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Guam Housing Corporation – FY 2020 Financial Highlights

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Hagåtña, Guam – OPA has released the Guam Housing Corporation’s (GHC) financial statements, report on compliance and internal control, and the auditor’s communication with those charged with governance for fiscal year (FY) 2020. Despite the negative impact to Guam’s economy from the novel coronavirus (COVID-19) Pandemic, GHC ended FY 2020 with an increase in net position (net gain) of \$217 thousand (K). However, it is a decrease of \$511K from the FY 2019 net gain of \$727K.

GHC received an unmodified (clean) opinion on its FY 2020 audit from independent auditors, Ernst & Young, LLP. There was no management letter issued and the auditors did not identify any material weaknesses or significant deficiencies in its compliance report.

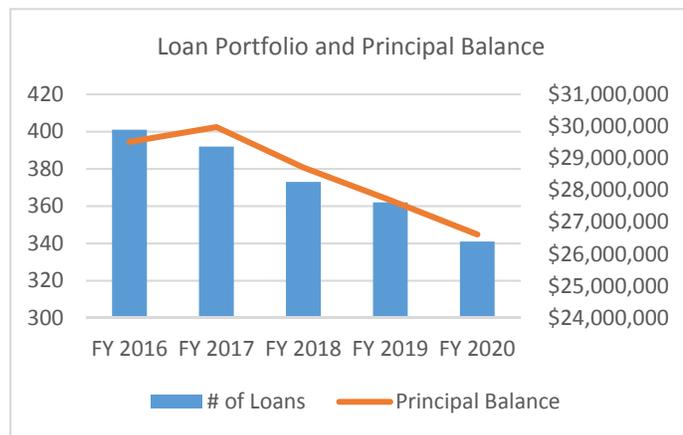
Revenues Decrease and Expenditures Increase

GHC’s total operating revenues decreased by 10%, or \$259K, from \$2.6 million (M) in FY 2019 to \$2.4M in FY 2020. This was mainly due to the lack of inventory for affordable houses, limited contractors, and the impact of the COVID-19 pandemic. Notable decreases included: (1) a 51% decrease in gain on the sale of foreclosed assets or \$29K, from \$57K in FY 2019 to \$28K in FY 2020; (2) a 13% decrease in interest income on loans receivable or \$198K, from \$1.5M in FY 2019 to \$1.3M in FY 2020; and (3) an \$18K decrease in interest income on deposits, from \$48K in FY 2019 to \$31K in FY 2020.

GHC’s total operating expenses increased by 13%, or \$251K, from \$1.9M in FY 2019 to \$2.2M in FY 2020. This was mainly due to the increase in Retiree Supplemental & Health benefits and Loss on Impaired Assets, which was offset by the decrease in Maintenance Expense, Professional Services, Depreciation, and Other Expense.

Loan Portfolio Continues to Decrease

GHC’s loan portfolio decreased by 3.9% or \$1.1M, from \$27.7M in FY 2019 to approximately \$26.6M in FY 2020. The decrease was due to \$983K in payoff and \$1.1M in monthly payments offset by a new loan’s principal disbursements and deferment totaling \$981K. GHC closed four loans totaling \$663K under the Revolving Loan Program and six loans totaling \$201K under the Community Affordable Housing Action Trust program in FY 2020.



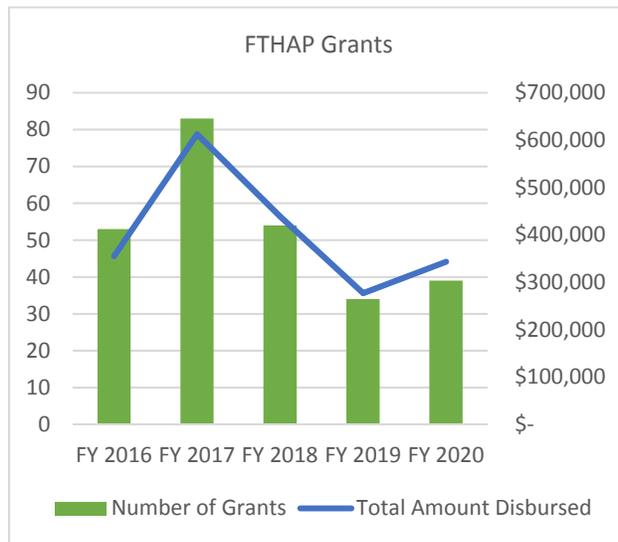
Although loans were committed, there have been delays in principal disbursement. Borrowers seeking to build homes are finding it difficult to secure contractors due to the limited availability of local, skilled construction labor and the suspension of the H2-B worker program. Borrowers wishing to utilize their loans to purchase homes are facing similar difficulty in locating homes for purchase due to the lack of inventory available in the low to moderate price range. In FY 2020, only 59 applicants were interviewed with a total funding of \$7.7M required. Of those interviewed, only eight pursued the application process.

Delinquency in Loans Increase

GHC provides mortgage loans to qualified applicants, who conventional financial institutions denied financing for the construction or purchase of their new homes. Thus, GHC assumes a higher lending risk with mortgage loans at the start. The COVID-19 Pandemic has added to that risk as it has had a direct financial impact on many GHC mortgagors and their ability to meet their financial obligations. This combined with the moratorium on foreclosure and eviction proceedings outlined in the March 2020 Executive Order No. 2020-07 has contributed to an increase in delinquency. Delinquent loans 30 days and over increased by \$1.4M to \$3.9M in FY 2020. Overall, loans delinquent 30 days and over increased from 9% in FY 2019 to 15% in FY 2020.

First Time Homeowners Assistance Program (FTHAP) Disbursements Increase

In FY 2020, FTHAP’s total number of disbursed grants increased to 39 from 34 in FY 2019. GHC received \$601K and \$285K of escheated funds from the Department of Administration during FY 2019 and FY 2020, respectively. The FY 2020 funds were received in the latter part of the fiscal year, so these fund disbursements took place in FY 2021.



As with previous fiscal years, the funds were not enough for all FTHAP applications received resulting in an on-going waiting list. GHC is still awaiting funds.

FY 2020 Other Post-Employment Benefits (OPEB) Increase

Governmental Accounting Standards Board No. 75 pertains to post-employment benefits other than pension. These benefits provided by the Government of Guam include medical, dental, and life insurance to retirees, spouses, children, and survivors. The OPEB liability increased by 31% from \$5.7M in FY 2019 to \$7.4M in FY 2020.

COVID-19 Pandemic and Future Impact

In March 2020, the Governor of Guam declared a state of emergency for Guam in response to COVID-19 through Executive Order 2020-03. This led to the closure of non-essential government services, private businesses, and schools. Further, an island-wide stay-at-home order was

implemented, air transportation nearly came to a halt, and other stringent measures were enforced. Due to the coronavirus, over 35,000 individuals lost their jobs and hundreds experienced a reduction in work hours. These unforeseen conditions placed families in a condition of uncertainty and jeopardized their financial stability, including the ability to make mortgage and rental payments.

Guam Housing and Urban Renewal Authority awarded GHC \$714K of Coronavirus Aid, Relief, and Economic Security Act Funds to administer and implement the COVID-19 Mortgage Relief Program (MRP), which they plan to complete in 2021. MRP is an emergency relief project for the low to moderate income mortgagors who experienced a reduction in their household income from the COVID-19 related circumstances. The program offers eligible mortgagors up to three months of mortgage payments. An estimate of 200 families will receive emergency relief assistance.

Due to the continued uncertainties surrounding the extent and duration of the COVID-19 Pandemic and the impact on the economy of Guam, GHC is unable at this time to reasonably estimate the potential future impact on its financial statements.

For a more detailed discussion on GHC's operations, see the Management's Discussion and Analysis in the audit report at www.guamhousing.org or www.opaguam.org.