

News Release July 29, 2002[VIEW FINANCIAL STATEMENT](#)[VIEW REPORT ON COMPLIANCE AND ON INTERNAL CONTROL](#)**Going Concern Warning Raised Again by Auditors**

The Guam Housing Corporation (GHC) is engaged in providing home financing to low to moderate-income families. The primary source of revenue for GHC is the interest income it receives on its home mortgage loans.

Audited financial statements issued by CPA firm J. Scott Magliari and Co. for the second time express warning on the viability of Guam Housing Corporation as "going concern" and GHC's ability to continue operations and remain in business. GHC's current liabilities in FY 2001 exceeded its current assets by \$5.7 million. This raises doubt as to GHC's ability to meet current liabilities as they become due. GHC was in default on its \$12.5 million revolving loan to the Government of Guam. GHC had a net loss of \$2 million up from \$1 million in FY 2001. Delinquent home mortgage loans were \$4.5 million. This was a significant improvement in delinquent home mortgage loans, which were \$10.2 million in FY 2000.

In the FY 2000 audited financial statements, the auditors issued the first warning as to whether GHC would be able to continue as a going concern. In FY 2000, GHC had a net loss of \$1 million, current liabilities exceeded its current assets by \$5.3 million and delinquent loans were \$10.2 million. Delinquent loans have since been reduced to \$4.5 million during FY 2001.

Recently the Guam Legislature and the Governor responded to the dire conditions at GHC by transferring custody of the revolving loan fund to GHC, thus converting the \$12.5 million revolving loans from the Government of Guam to a capital contribution. This action has the same effect as forgiving the remaining \$12.5 million loan to GHC.

GHC is still subject to having its mortgage revenue bonds redeemed by the bond trustees due to non-issuance of mortgage loans. Because GHC has not originated new loans, a non-origination call or redemption on the \$50 million bonds is likely.

To further address the situation, GHC has adopted a cost recovery plan on February 2001, which entails a reduction in staff and a restructuring of its existing bank credit agreements. However most of the reduction in operating expenses did not occur in FY 2001. According to GHC the effects of the cost recovery plan in the reduction of operating expenses will occur in FY 2002.

FY 2001 operating expenses, net of interest and bad debts expenses, was down only \$12,000 to \$1.98 million from \$2 million in FY 2000. Operating expenses were \$2.4 million in 1999, \$2.2 million in 1998 and again \$2.2 million in 1997 (see graph).

GHC revenues of \$ 6.3 million come primarily from interest on mortgage loans, which was \$3.1 million or 50% of revenues. Interest from bonds was the second major source of revenue representing 44% or \$2.8 million. Other fees made up the balance of 6% at \$419,000.

Total expenses of \$8.3 million fall into three broad categories: interest, bad debts and operating expenses. Interest expense represents the major expense at \$3.9 million or 62%. Interest paid to financial institutions was \$1.3 million and interest on mortgage revenue bonds was \$2.6 million. Bad debts expense was increased to \$2.4 million up from \$1 million in FY 2000 reflecting the increased collection problems on mortgage loans. Operating expenses were \$1.98 million.

Because of Guam' economic conditions, and the slow collections on mortgage loans, GHC had to increase its allowance for doubtful accounts by \$2.4 million to \$3.5 million in FY 2001. The allowance was \$1.1 million in FY 2000.

