



Guam Housing Corporation FY 2014 Financial Highlights

February 15, 2015

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2014 with a decrease in net position (net loss) of \$153 thousand (K) compared to an increase (net income) of \$249K in FY 2013. GHC received an unmodified (clean) opinion from independent auditors, Ernst & Young LLP. GHC is to be commended for its second year of not having material weaknesses and significant deficiencies in its Report on Compliance and Internal Control. However, the Management Letter noted three deficiencies relative to the First-Time Homeowner Assistance Program (FTHAP), annual leave, and lease agreements.

FTHAP Success

Since its inception in FY 2012, GHC has issued FTHAP grants totaling \$1.4 million (M) to 201 families and has stimulated the real estate industry by \$35M. Eligible first-time homeowners are provided up to \$10K or 4% of a mortgage loan amount maximum of \$250K to be used for down-payment assistance or closing cost. The program is not restricted to GHC and currently has nine participating financial institutions comprised of 1) GHC, 2) Bank of Hawaii, 3) Bank Pacific, 4) ANZ Guam, Inc., 5) Community First Federal Credit Union, 6) Bank of Guam, 7) Coast 360 Federal Credit Union, 8) USDA Rural Development, and 9) Guam Housing and Urban Renewal Authority (GHURA). FTHAP is one of the authorized programs the Housing Trust Fund finances. The grants were made possible by the \$500K from GHC funds and \$1.2M appropriated from the Legislature. The Housing Trust Fund Act is to support services that assist low-income households in obtaining and maintaining affordable housing. However, there are challenges to the Housing Trust Fund initiatives, such as the ability to secure lending capital at affordable rates and lack of inventory of affordable homes.

GHC's Loan Portfolio Declined

GHC's gross loan portfolio decreased by \$1.9M, going from \$31.5M in FY 2013 to \$29.6M in FY 2014. There were only five loans originated totaling \$763K in FY 2014, the lowest in the last decade. This is a significant decrease from the 18 loans originated of \$2.4M in FY 2013. In August 2014, GHC paid off the Federal Home Loan Bank loan, as such the Board of Directors changed the interest rate for this program to 1% above the local prevailing rate. Additionally, GHC had 30 loan payoffs amounting to \$1.1M in FY 2014 in comparison to 26 loan payoffs totaling \$976K in FY 2013, which is a \$118K increase. The payoffs are attributed to borrowers refinancing their mortgage at lower interest rates and delinquent accounts who sought financing through other lenders. GHC is challenged by local banks who can offer low interest loans.

GHC experienced 52 delinquent loans with a principal balance of \$3.8M in FY 2014, a decrease of 10 loans and \$683K in total delinquent principal balance over the previous year. Accordingly, GHC has an overall delinquency rate of 13% in FY 2014, which decreased from 14% in FY 2013. In FY 2014, GHC had no foreclosures.

Interest Income from Loans Continue to Decline

GHC's revenues, net of interest expense on borrowings, decreased by \$685K (going from \$3.2 million (M) in FY 2013 to \$2.5M in FY 2014) due to the decline in interest on loans receivables and decrease in sundry. In FY 2014, interest income on loans receivables decreased by \$107K to \$1.6M from \$1.7M in FY 2013. This is due to the abovementioned decrease in total loan portfolio. Sundry decreased by \$498K from \$549K in FY 2013 to \$51K in FY 2014. In FY 2013, \$498K was recorded due to increases in appraised value for the 10 Sagan Linahyan units that were renovated by GHURA.

Expenses Decreased by \$283K

GHC's total operating expenses decreased by \$283K from \$2.9M in FY 2013 to \$2.7M in FY 2014. The two largest decreases were the FTHAP and professional services. There were no FTHAP expenses because no grants were disbursed as the appropriations were expended. Professional services decreased by \$76K or 48% from \$160K in FY 2013 to \$84K in FY 2014. In FY 2013, a Housing Study was funded where GHC partnered with GHURA to conduct a Housing Study to determine if it was feasible to build more apartment or housing units at the As Atdas site.

Capital Funding Needed to Upgrade Facilities

In its inventory, GHC owns a total of 151 rental units comprised of 127 houses and 24 apartment units to provide rental opportunities for low to moderate income families. Lada Gardens is their largest property with 115 homes in Dededo. These units are almost 50 years old and require extensive repairs to remove safety and health concerns. GHC secured a contractor to rehabilitate these housing units by increments. There are about 15 to 18 units in need of an upgrade of which five were completed in FY 2014 at a cost of \$179K. There are some housing units that require major renovation estimated at \$30K to \$40K per unit. GHC and its Board are currently looking at these units to efficiently address renovations and make them affordable for the public.

Government Accounting Statement – Pension Liability

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement No. 68 related to the *Accounting and Financial Reporting for Pensions* will result in a significant change as GHC will be required to report its pro rata share of \$3.4M of the government of Guam's pension liability, which was \$1.3 billion as of FY 2013. This long-term liability of \$3.4M will be reflected in GHC's financial statements in FY 2015.

Compliance Report and Management Letter

GHC is to be commended for its second consecutive year of no compliance and internal control findings. However, a Management Letter identified three deficiencies in internal control relative to the consistent application of FTHAP requirements, the annual leave accrual process, and lease agreements. A copy of the applicant's U.S. passport or permanent resident card and certificate of completion of a home ownership education program or workshop were not found before the FTHAP assistance was granted to applicants in accordance with Public Law 31-166. Annual leave was not properly approved and certain annual leave hours were not recorded affecting the employees' balances. Lease agreements with rental escalations were not documented in the tenants' files and not acknowledged by the tenants in writing.

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.opaguam.org to view the reports in their entirety.