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A Study of the Performance and Financial Reporting Practices of Philippine Government Owned and Controlled Corporations

Home Guaranty Corporation (HGC)

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This paper looked into the financial reporting practices of Home Guaranty Corporation (HGC)—being a government-owned and controlled corporation that relies on government financing and subsidy every time it goes into deficit—and assessed the adequacy of its financial disclosures as prescribed by the financial reporting standards in the Philippines. This paper also evaluated the company's financial performance based on the information provided in the financial statements.

1 Introduction

Home Guaranty Corporation (HGC) was established in 1950 as Home Financing Commission. HGC has institutionalized a system of credit guarantees that has become an integral part of the government's shelter program. HGC provides guarantees and fiscal incentives for housing loans extended by developers, banks, and other financial institutions. It is expected that with more home guarantees provided, more private funds will flow to housing programs and urban development.[1]

Based on the projections prepared by the Housing and Urban Coordinating Council (HUDCC), the housing problem in the Philippines is serious and the magnitude of housing need, defined as the housing backlog plus new households, is estimated to reach more than 5.7 million housing units in 2016.[2]

HUDCC is the government agency in charge of the housing programs in the Philippines. There are many agencies attached to it, one of which is HGC (see Table 1).

Table 1. List of Agencies Attached to HUDCC and their Brief Descriptions

Attached Agency	Brief Description[3]
Home Development Mutual Fund or Pag-IBIG Fund	It generates savings through members' contributions and lends, both to individuals and corporations.
Housing and Land Use Regulatory Board (HLURB)	This is the lead agency in the provision of technical assistance to local government units in the preparation of comprehensive land use plans; regulation of housing, land development and homeowners association; and adjudications of disputes related thereto.
National Housing Authority (NHA)	NHA was tasked to develop and implement a comprehensive and integrated housing program which shall embrace, among others, housing development and resettlement, sources and schemes of financing, and delineation of government and private sector participation.

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[1] Source: HGC 2010 Annual Report (Note 1 of the Notes to Financial Statements)
[2] Chapter 8 (Social Development), Philippine Development Plan 2011-2016, p. 242, http://www.neda.gov.ph/2013/10/21/philippine-development-plan-2011-2016/
[3] Based on the information provided from the homepage of each agency.

Attached Agency	Brief Description[3]
National Home Mortgage Finance Corporation (NHMFC)	This is the major government corporation created to operate as a secondary mortgage institution but this mandate has not been fully implemented in the last couple of years as NHMFC operations have been diverted to loan origination. With the approval of the Securitization Act of 2004 and improvements in the financial sector, opportunities to engage in securitization have opened up. The NHMFC has taken this opportunity to undertake securitization as a strategy to expand home finance. This is the Fannie Mae and Freddie Mac of the Philippines.
Social Housing Finance Corporation (SHFC)	This is a subsidiary of NHMFC. It is involved in lending to developers, individuals and municipalities. Its programs are Abot Kaya Pabahay Fund Development Loan Program, Community Mortgage Program, Localized Community Mortgage Program and High Density Housing Program.
Home Guaranty Corporation (HGC)	HGC provides guarantees and fiscal incentives for housing loans extended by financial institutions.

Given the company's crucial role in addressing the housing problems in the country, it is important that it remains financially healthy. From 2005 to 2013, however, HGC had been operating at a loss. In 2014, the company managed to report net income, mainly due to lower interest expense. In November 2013, the National Government advanced money to HGC for the payment of the ₱12 billion zero coupon bond which matured that year. The quarterly interest rate on these government advances, which was based on the average rate of the 364-dat T-bill of the preceding quarter, was much lower than the interest rates on the zero-coupon bonds. In 2014, HGC recognized ₱161 million interest expense on government advances, an amount much lower than the ₱653 million interest expense recognized on the zero coupon bonds in 2013.

2 Objectives of the Study

This study has the following objectives:

1. To determine HGC's compliance with Philippine financial reporting standards.
2. To evaluate the financial health and performance of HGC based on the information provided in the financial statements.
3. To identify the policy implications of the findings of the study.

3 Methodology

In conducting this study, the following steps were made:

1. Identified and read the applicable law that created HGC: Republic Act 8763: Act consolidating and amending Republic Act Nos. 580, 1557, 5488, and 7835 and Executive Order Nos. 535 and 90, as they apply to the home insurance and guaranty corporation which shall be renamed as Home Guaranty Corporation, and for other purposes (2000).
2. Gathered and analyzed HGC's financial reports. Financial reports were gathered from HGC homepage and from the homepage of the Commission on Audit (COA). Financial statements as far as 2006 were reviewed, but more emphasis was given to the more recent financial statements, 2010 to 2014.
3. Interviewed members of management.
4. Described and evaluated HGC's operations.
5. Computed financial ratios to evaluate the company's financial position and operating performance.
6. Read COA's audit findings. Special attention was given to COA's other significant observations and recommendations because this section includes issues where management failed to act appropriately.
7. Summarized findings and identified policy implications of the findings.

4 Brief Description of HGC's Operations

With the enactment of its new charter by virtue of Republic Act 8763, otherwise known as Home Guaranty Corporation Act of 2000, below are the powers and functions of HGC as stated in Section 5 of R.A. 8763:

1. To promote homebuilding and land ownership, giving primary preference to the homeless and underprivileged sectors of the society.
2. To guaranty the payment in favor of any natural or juridical person, of any and all forms of mortgages, loans and other forms of credit facilities and receivables arising from financial contracts exclusively for residential purposes and the necessary support facilities thereto.
3. To assist private developers to undertake socialized, low and medium cost mass housing projects by encouraging private funds to finance such housing projects through a viable system of long-term mortgages, guaranties and other incentives.
4. To pursue the development and sustainability of a secondary mortgage market for housing as the primarily strategy to encourage private sector participation in housing finance. The Corporation shall undertake such programs and measures using the guaranty cover as enhancement to encourage trading by the public in a secondary market for housing mortgages, bonds, debentures, notes and securities.
5. To underwrite, purchase, own, sell, mortgage, or otherwise dispose of stocks, bonds, debentures, securities, and other evidence of indebtedness issued in connection with the powers enumerated in this Act: Provided, that, it shall not engage in direct mortgage lending activities.
6. To borrow money and/or to issue bonds, debentures, securities, collaterals, notes, and other obligations in local currencies with the approval of the President of the Philippines after consultation with the Monetary Board of the Bangko Sentral ng Pilipinas, and in foreign currencies, here or abroad, with the approval of the President of the Philippines with the Monetary Board of Bangko Sentral ng Pilipinas and the Secretary of Finance, but in no case to exceed at any one time the aggregate amount of the principal obligations of all mortgages and account guaranteed under this Act. These bonds and other obligations shall be issued under such terms and conditions as provided in this act and the rules and regulations prescribed by the Corporation, and in such manner as maybe stipulated therein and shall bear such rate of interest as may be fixed by the Corporation. Such obligation shall be secured by the assets of the Corporation including the stocks, bonds, debentures and other securities underwritten, purchased or held by it under the provisions of this Act. Such obligations may be issued and offered for sale at such price as the Corporation may determine, and shall be exempt from taxation as hereinafter provided as to principal and interest, except state, inheritance and gift taxes.

   Bonds issued by the Corporation shall be registered at the request of the holder thereof under such rules and regulations as may be prescribed by the Corporation.
7. To promote housing by the aided self–help method whereby families with some outside aid build their own houses with their own labor; to provide technical guidance to such families; to guaranty loans to such families on first liens on house and land with such other security and conditions as the Corporation shall determine, providing at least for ultimate recovery of principals; and to do all other activities as are relevant and significant in such a program of aided self-help for housing.
8. To adopt, alter, and use a corporate seal; to enter contracts; and to sue and be sued in any court of competent jurisdiction.
9. To acquire, purchase, own, hold, manage, administer, operate, develop, lease pledge, mortgage, exchange, sell, transfer or otherwise dispose of, in any manner permitted by law, real and personal property with every kind and description, monies and funds, or any interest therein as may be necessary to carry out the purposes and objectives of the Corporation.

10. To do any and all acts and things and to exercise all powers which may be necessary or convenient to the accomplishment or furtherance of its purposes and objectives, or which a natural person can do and exercise and which may now be or hereafter be authorized by law.

The guaranty facilities and benefits that HGC offer are provided in Annex A. The company provides 100% risk cover for different types of housing loans from socialized housing (₱450,000 and below) to open housing (above ₱4,000,000). If a guaranty call is approved, HGC can pay 100% of the principal balance and interest of up to 11%.

The flowcharts for guaranty application and enrollment for guaranty coverage are shown in Annexes B and C. It must be noted that the guaranty application is evaluated, presented before HGC management committee and approved by the company's board of directors as shown in Annex B.

5 Findings

The findings are grouped into three: financial reporting issues, evaluation of financial position and operating performance, and other issues.

5.1 Financial Reporting

Over the period covered in the evaluation, HGC used the Philippine financial reporting standards and Philippine accounting standards. Its guarantee operations, which involve financial guarantee contracts, are covered by Philippine Accounting Standards (PAS) 39 (Financial Instruments: Recognition and Measurement). HGC complied with the standard's provision on revenue recognition. In accordance with the provisions of PAS 37 (Provisions, Contingent Liabilities and Contingent Assets), HGC also disclosed its contingent liabilities arising from its guarantee operations, which amounted to ₱97.25 billion as of December 31, 2014. The other findings on financial reporting are listed below:

1. Qualified opinion by COA in 2010 and 2011.
   Being a government owned and controlled corporation, HGC is audited by the state auditor, Commission on Audit (COA). Presented in the table below are COA's opinions on HGC's financial statements over the 2010-2014 period.
   As shown in Table 2, the qualification of opinion in 2010 and 2011 was due to the non-recognition of impairment losses from foreclosed assets.

Table 2. COA's Opinions on HGC's Financial Statements

Year	COA's Opinion	Reasons for Qualification
2010	Qualified	Non-recognition of ₱1.889 billion impairment losses on foreclosed assets.
2011	Qualified	Non-recognition of ₱1.603 billion impairment losses on acquired assets.
2012	Unqualified	
2013	Unqualified	
2014	Unqualified	

2. Insufficient disclosures on the assets set aside for the payment of the loans with the National Government and liabilities related to the call on guarantees.
3. Insufficient disclosures on the assets set aside to settle the National Government advances which were used to pay the ₱12 billion zero-coupon bonds in 2013. According to Note 12 (2013 financial statements), HGC has identified assets with a book value of ₱16.47 billion to settle the NG advances. An examination of the 2013 balance sheet would show that there were no asset accounts with a book value of ₱16.47 billion. However, adding the value of investment properties of ₱8.05 billion found on the face of the balance sheet and foreclosed properties of ₱8.32 billion found in Note 9 (Other Assets) would lead to more than ₱16 billion of assets. The assets used as collateral for the NG advances may have come from these two accounts. If this is the case, then HGC is required to disclose the restrictions related to these accounts based

on Paragraph 75(g) of Philippine Accounting Standards (PAS) 40[4] and paragraph 74(a) of PAS 16[5]. There were no restrictions cited on these two accounts in the notes to financial statements.

4. Insufficient disclosures on the recognized liability for call on HGC guaranty. As of December 31, 2014, Note 12 of the Notes to Financial Statements showed ₱4.75 billion other current liabilities, which accounted for 13.83% of the total assets as of that date. The disclosures in Note 12 stated that this account consists mainly of the recognized liability for call on HGC guaranty, which has been approved for payment by the HGC board. Since this account is so crucial to the operations of a guaranty corporation like HGC, shouldn't the company present the exact amount related to this liability account, either on the face of the balance sheet or in the notes to financial statements?
   Paragraph 17(b) and (c) of Philippine Accounting Standards 1 (Presentation of Financial Statements) state that a fair presentation requires an entity:
   > 17(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
   > 17(c) to provide additional disclosures when compliance with the specific requirements in PFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions in the entity's financial position and operating performance.
5. Improper classification of dividends received. HGC received cash dividends that amounted to ₱1,905,600 in 2014 and ₱2,123,678 in 2013 classified in the Statement of Cash Flows as financing activity. Paragraph 33 of PAS 7 (Statement of Cash Flows) states that interest and dividends received can be classified as operating cash flows. For other companies, such interest and dividend received can be alternatively classified as investing cash flows.
6. Improper classification of payments on call on guarantees. HGC classified the payments on call on guarantees as part of financing cash flows. Liabilities arising from call on guarantees are integral part of guaranty operations and should be classified as operating cash flows when settled in cash.

5.2 Evaluation of Financial Position and Operating Performance

An analysis of the company's operating performance for the period 2005-2014 would show that HGC generated positive net income only in 2014 (see Table 3).

Table 3. HGC's Operating Performance (2005-2014)

Year	Net Income/(Net Loss)
2014	171,498,425
2013	(228,324,462)
2012	(575,105,170)
2011	(621,946,259)
2010	(737,107,238)
2009	(1,769,556,540)
2008	(1,084,412,790)
2007	(3,165,997,096)
2006	(773,475,468)
2005	(667,373,919)

Note that the net loss reported in 2010 and 2011 were even understated because the company did not recognize impairment losses on foreclosed assets worth ₱1.6 billion in 2011 and ₱1.8 billion in 2010, which was the basis of COA's qualified opinion on those years.

Note 4.2 of the 2014 notes to financial statements showed ₱707,422,679 sinking fund-guaranty reserve. This fund that was set up in 2008 was reserved for guaranty calls. Comparing this amount with the approved payment for guaranty obligations would show a big discrepancy. The exact amount

[4] PAS 40 is accounting standard for investment properties.
[5] PAS 16 is accounting standard for property, plant and equipment.

of recognized liability for call on HGC guaranty was not disclosed but Note 12 of the notes to financial statements stated that the other liability account of ₱4,747,972,287 consisted mainly of obligations from calls on guaranty approved for payment by its board. Assuming ₱4.6 billion of this is related to the call on guarantees, this would show an unfunded obligation of more than ₱3.8 billion as shown in the following computation (see Table 4):

Table 4. Computation of Estimated Amount Of Unfunded Guaranty Obligations (As of December 31, 2014)

Obligations from call on guarantees	4,600,000,000
Less: Sinking fund - guaranty reserve	707,422,679
Unfunded obligation	3,892,577,321

In 2006, HGC issued 7-year ₱12 billion zero coupon bonds to finance its corporate requirements. In 2002, the company issued ₱7 billion zero coupon bonds and another ₱3 billion in 2004 to fund call on guarantees.[6]

At the time that the ₱12 billion was issued in 2006, HGC did not have enough revenues to even cover for the interest expense as shown in the comparison of revenue and interest expense in 2006 and 2005 (see Table 5).

Table 5. Comparison of Revenues and Interest Expense (2005-2006)

Year	Interest on zero coupon bond	Revenues from all Sources	Difference
2006	939,605,719	447,678,727	491,926,992
2005	863,785,009	351,152,353	512,632,656

In 2013, the National Government ended up paying the ₱12 billion zero coupon bond, which matured that year. As of December 31, 2014, this obligation with the National Government amounted to more than ₱11.4 billion.

Because the company has been operating at a loss, the National Government has been infusing funds into the company. As of December 31, 2005, the value of the capital stock, which represents the capital contribution of the government, amounted to ₱6.7 billion. As of December 31, 2014, this account had increased to more than ₱15 billion. Shown in Table 6 is the equity of HGC without the effects of revaluation of assets (₱2,407,442,041) and unrealized gains from available for sale (AFS) investments (₱1,359,198).

Table 6. HGC's Equity without Revaluation and Unrealized Gains from Available for Sale Investments December 31, 2014

Equity Infusion from Government	15,073,000,000
Donated Capital	4,069,154,826
Deficit	(12,899,367,861)
Equity Without Revaluation and Unrealized AFS Gains	6,242,786,965

The interviewed managers (personal communication, August 18, 2016) disclosed that the bad debt expense from the homebuyers was very low and may not even hit a percent of the outstanding exposure from this segment. Management also disclosed that HGC had provided guaranty services on more than 417,000 homebuyers from 1997 to 2015 (personal communication, August 18, 2016).

HGC suffered huge losses from the guarantees it provided to developmental loans such as those related to Smokey Mountain Development and Reclamation Project (SMDR), Sariling Pabahay sa Riles Project, Old Bilibid Compound, National Government Center, and Asia-Pacific Economic Cooperation (APEC) villas. The call on guarantees on these developmental loans hit more than ₱16 billion. SMDR

[6] Note 11 of the Notes to Financial Statements, 2006 HGC financial statements.

was probably the most controversial among these projects because R-II Builders, the developer, and HGC have been in legal battle over this project for the last two decades.[7]

SMDR was a joint venture project between R-II Builders, Inc. and National Housing Authority (NHA). The project was conceptualized during President Corazon Aquino's administration but was implemented during President Fidel Ramos' administration. The project was supposed to clear the Smokey Mountain area, a dumpsite, to construct 2,992 temporary housing units and 3,520 permanent housing units, to construct an incinerator, and to reclaim 79 hectares. The project encountered a lot of problems such as the 1997 Guidelines from Task Force on Waste Management prohibiting the operation of incinerators within 1 km radius of residential areas and the 1997 Asian financial crisis that hit the property sector. R-II Builders, Inc. was supposed to finance the project but when it failed to do so, the National Government stepped in by issuing bonds called Smokey Mountain Project Participation Certificates (SMPPC) guaranteed by HGC. R-II Builders failed to complete the project on time and there were not enough liquid assets to pay the holders of SMPPC when the latter matured. HGC ended up paying the bonds.[8]

The management disclosed that there were political pressures in the approval of some of these projects (personal communication, August 18, 2016). The bonds issued by HGC for which the interest even exceeded the company's revenues at the time of their issuance were mostly used to finance the call on guarantees of these developmental loans.

A computation of the company's financial ratios was made from 2010 to 2014. Shown in Table 7 are the computed financial ratios.

Table 7. HGC's Financial Ratios (2010 – 2014)

Financial Ratios	**2014**	**2013**	**2012**	**2011**	**2010**
Liquidity Ratios					
Current ratio	0.84	0.74	0.20	0.19	0.70
Quick asset ratio	0.82	0.73	0.20	0.18	0.68
Solvency ratio					
Debt ratio	0.75	0.76	0.78	0.84	0.86
Debt to equity ratio	2.97	3.20	3.49	5.35	5.96
Interest coverage ratio	1.47	0.60	0.44	0.47	0.39
Profitability ratios					
Operating profit margin	65%	62%	63%	60%	47%
Net profit margin	20%	-30%	-79%	-94%	-157%
Efficiency Ratios					
Total asset turnover ratio	0.024	0.022	0.022	0.022	0.016
Accounts receivable turnover ratios for financing fees	3.75	2.35	1.83	1.19	0.82
Days' receivable for financing fees	96	153	196	303	438
Accounts receivable turnover ratio for rent income	0.48	0.37	0.30	0.24	0.20
Days' receivable for rent income	753	975	1,192	1,504	1,801

All financial ratios improved from 2010 to 2014. The improvement in liquidity ratios can be attributed to the positive operating cash flows (refer to Table 8) and settlement of the bonds payable by the National Government (refer to Annex D.1).

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7 Jon Viktor Cabuenas, "Area is Worth At Least P9.2B, HGC Rejects R-II's P5B Settlement Offer for Smokey Mountain Project," GMA News Online, http://www.gmanetwork.com/news/story/554403/money/companies/hgc-rejects-r-ii-s-p5-b-settlement-offer-for-smokey-mountain-project Posted on February 8, 2016.

8 "The Failed Smokey Mountain Project," The Philippine Star, http://www.philstar.com/letters-editor/2014/08/08/1355149/failed-smokey-mountain-project

Table 8. HGC's Operating Cash Flows (2010 – 2014)

2014	2013	2012	2011	2010
911,908,217	756,304,485	738,845,843	631,871,343	683,748,807

It is worth mentioning that HGC had more than ₱4 billion recognized liability for call on guaranties as of 2014, but payment for such liabilities were recognized in the cash flows from financing activities, and not from operating activities.

Despite operating losses, the company's leverage ratios improved from 2010 to 2014. These are due to the increase in equity coming from the following sources:

1. Equity infusion by the National Government of ₱2.4 billion from 2011 to 2014.
2. Donated capital worth ₱1.4 billion in 2011.
3. Appraisal of donated land of ₱2.7 billion in 2012.
4. Non-recognition of impairment losses worth ₱1.89 billion in 2010 and ₱1.6 billion in 2011 which overstated the reported net income in those years.

The improvement in the net profit margin in 2014 was substantially due to the reduction in interest expense. The interest expenses on the zero coupon bond which the National Government settled in 2013 was ₱653 million, an amount much larger than the ₱161 million interest expense HGC recognized in 2014 in relation to the advances made by the government.

The efficiency ratios have all improved from 2010 to 2014. However, the improved average collection period of 753 days from rent income was still very long by any standard. This collection period has substantially improved from 1,801 days' receivable in 2010.

In 2012, the Commission on Audit (COA) called the attention of HGC's management because of the company's more than ₱12 billion deficit as of 2011. COA was worried about the company's ability to continue its mandate of providing guaranty programs.[9]

5.3 Other Issues

This part of the findings covers the other observations of COA and other issues that may be relevant for HGC's operations.

The following are the other observations of COA in its 2014 audit that are worth mentioning:

1. Granting of preferential guaranty rates lower than the authorized premium rates to some customers deprived the corporation of ₱1.149 million guaranty fees in 2014.
2. Representation allowance and transportation allowance (RATA) and provident fund for 2014 amounting to ₱17.164 million were without the approval of the President of the Republic of the Philippines. This is contrary to COA Circular 2012-003 dated October 29, 2012 and other pertinent rules and regulations.
3. ₱518.91 million loans receivable, which accounted for 11.86% of total receivable, remained delinquent.

Considering the nature of the operations of the company and given that public funds are at stake, the following disclosures should have been made for better understanding of the company's performance:

1. For guaranty, the following disclosures should have been provided:
   a. Total amount of approved guaranty on an annual basis
   b. Total amount availed of broken down into the following categories together with the percentage share in the total guaranty availed of:
      Socialized housing packages
      Low-cost housing packages
      Medium-cost housing packages
      Open housing packages
   Section 15 of Republic Act 8763 prescribes that HGC shall guarantee accounts as follows:
      At least 40% shall be allocated to socialized housing packages.

[9] Leila B. Salavera, "Home Guaranty Corp. Has P12-B Deficit says COA; Agency Asked to Avoid Bond Floats," Inquirer.Net https://business.inquirer.net/70549/home-guaranty-corp-has-p12-b-deficit-says-coa-agency-asked-to-avoid-bond-floats. Posted on July 12, 2012.

At least 30% shall be allocated to low-cost housing packages.
At least 20% shall be allocated to medium-cost housing packages.
Not more than 10% shall be allocated to open housing packages

c. Cumulative number of accounts guaranteed and the corresponding amounts based on the categories as prescribed in Section 15 of R.A. 8763. The disclosures should include the beginning balance and the movements during the year.
d. Disclosures regarding the accounts guaranteed for which guaranty calls were made by categories. The data will be useful in assessing the guaranty programs and in identifying areas for possible improvement. The disclosures should include the property developers and the financial institutions involved in these accounts were guarantees were called. These disclosures are important to find out if a few developers and financial institutions dominate the guaranty business with HGC.
   According to the information provided in the company's website, risk cover is 100% for the principal balance and for interest, HGC can pay up to 11%. These generous guaranty terms can really attract moral hazards because most of the risks, if not all the risks, have been passed on to HGC. What risks are now assumed by the developers and the lenders?
   Management disclosed that a total of 417,853 homebuyers benefitted from the company's guaranty programs from 1997 to 2015.

2. There were no sufficient contributions to the sinking fund for guaranty calls. Section 16.e of R.A. 8763 requires HGC to set aside five percent (5%) of its net annual operating revenues before interest as reserve or sinking fund to answer for guaranty calls. R.A. 8763 was approved into law on March 7, 2000. As shown in Note 4.2 of the Notes to Financial Statements, HGC reported ₱707,422,679 sinking fund for guaranty reserve.
   These huge amounts involving call on guaranties put into question the integrity of the guaranty process? Are there no credit investigations made? If so, what are the parameters used?
3. The amount of provident fund benefits seemed unusually big for a government agency that was not profitable for many years. Provident fund benefits accounted for 42% of the total salaries in 2014. Similar percentage was computed for the earlier years. Computation was made up to 2010. Section 9.5 of HGC Charter (R.A. 8763) allows its board of directors to set the company's compensation packages and the company is exempted from the Salary Standardization Law, which serves as the basis of salaries of most government employees and some government owned and controlled corporations. LandBank of the Philippines, a profitable financial institution and one of the largest banks in the country, contributes 30% of its employees' salaries to its provident fund[10] while the University of the Philippines contributes ₱2,400 per year per employee to its provident fund.[11]

6 Concluding Remarks

HGC's operating performance from 2005 to 2014 puts into question its ability to continue providing credit guarantees. The Commission on Audit also expressed its reservation about the company's ability to continue its mandate given its more than ₱12 billion deficit as of the end of 2011.

While profits should not be the prime objective of a government owned and controlled corporation like HGC, it has to be self-sufficient. Otherwise, the company may not be able to sustain providing the services it is mandated to do. As previously stated, HGC's retail guaranty program has benefitted more than 417,000 homebuyers from 1997 to 2015 and the extent of uncollectible accounts was negligible.

HGC incurred huge losses from guarantees of developmental loans. These findings should help management rethink its thrust. While providing guarantees to developers is part of its mandate, maybe a more objective credit evaluation of a project has to be made before a guaranty facility is accorded to a project proponent. To make creditors more prudent in their evaluation of the credit worthiness of

[10] Vince Alvic Alexis F. Nonato, CA Denies LandBank Employees' Petition," BusinessWorld Online http://www.bworldonline.com/content.php?section=Corporate&title=ca-denies-landbank-employees&8217-petition&id=128876 Posted on June 13, 2016.
[11] http://www.upprovidentfund.com/41/FAQ

developers, the law must be amended so that guarantees will not be 100%. Some of the risks must be passed on to those that originated the loans.

Since public funds are always at stake every time a major project fails, maybe it is about time that the members of the board of directors take more responsibilities for their decisions. It has to hurt them if their decisions are not anchored on rational foundations. It seems that the previous directors who were responsible for most of the losses suffered by HGC were left unscathed. For this recommendation to hold, there may be a need to amend the company's charter or its implementing rules and regulations on areas related to guaranty coverage, credit standards, and responsibilities of the members of the board and top management. As stewards of the company, the members of the board have to put the firm's interest first and act accordingly. Political pressures will always be around and should not be used as alibis for failures.

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Philippine Accounting Standards 1 – Presentation of Financial Statements

Philippine Accounting Standards 7 – Statement of Cash Flows

Philippine Accounting Standards 16 – Property, Plant and Equipment

Philippine Accounting Standards 37 - Provisions, Contingent Liabilities and Contingent Assets

Philippine Accounting Standards 39 – Financial Instruments: Recognition and Measurement

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Annex A

HGC Guaranty Facilities & Benefits[12]

The Home Guaranty Corporation is mandated under R.A. 8763 to extend guarantees on housing loans and other credit facilities to encourage funders and financial institutions to provide financing for home acquisition and mass housing development. The HGC guaranty provides the following benefits to its clients:

- **Risk Cover -** If a guaranty call is approved, HGC pays 100% of the outstanding principal balance and guaranteed interest of up to 11%.

Housing Package	% of Guaranty Coverage	
	Outstanding Principal Loan	Interests / Yields
Socialized Housing (P450,000 and below)	100	11.0
Low-Cost Housing (above P450,000 to P3.0M)	100	10.0
Medium Cost Housing (above P3.0M to P4.0M)	100	9.5
Open Housing (above P4.0M)	100	8.5

- **Tax incentive -** Interest income on housing loans up to the extent of 11% is exempt from all forms of taxation while the account is current.

Housing Package	Extent of Tax-Exemption of Interests / Yields Earned
Socialized Housing (P450,000 and below)	11.0 %
Low-Cost Housing (above P450,000 to P3.0M)	10.0 %
Medium Cost Housing (above P3.0M to P4.0M)	9.5 %
Open Housing (above P4.0M)	8.5 %

- **Sovereign Guaranty -** The HGC guaranty carries the unconditional guaranty of the Republic.
- **Zero-Risk Classification -** HGC-guaranteed loans have zero risk weight. Banks are exempt from providing risk capital reserves on HGC-guaranteed loans.
- **Higher Loan Values -** The Bangko Sentral ng Pilipinas allows a higher loan value, specifically up to 90% of appraised value of the collateral for loans up to P3.0 million and covered by an HGC guaranty.

A call on the guaranty is made in the event of payment default, which is generally defined as non-payment of six (6) monthly amortizations. HGC requires the assignment of the defaulted mortgage or the property subject of the cancelled Contract to Sell (CTS) to effect payment of the guaranty claim.

The two basic guaranty programs are the retail and developmental guarantees. The retail guaranty covers individual housing loan and contract-to-sell receivables while the developmental guaranty covers construction loans to developers for the development of subdivisions, townhouses, condominiums, apartments and dormitories.

Until the 1990s, HGC extended guarantees on the so-called Asset Participation Certificates (APCs) that were issued against a pool of assets. Proceeds from the APCs issued were used to fund housing-related urban renewal initiatives and other mass housing projects.

At present, a guaranty on housing-related securities and securitized assets is classified under retail since it is extended to the individual mortgages or receivables backing the security. The idea is to ensure that the cash flows and values supporting the issued securities are intact and guaranteed. For

[12] Source: HGC homepage. Retrieved from http://www.hgc.gov.ph/guarantybene.html

selected issuances such as the Pag-IBIG housing bonds, HGC guarantees the explicit commitments embodied in the bonds.

The guaranty coverage may either be under a cash, standard, bond or cash flow guaranty coverage. These are defined as:

- **Cash -** Payment of guaranty claim in cash.
- **Standard -** Payment of guaranty claim shall be made in the form of HGC debenture bonds if default occurs during the first 5 years of guaranty coverage. Cash payment will be made if the default occurs after the 5th year.
- **Bond -** Payment of guaranty claim shall be made in the form of an HGC debenture bond.
- **Modified Cash Flow Guaranty -** Payment of guaranty claim shall follow the amortization schedule of the defaulted borrower but the interest component shall be limited to the guaranteed rate.

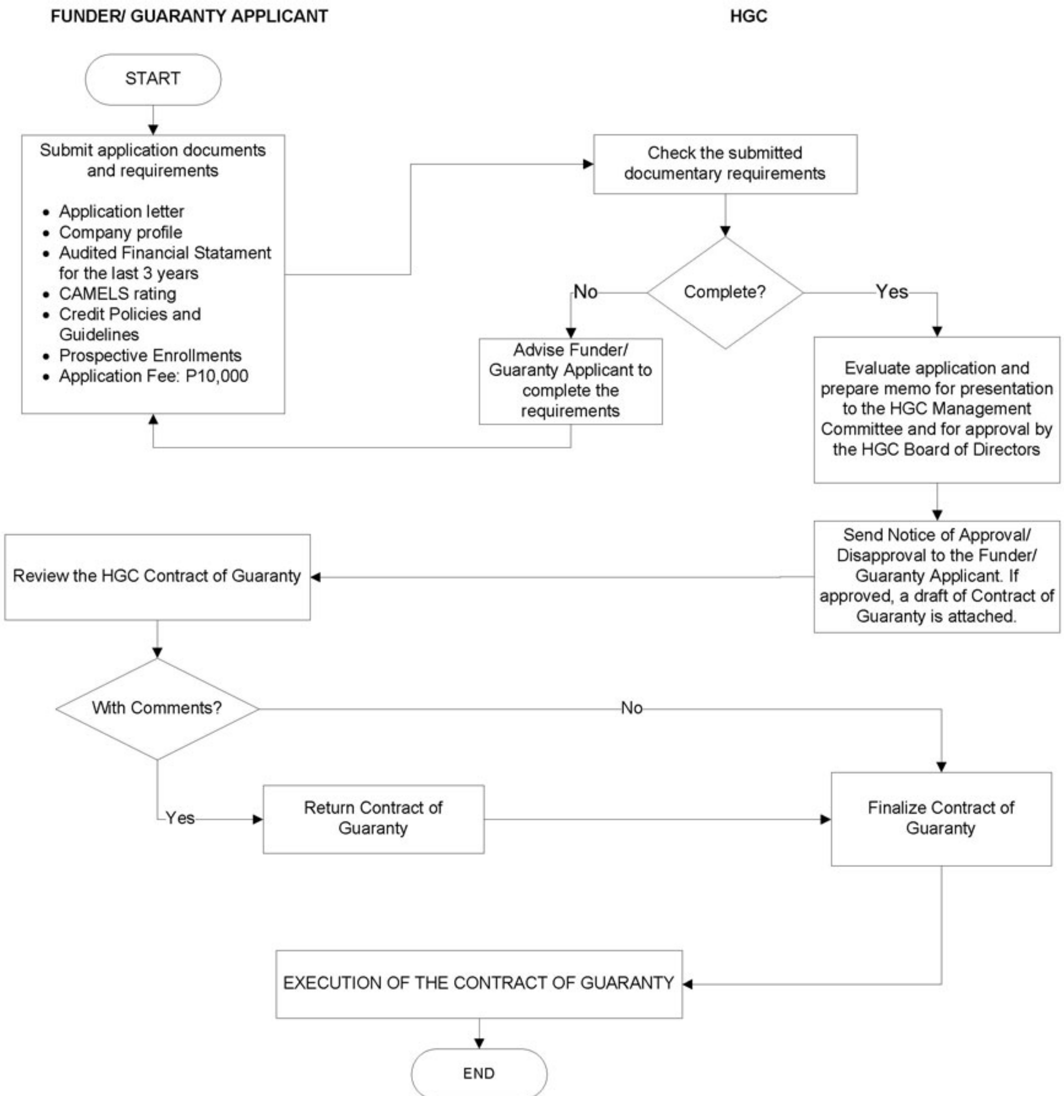
HGC debenture bonds are classified as government securities. The debentures are negotiable, exempt from taxation, and fully guaranteed by the Republic of the Philippines. The interest of the bonds is the lowest of the prevailing market rate as posted in the PDEX, the mortgage or CTS rate, or 8.5% p.a. Its maturity ranges from 3 to 10 years.

HGC is also mandated to administer the Cash Flow Guaranty Component of the Abot Kaya Pabahay Fund (AKPF) to provide credit insurance on the socialized housing loans extended by the Government Financial Institutions (GFIs) such as the SSS, GSIS and HDMF. The AKPF is a subsidy fund. As such, the guaranty is premium-free. The AKPF Cash Flow Guaranty does not offer any tax incentive.

The payment of AKPF guaranty claim is made in two tranches. Initial payment consists of 80% of the outstanding principal balance plus guaranteed interest for 3 months and foreclosure expenses. The 20% balance is paid upon disposition of the property.

Annex B

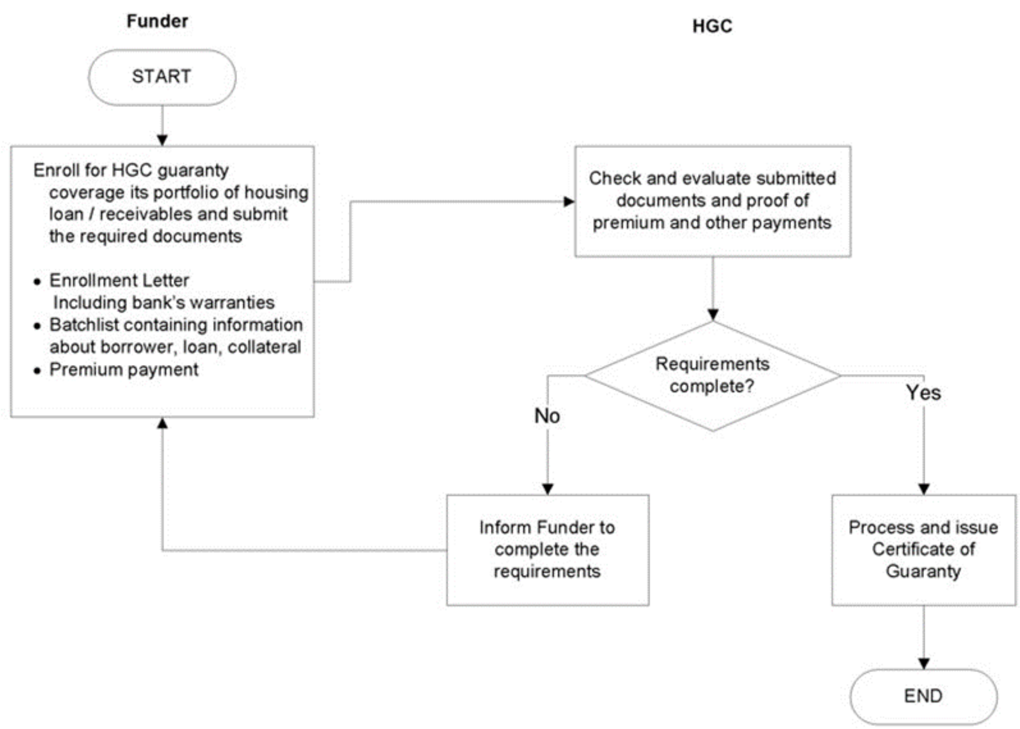
Flowchart of Guaranty Application[13]



[13] Source: HGC Homepage. Retrieved from http://www.hgc.gov.ph/guarantyapplication.html

Annex C

Flowchart of Enrollment for Guaranty Coverage[14]



[14] Source: HGC Homepage. Retrieved from http://www.hgc.gov.ph/guarantyenroll.html

Annex D.1

Home Guaranty Corporation
Statements of Financial Position
December 31, 2010-2014

	2014	2013	2012	2011	2010
Assets					
Current assets					
Cash and cash equivalents	3,975,933,606	2,016,207,368	2,378,542,443	2,506,421,635	1,827,964,142
Short-term investments	19,219,652	1,367,279,487	33,068,694	32,625,051	1,873,737,738
Receivables - net	1,036,304,571	1,037,830,409	947,085,026	578,026,868	543,361,781
Inventories	503,108	781,109	1,302,567	4,334,485	3,325,664
Prepayments	63,206,467	64,541,092	69,680,603	95,145,514	91,883,334
Total current assets	5,095,167,404	4,486,639,465	3,429,679,333	3,216,553,553	4,340,272,659
Noncurrent assets					
Long-term investments	1,556,024,535	1,447,946,117	1,440,594,040	1,411,218,924	2,142,960,586
Investment property	8,041,847,011	8,043,695,726	8,045,544,441	5,357,784,329	3,980,087,043
Receivables	5,561,278,723	5,760,349,100	5,949,689,387	2,960,743,877	2,812,038,133
Long-term prepayments	20,858,395	20,858,395	20,868,395	20,858,395	50,951,168
Property and equipment - net	74,688,584	90,177,787	101,490,516	96,342,543	92,737,901
Deferred tax asset	339,167,220	325,940,383			
Other assets	13,638,239,146	13,639,624,157	13,687,824,865	16,474,820,167	16,377,743,213
Total non-current assets	29,232,103,614	29,328,591,665	29,246,011,644	26,321,768,235	25,456,518,044
Total assets	**34,327,271,018**	**33,815,231,130**	**32,675,690,977**	**29,538,321,788**	**29,796,790,703**
Liabilities and Equity					
Current liabilities					
Payables and other liability accounts	5,999,268,582	6,000,295,163	5,087,159,245	4,806,552,860	2,845,137,880
Bonds payable	100,000,000	74,097,389	11,768,122,214	12,188,790,251	3,353,438,096
Total current liabilities	6,099,268,582	6,074,392,552	16,855,281,459	16,995,343,111	6,198,575,976
Non-current liabilities					
Bonds payable	136,567,178	230,854,786	303,554,786	600,741,361	12,196,731,314
Trust liabilities	1,782,837,751	1,829,034,048	2,956,099,024	2,063,712,580	1,995,752,582
Unearned income	1,011,995,337	1,001,119,130	169,729,657	164,535,476	162,644,156
Due to National Treasury - BTR	11,411,090,418	11,442,768,000			
Due to other funds - Abot Kaya Pabahay Fund	4,151,034,713	4,116,959,885	4,052,710,660	3,995,427,963	3,901,881,797
Other liabilities - assets held in trust	1,082,888,795	1,065,188,451	1,068,790,234	1,063,837,146	1,062,989,126
Total non-current liabilities	19,576,414,192	19,685,924,300	8,550,884,361	7,888,254,526	19,319,998,975
Total liabilities	**25,675,682,774**	**25,760,316,852**	**25,406,165,820**	**24,883,597,637**	**25,518,574,951**
Equity	8,651,588,204	8,054,914,278	7,269,525,157	4,654,724,151	4,278,215,752
Total liabilities and equity	**34,327,270,978**	**33,815,231,130**	**32,675,690,977**	**29,538,321,788**	**29,796,790,703**

Annex D.2

Home Guaranty Corporation
Statements of Comprehensive Income
For the Years Ended December 31, 2010-2014

	2014	2013	2012	2011	2010
Income					
Financing fees	656,259,810	594,784,383	565,094,409	520,562,227	345,247,021
Rent income	142,135,101	119,946,603	106,328,768	90,762,936	81,220,929
Interest income - installment receivable	34,361,140	37,833,774	50,369,997	44,489,606	36,765,593
Other fines and penalties	5,149,233	5,722,650	8,615,278	5,941,324	4,090,080
Other service income	198,592	273,534	345,067	546,502	597,392
Miscellaneous income	589,769	1,047,956	1,211,840	640,543	728,531
	838,693,645	759,608,900	731,965,359	662,943,138	468,649,546
Expenses					
Personal services	111,660,464	112,700,775	103,663,937	94,401,641	88,639,434
Maintenance and other operating expenses	183,250,130	175,870,775	170,716,297	168,527,671	160,718,923
	294,910,594	288,571,550	274,380,234	262,929,312	249,358,357
Net income from operations	543,783,051	471,037,350	457,585,125	400,013,826	219,291,189
Other income (expenses)					
Interest income - investments	49,227,736	63,358,481	85,448,655	153,882,345	252,360,205
Interest income - bank deposits	2,701,625	1,837,575	6,226,914	3,015,086	635,830
Dividend income	1,905,600	2,123,678	2,343,155	10,750	4,616,645
Gain on foreign exchange	10,152	160,907	(136,447)	765	(129,499)
Gain (loss) on sale of disposed assets	15,062,657	9,050,171	(86,166,371)	(1,641,781)	(50,391,096)
Gain (loss) on sale of securities	-	5,763,858	(591,464)	1,108,923	49,254,007
Technical loss reserves	(1,999,337)	(572,411)	(149,256)	(2,807,167)	(2,172,943)
Other MOOE - projects	(81,864,667)	(34,786,289)	(37,157,671)	(37,237,508)	(38,973,495)
	(14,956,234)	46,935,970	(30,182,485)	116,331,413	215,199,654
Income before financial charges	528,826,817	517,973,320	427,402,640	516,345,239	434,490,843
Financial charges					
Interest on guaranty obligations	198,793,808	198,528,629	198,793,808	198,793,808	-
Interest on NG advances	161,142,418	12,588,000			
interest on debenture bonds	147,629	542,213	47,306,487	87,820,341	147,831,989
Interest on zero coupon bond	-	652,805,244	725,905,383	810,196,418	966,236,963
Documentary stamp expense					138,459
Bank charges	85,920	73,671	32,518	69,445	63,573
	360,169,775	864,537,757	972,038,196	1,096,880,012	1,114,270,984
Net income (loss) before tax	168,657,042	(346,564,437)	(544,635,556)	(580,534,773)	(679,780,141)
Taxes					
Final tax	10,385,454.00	13,038,014.00	18,331,117	30,910,678	49,298,981
Income tax	(13,226,837.00)	(131,277,989.00)	12,138,497	10,500,808	8,028,116
	(2,841,383)	(118,239,975)	30,469,614	41,411,486	57,327,097
Net income (loss)	171,498,425	(228,324,462)	(575,105,170)	(621,946,259)	(737,107,238)