



## **Guam Housing Corporation FY 2009 Financial Highlights**

March 23, 2010

The Guam Housing Corporation (GHC) closed the year with an increase in net assets of \$580 thousand (K), a 28% decrease from the prior year of \$801K. Of the \$580K increase in net assets, the Housing Division contributed \$428K, or 74% while the Rental Division contributed \$151K, or 26%. GHC's loan portfolio continues to decline, decreasing this year by \$278K to \$24.7 million (M). The FY 2009 financial audit conducted by J. Scott Magliari & Co., received an unqualified or clean opinion. Independent auditors did not identify any material weaknesses or questioned costs; however, four control deficiencies were identified in the management letter.

### **GHC's Loan Portfolio Continues to Decline**

GHC's loan portfolio balance continues its downward trend as this year's balance fell by \$278K or 1.11% from the prior year. GHC's loan portfolio is now at \$24.7M, a 37% or \$14.6M decrease over the last eight years, from a high of \$39.4M in FY 2002. GHC management adjusted loan interest rates in the later part of FY 2008 to assist more families in mortgage lending. As a result 40 new loans were recorded in FY 2009, with loan origination costs totaling \$4.4M, a \$2.3M improvement from FY 2008. Although loan origination increased by 122%, this was offset by loan payoffs totaling \$2.1 million which contributed to GHC's declining loan portfolio. GHC processed 39 loan payoffs during the year totaling \$2.1M. The payoffs are attributed in part to mortgage holders refinancing the homes at lower interest rates through other financial institutions.

### **GHC's Accumulated Cash Balance**

In August 2002, Public Law 26-123, forgave GHC's debt to the General Fund comprised of \$13.7M, and accrued interest of \$517K. Consequently, GHC recorded revenue of \$14M resulting from the debt forgiveness. Since then, GHC has maintained a strong cash position. Over the last eight years, unrestricted cash and the self insurance fund have steadily grown to \$12.5M as of the end of FY 2009, due in part to the General Fund debt forgiveness and the lack of growth in its loan portfolio, which is now at \$24.7M compared to \$39.4M in FY 2002.

### **Delinquency Rate and Foreclosures**

Total loan delinquencies dropped nearly 3% from 13.15% to 10.61%. Delinquent loans decreased from \$3.2M in FY 2008 to \$2.6M in FY 2009, an improvement of \$645K. GHC delinquency rate remains high compared to most mortgage lending institutions. The high delinquency rate and foreclosures places continual risk on GHC loan portfolio. In FY 2009, GHC foreclosed on five loans totaling \$500K and resold two properties. The resale of the two properties resulted in a net gain of \$172. The foreclosure of the five loans represents the highest number since FY 2005.

### **Decline in Revenues and Expenditures**

GHC is comprised of two divisions; one is the Housing Division which enables individuals to secure mortgage financing if they are unable to qualify as borrowers through conventional means. The other division, the Rental Division, which was integrated into GHC in 2003, provides low-cost rental apartments and houses to eligible individuals and families. Of the \$580K increase in net assets, the Housing Division contributed \$428K, or 74%, while the Rental Division contributed \$151K, or 26%.

## **Housing Division**

The Housing Division's operating revenues decreased by only \$912 from last year, while its operating expenses decreased by 7% or \$148K, from \$2.1M to \$1.9M. Housing recorded notable decreases in interest expense going from \$ 715K to \$654K, a 9% decrease from the previous year, and the decrease in salaries of \$76K or 10%, from \$720K to \$645K. The decline in expenses was offset by the larger decline in non operating interest income which decreased by 52% or \$238K from \$461K to \$223K. Interest rates on time certificates of deposits have dropped dramatically as a result of the worldwide recession. The Housing Division ended the year with a \$428K increase in net assets, which represents a 19% decline from the prior year of \$531K. The decline reflects the ongoing challenge GHC faces in utilizing available cash for mortgage lending when faced with challenges from other financial institutions and limited housing inventory.

## **Rental Division**

The Rental Division's operating revenues decreased slightly by \$4K during the year, due to units being vacant while GHC renovated and upgraded the facility. Rental operating expenses increased by \$47K or 8%, from \$593K to \$640K. The increase in expenses is due primarily to the \$17K increase in salaries and benefits and the \$23K increase in bad debts. The Rental Division closed the year with an increase in net assets of \$151K, a 44% decline from the \$270K recorded in the previous year.

## **Unfunded Retirement Liability and Restatement**

In prior years, GHC's Defined Benefit (DB) Plan was accounted for as a single-employer plan. Effective October 1, 2008 the government of Guam's Department of Administration redesignated the DB plan as a cost sharing multiple-employer plan, where the unfunded retirement liability is no longer recognized as a liability but is footnoted in the financial statements. The redesignation resulted in a reversal of the previously reported unfunded pension liability and related cost which totaled \$93K and \$16K respectively. The impact of the redesignation results in an increase in net assets of \$801K for FY 2008.

## **Report on Internal Control**

Independent auditors issued an unqualified opinion on compliance; with no material weakness or associated questioned costs. However, auditors identified four control deficiencies. The four comments were associated with:

- **Approval of General Journal Entries:** Journal entries prepared were not reviewed or approved by the appropriate level of management.
- **Mortgage Loans:** Delinquent loans were outstanding in excess of 90 days. Specifically five loans were past due ranging from 115 days to 834 days.
- **Insurance Coverage:** The Corporation did not maintain insurance coverage on its buildings. However, the Corporation maintained an insurance fund of \$1.3M which was found to be insufficient to cover potential damages in event of a catastrophe.
- **Board Minutes:** Minutes from Board meetings were not properly signed to ensure that such reporting were properly approved by the Chairperson.

Independent auditors made an additional comment in the management letter commending GHC for its efforts in improving the maintenance of its loan files. See the Management's Discussion and Analysis for further details. In addition, a separate document to the Board was issued outlining audit strategies, emphasis, required communications, audit differences, and adjustments. These reports may be downloaded at [www.guamopa.org](http://www.guamopa.org) or [www.guamhousing.org](http://www.guamhousing.org).