



Guam Housing Corporation FY 2013 Financial Highlights

February 20, 2014

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2013 with an increase in net position (net income) of \$243 thousand (K) compared to \$501K in FY 2012. GHC received an unqualified (clean) opinion from independent auditors, Ernst & Young LLP. No material weaknesses and significant deficiencies were identified in the Report on Internal Control over Financial Reporting and Compliance, which GHC management is to be applauded for. However, the Management Letter noted four deficiencies relative to allowance for loan losses, annual leave, the First-Time Homeowner Assistance Program (FTHAP), and lease agreements.

Revenues Increased by \$195K

GHC's revenues increased by \$195K (going from \$3 million (M) in FY 2012 to \$3.2M in FY 2013) due to reversal of loan losses and offset by rental income. In FY 2013, the allowance for loan losses was reduced to 2% from 3% of the total loan portfolio, which resulted to an adjustment of \$280K. Rental income increased by \$59K from \$858K in FY 2012 to \$917K in FY 2013 due to the rental of Sagan Linahyan units and the increase in rates for the Lada Garden's rental units. Although GHC revenues increased, there was an overall decrease in interest income of \$32K due to the payoffs of loans with higher interest rates.

Expenditures Increased by \$453K

GHC's total operating expenses increased by \$453K from \$2.5M in 2012 to \$2.9M in 2013. The two largest increases in GHC's operating expense is the FTHAP and professional services. FTHAP expense increased by \$250K from \$107K in FY 2012 to \$357K in FY 2013 due to Public Law (P.L.) 31-166, which offers grants to first-time homeowners up to \$10K to be used for down-payment assistance or closing cost. In FY 2013, 50 first-time homeowners received an average of \$7K, which is slightly larger from FY 2012 with 15 grantees. Professional services increased by \$67K or 72% from \$93K in FY 2012 to \$160K in FY 2013. GHC partnered with the Guam Housing and Urban Renewal Authority to conduct a Housing Study to see if it is feasible to build more apartment or housing units at the As Atdas site. As of September 2013, \$83K was expended. Further, Salaries and Retirement Contributions increased due to increments and \$32K in merit bonuses paid to resigned classified employees who received superior performance rating pursuant to the Uniform Position Classification and Salary Administration Act of 1991.

GHC's Loan Portfolio Increased

GHC's loan portfolio, which includes loans from the Direct Loan Program, Revolving Loan Program, and Community Affordable Housing Action Trust (CAHAT) Program, increased by \$655K, going from \$30.8M in FY 2012 to \$31.5M in FY 2013. There were 18 loans originated totaling \$2.4M in FY 2013 similar to the 18 loans originated of \$2.5M in FY 2012. In October 2012, the Board of Directors decided to change the Direct Loan Program interest rate from the prevailing rate to 6.49% based on its cost of funds. Due to the lack of funds available for loans under the Direct Loan Program and what is considered a high interest rate at this time, only six loans totaling \$1.1M were originated under this program in FY 2013. Seven loans were originated

totaling \$1.1M under the Revolving Loan Program. Under the CAHAT Program, five loans were originated totaling \$199K. Additionally, GHC had 26 loan payoffs amounting to \$976K in FY 2013 in comparison to 27 loan payoffs totaling \$1.3M in FY 2012, which is a \$302K decrease. The payoffs is attributed to borrowers refinancing their mortgage at lower interest rates and delinquent accounts who sought financing through other lenders.

Delinquency Rate and Foreclosures

GHC experienced 62 delinquent loans with a principal balance of \$4.5M in FY 2013, an increase of one loan, but a \$157K decrease in the total delinquent principal balance over the previous year. Accordingly, GHC has an overall delinquency rate of 14% in FY 2013, which decreased from 15% in FY 2012. However, 14% is still considered high in the industry. Several borrowers have requested for a payment plan to cure their delinquency due to medical treatment and loss of income. In FY 2013, GHC had no foreclosures. This resulted from GHC's efforts with legal counsel to effectively address serious delinquencies and work with the borrower to avoid foreclosure. Foreclosed assets held for resale remains at five properties totaling \$400K. With the assistance of a realtor, GHC did not sell any foreclosed properties as it would have resulted into a substantial loss. Thus, no properties were sold in FY 2013.

Compliance Report and Management Letter

No material weaknesses or significant deficiencies were identified in the Report on Internal Control over Financial Reporting and Compliance. However, a Management Letter identified four deficiencies in internal control relative to the allowance for loan losses policy, the annual leave accrual process, consistent application of FTHAP requirements, and lease agreements. No documentation was found to support GHC's allowance for loan losses of no less than 2% of the gross loan portfolio. Certain annual leave hours taken were not recorded and the employees' annual leave balances were not updated. Based on P.L. 31-166 requirements, documentation, such as evidence of ownership, construction plans, and Affidavit or Certificate of Occupancy, were not found before the FTHAP assistance was granted to the applicant. Lease agreements with rental escalations were not documented in the tenants' files and not acknowledged by the tenants in writing.

Government Accounting Statements

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement Nos. 67 and 68 related to the *Financial Reporting for Pensions* will result in significant statements as GHC will be required to report its pro rata share of the Government of Guam's (GovGuam) unfunded pension liability, which as of FY 2012 is \$1.5 billion (B). Adoption of GASB 67 and 68 will come in FY 2015.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires GHC to present supplementary information on post-employment benefits (OPEB) unlike the pension liability which will be recorded on the financial statements. As of FY 2011, GHC's pro rata share of GovGuam's OPEB actuarial accrued liability of \$2.1B is \$3.2M.

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