OFFICE OF THE PUBLIC AUDITOR

Guam Housing Corporation
FY 2006 Financial Highlights

April 4, 2007

The FY 2006 financial audit of the Guam Housing Corporation (GHC, or Corporation) was conducted by J. Scott Magliari & Co. and was issued six months after the end of the fiscal year, the earliest issuance for the entity in seven years. GHC reported a $963,000 increase in net assets (profit), a 7% increase from last year, of $902,000.

GHC is comprised of two divisions; one is the Housing Division which enables individuals to secure mortgage financing if they are unable to qualify as borrowers through conventional means. The other division, the Rental Division, which was integrated into GHC in 2003, provides low-cost rental apartments and houses to eligible individuals and families. Of the $963,000 increase in net assets, the Housing Division contributed $634,000, or 66%, while the Rental Division contributed $329,000, or 34%.

The Housing Division's operating revenues decreased 5% to $2.3 million from last year, while its operating expenses increased 2% to $2 million. The decline in revenues and increase in expenses was offset by interest income which more than doubled to $280,000 from $129,000 in the prior year.

The Housing Division's $634,000 increase in net assets was a 6% decline from the prior year of $671,000, and reflects the increasing challenge GHC faces when traditional mortgage lenders are able to offer lower interest rates than those offered by GHC. This challenge is reflected in the Corporation's declining loan portfolio which is now at $24.5 million compared to $36.3 million in FY 2002. Although loan origination jumped 200% from last year to $2.2 million, this was offset by loan payoffs totaling $1.7 million which contributed to GHC's declining loan portfolio.

Loan delinquencies contributed to the declining portfolio and GHC's 15% delinquency rate is higher than the standard of most mortgage lending institutions, however improved loan servicing and collection efforts have proven to be successful. The $2.3 million of loans in arrears 90 days or more in FY 2006 is an improvement from prior years, and a significant 46% decrease from last year.

Loan foreclosures in FY 2006 totaled $374,000, an improvement of 66% compared to $1,115,000 loans foreclosed than in FY 2005. Foreclosed assets sold in FY 2006 increased to $826,000, a 94% improvement compared to FY 2005.

GHC's cash and cash equivalents rose 24% to $12,953,625 compared to last year and is further indication of GHC's challenge in originating new loans. This correlated to a 113% increase in interest income on bank deposits for FY 2006 totaling $336,000. Cash is maintained in several interest bearing bank accounts.

The Rental Division's increase in net assets of $329,000 reflects a 42% increase from prior year profit of $231,000. Although the Rental Division's operating revenues declined 2% from last year to $779,000, its operating expenses decreased 14% from last year, to $505,000. Thus the Rental Division's significant decrease in operating expenses compensated for its nominal decrease in revenues, thereby contributing to its higher net earnings.

In FY 2006, GHC continues to report an outstanding liability of $10.6 million associated with the design and build of off-site infrastructure for the Lada Estates project. The contractor is suing for the payment of $10.6 million plus accrued interest of $6.5 million. The Corporation's legal counsel believes that the contractor's claim may not be payable pursuant to the terms of the contract and under Guam Law. As of September 30, 2006, the matter remains unresolved.

The auditor's report on compliance and internal controls revealed seven findings, of which one is noted as a material weakness. Although five of the seven are repeat findings, this is an improvement from the 12 findings from last year, of which six were considered to be material weaknesses.

The material finding pertains to Finding 06-01, which indicates that 13 loans totaling $1.2 million were outstanding in excess of 90 days, and were pledged as collateral with the Federal Home Loan Bank of Seattle. One loan has been outstanding for 793 days. Though GHC has made improvement in servicing its loan portfolio, its procedures for identifying and servicing delinquent loans in a timely manner are still insufficient, and that its policies and procedures may still be ineffective. This same condition was found in FY 2005, FY 2004 and FY2003. Additional findings for the Housing Division indicate that some loans did not have adequate insurance coverage and loan files did not contain all necessary loan origination documentation.

Another finding pertains to a receivable of $2.9 million due from the government of Guam. Although GHC continues to maintain this receivable, the related liability has not been recorded in the books of the government of Guam. The collectibility of the receivable may be doubtful considering the government's current cash flow situation and deficit of $343 million. It should be noted that the government of Guam forgave a GHC note payable and accrued interest payable of $13.6 million and $517,000 respectively in 2002, via Public Law 26-123.

Findings for the Rental Division indicate inaccurate rent calculation methodology and tenant files did not contain adequate documentation.

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