-7 shows the distribution of a sample of EHLBP 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 P4,000. These borrowers belong to the upper 60 percent of the income distribution. This implies that a larger proportion of the interest subsidies from EHLBP 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 also be observed that there are differences in the level of subsidy for mortgagors at the same income range. In a sample of 805 EHLBP 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, 5 were granted loans over ₱150,000 to ₱225,000, 6 were granted loans over ₱225,000 to ₱375,000, and 1 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 the various loan packages under the EHLP reveals that the minimum monthly incomes to qualify for a loan as low as ₱50,000 were estimated at ₱1,086.96 for HMDF members with employer counterpart contributions and ₱1,388.89 for members without employer counterpart contributions (*Table VI-8*). 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 Aformula lending@ approach applied under the EHLP⁵⁹ 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 and ₱4,166.67 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. Under the Aformula lending@ approach used in UHLP and EHLP, the credit risk is borne by the NHMFC and ultimately, by the pension fund members.

⁵⁹ The member-borrowers with employer counterpart contributions may borrow up to 46x their monthly income while those without employer counterpart contributions may borrow up to 36x their monthly income.

Table VI-8
LOAN AMOUNT AND MINIMUM INCOME TO QUALIFY FOR A LOAN
EHLP

<i>Amount of Loan (in pesos)</i>	<i>Interest Rate (in %)</i>	<i>Minimum Income to Qualify (in Pesos)</i>		<i>Maximum Monthly Amortization (in Pesos)</i>	
		<i>w/ Employer Counterpart</i>	<i>w/o Employer Counterpart</i>	<i>w/ Employer Counterpart</i>	<i>w/o Employer Counterpart</i>
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
175,000	-	-	-	-	-
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 Individual Housing Loan Program of the Social Security System (SSS) and the Individual Real Estate Loan Program of the Government Service Insurance System (GSIS) are the in-house home lending programs of the institutions. 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 in-house 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 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 (HIGC) 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 in terms of the foregone tax earnings due to tax exemptions. For the period 1994-1995, the appropriation for the regular cash flow guarantee under the CISFA was P500 million of which P385 million (or 77 percent) was released. Appropriations for capitalization of the HIGC for the same period was P500 million.

NHA Resettlement Program

Resettlement programs provide direct housing assistance to the poor particularly those who are displaced from sites earmarked for government infrastructure projects and from areas designated as danger zones. The full cost of the resettlement is borne by the government under the Comprehensive and Integrated Shelter Finance Act (CISFA) of 1994. The cost includes the actual amount of resettlement, i.e., the cost of land acquisition, and site development. The budget allocation to the program amounted to P425 million and P736.5 million for 1994 and 1995,

respectively. However, the funds released were much lower and only amounted to P398 million, P590 million in 1994 and 1995, respectively. Of the P1.2 billion funds allocated to the program for the period 1994-1995, only about 74 percent was released.

Box VI-2.

Smokey Mountain Development & Resettlement Project

An example of a resettlement program is the Smokey Mountain Development and Resettlement Project which is 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.⁶⁰ 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 the area of the permanent housing site. Temporary housing units were constructed in what used to be warehouse 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 which measure about 10 feet (width) by 12 feet (length). There are about 14,000 families composed on the average of 6 to 9 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.

VII. INCENTIVE COMPATIBILITY PROBLEMS IN EXISTING SUBSIDY PROGRAMS

The present 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 compatibility problem arises 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. Their strategic behavior which 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

⁶⁰ The information was sourced from the report of the child advocacy project of the UP Dept. of Pediatrics.

repay that loan. The creditworthiness criterion for a loan has been set aside by the government and the private sector 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 whose repayment can be delayed or postponed. 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 become effectively 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 situation is aggravated by the design of housing finance for socialized housing. 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 were willing to lend for low cost housing purposes, they would not because they can not compete with the subsidized loans provided by the government. 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 take-out agreement with the government's housing agencies. They also earn sure income and do not have credit risk exposure except in so far as there are delays in getting reimbursement from the housing agencies through the take-out mechanism. In this case, they incur opportunity losses.⁶¹ 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 take-outs by the government's housing agencies create incentives for supplying sub-standard housing units and defective infrastructure to the most number of borrowers who could be persuaded to have housing loans.⁶²

⁶¹The developers have complained about the failure of the housing agencies, more specifically, the NHMFC to finance the take-outs which led them to raise the possibility of suspending their participation in the National Shelter Program (NSP). The government responded with several measures to appease them, including the designation of HDMF as the secondary mortgage institution in view of NHMFC's financial difficulties.

⁶²An umbrella organization of the private shelter and real estate industry believes otherwise. It is widely quoted in the local newspapers as supporting the retention of formula lending to allow more people to acquire their houses and finding fault with NHMFC's management of the UHLP which led to large collection problems. It offers as alternative to the retention of formula lending and 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

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 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. Thus, Thus, there is little cause to wonder at the insufficiency of resources deployed to address the massive housing targets and the cautionary 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 III-1** is a schematic presentation of the flow of funds to the final beneficiaries through the different housing programs of the government. 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. Thus, there has been little attention given to the overall budgetary feasibility of the whole exercise and the inefficiency brought about by uncoordinated housing programs.

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 and charges the funders a management fee for doing the job. With inadequate staff, inappropriate accounting systems and standards, without a profit-motive for fiscal discipline and saddled with the burden created by formula lending, the NHMFC faces severe difficulties in serving its mandate.

Legislators/policy makers. As long as government views its role as providing low cost housing to almost every household, a populist Congress will have a simplistic look at the housing problem: the lack of adequate funding. Its knee-jerk solution is the money solution: throwing money to the problem by mandating the continuing use of member contributions in the pension funds, legislating budgetary appropriation for subsidized lending, and imposing loan quotas on financial institutions to force them to lend to target beneficiaries.

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 thinks 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 who qualifies under formula lending through loans from the public till with a guaranteed take out create tremendous moral hazard problems.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The present housing finance system provides large implicit and explicit subsidies that do not reach the target clientele. The subsidy scheme is provided at a huge fiscal cost and creates incentive problems for various players in the housing market. In particular, the government's subsidized credit program hinders the participation of private sector financing in the housing market.

VIII.1. The Fiscal Cost of the Subsidies

The total fiscal cost consists of (a) subsidies directly provided through concessional interest rates charged under the various programs, tax exemption, the condoned penalties and non-payment of housing loans (effectively, income transfers to the lucky borrowers), the amortization support under the CISFA, and the NHA'S involvement in production of houses and resettlement and (b) indirect subsidies provided through the recapitalization of the NHMFC. Estimated subsidies, excluding condoned penalties and non-payment of housing loans, comprise around 1.5 percent of GDP in 1995.

Our estimates did not take into account the fiscal costs associated with potential loan losses from nonperforming portfolios of public housing agencies. We only presented a partial picture of these potential losses through very rough calculations of the explicit subsidies arising from loan arrears, condonation of penalties and non-payment of loans⁶³.

A more serious concern is the financial losses sustained by NHMFC and the estimated amount of about P23 billion in recapitalization that it would require to continue functioning as secondary mortgage institution for the UHLP.⁴⁸ According to the World Bank, the amount needed to recapitalize NHMFC is equivalent to about 10 percent of total outstanding construction and real estate lending or about 1 percent of GNP in 1995.

Thus, the true fiscal costs inclusive of the recapitalization requirement of NHMFC, would amount to some P50.9 billion or 2.7 percent of GDP in 1995.

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

⁶³Our estimates of subsidies

⁴⁸World Bank estimates as of October 1996.

VIII.2. Actual Incidence of the Subsidies

There is evidence that the housing subsidies have benefited mostly 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 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% 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 governmental obligation.

VIII.3. Unsustainability of the Housing Subsidy Programs

Our analysis indicates the unsustainability of the housing subsidy program. This is explained by the huge fiscal requirement of providing direct and indirect subsidies, the leakage of the benefits to the unintended beneficiaries and distortions introduced into the financial markets which prevent the flow of private sector financing to the housing market. The study pointed out the perverse rent-seeking behavior triggered by the housing subsidy schemes that prevent the achievement of the housing policy goals and increase the fiscal costs of the housing program. The distortion introduced into the financial system by the incentive structure of the subsidies discourages private sector financing that could have been tapped for the government's housing program. Thus, low cost housing became totally dependent on public sector resources and the contributions of the members of the pension funds, sources of financing that can not adequately meet the huge housing demand requirements. The housing finance system failed to explore the possibility of private sector financing for low cost housing, given the appropriate 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.

VIII.4. Toward an Alternative Housing Subsidy Scheme.

It is important to consider alternative forms of subsidies that may be more efficient than and superior to those presently provided. The experience of other countries such as Mexico, Chile and Indonesia in the use of alternative subsidy schemes, will be useful in the country's own search for a more efficient and effective subsidy scheme.

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. For example, the provision of housing allowances has been a recommended reform to housing policy

in many countries¹. One form of housing allowance is the "housing gap type," where the allowance received by the i th household is calculated according to

$$(1) \quad A_i = c_1 - c_2 y_i$$

where c_1 and c_2 are parameters chosen by the government, and y_i 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, $c_2 y_i$.

In this approach, the government will give a one-time lump-sum cash grant or transfer to the targeted household.² 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 will be the main problem faced by households⁴⁹. To make this lumpy investment, a poor household will need a bank loan but finds that it is not accessible because of several reasons, among which is the inability to put up the equity portion of the loan.

Thus, we 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 households and only for the acquisition of owner-occupied housing⁵⁰.

¹George Fallis, "The Optimal Design of Housing Allowances," **Journal of Urban Economics**, 27, 1990.

²An alternative is to reduce the price of housing services.

⁴⁹ Some anecdotal evidence shows that for housing in Metro Manila, a poor urban household pays as much as 13.2 percent of household income. 1994 FIES data indicate that the low income households actually spend as much as 7 percent of their monthly income on housing.

⁵⁰ This subsidy scheme is patterned after 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 generated by the households prior to availing 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 Financing Housing in Chile" (1995), Habitat "Sustainable Financing Strategies for Housing and Urban Development" (1996) and USAID/Indonesia "Lump Sum Housing Subsidy Fund Study" (1995).

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

- mandatory minimum savings of 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 from the government to eligible households 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 which will provide a mortgage loan at market rates of interest to the eligible households⁵¹.

Under this scheme, the eligible households will assign the voucher to the private developer or seller. The voucher that can only be used in home acquisition is redeemable from the government. The voucher plus the 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.

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

- *carefully targeted to the most needy;*
- *transparent to the public and policy makers;*
- *funded from budgetary appropriation because the provision of low cost housing is a public sector policy goal;*
- *avoiding as much as possible distortions in the credit markets;*
- *creating incentives for greater participation by the private sector, especially the banks, and*
- *encouraging risk sharing on the part of the borrower, government and the private sector finance.*

(a) **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 (a) identifying the target clientele based on a desired income level and (b) specifying a housing unit small enough (say, a low cost unit with a

⁵¹To 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. With this, the low income household may be able to afford more a market-rated mortgage loan on the remaining 60 percent of the cost of the housing unit.

floor area of around 24 square meters) in order to exclude the high income group from capturing the subsidies. This approach presumes that those who can avail themselves 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 carefully targeted clientele.

(b) Transparency of the subsidy. There is great merit in keeping the subsidies transparent to society and policy makers. 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.

(c) 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. Our proposed alternative is for Congress to appropriate the one-time, lump-sum capital grant for each fiscal year. 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 subsidy⁵².

(d) 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. Because the one-time capital grant does not interfere with the pricing of the loan based on market conditions, it does not distort the credit markets. It does not either encourage credit rationing which takes place when the financial system is forced to provide concessional loans to target borrowers. In the latter case, the larger 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 many pension fund members. 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!

⁵²Of 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.

(e) **Greater private sector participation.** The proposed subsidy scheme will eliminate the incentive problems faced by various players, especially the private sector, in the housing market. We recommend the use of the bank's own resources for funding the market-rated mortgage loans to eligible household-borrowers. Thus, the banks will screen the loan applicants on the basis of creditworthiness criteria rather than rely 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 business⁵³. The wholesale fund may be sourced from borrowing by a designated secondary market institution (such as the recapitalized and strengthened NHMFC or HDMF itself) from members at market terms, 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 take-outs. The 25 to 30 percent equity immediately transferred to them will immediately ease their liquidity constraint.

(f) **Risk sharing.** 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. On the other hand, the private banks that will lend directly using their own resources will endeavor to originate creditworthy loans. Since they will only be allowed to rediscount some 80 percent of the promissory notes, there is a greater incentive for approving only the most creditworthy loan applications. Timely loan repayments or its converse, efficient loan collection will ensure the continuity and sustainability of the government's socialized or low-cost housing program. The side bonus is the accumulated financial savings of households in the formal financial system.

E. Rethinking Government's Role in the National Shelter Program

Allowing greater private sector participation in the housing market and providing for more competitive financial markets will enable government to focus its scarce resources to the most needy households. This will constitute a reassessment of its role in the National Shelter Program. Two recent programs of HUDCC and NHA deserve special mention because they show how private sector participants can be provided a larger role in financing low cost housing. Please see **Boxes VIII-1 and VIII-2.**

⁵³Because 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.

Box VIII-1. "SARILING PABAHAY SA RILES"- A Housing and Elevated Tollway Project on the PNR Railway Alignment

The "Pabahay sa Riles"- Housing along the Railroad Tracks- is an innovative housing project launched by the government to resolve the problem of squatting along the railroad tracks in Metro Manila. At the same time, it will enable the government to modernize the Philippine National Railway and alleviate mobility problems through the elevated tollway built over the railroad tracks.

Some 20,000 housing units will be built for 15,000 squatter families. The housing units will be clustered in 32 building units. The amortization ranges from Php500 to Php1,500 per month. The development plans were drawn up jointly by the Philippine National Railways, the Housing and Urban Development Coordinating Council, the National Housing Authority and the New San Jose Builders, Inc., a private sector company.

The financing scheme for this joint venture project is interesting. The Philippine National Railways desires improvements on its squatted land without pledging its own land to the bank and without providing working capital for improvements. The venture partner, New San Jose Builders, Inc., put in the risk capital and the working capital. It pledged collateral, pieces of prime real estate, which may be easily liquidated in case there is foreclosure.

Funds amounting to Php3 billion in anticipation of project needs were raised by floating Asset Participation Certificates (APCs), guaranteed by HIGC. The funds are kept by the Philippine National Bank, the designated trustee bank. On the advise of the guarantor, HIGC, the trustee bank releases the money based either on accomplishment or on completed project components or against surety bonds put up by New San Jose Builders, Inc. Thus, no money moves out of the trustee bank until actual accomplishment in terms of housing units, commercial improvements or tollway accomplishment is conveyed to the bank.

The bank "owns" all the project components, conveyed, transferred or sold to it. It will sell these assets to generate the cash necessary to pay off all the APCs, including interest due. In the event of project failure or inadequacy, it will deliver all assets to HIGC which will seize the proponent's assets conveyed to it and liquidate the same.

Source: HUDCC

Box VII-2. "Smokey Mountain Development and Reclamation Project"

The Smokey Mountain Development and Reclamation Project is another joint venture effort between the government (through the National Housing Authority) and R-II Builders, a private sector company. Smokey Mountain was a large open dumpsite in Tondo, Manila with a large squatter community.

Under the joint venture agreement,

<u>NHA:</u>	<u>R-II Builders:</u>
➤ provides land for 2,992 temporary housing units	constructs temporary housing units
➤ provides 21 hectares for 3,520 permanent housing units	clears Smokey Mountain area of garbage, and prepares land for house construction
➤ conveys ownership of reclaimed area	constructs permanent housing units
➤ provides 79 hectare area for reclamation	develops area into commercial, industrial, business area and fences incinerator plant
	develops reclaimed area to provide port facilities and others

To finance the development of the project, project securitization was used. This is due to the difficulty faced by R-II Builders in raising project funds through the traditional banking route where acceptable project collateral is a must. Smokey Mountain is a squatter-infested area, obviously with low collateral value.

The scheme calls for the asset pool formation by the proponents (NHA and R-II Builders) through the Philippine National Bank as Trustee Bank. The properties of NHA are conveyed to the Trust against which the Smokey Mountain Project Participation Certificates shall be issued and sold to institutional and individual investors to obtain the required development funds. HIGC shall extend a bond guaranty facility over the expected Php2.05 billion from the Certificate issuance.

The Certificates shall be redeemed with revenues obtained from the sale of reclaimed lots, ports and economic facilities, and services put up for income generation. Return on investments is expected to be more than 18% per annum.

Source: HUDCC

The current strategy of providing credit subsidies through the financial system for the acquisition of a housing unit 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.

Under the proposed alternative subsidy scheme, those who are creditworthy can take a housing loan. The direct capital grant to well-targeted low income group will resolve the inability of the low income group 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 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 poor⁵⁵ who for one reason or the other, cannot really afford a housing loan⁵⁶. The welfare assistance can come in the form of public housing where those in welfare can stay temporarily until their economic status improves which will enable them to move to a more permanent shelter³.

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 loan⁵⁴. 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.

At present, distinction is made between "economic" and "socialized" housing. The distinction leads to two different sources and manner of financing. The prevailing view is that the former is a market for private credit markets. With the improvement in the economy's recent

⁵⁵In contrast to the "transient" poor or those which have the economic potential to leave the poverty threshold. The "transient" poor are also potentially clients of the private banking system.

⁵⁶Our 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.

³ 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.

⁵⁴One 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 take-out mechanism. In case of loan default or outright non-payment 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.

performance⁵⁷ and continuing political stability, there has been an increased activity in this segment of the housing market. Private commercial lenders have offered various home financing products which feature adjustable mortgage rates. On the other hand, "socialized" housing means those which are financed with loans at concessional interest rates or whose production by NHA and private developers is encouraged by various measures such as concessional interest rates, tax exemption and credit guarantees.

Our proposed alternative subsidy scheme will not eliminate the distinction between "economic" and "socialized" housing. The distinction will still be maintained because different income groups will have varying levels of affordability. Some would go for "economic" housing but others would be able to afford only "socialized" or low cost housing. *The change lies in the source, manner of financing and the form of subsidy given to targeted clientele.* The main source of financing for both types of housing will be the private mortgage markets. Loans from financial institutions will be used to acquire a housing unit, with government providing a one-time capital grant to very poor households desiring to borrow for a "socialized" unit. The transparent, one-time subsidy will be made available only to clearly targeted low income clientele.

In principle, there is nothing wrong with using the members' funds to finance housing programs which benefit the members themselves. This is the way credit unions which are owned by credit union members operate. The members contribute share capital, maintain deposits, borrow and get patronage refund from the interest earnings of credit union loans. By the same token, pension fund members are not necessarily disadvantaged by funding other members' housing loans. Members can choose to borrow or not borrow but they must receive market-rated yields on their fund contribution. Inequity arises if the low income members subsidize the high income groups' housing loans and/or if the low income members do not have as much access to housing loans as the high income groups. The failure of the high income groups to repay their loans heightens the inequity. Ironically, this is what happened under the present housing programs of the government. People who need the most help from government intervention and who are the intended beneficiaries of the intervention are themselves excluded from availing themselves of the subsidies.

The government's economic and socialized housing programs also give rise to the accumulation of huge contingent liabilities in the public housing agencies. Subsidized loans of borrowers who might not have the capacity to pay continue to increase. When a public housing agency goes bankrupt because of loan defaults and loan collection problems, the government will have to contend with the uncollected debts and moves to recapitalize that agency. In this case, taxpayer money and more pension fund contributions might be used to finance the bail out.

⁵⁷GDP grew by 7 percent in real terms during the first half of 1996.

Finally, most of the beneficiaries of the housing programs are pension fund members, except those under the CMP and NHA resettlement program. Under the proposed alternative subsidy scheme, one need not be a member of a pension fund to be able to take a housing loan. What will matter is the creditworthiness of the borrower and the advanced savings he will raise to form part of the equity or downpayment for a housing unit. Thus, the government's one-time capital grant will be available to deserving households regardless of membership or non-membership in a pension fund. By making the subsidy more accessible to the low income group and using the private financial markets to finance housing acquisition, the government will make its housing intervention more equitable and more sustainable. This does not mean that the pension funds will necessarily desist from extending housing loans to members. They can continue with their housing programs for members but what is important is that (a) the loans are market-determined, (b) the capital grant is made available to those in real need of it and (c) members' fund contributions are paid a market rate of return.

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