



OFFICE OF THE PUBLIC AUDITOR

**Guam Housing Corporation  
FY 2003 Highlights Rebuilding GHC**

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The Guam Housing Corporation (GHC) has begun to rebuild. Fiscal year 2003 realized a stronger GHC emerging from two years of being doubtful as a “going concern” by auditors.

After three years of implementing its comprehensive cost recovery plan, GHC is finally realizing its benefits. In FY 2002 and 2001, GHC had income losses, before extraordinary and special items of \$288,429 and \$1.9 million, respectively; however, GHC finished fiscal year 2003 with a profit of \$233,957. GHC’s profit is attributable to an increase in revenue collections.

GHC revenues of \$3 million come primarily from interest on mortgage loans, which increased by 14% or \$318,000 from FY 2002.

In FY 2003, the Corporation restructured existing bank credit agreements and paid off outstanding notes, reducing liabilities by \$5.5 million. FY 2003 operating expenses were down by 18% from \$3.4 million to \$2.8 million, which was due in large part to a drop in interest expenses. Interest expense declined by 30%.

Though interest expenses declined, bad debts and the allowance for loan losses increased, which illustrate that collections continue to haunt the Corporation.

Bad debts and the provision for loan loss expense more than doubled to \$566,657 up from \$275,866 in FY 2002. Additionally, loans in arrears three months or more or held with the GHC attorney for collection are up by \$1.2 million from \$6.2 to \$7.4 million in 2003.

The auditors report on compliance and internal controls revealed collection as the dominant concern for FY 2003. The lack of compliance with established policies and procedures have resulted in increased delinquencies and foreclosures. The compliance report had 19 findings, of which, six were repeat findings from prior years. Some of these findings include loans without the required typhoon insurance or corresponding waiver and loans with expired hazard insurance.

In FY 2003, GHC continued to report an outstanding liability of \$10.5 million associated with the design and build of off-site infrastructure for the Lada Estates project. The contractor is now suing for the payment of \$10.5 million plus accrued interest of \$4.6 million. The Corporation is challenging both the liability and the accrued interest, but as of Sept. 30, 2003, the matter remains unresolved.

Additionally, for the years ending September 30, 2003 and 2002 the Corporation recorded a receivable of \$2,915,000 due from the Government of Guam. Although obligated by law, the Government of Guam has not recorded the related liability for that amount.

See the Management's Discussion and Analysis (MD&A) for further detail.