Philippines Shelter Sector Assessment

October 1984

AGENCY
FOR
INTERNATIONAL
DEVELOPMENT

OFFICE OF HOUSING
AND
URBAN PROGRAMS

FOREWORD

This study was conducted in 1983 and 1984 under the auspices of the Office of Housing and Urban Programs of the Agency for International Development and through funding provided by this office.

The study team included Daniel Coleman, Team Leader, Timothy Smith, Housing Finance Consultant, and Desa Weerapana, Housing Marketing Specialist. Both the team leader and Mr. Smith are consultants on the staff of the National Council of Savings Institutions. Mr. Weerapana is an official of the Ministry of Local Government of Sri Lanka. Mr. Bong Lee, Urban Development Specialist, Asian Development Bank also participated.

While the report results from the discussion of the team and its host country counterparts, it is not to be interpreted in any way as an official position of either Government or the Agency for International Development.

We hope, however, that the Government of the Philippines will find the report and its recommendations useful as it formulates and implements its future shelter programs.

SHELTER SECTOR ASSESSMENT: AN UPDATE

THE PHILIPPINES

PREPARED FOR:

OFFICE OF HOUSING AND URBAN PROGRAMS

AGENCY FOR INTERNATIONAL DEVELOPMENT

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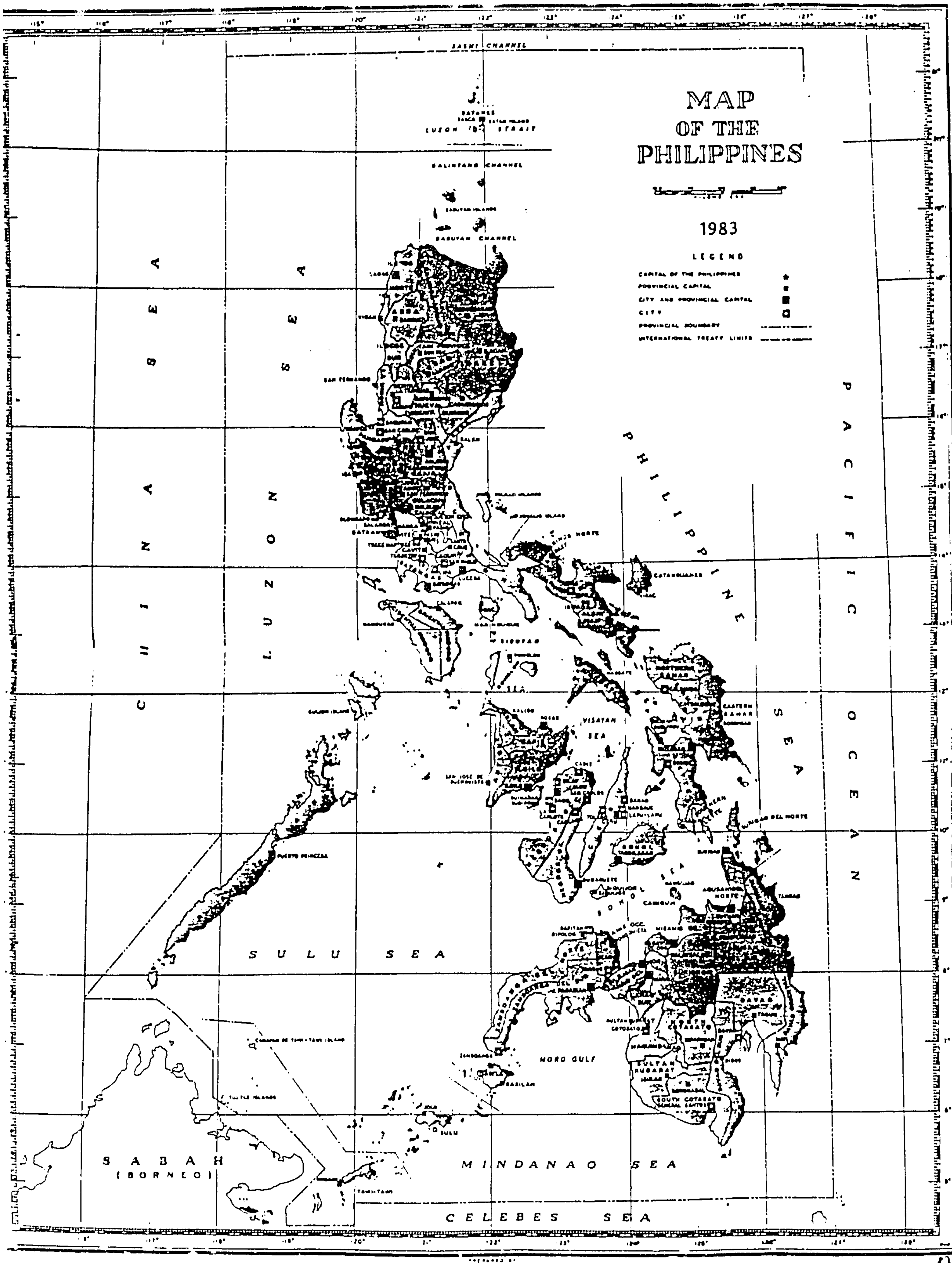

PREPARED BY
NATIONAL CENSUS AND STATISTICS OFFICE

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GLOSSARY OF ABBREVIATIONS

BC	-	Bagong Lipunan Improvement of Sites and Services
BMPC	-	Bahayan Mortgage Participation Certificate
DBP	-	Development Bank of the Philippines
GOP	-	Government of the Philippines
GPTC	-	Guaranteed Pass - Through Certificates
GSIS	-	Government Services Insurance System
HDMF	-	Home Development Mutual Fund
HFC	-	Home Financing Corporation
HSDC	-	Human Settlements Development Corporation
HSRC	-	Human Settlements Regulatory Commission
LOI	-	Letter of Instruction (Presidential)
LWUA	-	Local Water Utilities Administration
MHS	-	Ministry of Human Settlements
MLGCD	-	Ministry of Local Government and Community Development
NCSO	-	National Census and Statistics Office
NEDA	-	National Economic and Development Authority
NHA	-	National Housing Authority
NHC	-	National Housing Corporation
NHMFC	-	National Home Mortgage Finance Corporation
NSPS	-	National Shelter Program Secretariat
PAG-IBIG	-	A popular acronym for HDMF
PD	-	Presidential Decree
PDB	-	Private development banks
PNB	-	Philippine National Bank
PSSP	-	Private Sites and Services Project
SSLA	-	Stock savings and loan associations
SSS	-	Social Security System

Currency Exchange Rates

As of November 1983

US$1 = 14 Pesos

1 Peso = US$0.71

As of June 1984

US$1 = 18-20 Pesos

1 Peso = US$.056-US$.05

INTRODUCTION

The Philippine Shelter Sector Assessment (SSA) was prepared during September and October, 1983, by the National Council of Savings Institutions (Washington, D.C.). Preparatory work was carried out in Washington, followed by three weeks of field work in Manila. A draft report was prepared in Washington and presented to AID's Office of Housing and Urban Programs in early November 1983. In mid-1984, the SSA was revised and updated, and it is this version that forms this report.

The SSA team consisted of Daniel Coleman, Team Leader, Timothy Smith, Housing Finance Consultant, and Desa Weerapana, Housing Market Specialist. Mssrs. Coleman and Smith are both consultants on the staff of the National Council of Savings Institutions. Mr. Weerapana holds a position in Sri Lanka with the Ministry of Local Government, Housing and Construction, and was selected by his Ministry to participate in this Shelter Sector Assessment. Mr. Bong Lee, Urban Development Specialist with the Asian Development Bank, also participated in the SSA, mostly in an observer capacity.

This Shelter Sector Assessment updates a previous SSA prepared in November 1978, by the Planning and Development Collaborative International, Inc., for AID's Office of Housing and Urban Programs. Much of the information in PADCO's SSA is relevant today, and for that reason, the Team did not believe it necessary to elaborate on certain sections. Instead, this report emphasizes those components of the shelter sector that have experienced significant changes since the earlier SSA or where new and additional data have become available which have had an impact on the Team's analyses and conclusions.

Those areas which receive special emphasis in this SSA are:

- The institutional framework, where major new housing finance institutions have been created, including a mandatory savings program for housing investment and a secondary mortgage institution;

- Updated information on the private sector's involvement in the housing sector;

- Population trends, income distribution and housing needs based on recently-published information from the 1980 Census; and,

- Economic considerations arising from major changes in the Philippine economy.

For readers who prefer more detail in other areas, such as the country profile, land, and the construction industry, it is recommended that they read the SSA prepared by PADCO.

The request to carry out this SSA was received from the Philippines' Ministry of Human Settlements, whose Assistant Minister for Shelter Development, Mr. Roberto Alvarez, provided the Team with much information and support needed to complete the assignment. Prior to leaving Manila, the Team made a verbal presentation of its findings to the AID Mission Director and other members of his staff. In general, the findings, conclusions and recommendations, as presented to AID at that briefing as well as in this report, are those of the Shelter Sector Team.

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Below is a summary of the findings and recommendations of the Shelter Sector Team. A more detailed treatment of the issues and the underlying rationale for the recommendations are contained in the body of the report.

A. EXECUTIVE SUMMARY OF FINDINGS

1. Population and Incomes

Over the past several decades, the Philippines has experienced explosive population growth. By 1980, the population had reached over 48 million inhabitants, a 30 percent increase over 1970. Urban centers have been experiencing even greater growth rates. Metro Manila, the largest urban center in the country with more than 6 million persons, grew by an average of 4.9 percent during the last intercensal period. While population and urban growth rates are expected to decline somewhat in this decade, pressure will remain on government to provide more and better services and facilities to this growing population.

Unequal income distribution has been a major reason why urban centers have grown so rapidly. While incomes nationwide increased by 82 percent over the four-year period preceding 1982, incomes in Metro Manila grew by 165 percent. The medium income for all Filipino families as of the end of 1982 was estimated at P800 monthly, while in Metro Manila, the median income was recorded at P1,750. Among low-income families in selected neighborhoods of Manila and several secondary cities, the median income was P900 and P1,200, respectively. Consumption patterns indicate that families dedicate a large percentage of their income to shelter, including utility costs. Among Manila homeowners earning less than P2,000 annually, fully 44 percent of total income goes for housing and related expenses.

2. Housing Needs

Housing conditions in the Philippines have not measurably improved during the 1970s. Overcrowding of families is common, more so in the urban areas than in the rural areas, with the highest incidence of overcrowding occurring in Metro Manila. Neither has the quality of the housing stock improved. Nationwide, about 40 percent of all homes are constructed of non-permanent materials, requiring constant repair and improvement, while commonly-expected amenities such as piped water and electricity serve only a minority of families, expecially in the rural areas.

The need for housing is overwhelming. One estimate is that the total number of additional shelter solutions required for the period 1970 to 2000 exceeds 16 million units, more than the current stock. Thirty percent of units required over these three decades must be located in Metro Manila in order to satisfy the expected growth of the country's major urban center. Exacerbating the housing need is the low purchasing power of the majority of Filipinos. Low income housing solutions such as sites and services projects and urban upgrading schemes have been produced, although far fewer than the quantity required. With the reduction in minimum standards for housing, the possibility of increasing the rate of production and availability of low income housing is imminently posssible. These changes in minimum construction standards, along with new programs such as the Private Sites and Services Project, offer hope to more and more low income families that they too can aspire to decent and affordable housing some day.

3. Government Policy, Organization and Institutions

a. Policy: A comprehensive and coordinated national shelter policy has evolved in the Philippines in the last ten years. Prior to 1975, housing was not considered a national priority, and shelter-related problems were addressed through the *ad hoc* creation of agencies and public corporations which had overlapping responsibilities and tended to constrain housing production due to a lack of coordination and a slow regulatory process. In 1975, the first efforts were made to rationalize the bureaucratic structure and develop a national shelter policy through the creation of the National Housing Authority (NHA) which consolidated six existing housing agencies and began to coordinate the government's intervention in the shelter sector.

Under NHA, priority was given to addressing the needs of low income families through sites and services projects and slum upgrading activities which represented a departure from the past wherein the government's policy vis-a-vis low income settlements had been characterized by slum clearance and forced relocation of squatter families. In 1978, with the establishment of the Ministry of Human Settlements (MHS), a more comprehensive approach to the shelter sector was formulated to address the housing needs of all income classes. Policies and programs were designed to mobilize private sector resources and participation. New institutions were established to fill functional gaps in the housing delivery system, including the establishment of a mandatory savings plan to generate financial resources for housing investment and the creation of a secondary mortgage institution. In essence, the government's previous project-by-project approach in housing policy gave way to a more programmatic or conceptual approach. NHA was brought under the authority of MHS, and its responsibilities were concurrently narrowed from coordinating national policy and programs to solely implementing low income housing projects. Subsequently, NHA adopted policies for full project cost recovery, affordability and replicability, but its experience in cost recovery has been mixed.

The new housing finance institutions under MHS have been successful in stimulating housing production, and to a lesser extent in attracting private sector resources, but they have been offering mortgage finance at subsidized interest rates which is beginning to have serious negative implications for the institutions' long-term viability. Policy changes to limit or eliminate these subsidies have been considered but not resolved. Also, NHA's low income constitutents are not benefitting from MHS' initiatives, in turn denying access for lower income families to substantial financial resources for housing and resulting in a segmentation of the government's programs by income class of beneficiaries. The priority given to the new housing finance institutions has further tended to isolate NHA from the process of national policymaking. Nevertheless, MHS has developed a comprehensive national shelter policy and an institutional framework for its implementation which can significantly address housing needs in the Philippines, provided adjustments are made to resolve the fiscal problems arising from interest rate subsidies and to ensure that the government's housing finance programs benefit lower income households.

b. Organization: Shelter activities and policymaking in the Philippines have been centralized under the Ministry of Human Settlements which has facilitated the planning, development and implementation of housing programs. All housing agencies and public corporations are under the Ministry's direct authority, and shelter-specific activities of other agencies (e.g., the Ministry of Local Government and Community Development) come under MHS' general oversight. The only governmental housing finance institutions which are not administered by MHS are the Government Service Insurance System and Social Security System, both of which are provident or retirement funds which offer their members mortgage financing. MHS has formulated a National Shelter Program with the three-fold objectives of increasing housing production, generating long-term financial resources for housing investment and establishing a secondary mortgage market. Underlying the National Shelter Program is a recognition of the need to expand the involvement of private institutions in the shelter sector if the country's existing and rapidly growing housing needs are to be met. To coordinate implementation of this program, MHS has formed the National Shelter Secretariat with representatives from seven key housing agencies covering three major functional aspects in the provision of housing: financing, production and regulatory. By establishing these functional divisions, with clearly defined responsibilities for each agency, MHS has laid the foundation for a rational housing delivery system. Actual implementation of housing programs is delegated to the various agencies, while MHS develop policy and coordinates different programs, with the exception of the Private Sites and Services Project which is being undertaken by MHS itself.

c. Institutions: To carry out the National Shelter Program, MHS created new housing finance institutions, the Home Development Mutual Fund and the National Home Mortgage Finance Corporation, to complement the activities of other agencies which had been in existence for some time. MHS directly oversees and coordinates the activities of seven key institutions in the shelter sector, delegating most operational or programmatic responsibilities to them. At first glance, the number of governmental housing institutions would suggest a confusing bureaucratic structure, but in fact, each agency's responsibilities are clearly defined, and together their activities represent a comprehensive approach to the shelter sector. Below, each of the key housing institutions is briefly described.

1. Home Development Mutual Fund - HDMF is a mandatory provident fund for all formal sector employees and employers. A fixed percentage of all salaries is contributed to HDMF, and in turn these contributions are used for housing investment through the National Home Mortgage Finance Corporation (NHMFC). Approximately 90 percent of all contributions are entrusted to NHMFC, which in turn uses HDMF's funds as leverage to sell bonds for the purpose of generating additional revenues for the purpose of purchasing primary mortgages granted to HDMF's members from loan originating institutions. NHMFC pays interest to HDMF for use of its funds, currently 12.75 percent, which covers HDMF's operating expenses and dividend payments on its members accounts.

2. National Home Mortgage Finance Corporation - NHMFC is a secondary mortgage institution which purchases primary or first mortgages from loan originating institutions. NHMFC invests HDMF trust funds in short-term time deposits and government securities, and in turn uses the presence of HDMF funds as leverage to float bonds, the revenues from which NHMFC uses to purchase mortgages. Bonds are currently offered at 15 percent and the mortgages it purchases yield 9 and 16 percent, depending on lending criteria. The main problem NHMFC currently faces is that its overall yield on investments is less than its overall cost of funds, resulting in a negative spread on NHMFC's operations.

3. Home Financing Corporation - HFC insures all residential mortgages purchased by NHMFC, as well as housing construction loans. Mortgages not purchased by NHMFC can also be guaranteed by HFC, but these represent only a small percentage of home loans originated in the Philippines. Through its construction loan guarantee program, HFC serves as a stimulus to the housing construction industry. The HDMF-NHMFC-HFC network constitutes the new housing finance system organized by MHS in 1979/80.

4. National Housing Authority - NHA implements the government's low income housing projects, largely with World Bank loans and government counterpart assistance. For the most part, these projects include sites and services development and slum upgrading, with less emphasis on resettlement and new construction. NHA generates mortgage loans through the sale of serviced homesites and home improvement loans, but to date these mortgages are not being purchased by NHMFC.

5. Human Settlements Development Corporation - HSDC is primarily involved in the shelter sector through its wholly-owned subsidiary, the BLISS Development Corporation, which constructs new residential units in urban and rural areas. The BLISS program was established initially to serve as an example to the private sector that a moderate-income housing market existed in the Philippines and that mixed-income housing projects could be successful both socially and economically. The private sector has responded by starting to build both moderate-income and mixed-income housing, putting BLISS in direct competition with the private sector. In recent months, BLISS has announced a new program to provide low-cost core units which buyers will complete on a self-help basis. This program is a hopeful indication that BLISS is redirecting its efforts to income groups still under-served by the private sector.

6. National Housing Corporation - NHC is in the construction materials business, and stockpiling and producing materials which it provides to other government agencies and private developers. Currently, NHC's major undertaking is the production of 'flexihomes,' which are prefabricated units which the government hopes to produce at low cost and make available to low income families, in conjunction with either NHA's sites and services projects or other similar programs. Through mass production and stockpiling, NHC aims to bring down the per unit cost of housing construction.

7. Human Settlements Regulatory Commission - HSRC combines zoning, land use and subdivision regulatory functions into a single organization, and implements all laws and regulations relating to housing development and construction. Until recently, the regulatory process for approval of housing projects was lengthy, but HSRC has successfully reformed the process and cut the processing time from six months to as little as two weeks. HSRC's single most important accomplishment with regard to low income housing has been to revise the guidelines for subdivision and building code standards which make them more compatible with sites and services projects, enabling developers to build lower cost units.

In addition to the above agencies which come directly under the authority of MHS, two other institutions have been actively involved in the shelter sector: the Government Service Insurance System and the Social Security System. GSIS and SSS both offer mortgage loans to their members at low interest rates and for amounts which are smaller than the loans made under the HDMF-NHMFC-HFC finance system. In turn, they are reaching somewhat lower income classes than the MHS finance system, though not as low as the beneficiaries of the National Housing Authority's projects.

d. Programs: MHS' most important programmatic initiative has been the creation of the HDMF-NHMFC-HFC finance system which mobilizes resources for long-term housing investment and offers mortgage financing at affordable rates. The system itself is designed to be self-financing, thereby minimizing its dependence on government assistance. This HDMF-NHMFC-HFC network has successfully overcome two problems which plagued the shelter sector in the past: the lack of long-term credit for mortgage financing and high interest rates, which together made formal housing finance unaffordable to the majority of Philippine families. At the same time, two major problems with the system's operations are becoming apparent. First, based on the income distribution of HDMF's members, only the top 15 percent are benefitting from the loan program, meaning that the majority of members are subsidizing the interest rate on mortgage loans made to higher income households. Second, mortgage interest rates are so low that the system's cost of funds to purchase mortgages exceeds the yield on the system's investments, resulting in sizable operating losses projected by year-end 1983 and every year thereafter which will eventually jeapordize the system's fiscal integrity and efficacy.

Another important programmatic initiative is the new Private Sites and Services Project (PSSP) which is being directly implemented by MHS. PSSP is intended to bridge the public and private sectors in the provision of low income shelter solutions. Through PSSP, MHS solicits proposals from developers for sites and services projects which may include construction of low cost units. MHS offers developers low-interest construction loans, in return for which the developers guarantee to provide serviced sites and/or housing units which are targeted to different affordability levels, including low income. The program is designed to achieve full cost recovery. MHS has been slow in implementing PSSP, but once underway, this program has the potential of delivering low cost housing through market mechanisms with the private sector acting as developer and the public sector serving as a catalyst for development. PSSP stands in contrast to the BLISS program under HSDC whereby the government acts as a developer and competes with the private sector.

The only operational programs which address low income housing needs are administered by the National Housing Authority which undertakes sites and services projects and slum upgrading. NHA's efforts in the low income sector are constrained by the availability of resources which come largely through World Bank loans and direct government appropriations. The priority given to the HDMF-NHMFC-HFC finance system is tending to limit NHA's impact in the shelter sector, through a circumscription of both its access to resources and its role in housing policy formulation. NHA has been criticized for delays in project implementation, cost overruns and failure to achieve full cost recovery. There is some validity to all these criticisms, but the issues of project delays and cost overruns must also be seen in the context of the magnitude of the low income housing needs in general and the scope of NHA's projects in particular, reflecting equally on over-ambitious goals in the project plans as well as on NHA's performance. NHA's commitment to and performance in achieving full cost recovery have not been satisfactory, and there is definitely room for improvement in this regard.

e. Staff: Based on interviews and discussions held by the Shelter Sector Team, the staff at all the government's housing institutions appear to be competent and dedicated to carrying out their respective responsibilities. To an extent, competition to an unhealthy degree has developed between the HDMF-NHMFC-HFC system and the NHA, with each seeking credibility and resources for its different approach to housing problems, but this competition appears to have become somewhat mitigated as institutional roles and responsibilities have been better defined. NHA has suffered from a high rate of staff turnover, particularly among its technical staff, but this may have been caused by uncertainty over the fate of NHA at the time MHS was established and assumed many of NHA's former responsibilities. Staff tenure and development, including delegation of responsibilities to middle level management and field staff, are still issues with which NHA must concern itself, but many of the extenuating circumstances which brought about staff turnover may have been moderated now that its continuing role in the shelter sector is more assured. Overall, the agencies' staffs are open to analysis and changes which will enhance the success of their housing endeavors, and this is especially true for the staffs at HDMF and NHMFC who are aware of the problems posed by a negative spread on interest rates and by the failure of the system to benefit lower income households.

4. Financial Sector

The financial sector in the Philippines is relatively well-developed. In recent years, it has grown rapidly and become increasingly sophisticated, offering a wide range of services through an impressive network of offices. In the early 1960s, the banking system experienced rapid growth with the establishment of many new banking institutions, and growth in the banks' assets has continued into the 1980s. In the 1970s, non-bank financial intermediaries became an important component in the financial sector as a result of the expansion of money market activities and other services. In many years, growth in the financial sector's assets has been greater than expansion of the country's GNP.

Traditionally, the lending practices of private lenders have been characterized by short amortization periods and high interest rates. Banks have commonly considered a five-year loan to be long-term, and have preferred to make one-year loans which are refinanced at maturity. In the late 1970s, the interest rate on loans of over two-year maturities was about 19 percent and in excess of 21 percent in 1983. More recently long-term rates have increased to about 26 percent. These factors, combined with escalating housing costs, have tended to exclude all but high income households from the formal finance sector, and relatively little credit has been made available for housing. By 1980, mortgage loans by banks totalled a cumulative P943.9 million, or less than .5 percent of the banking system's total assets.

The lack of long-term credit at affordable rates has represented a major constraint on the growth of the shelter sector. In 1979/80, the government introduced monetary reforms which were intended to increase the efficiency and competition of the banking system, as well as to encourage longer-term savings to provide the basis for long-term credit. In addition, the establishment of the National Home Mortgage Finance Corporation (NHMFC), a secondary mortgage institution, was intended to stimulate private investment in housing by providing liquidity for mortgage portfolios.

In response to the 1979/80 monetary reforms, the deposit structure at banks did become longer-term, but a concomitant increase in housing investment by the private sector did not transpire. Mortgage lending has increased sharply, but only due to the fact that NHMFC purchases almost all mortgages originated by private lenders. Private financial institutions are not holding mortgages in their own investment portfolios, which would represent an increase in long-term lending on their part; rather, they are originating mortgages only because NHMFC is pre-commited to their purchase.

The HDMF-NHMFC-HFC offers home mortgages at 9 percent and 16 percent, well below rates offered by private lenders, and borrowers who qualify for financing under this system naturally prefer this source of assistance. The only loans which private lenders originate and keep in their portfolios exceed the maximum loan amounts offered by HDMF-NHMFC-HFC, and these are roughly estimated to account for less than 10 percent of all mortgages originated in the Philippines.

Although private lenders have not increased their level of investment in housing through mortgage loans, and in fact there has been an actual decline since most mortgages are now passed on to NHMFC, they have been responsive to the government's initiatives in other ways. Close to half the mortgages originated for NHMFC's purchase come through private institutions; similarly, close to half the bonds sold by NHMFC have been purchased by them.

5. <u>Land and Construction</u>

During the past five years, two major events have had an impact on the land and construction sub-sectors of the shelter sector. In 1979, the Human Settlements Regulatory Commision (HSRC) was established, which gathered under the same roof most of the regulatory and approval processes required to develop shelter projects. Not only did this rationalize the approval process, but it removed many of the impediments to the expeditious development of land and building projects. Complementing the establishment of the HSRC was the enactment two years later of Batas 220, a law designed to reduce minimum standards for the development of sites and housing projects directed to low income families, and for the first time, permitted those families much better access to projects built by private companies in the formal sector. This law is currently being implemented by the HSRC, and it is one of the principal reasons why the secondary mortgage system should eventually be able to reach nearly all low income families who are participating in HDMF's provident savings fund.

Other problems persist. Land prices continue to rise in excess of the rate of inflation, as investors seek a hedge against inflation, and contractors are worried that the cost of housing will jump as a result of the decreasing value of the peso, which leads to increases in those building materials with an import component. However, the major problem is not the physical production of shelter solutions, but rather it is essentially the availability of housing finance at reasonable terms and the purchasing power of prospective homebuyers, especially low income families vis-a-vis the cost of various housing solutions.

6. Economic Considerations

By all measures, the Philippine economy is facing a crisis situation. The relatively high growth rates of the 1970s, which often matched those of some of its more prosperous Asian neighbors, ended in 1980, and the economy has not only yet to recover but is continuing to deteriorate. The 1983 balance of payments deficit was more than double the government's projections. To help counter this deteriorating position, the government, in October 5, 1983, devalued the peso by 21.4 percent against the U.S. dollar, and later, in June 1984, allowed the peso to float against the same currency. At the same time, external debt has climbed to an official $25 billion. Although a ceiling of $2 billion has been placed on securing new foreign debt, there is some doubt that lenders will provide loans to that limit. In October 1983, the government declared a three-month moratorium on repayment of principal on foreign debt to private lenders, which to date has been extended for two additional three-month period, and apparently will be extended once more in July. No agreement has been reached between the government and the International Monetary Fund, which if reached would mean approval of US$650 in IMF credits, the infusion of an additional US$1.65 billion in new private foreign loans, and the rescheduling of a considerable part of the foreign debt.

B. RECOMMENDATIONS

1. General Objectives

Through the creation of the HDMF-NHMFC-HFC finance system and the complementary activities of the National Housing Authority, the Shelter Sector Team believes that a comprehensive institutional framework exists which can adequately address shelter needs and problems in the Philippines. At the same time, the Team is cognizant of the fact that housing needs far surpass the level of resources presently available to these institutions. Inherent to the new finance system is its self-financing capability which limits its dependence on direct government appropriations and results in fuller cost recovery, and thus the ability for this system to provide affordable shelter solutions for all income classes should be maximized. At the same time, it is recognized that this system will not easily or fully meet the housing needs of families at the lowest income levels, and therefore the National Housing Authority must continue to play an important role in the shelter sector. A major challenge facing the government is to create mechanisms whereby lower income families have access to the new finance system's resources. Nevertheless, both approaches to meeting housing needs are considered valid and necessary, and neither the HDMF-NHMFC-HFC system nor NHA should be given overriding priority or resources at the expense of the other.

2. General Recommendations

The Shelter Sector Team believes that there are two recommendations of foremost importance which encompass or broadly affect a number of institutions in the shelter sector:

(a) The interest rate structure under the HDMF-NHMFC-HFC finance system must continue to be reviewed, and new fiscal policies must be adopted in a timely fashion to ensure that these institutions' operating expenses and cost of funds are fully covered by the yield on their investments. The problem of a negative spread on interest rates is most apparent in the operations of NHMFC, but any losses incurred by NHMFC will have a direct impact on the long-term viability and effectiveness of the other institutions. By year-end 1983, NHMFC accrued a sizable operating loss, and by mid-year 1984 NHMFC may be forced to use HDMF's trust funds to cover its mounting losses, in turn jeopardizing the integrity of the HDMF provident fund. It is not prudent management to anticipate a last minute bail-out from the government. Therefore, the entire interest rate structure must be reviewed with the objective of realizing a yield on investments which exceeds the cost of funds. The Shelter Sector Team considers this recommendation to have preeminence over all other considerations.

(b) The Ministry of Human Settlements should devise appropriate mechanisms to ensur that the resources of the HDMF-NHMFC-HFC finance system are made accessible to lower income families than at present, and ultimately to low income households. Currently, only the higher income HDMF members are benefitting from this loan program, yet lower income members are still required to contribute into the system. Also, NHA's low income constituents have been virtually excluded from the resources of the HDMF-NHMFC-HFC system. The system must be structured to ensure equal access to its financial resources for all families. In this regard, two alternatives which should be considered are broadening the eligibility for HDMF's Graduated Amortization Plan to lower income families, thereby qualifying more families for loans, and creating linkages between the activities of HDMF/NHMFC and the programs of the National Housing Authority.

3. Specific Recommendations

The Shelter Sector Team makes the following recommendations which are specific to each institution in order to enhance their efficiency and impact in the shelter sector. Some of these recommendations apply to the two general recommendations above.

a. National Home Mortgage Finance Corporation: NHMFC is operating on a negative spread between the yield on its investment portfolio and its cost of funds, and it is projected to accrue sizable operating losses in each of the next few years. To remedy this situation, the Team recommends that NHMFC adopt one or more of the following:

(1) NHMFC s ould raise the interest rates on its mortgages. Over four-fifths of NHMFC's mortgages are offered at 9 percent, and the balance offered at 16 percent. These are well below the current market rate of about 26 percent. By comparison, NHA offers low income families loans at 12 percent, and thus NHMFC is providing financing at lower rates to moderate and upper income families than NHA is offering to low income families. Ample margin exists for NHMFC to raise its interest rates and still achieve its objective of providing mortgage financing at affordable rates. Raising interest rates on mortgage loans is considered the most preferable mechanism among other alternatives to alleviate the problems posed by a negative spread.

(2) NHMFC should consider using HDMF trust funds rather than bond revenues to purchase mortgages. Bonds are currently offered at 15 percent, compared to 12.75 percent which NHMFC pays to HDMF for use of the trust funds. By substituting HDMF funds for bond revenues, NHMFC could substantially reduce its cost of funds. Further analysis of this alternative would determine its feasibility.

(3) NHMFC should investigate the possibility of selling tax-exempt bonds at rates that make them sufficiently competitive, but still at a lower rate than the current 15 percent of taxable bonds. (Previously, NHMFC did offer 8.5 percent tax-exempt bonds, but the tax advantage was not sufficient to make them competitive.)

b. Home Development Mutual Fund

(1) HDMF's operating expenses currently exceed 2 percent of its net assets from the previous year, which is the ceiling on expenses imposed by legislation. Excess expenses are simply passed on to NHMFC in the form of higher interest rates paid on HDMF's trust funds. HDMF should take whatever steps are necessary to stay within its 2 percent limit on operating expenses, and pass these savings on to NHMFC.

(2) HDMF should review its policy on membership waivers, and limit the number of waivers it grants. Although HDMF membership is mandatory for all formal sector employees, in fact HDMF has granted membership waivers

to approximately one-fourth of its potential members, thereby significantly dminishing the resources it could generate for housing investment.

c. National Housing Authority

NHA has been criticized for project delays, cost overruns and failure to achieve full project cost recovery. Accordingly, the Team makes the following recommendations:

(1) NHA should adhere to its policy of full cost recovery, including administrative costs which are directly incurred during project implementation.

(2) NHA should take all steps necessary to improve its loan collection performance. NHA should also enforce penalties and begin foreclosure proceedings against borrowers in default to preserve the integrity of its loan program as well as develop credibility with other lenders and NHMFC.

(3) NHA should review its operational procedures which have resulted in project delays and cost overruns, including its policy of not delegating responsibilities to mid-level managers and field staff which tends to hinder decisionmaking. Efforts should be made to encourage staff development and tenure, thereby ensuring that its projects are administered by qualified professional staff.

d. Human Settlements Development Corporation

(1) Through the BLISS Development Corporation, HSC is competing directly with the private sector in the moderate income housing market. The Team considers this to be an inappropriate role for a government agency, and recommends that HSDC either cease its activities as a housing developer altogether or redirect its resources to those markets in the shelter sector where gaps still exist, namely the lower income sector.

e. National Housing Corporation

(1) NHC produces construction materials and flexihomes. With regard to the former, NHC is competing directly with the private sector, and the Team considers this to be an inappropriate role for a government corporation. It is unclear whether the private sector has an interest in or is prepared to produce flexihomes. However, the Team recommends that NHC investigate the potential role of the private sector in manufacturing flexihomes, and if appropriate, increasingly involve the private sector in this activity.

(2) At this time, NHC should adopt a policy to recover all production and related costs, and to sell its products through normal market mechanisms. Such a policy will ensure that NHC's product lines will be

responsive to consumer demands and that the inclusion of NHC's products in other government programs, such as NHA's slum upgrading projects, will not represent a hidden subsidy. Moreover, a full cost recovery policy will mitigate against NHC's unfairly competing with the private sector.

f. Ministry of Human Settlements

(1) MHS should take whatever steps are necessary to implement the Private Sites and Services Project in a timely fashion. PSSP represents an important initiative in merging public and private sector resources for the provision of low-cost housing, and persistent delays in project implementation could diminish the private sector's willingness to participate in PSSP.

(2) MHS should carefully plan and institutionalize the coordinating role of the National Shelter Secretariat. As the housing institutions under MHS have increased their activities, the coordination of their activities has become increasingly important to ensure that resources are used as efficiently as possible and that the activities of one agency do not outpace capabilities of another agency to fulfill its own related responsibilities.

(3) In carrying out its projects, the National Housing Authority incurs expenses which are supposed to be reimbursed by other agencies, but NHA reports difficulty in collecting from these other agencies. MHS should make every effort to assist NHA in collecting from other agencies which will result in fuller cost recovery of NHA's part.

I. COUNTRY PROFILE

A. GEOGRAPHY AND CLIMATE

The Philippine Archipelago extends about 1,770 kilometers north to south along the southeastern rim of Asia, forming a land chain between the Pacific Ocean on the east and the South China Sea on the west. The archipelago consists of some 7,100 islands, of which only 154 have land areas exceeding 14 square kilometers. Eleven islands compose about 95 percent of the total land area and population, the largest two being Luzon and Mindanao. The irregular coastline is about twice as long as that of the United States, with about one hundred natural harbors. Manila Bay, with an area of nearly 2,000 square kilometers, is considered the best harbor in the Far East.

The Philippines is of volcanic origin, with some ten volcanoes still active. Located in the pacific siesmatic belt, the Philippines is earthquake prone. The topography varies from rugged mountains and dense forests to fertile flatlands. The larger islands are mountainous, with uplands accounting for nearly 65 percent of their total land area. The central plain of Luzon, approximately 10,240 square kilometers, is the most important agricultural area in the country.

The climate is tropical, and generally hot and humid conditions prevail year-round. There is little seasonal variation in temperature. The mean annual temperature in the lowlands is about 80oF, and 65oF at the highest elevations. About 60 precent of the Philippines receives between 70 and 120 inches of rainfall per annum, which is sufficient to permit rice cultivation without irrigation. Another 10 percent of the country receives less than 70 inches rainfall, and 30 percent experiences rainfall in excess of 120 inches. The rainy season lasts from late June to October. Typhoons occur almost every year, and five to six may strike with destructive winds and torrential rains.

B. PEOPLE

Filipinos are mostly of Malay stock, having descended from the Indonesians and Malays who migrated to the islands long before the Spanish conquest of 1521. The most significant ethnic minority group is the Chinese, and as a result of intermarriage, many Filipinos have some Chinese ancestry. Americans and Spanish constitute the next largest alien minorities in the country.

In 1980, the population of the Philippines was approximtely 48 million. Manila, the country's capital and largest urban area, has a current population in excess of 6 million, or 12.5 percent of the total population. The annual population growth rate, about 3 percent in the 1960s, declined somewhat by the end of the 1970s. The overall population density is about 160 persons per square kilometer, and is considerably higher in urban areas. Like many developing countries, the Philippines has experienced a pattern of rural-to-urban migration as people seek better employment opportunities, which has put pressure on the ability of urban areas to provide adequate services to their growing populations.

About 90 percent of the Filipinos are Christian. Muslims make up 5 percent of the population, and the Muslim community is concentrated in the Sulu Archipelago and Western Mindinao. In recent years, political and armed conflict has occurred between Muslims and non-Muslims.

Some 87 native languages and dialects, all belonging to the MalayoPolynesian liquistic family, are spoken. Of these, eight are the first languages of 86 percent of the population. Since 1939, in an effort to develop national unity, the government has promoted the use of Pilipino which is based on Tagalog, the predominant language in the area around Manila. English is the most important non-native language, which is spoken by about 40 percent of the population as a second language. Government business and school instruction are conducted in English.

C. ECONOMY

The Philippines is relatively rich in natural resources, including fertile agricultural land, timber and mineral resources. The country is a net exporter of rice, and it is considered to have one of the best educated workforces in all Asia.

The Philippine economy is basically oriented toward free enterprise which has fostered foreign investment. Following World War II, the economy expanded rapidly during a period of rehabilitation, but the pace of growth slackened considerably between 1955 and 1965 when the GNP grew by only 5.3 percent annually. In the late 1960s, under the stimulus of expansionary fiscal and monetary policies, the real GNP growth rate again increased, reaching 10 percent in 1973. Between 1974 and 1980, growth tapered off to between 5 precent and 6 percent. In 1980, the GNP was approximately US$34.9 billion, or US$725 per capita.

Agriculture and forestry are the largest and most important sectors of the Philippine economy. About 38 percent of the country's total land area is arable. Food production (mainly rice and corn but also some important fruits and vegetables) has increased substantially in recent years, and is consumed domestically as well as exported as cash crops. The Philippines achieved self-sufficiency in rice in 1976, and now exports rice in modest quantities. World market prices for coconut products fell sharply in the late 1970s, hurting the overall balance of payments, and coconuts are not expected to play as important a role in the future due to changes in worldwide consumption patterns of edible oil. Earnings from forestry products have been impressive, largely due to price inflation and not volume increases. Decades of uncontrolled logging and slash-and-burn agriculture in marginal upland areas have denuded the land substantially, and it is expected that the Philippines will experience timber shortages over the next few years.

The Philippines has extensive proven and potential reserves of metallic and nonmetallic minerals. Chromite, nickel and cooper deposits are among the largest in the world. However, most of these reserves have not been adequately surveyed or actively exploited. Minerals constitute only about 16 percent of total exports, and copper accounts for more than 70 percent of all mining production.

Industrial production has expanded and diversified since World War II. Growth has fluctuated somewhat and has been uneven in different sectors, but overall industrial production has accelerated in recent years. Production is still centered on processing and assembling operations, with emphasis on agricultural products, clothing and textiles, paper and paper products, and automobiles. The manufacturing sector accounted for 37 percent of the net domestic product in 1980, reflecting a steady increase in its relative and absolute value from ten years earlier. Constraints on industrial growth include a weak capital base, shortage of credit and foreign exchange, and inadequate power and transportation facilities.

D. POLITICAL HISTORY AND GOVERNMENT

The explorer Ferdinand Magellan claimed the Philippines for Spain in 1521, and for the next 377 years, the Philippines was a Spanish colony. During this period, the people were converted to Catholicism, and a Spanish colonial system was developed which was characterized by a strong central government and considerable influence of the clergy. This era was frequently marked by uprisings against Spanish rule.

In 1898, following the destruction of the Spanish fleet in Manila Bay during the Spanish-American War, the United States occupied the Philippines. In the same year, Spain ceded the islands to the United States under the Treaty of Paris, the signing of which ended the Spanish-American War. A war of insurrection was mounted against the United States in 1899 to 1902, a period which is ometimes referred to as the Philippine-American War, but the leader of the insurrection was eventually captured and swore allegiance to the U.S.

From the beginning of its occupation of the islands, the U.S. declared its administration of the Philippines to be temporary, and had as its goals the development of institutions which would bring about a free and democratic government. U.S. officials concentrated on the creation of a public education and legal system which would support a democratic government. Citizen participation in the legislative process was introduced early in the U.S. administration, and with the passage of the Jones Act in 1916, a legislature under Philippine control was established. A civil service was established, which the Filipinos controlled by the end of World War I, and the political power of the Catholic Church was sharply curtailed.

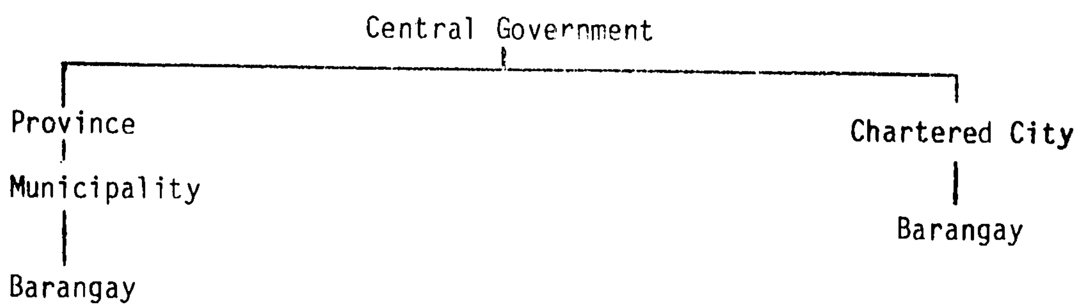
Under the terms of the Tydings-McDuffie Act, in 1935 the Philippines became a self-governing commonwealth. Full independence was set for ten years later, but World War II and the Japanese occupation of the Philippines in 1945 intervened, delaying independence until July 4, 1946. The Philippines suffered substantial physical damage and a complete organizational breakdown as a result of the Japanese occupation and the ensuing guerilla warfare. The early years after independence were spent rebuilding the country's administrative capacity and economy, with the U.S. playing a major role in reconstruction.

The post-independence system of government was modeled on the U.S. system, with executive power vested in the President, legislative power in a bicameral Congress and judicial power in the Supreme Court and lower courts. Under this system, between 1946 and 1972, the Philippines practiced a relatively traditional constitutional democracy. In 1972, President Ferdinand E. Marcos, elected in 1965, declared martial law to counter insurrectionary movements and restore social order. A new constitution was ratified in 1973, vesting broad authority in the executive branch and replacing the bicameral Congress with a single National Assembly which is convened at the President's discretion.

The government began a gradual process of political normalization, and the first elections since 1971 were held in 1978 for an interim National Assembly. Elections were held for local officials in 1980. Presidential elections were held in June 1981 when President Marcos was re-elected to a six-year term, and martial law was formally lifted on January 17, 1981. Recent National Assembly elections took place in May 1984.

A dual administrative system exists in the Philippines (see Figure I-1). The Philippines is divided into 72 provinces, which are further subdivided into about 1,600 municipalities. In addition, there are 61 chartered cities which are highly urbanized areas and operate independently from their provinces. The lowest level of the administrative hierarchy in both municipalities and chartered cities is the 'barangay' or barrio, of which there are about 34,000

Figure I-1: Administrative Units of Government in the Philippines



The central government tightly controls and supervises units of local government which are financially dependent on the national government. Legislation to decentralize this control and provide local governments with independent sources of revenue have been largely ineffectual. Almost all government services are provided through the field offices of national agencies. Under martial law, the President appointed all local officials, including the provincial governors, provincial governing boards, and municipal mayors and councils. These officials are now elected, but still other provincial officials, such as the treasurer, assessor, district auditor, register of deeds, Court of First Instance, superintendent of schools, district engineer and health officer are commonly representatives of departments and bureaus of the national government.

Traditionally, the provincial government has been considered the intermediary between the national government and municipalities. Provincial governments are responsible for supervising municipal elections, collecting taxes and undertaking major public works, such as the construction of roads, bridges and public buildings. Municipal governments are smaller than provincial governments, and are responsible for local markets and other similar public works. In the past, members of the municipal councils were responsible for the supervision of barangays, but increasingly barangay captains have exerted influence in the municipal councils. Chartered cities are governed by their own charters, while municipalities are governed by provincial and municipal codes.

Barangays are the smallest unit of local government, and initially were formed by families who had settled near a road, source of water, natural shelter or good agricultural land. Essentially, barangays are small communities and neighborhoods, and they have limited powers of taxation for purposes of local development. Barangays elect a captain and a six-person council for four-year terms. A Barangay Sectretariat under the Ministry of Local Government and Community Development handles matters concerning the barangays, and in some instances, national agencies have utilized barangay governments and organizations to implement projects and provide services.

II. POPULATION AND INCOMES

A. POPULATION CHARACTERISTICS

1. General

Like most other developing countries, the Philippines has experienced explosive population growth over the past several decades. While in 1940, only 16 million Filipinos were counted, by 1970 the figure had reached almost 37 million. The latest census carried out in 1980 reveals that the population has grown to 48 million since 1970. The average annual population growth rate during those 10 years was 3.1 percent, although the growth rate declined slightly toward the end of the decade. It should be pointed out that the increase of 11 million persons from 1970 to 1980 was half again as much as the increase over the entire previous 30 years, indicating once more the explosive nature of the population growth rate in the Philippines.

While the overall rate of population growth is high, the country's urban centers have been experiencing much higher growth rates. The National Capital Region (NCR, or Metro Manila) experienced an average growth rate of 4.9 percent annually during the intercensal period compared to the national average of 3.1 percent. Some of the NCR municipalities such as Paranague and Las Pinas have grown at 11.4 percent and 19.8 percent, respectively, during that same period. Other regions have also experienced high growth rates. In Northern Mindanao (Region X), the population has increased at 4.1 percent, while in Western Mindanao (Region IX) the growth rate was recorded as 5.2 percent. It is obvious that continued rapid population growth of this nature could result in a doubling of the present population of the Philippines in less than 30 years and that of Metro Manila within a period of 20 years.

Figure II-1

Population Evolution; Distribution by Region and Province 1948-1970

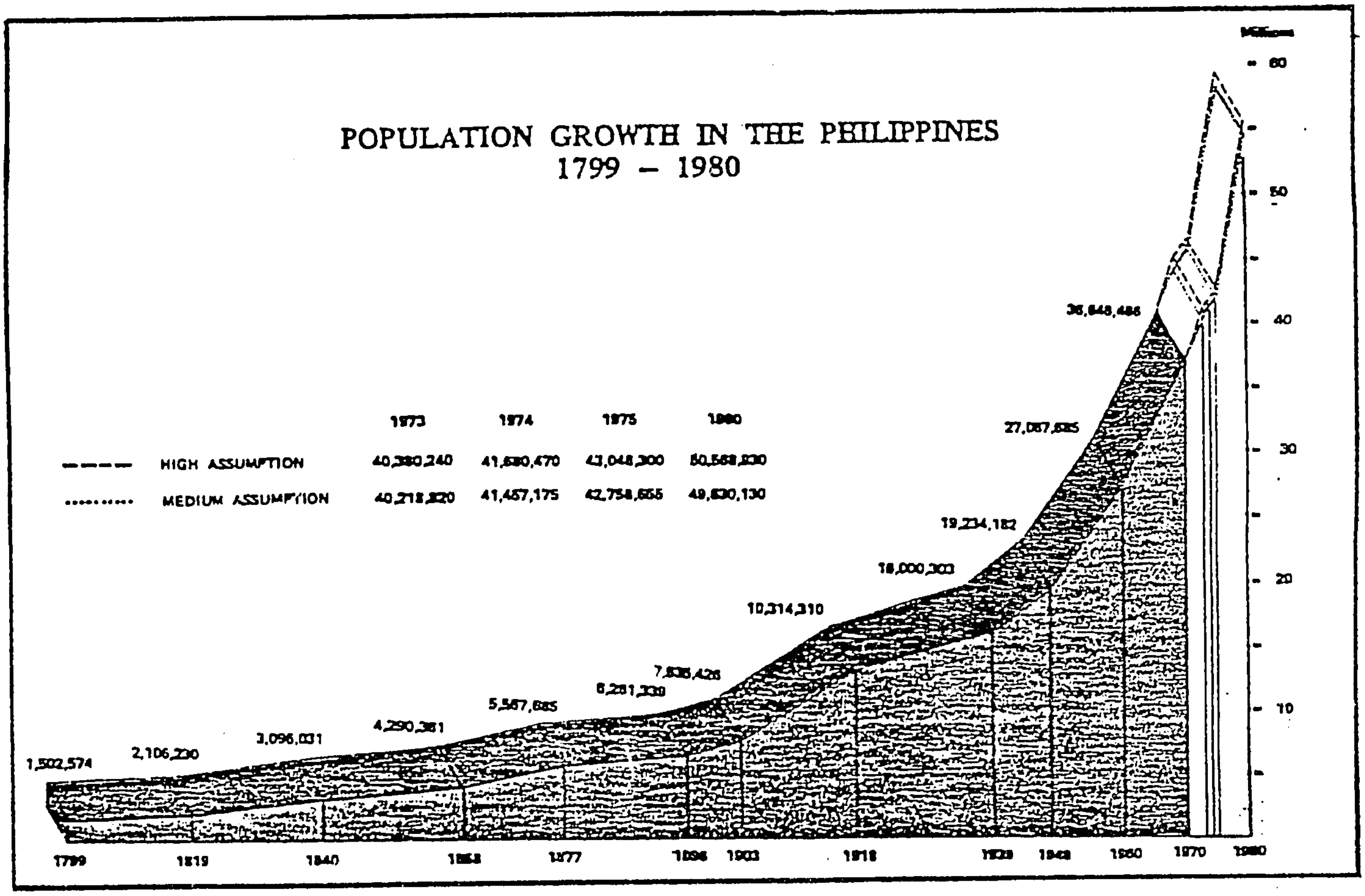


Table II-1: Population of the Philippines by Region - 1970, 1975 & 1980

Region	Population (000s) 1980	1975	1970	Percent Change 1975-80	1970-75
PHILIPPINES	48,098	42,071	36,684	14.3	14.7
National Capital Region	5,926	4,970	3,967	19.2	25.3
Region I - Ilocos	3,541	3,269	2,991	8.3	9.3
Region II - Cagayan Valley	2,216	1,933	1,692	14.6	14.2
Region III - Central Luzon	4,803	4,210	3,615	14.1	16.4
Region IV - Southern Tagalog	6,119	5,214	4,456	17.4	17.0
Region V - Bicol	3,477	3,194	2,967	8.9	7.6
Region VI - Western Visayas	4,526	4,146	3,618	9.1	14.6
Region VII - Central Visayas	3,787	3,387	3,033	11.8	11.7
Region VIII - Eastern Visayas	2,799	2,600	2,381	7.7	9.2
Region IX - Western Mindanao	2,528	2,048	1,869	23.5	9.6
Region X - Northern Mindanao	2,759	2,314	1,953	19.2	18.5
Region XI - Southern Mindanao	3,347	2,715	2,201	23.3	23.3
Region XII - Central Mindanao	2,271	2,070	1,941	9.7	6.6

Source: NCSO. "Philippines 1980: Population, Land Area and Density." Special Report No. 3

Note: The National Capital Region comprises most of Region 4; only a few rural areas of Region 4 are not included in the NCR.

Table II-2: Population of Metropolitan Manila: Census Years 1970, 1975 and 1980

	Population (000s) 1980	1975	1970	Percent Change 1975-80	1970-75
National Capital					
Region	5,926	4,970	3,967	19.2	25.3
Municipalities within the Metropolitan Manila area:					
Caloocan City	467	397	274	17.8	44.7
Manila	1,630	1,479	1,330	10.2	11.1
Pasay City	287	255	206	12.9	23.6
Quezon City	1,165	956	754	21.8	26.8
Las Pinas	136	81	45	67.3	78.5
Makati	372	334	265	11.4	26.2
Malabon	191	174	141	9.2	23.6
Mandaluyong	205	182	149	12.7	22.0
Marikina	211	168	113	25.6	48.5
Muntinlupa	136	94	65	44.5	45.4
Novatas	126	97	83	29.9	16.6
Paranaque	208	159	97	31.2	63.5
Pasig	208	210	156	27.9	34.1
Pateros	40	32	25	22.8	28.9
San Juan	130	122	104	6.2	17.2
Tagig	134	73	55	82.0	33.4
Valenzuela	212	150	98	41.0	53.0

Source: NCSO. "Philippines 1980: Population, Land Area and Density." Special Report No. 3

2. Urban Growth Patterns

The urban population in the country has experienced an even greater growth rate than the country as a whole. The rate of urbanization has gathered momentum in the recent years, resulting in an increase in urban population of 25 percent during the 1975-1980 period. Almost 38 percent of the present population of the Philippines live in urban areas, while Metro Manila accounts for almost 33 percent of the total urban population. Metro Manila, which is entirely urban, is the dominant city in the country. The percentage of the urban population in the other regions varies from 16 to 36 percent of the total population.

Urban growth is occurring in uneven patterns. Some of the older secondary cities in outlying provinces where economic growth has been limited have either remained stagnant or in some cases actually have lost population over the last decade. In Metro Manila and secondary cities such as Cebu, much of the urban growth is occurring in the suburbs or neighboring municipalities. For example, the old city of Manila grew by only 21.3 percent between 1970 and 1980 while Quezon City, which is adjacent to Manila and part of the metropolitan area, grew by 48.6 percent over the same period and today almost equals Manila in population size.

Rural to urban migration in search of employment and other opportunities has been responsible for the excessive growth of many urban centers. This has been particularly true in Metro Manila. However, during recent years, the government has taken a series of positive steps to arrest the growth of this trend, including the banning of industries within a 50-kilometer radius of Metro Manila; implementing a nationwide industrial program; improving regional educational facilities through the establishment of regional universities; and providing incentives for investment in less developed provinces. These policies, together with the lesser attraction offered by Metro Manila owing to its growing problems of employment and housing, are expected to restrain the rapid growth of urbanization to some extent in the future.1/

3. Recent Trends

A comforting feature, however, is a slight decrease in the rates of growth during the more recent years. The growth fever began to show signs of cooling off during the period 1975-1980, with promising reductions recorded in the rate of urbanization, and to a lesser extent, population growth. During this period, rates have slowed down in all but the four Mindanao regions. The reduction in the annual average growth rate of the National Capital Region has been a significant 1.22 percent, and in the Western Visayas Region it has slowed to around 1.1 percent. However, the overall decrease in the national average has been slightly less than .1 percent from the annual average of the previous five years.

The decline in the growth rate is expected to continue in the future, due in part to a vigorous program of family planning and education launched by the government in recent years. The crude birthrate per thousand fell from 46 in 1960 to 34 in 1979. If these favorable trends continue, some demographers project that the growth rate will decrease to around 2.0 percent per annum by 1987.

4. Densities

The rapid growth of the population over a long peiod has also created problems resulting from high densities. Population density nationwide has increased from 122.3/km in 1970 to 160.3/km in 1980. This figure is nearly double the average for Southest Asian countries. The only countries in the region with a higher density of population are Hong Kong, Singapore and North Vietnam. Metro Manila, which has only 2 percent of the total land area in the country, holds more than 12 percent of the total population. Certain municipalities in Metro Manila, such as Manila and Novatas, have exceedingly high densities of over 40,000 persons per km2 (see Table II-3). Similar patterns could be observed in other regional cities.

5. Future Growth Trends

Although the seriousness of the problem makes a statistical description of its magnitude almost superfluous, an attempt can be made to estimate the anticipated growth patterns of the population during the next ten years. These estimates, which are at best broad indicators of future patterns of growth, have been derived on the basis of past trends in the population growth.

In computing growth estimates for the Regions, an average rate of two percent has been assumed. The average growth rate of 2.8 percent during 1975-1980 should decline over the years at a fast rate, stabilizing at the end of the next ten years at around 1.6 percent. The growth rate for Metro Manila is also assumed to decline over the period, but will probably stabilize at a relatively higher level of 2.7 percent. These assumptions may be somewhat optimistic in view of the strong religious and cultural factors which favor larger families in the Philippines as well as the strong pull the larger urban centers continue to offer to the villagers. Nevertheless, based on these assumptions, the population in Metro Manila will increase by at least 2.8 million, while nationwide the population will grow by at least 15.0 million over the 1980 population over the next decade.

Table II-3: Land Area and Population Density of Metropolitan Manila

	Land Area Km2	Number of Persons per Km2		
		1980	1975	1970
Philippines	300,000.0	160.3	140.2	122.3
National Capital Region	636.0	9,317.0	7,815.0	6,237.0
Metropolitan Manila Municipalities				
Caloocan City	55.8	8,384.0	7,118.0	7,919.0
Manila	38.3	42.571.0	38,619.0	34,746.0
Pasay City	13.9	20,703.0	18,345.0	14,841.0
Las Pinas	41.5	3,290.0	1,967.0	1,102.0
Makati	29.9	12,463.0	11,186.0	8,860.0
Malabon	23.4	8,162.0	7,473.0	6,048.0
Mandaluyong	26.0	7,899.0	7,010.0	5,746.0
Marikina	38.9	5,440.0	4,330.0	2,915.0
Muntinlupa	46.7	2,927.0	2,025.0	1,393.0
Novotas	2.6	48,518.0	37,345.0	32,017.0
Paranaque	38.3	5,445.0	4,151.0	2,538.0
Pasig	13.0	20,659.0	16,147.0	12,038.0
Pateros	10.4	3,874.0	3,156.0	10,054.0
Tagig	33.7	3,980.0	2,187.0	1,640.0
Valenzuela	47.0	4,518.0	3,204.0	2,095.0

Source: NCSO "Philippines 1980: Population, Land Area and Density." Special Report No. 3

TABLE II-4: Ten Year Population Projections of
Metro Manila and Twelve Regions
1983 - 1993

	POPULATION (000)										
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Metropolitan Manila	6,583	6,803	7,022	7,245	7,462	7,679	7,894	8,107	8,326	5,551	8,781
Region 1-12	45,495	46,519	47,495	48,445	49,366	50,230	51,033	51,850	52,680	53,522	54,379
Total	52,078	53,322	54,517	55,690	56,828	57,909	58,927	59,957	61,006	62,073	63,160

Source: NCSI Estimates

These estimates are corraborated by a survey undertaken by the National Housing Authority (NHA) in December 1981. This survey, which covers 73 urban centers including 17 municipalities of the National Capital Region, was an attempt by NHA to ascertain the future housing needs of the low and marginal income groups of the urban settlements. The urban centers surveyed over 26.5 percent of the total population in the country. The results indicate that the population in these urban centers will increase by 5.3 million during the next ten years.

B. INCOME DISTRIBUTION

1. General

The National Census and Statistics Office (NCSO) undertakes a quarterly survey of incomes both nationwide by regions and for Metro Manila, which appears to be the most recent as well as the most accurate information available on income. The NCSO has observed, however, that the sample frame it uses in the intergrated survey of households under-represents high income barangays (neighborhoods), and therefore the income distribution would have a downward bias. If this is the case, then the income figure are on the conservative side. The most recent income data pertain to the fourth quarter 1982 for Metro Manila, and to the fourth quarter 1981 for the entire country. The 1981 national figures have been adjusted for 1982, so as to be able to make more accurate comparison of Metro Manila incomes to national incomes.

2. Household Incomes

Based on the NCSO survey findings, changes in incomes were given for the four years between 1978 and 1981. According to those figures, nationwide family incomes have increased by 82 percent, while in Metro Manila incomes have risen by 165 percent, which explains further the attraction that Manila holds for prospective immigrants. This also emphasizes the fact that money continues to flow to the capital city, further concentrating the wealth of the nation there. However, much of these increases in income during the 1978-1981 period were negated by increases in the cost of living. The Consumer Price Index for the Philippines indicates that prices of all commodities increased by almost 67 percent during that same period, while in Manila prices increased by 73 percent. Clearly families in Manila have made material gains in their standard of living, although in other region the gains are negligible. The same survey provides information on sources of income. For the average Filipino family over the 1978-1981 period, almost 42 percent of income derived from salaries and wages, 36 percent from such areas as rental income, interest payments, pensions, gifts, etc., and finally 22 percent from sources not generally considered a part of the formal sector. As expected, a larger percent of incomes of Manila families was derived from wages and salaries (56%), while 14 percent came from other formal sources, and 30 percent from informal sources (see Table II-5).

3. Income Distribution

The median family income for the Philippines for year-end 1982 is estimated at P1,125 monthly, while in Metro Manila, the comparable figure is P2,400. This indicates that the median family income in Manila is about 2.1 times the figure

Table II-5: Household and Income Data

	Philippines 1978	Philippines 1981	Metro Manila 1978	Metro Manila 1981
No. of Households (000)	7,521	9,171	937	1,206
Total Family Income (₱ million)	66,409	147,616	15,732	43,756
Income as a % of:				
wages & salaries	42.9	40.9	60.5	48.4
net receipts	38.3	34.7	18.5	12.1
other receipts	18.9	24.4	20.6	39.5
Mean Income	8,829	16,096	16,789	36,268

Source: NCSO

Table II-6: Income Distribution - 1983

Annual Income	Monthly Income	Philippines %	Philippines Cumulative	Metro Manila %	Metro Manila Cumulative
2,000 or less	166 or less	2.9	2.9	0.1	0.1
2,000- 3,999	167- 333	8.0	10.9	1.2	1.2
4,000- 7,999	334- 666	18.8	29.7	3.6	4.9
8,000-11,999	667- 999	15.3	45.0	8.5	13.4
12,000-15,999	1,000-1,333	12.6	57.6	10.6	24.0
16,000-19,999	1,334-1,666	8.7	66.3	10.2	34.2
20,000-29,999	1,667-2,499	13.2	79.3	17.4	51.6
30,000-39,999	2,500-3,333	7.6	87.1	13.7	65.3
40,000-59,999	3,334-4,900	6.9	94.0	15.2	80.5
60,000-79,999	5,000-6,666	2.5	96.5	6.6	87.1
80,000-99,999	6,667-8,333	1.5	98.0	5.4	92.5
100,000 & over	8,334 & over	2.0	100.0	7.5	100.0

	Philippines	Metro Manila
Approximate Median Monthly Income:	₱ 1,125	₱ 2,400
Approximate Median Yearly Income:	₱13,500	₱29,000

Source: NSCO and NCSI estimates

for the Philippines as a whole. Families with incomes below P666 tend to be rare in Manila (only 4.9 percent), and consist generally of subsistance families living on farm plots in the outskirts of the urban area. On the other hand, Metro Manila families with incomes in excess of P6,666 monthly total only 13 percent of the population. The bulk of Metro Manila families, or 82 percent therefore, have incomes in the P666 to P6,666 range. Outside Metro Manila, where incomes from agricultural and related activities predominate, income patterns are markedly different: 30 percent of all families have monthly incomes of less than P666, while families with incomes above P6,666 are a negligible 2 percent. In those regions, fully 80 percent of all families report incomes of less than P2,500 monthly (see Table II-6).

Information on incomes may not be entirely accurate, given the differing statistics on wage and salary increases and changes in prices. The National Census and Statistics Office, which has provided the above figures, indicates that incomes had increased by about 40 percent, but this estimate may be on the high side given the often-conflicting statistics.

In 1982, the National Housing Authority completed in 1982 several surveys of low income families as part of its planning efforts associated with a World Bank urban project. These surveys include over 7,000 households at projects in four regional cities, and about 15,000 households at 8 project sites in Manila. As expected, incomes in the low income neighborhoods were generally higher than incomes nationwide, but lower than incomes in Metro Manila. In the four regional cities, the median monthly income for these low income families was about P9,000, while in the poor communities of Metro Manila, the median income appears to be slightly higher, perhaps between P1,100 and P1,200. Assuming the same 38 to 40 percent income increase can be applied to the low income families surveyed by NHA, then the median monthly income in 1983 would have increased to a range of P1,500 to P1,600.

Table II-7: Household Income Distribution Among Low-Income Families - 1982

Monthly Income (Pesos)	Regional Cities 1/ (Percent)	Metro Manila 2/ (Percent)
less than 500	21.3	7.6
500 - 999	37.5	30.8
1,000 - 1,499	18.5	21.1
1,500 - 1,999	9.9	14.0
2,000 - 2,999	7.2	14.2
3,000 - 3,999	3.0	6.0
4,000 - 4,999	1.1	2.9
over 5,000	1.5	3.4

1/ 7,057 households at 13 project sites, in Bacolod City, Davao, and Cagayan de Oro.

2/ 15,458 households at 8 Metro Manila sites.

Source: NHA

4. Consumption Patterns

A survey carried out in 1975 attempted to ascertain the amount of household income spent on shelter. In many ways, the results were predictable. The average household in Metro Manila spends a greater percentage of its income on shelter than its counterparts in other urban centers or in the rural areas. For example, a Metro Manila homeowner earning less than P2,000 yearly will spend 44 percent of his income on shelter, including utilities, while in other urban centers, the figures is 30 percent and in rural areas only 24 percent. As incomes rise, the percentage of income spent on shelter decreases. It is difficult to determine if these percentages have varied since 1975. Given the increases in the cost of energy since then, which has generally resulted in higher housing costs, the percentage may very well have increased. Regardless, the average Filipino spends a significant part of income on shelter (see Table II-8).

5. Wages and Salaries

Changes in wages and salaries over the past decade or so do not reflect the real changes in incomes. Both the private and public sectors have instituted an allowance package, including such items as housing, transportation, education, etc., which do not constitute a part of an employee's base wages and salary. In fact, a glance at basic wage rates of industrial workers might indicate that real wages have fallen constantly in the past 10 years. However, while there may have been some decrease in real wages, it is probable that allowances have compensated for most real wage decreases. Estimates are that allowances add on an additional 35 percent on the average to base salaries. Some public sector parastatals that compete with the private sector pay up to 100 percent of base salaries for employee allowances.

Information provided by the National Census and Statistics Offices indicates that incomes, essentially wages and salaries, plus benefits, increased by 40 percent in 1983. However, preliminary estimates on the increase in prices show that they increased by about 20 percent that same year. Reconciling these divergent statistics is not easy, and in fact further confuses the issue of changes in salaries and wages. Furthermore, in 1984, the government announced that minimum wages would be increased in varying amounts in all economic sectors of the economy. For example, the minimum wage for Metro Manila wage earners would be increased by 52 percent, with somewhat smaller increases for other sectors. With reports of inflation in excess of 40 percent for 1984, these increases serve to offset the loss of purchasing power for most workers.

6. Unemployment

The rapid increase in population, combined with the recent low growth rate in the economy, has contributed to growing unemployment throughout the country. Recent official records of eligible workers actively seeking employment indicate that 5.4 percent of the labor force is unemployed, an increase over the 4 percent recorded in 1979. These figures do not reveal the true employment picture

TABLE II-8: PERCENTAGE OF INCOME SPENT ON SHELTER AND ON UTILITIES BY TYPE OF TENURE, LOCATION, AND YEARLY FAMILY INCOME, 1975

	Under ₱ 2,000	2,000 - 3,999	4,000- 9,999	10,000 - 19,999	20,000 and over
Urban					
Rental					
House and Lot					
Shelter	26	17	12	10	9
Fuel, light, etc.	18	11	6	4	3
House only					
Shelter	7	7	3	4	5
Fuel, light, etc.	21	11	10	4	3
Owner Occupied /a					
Imputed rental	16	14	11	11	12
Fuel, light, etc.	14	7	5	4	4
Rural					
Rental					
House and Lot					
Shelter	18	12	5	4	2
Fuel, light, etc.	10	11	5	3	4
House only					
Shelter	4	4	1	1	2
Fuel, light, etc.	14	7	7	4	3
Owner Occupied /a					
Imputed rental	11	9	5	4	3
Fuel, light, etc.	13	6	4	2	2
Metro-Manila					
Rental					
House and Lot					
Shelter	31	19	9	10	11
Fuel, light, etc.	19	11	6	3	3
House only					
Shelter	12	11	5	5	7
Fuel, light, etc.	19	11	5	4	2
Owner Occupied /a					
Imputed rental	24	22	17	14	17
Fuel, light, etc.	20	13	6	4	4

/a Includes dwellings occupied rent-free.

Source: Unpublished tabulations of the FIES data.- World Bank: The Philippines as they do not include unemployed persons who have not registered with state agencies dealing with job seekers. The unofficial and more likely estimates place the true rate of unemployment at about 23 percent.

Metro Manila experiences a much higher incidence of unemployment, estimated at 14.6 percent in 1980. This reflects in part the more formal structure of employment in cities, as well as the probability of better recordkeeping. Regardless, the real employment rate in Manila is certainly in excess of 20 percent. As a result of the current economic crisis, it is estimated that there have been some 300,000 layoffs in industry, the majority of which were in Manila.

The incidence of underemployment is also high, with one out of every employable person estimated to be underemployed. Although reliable data with regard to underemployment is not available, the size of the informal sector could be a good indicator of the extent of underemployment, particularly in urban settlements. The present rate of population growth, if permitted to continue unchecked, will require the creation of over 500,000 new job opportunities every year during the next decade. At present, it is estimated that the number of jobs actually generated in the economy does not exceed 150,000 annually, or less than 30 percent of the annual need.

A recent phenomenon, which has to some extent eased the growing problem of unemployment, is the rise in the number of Filipinos seeking employment overseas. The number of registered emigrants, which was 14,500 in 1975, has risen to 40,450 in 1979. It is estimated that the average number of emigrants and off-shore workers during the period 1975-1979 was 97,000 annually. Today, there are an estimated 380,000 Filippino guest workers in foreign countries, and their numbers are said to increase by more than 1,000 a month.

Table II-9

HOUSEHOLD POPULATION 15 YEARS OLD AND OVER BY REGION, BY EMPLOYMENT STATUS: THIRD QUARTER, 1979 AND 1980

REGION	Projected Household Population 15 Years Old and Over				Percent of Labor Force				Percent of Employed			
	Number (in thousands)		Percent in the Labor Force		Employed		Unemployed		Agriculture		Non-Agriculture	
	Third Quarter		Third Quarter		Third Quarter		Third Quarter		Third Quarter		Third Quarter	
	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980
PHILIPPINES	27,598	28,677	61.4	61.4	96.0	94.6	4.0	5.4	47.6	52.5	52.4	47.5
National Capital Region	3,715	3,839	55.6	54.2	93.5	85.4	6.5	14.6	1.1	0.9	98.9	99.1
I - Ilocos	2,145	2,208	57.9	56.1	97.2	97.0	2.8	3.0	54.4	57.5	45.5	42.5
II - Cagayan Valley	1,254	1,303	63.3	69.4	98.4	95.4	1.6	4.6	62.0	69.1	38.0	30.9
III - Central Luzon	2,826	2,933	53.3	56.2	94.7	94.7	5.3	5.3	37.4	36.3	62.6	63.7
IV - Southern Tagalog	3,450	3,641	62.6	61.5	96.1	94.8	3.9	5.2	43.3	47.5	56.7	52.5
V - Bicol	1,905	1,971	65.8	64.0	98.7	98.3	1.3	1.7	57.7	61.9	42.3	38.1
VI - Western Visayas	2,708	2,813	65.2	71.1	95.0	97.6	5.0	2.4	57.8	67.3	42.2	32.7
VII - Central Visayas	2,204	2,288	69.7	62.9	96.8	97.3	3.2	2.7	52.2	61.4	47.8	38.6
VIII - Eastern Visayas	1,594	1,649	66.0	66.1	96.0	89.5	4.0	10.5	63.0	69.1	37.0	30.9
IX - Western Mindanao	1,273	1,320	54.8	53.3	94.3	95.2	5.7	4.8	60.2	62.5	39.8	37.5
X - Northern Mindanao	1,495	1,558	61.9	64.8	96.2	94.9	3.8	5.1	54.3	59.3	45.7	40.7
XI - Southern Mindanao	1,794	1,873	66.2	64.0	95.0	96.6	5.0	3.5	54.2	63.9	45.8	36.0
XII - Central Mindanao	1,235	1,281	59.0	63.5	97.6	97.4	2.4	2.6	56.3	66.8	43.7	33.2

Source: Special Report No. 380: NCSO

III. ANALYSIS OF HOUSING NEEDS

A. DESCRIPTION OF HOUSING CONDITIONS

1. Housing Stock

Preliminary estimates on housing conditions are available from the 1980 Census, based on a 20 percent sample. Information from the 1970 Census, including detailed analyses, is much more complete, although some of the data may not be altogether reliable. More importantly, there is a certain amount of information available wich offers a fairly good idea of how the housing stock has changed in the ensuing decade. The quantitative changes in the housing stock have clearly taken place in the urban areas. While the number of rural households countrywide increased by 34 percent, the number of urban households leaped by 113 percent, indicating statistically that the growth of households in the Philippines has been overwhelmingly urban-based.

Table III-1: Housing Stock

(000s)

	1970		1980		Change 1970-1980	
	Number	%	Number	%	Number	%
Urban	1,493	27.0	3,178	37.1	1,685	112.9
Rural	4,029	73.0	5,380	62.9	1,351	33.5
	5,522	100.0	8,558	100.0	3,036	156.4

Source: NCSO, 1970 and 1980 Census

The growth in urban households confirms the trend that the Philippines is increasingly becoming an urban nation. By 1980, 37 percent of all households were located in urban areas versus only 27 percent in 1970.

2. Housing Shortages

The shortfall in the housing stock is commonly manifested in overcrowded and unacceptable housing conditions. For example, the 1970 Census showed that the country contained on the average 1.02 households for each dwelling unit. In urban areas, where the major growth is concentrated, the ratio of households to houses is a higher 1:1.05. Although the prevailing preference in the Philippines for extended families could attribute in part to this practice of more than one family living in a single family dwelling unit, there is no doubt that the overcrowding observed here is primarily due to a shortage of dwelling units. In every region of the country, the number of families exceeds the number of units, with the most extreme case occuring in Manila where the ratio of dwelling units to families is 1:1.11.

Another telling statistic relates to the number of persons per room. About 33 percent of all occupied dwelling units contained more than 3 persons per room. In Metro Manila, overcrowding is manifested accutely by statistics that show that 43 percent of all dwelling units have only one room, while 48 percent of the homes have a floor area of less than 30m2.

The crowding situation does not appear to have changed since 1970. Information from the 1980 Census in this area has not yet been released; however, given the high growth rate in population and particularly in the urban areas, plus the inability of the housing sector to increase significantly the housing stock, it is highly unlikely that overcrowding of families has been reduced.

3. Housing Standards

The second dominant feature of the housing stock is the poor quality of the structures, which is reflected most keenly in the type of materials used to construct the walls of dwelling units. Nationwide more than 40 percent of the homes are constructed of temporary building material. The construction is much better in the urban areas, where only 18 percent of all homes are built with temporary materials; in Metro Manila, only 8 percent of all homes fall in that same category. As expected, about 55 percent of all rural homes have walls of temporary materials. A preliminary comparison with the 1970 Census figures indicates that the percentage of homes constructed with light materials has actually increased over the ten-year intercensal period.

Table III-2: Construction Materials for Outer Walls

1980

Type of Wall Materials	No. of Dwelling Units (000s)	Percent Nation-wide	Percent Urban	Percent Rural	Percent Metro Manila
Galvanized Iron	138	1.6	2.2	1.2	3.1
tile, concrete brick, stone	481	5.6	9.9	3.0	13.9
Wood, plywood	2,894	33.7	38.6	30.7	32.7
Mix of above	1,564	18.2	31.3	10.4	42.3
Bamboo, sawali	2,114	24.6	8.7	34.0	.1
Cogon, nipa	1,011	11.7	4.7	15.9	.7
Makeshift materials	201	2.3	4.1	1.2	7.7
Other	197	2.3	0.5	3.6	.1
TOTAL	8,607	100.0	100.0	100.0	100.0

Source: NCSO, 1980 Census

4. Access to Amenities

The absence of essential facilities and services, such as electricity, and water and sewerage services, characterize most Filipino homes. While electricity is fairly common in urban areas, and especially in Metro Manila, few rural families have access to power.

A regular supply of water that meets the expected requirement of quality, quantity and adequacy is available to only 60 percent of all urban homes, yet only 15 percent of rural families have this same service level. Sanitary facilities are also generally not available to one-third of the population.

Table III-3: Percent of Households with Access to Amenities

	Percent of Households	Percent of Electricity	Percent with Access* to Community Water Supply	Toilet Facilities** to Single Household
Urban	37.4	71.3	58.1	51.3
Rural	62.6	17.1	14.9	27.0
TOTAL	100.0	37.4	27.6	36.1
Metro Manila only	12.8	92.9	73.4	55.9

*Identified as a pipe-borne water supply system, either communal or home connection.

**Does not include toilet facilities used communally.

Source: NCSO, 1980 Census

B. ESTIMATE OF NEEDS

A number of previous studies have already been done in the Philippines to estimate the future housing needs of the country. The more recent of these are the studies done by Jacabo J. De Vera in 1975 and later by the National Census and Statistics Office in 1979. Although there are basic differences in the two approaches adopted in these studies, the findings are useful as a guide to assess the magnitude of the problem.

In his study, De Vera has estimated that the total number of new housing units needed between 1970-2000 will total 11.3 million. Of these, 6.6 million will be in rural areas and the balance 4.7 million in urban areas. In his computation, he has assumed that the production needed to house the doubled-up families could be provided in 10 years and the unacceptable units will be completely replaced during a period of 20 years.

The NCSO study of the housing needs in the Philippines estimated the requirement during the period 1970-2000 to be even higher. Using an assumption of a medium growth rate in population, the study estimated the total requirement of additional shelter units as 16.2 million at the end of the period. On the basis of providing each household with a dwelling unit, the total additional requirement of housing will be as follows:

Population increase	10.7 million
Replacement of stock	5.5 million
	16.2 million

Table III-4 gives the breakdown of the projected requirement of dwelling units by five-year periods. However, these figures should be interpreted with a degree of caution. The average life span has been assumed to be 50 years for houses made of concrete, 30 years for houses made of lumber and galvanized iron sheets, and 20 years for houses made with lighter materials.

Table III-4: Projected Requirements of Dwelling Units

Philippines, 1970 - 2000*

Year (1)	Stock (2)	Population Increase (3)	Replacement (4)	New Construction (3 & 4)	End Period Stock (2 & 3)
1971-1975	6,010,837	1,103,843	1,773,638	2,877,481	7,114,680
1976-1980	7,114,680	1,671,016	1,383,090	3,054,936	8,785,696
1981-1985	8,785,696	1,857,390	916,551	2,773,941	10,643,086
1986-1990	10,643,086	1,971,954	906,786	2,878,740	12,615,040
1991-1995	12,615,040	2,066,182	303,002	2,369,184	14,681,222
1996-2000	14,681,222	2,032,000	227,077	2,259,077	16,713,222
TOTAL		10,702,385	5,510,974	16,213,359	

*Assumes a medium rate of growth for the population and the number of households per dwelling unit = 1.

Source: NCSO, Housing Needs in the Philippines, 1970-2000 - Monograph 18.

It should be observed that the number of units needed for the replacement of the housing stock even exceeds the number required to meet the increase in the population during the early years. Therefore, these estimates may to some extent overstate the actual housing needs.

Shelter requirements based on regional needs were also calculated in the NCSO study. Region IV, which at the time of NCSO's study included Metro Manila as well, requires nearly 30 percent of the new housing units needed for the whole country during the period. This is more than 3.5 times the stock that was available in the Region in 1970, and explains the extent of overcrowding prevailing in Region IV and the poor quality of the available housing stock. This is further supported by the need to replace the existing houses by a number equivalent to the available number during a period of 30 years.

The NCSO projection of housing needs indicates the level of construction required during the balance of the current decade in order to relieve the problem of housing by the year 2000. An output of more than 500,000 units a year is required which is almost a 9 percent increase of the housing stock annually and implies a huge increase in the rate of housing construction.

However, the actual increase in the housing stock during the intercensal period of 1970-1980 had been far less than needed to meet demand. Based on provisional housing figures for 1980 for Metro Manila and seven Regions using the census data of that year, a comparison can be made of the housing stock in the country in 1970 and 1981. These figures show that the average annual growth rate of the housing stock for seven Regions excluding Metro Manila had been only 4.1 percent. Therefore, the actual need for new shelter on the basis of assumptions used in this study will be even higher than the figures indicated in the study.

A large percentage of houses are constantly being upgraded on a self-help basis. Since incremental housing forms the basis on which most of the low-income shelter is produced, these houses are only a stage in a total development process. Therefore, in a large number of instances, the need to replace them as described in this section will not materialize. Therefore, the estimates given here to some extent overstate the actual need of housing in the country.

The National Housing Authority has also made an independent analysis of the housing needs of the low and marginal income groups of 73 urban centers. The survey has concluded that the need for income housing in those communities during the next 10 years to be 613,850 units. The bulk of the activity will consist of upgrading existing units. Sites and services solutions will be required to accommodate the families that will be displaced during the process of upgrading, as well as provide solutions to satisfy population growth. These estimates identify a need for an average output of 49,200 units per year for the low and marginal income families of the selected 73 urban centers, which cover an estimated 26.5 percent of the total population in the country (see Table III-7).

Table III-5: Projected Requirement of Dwelling Needs By Region, 1970 - 2000

(000s)

Region	Stock (1)	Population Increase (2)	Replacement (3)	New Construction (2 & 3)	End Period Stock (1 & 2)
Philippines	6,010	10,374	5,510	15,985	16,385
Region I	509	596	438	1,035	1,105
Region II	296	549	296	845	845
Region III	591	1,268	641	1,908	1,889
Region IV	1,331	3,067	1,493	4,560	4,398
Region V	477	640	421	1,061	1,117
Region VI	591	578	482	1,060	1,169
Region VII	527	560	441	1,041	1,126
Region VIII	413	375	338	713	788
Region IX	300	593	302	895	893
Region X	313	810	359	1,169	1,123
Region XI	357	1,029	424	1,453	1,386
Region XII	305	600	291	891	905

Source: NCSO

TABLE III-6: ANNUAL CONSTRUCTION OF DWELLING UNITS NEEDED TO PROVIDE FOR REPLACEMENT AND INCREASES IN POPULATION, 1983 - 1993

	Replacement	Population Increase	Total
1983	183,310	371,478	554,788
1984	183,310	371,478	554,788
1985	183,310	371,478	554,788
1986	181,357	394,391	575,748
1987	181,357	394,391	575,748
1988	181,357	394,391	575,748
1989	181,357	394,391	575,748
1990	181,352	394,391	575,748
1991-93	181,800	1,239,708	1,421,508

Source: NSCO. "Projections of Housing Needs" Monograph No. 18 (supplement)

TABLE: III-7 SHELTER NEED BY TYPE OF PROGRAM OF LOW MARGINAL INCOME GROUP OF 73 URBAN CENTERS (IN NO. OF HOUSING UNITS)

TYPE OF PROJECT	1984	1985	1986	1987	1988	1989-1993	TOTAL (10 Years)	ANNUAL AVERAGE
Slum Upgrading 1/	31,490	31,490	31,490	31,490	31,490	157,452	314,902	31,490
Sites and Services Growth 2/	15,414	15,887	16,376	16,879	17,403	95,485	177,444	17,744
Sites and Services (Resettlement) 3/	78,817	4,743	4,743	4,743	4,743	23,715	121,504	
TOTAL	125,721	52,120	52,609	53,112	53,636	276,652	613,850	

Source : Survey of 73 Urban Centers, December 1981, RPD-RAD, NHA

C. AFFORDABILITY ANALYSIS

Various cost shelter solutions are being provided by the private and public sector institutions. Over the past several years, the National Housing Authority (NHA) has offered low cost solutions through its sites and services and slum upgrading projects. With the reduction in minimum standards (see Section VII) and the development of new programs and financial mechanisms through the Ministry of Human Settlements (se. Section IV), shelter solutions are being developed that begin to fill the gap between the NHA programs and the traditional types of projects built by the private sector.

Table III-8 analyzes the relationships between family incomes, ability-to-pay, and the many different shelter solutions being offered or, in some cases, in the planning stage. Seven different family income levels between P500 and P3,000 were assumed. Given a percentage of those incomes dedicated to housing, it was assumed further that families at each income level could afford a certain mortgage loan, which in most cases would permit them to purchase one of a variety of shelter solutions. These shelter solutions ranged from home improvement loans to completely finished 42m2 units. This affordability analysis is based on incomes and prices as of mid-1983. To update these figures to mid-1984, the monthly income figure in column one of Table III-8 should be increased by an appropriate percentage selected to represent income changes of that one-year period. Regardless, this table should be viewed as illustrative. It represents the relationship of incomes to affordability, which will remain roughly the same as long as there is no significant variation between incomes and the cost of housing. Sensitivity analyses can be prepared, if necessary, which reflect presumed changes in the cost of shelter solution and varying levels of family incomes. Given the recent rapid and erratic changes in both, as well as a lack of accurate information, it is felt that preparing such sensitivity analyses would not be useful. It is clear, however, that if the cost of housing outpaces increases in incomes, more and more families will either be unable to achieve homeownership or must reduce their expectation as to what level of housing solution they can afford.

A P500 monthly family income (in mid-1983) is probably the smallest income level at which a family can afford to make monthly home payments. At that level, families can afford to purchase only a serviced lot in an outlying area of Manila or the provinces, or obtain a home improvement loan from NHA to upgrade the family's dwelling unit. If the family already owns a building lot, it may use the home improvement loan to purchase materials to build a 20m2 unit, assuming the family supplies the labor.

At the P750 income level, a family could purchase a prefabricated 17m2 core unit, assuming the family owns a lot, or purchase a 55m2 serviced lot in the Municipality of Pasig, Metro Manila. At P1,000, the family could purchase a serviced lot with the 17m2 core unit or a 20m2 new house. The level of affordable housing solution progresses incrementally to reach the P3,000 level, where a family could afford a well-built 42m2, 2-bedroom, 1-bath concrete block dwelling unit on a 200m2 lot in the outskirts of Manila. Above the P3,000 level, the private sector has traditionally produced a variety of shelter solutions.

It would appear, therefore, that the shelter sector is providing solutions for all income groups. The problem derives from the fact that an inadequate

Table III-8:

Incomes, Affordability and Shelter Solutions

Based on mid-1983 incomes and prices

Monthly Income	% of Income for Housing 1/	Monthly Payment	Mortgage Amount 2/	Unit Sales Price 3/	Selected Affordable Shelter Solutions 4/
500	20	100	12,000	13,300	- Purchase a $100M^2$ serviced lot in outlying Manila for P10,000. - Use home improvement loan to purchase materials to improve home or to build a $20M^2$ unit using self-help.
750	25	185	22,000	24,500	- Purchase an NHC $17M^2$ unit for P17,000 (less lot). - Purchase a better located serviced lot of $55M^2$ in Pasig for P16,000.
1,000	30	300	36,000	40,000	- Purchase a lot with NHC $17M^2$ core unit for about P27,000. - Purchase a lot from a non-profit housing group, with $20M^2$ unit for P40,000.
1,500	30	450	54,000	60,000	- Purchase a privately developed $42M^2$ unit, with 2 Br, 1 Bath, completely finished for P51,000 (less lot) - Purchase an NHC prefab unit of $34M^2$ plus lot for about P45,000.
2,000	30	600	72,000	80,000	- Purchase a $36M^2$ unfinished unit on $100M^2$ lot for P73,000 (private developer)
2,500	30	750	90,000	100,000	- Purchase a $36M^2$ finished unit on $150M^2$ lot for P100,000 (private developer)
3,000	30	900	108,000	120,000	- Purchase a $42M^2$ finished unit on $150/200M^2$ lot for P108,000 (private developer)

1/ While the NHMFC permits families to dedicate 30% of incomes for housing, lower %'s are used for lower-income families to reflect better their ability to pay.
2/ Based on NHMFC terms of 9% interest rate for 25 years. For NHA solutions, reduce mortgage amount by 15%.
3/ Mortgage equivalent to 90% of sales price; Not applicable for home improvement loans.
4/ These are sample solutions, based on actual on planned developments, mostly in Manila, by NHA, NHMFC, and private developers.

Source: NCSI, based on data from various sources in the Philippines.

supply of housing is being produced to meet the need. Unfortunately, as the previous discussion of housing need points out, studies on housing need have concentrated on the global need, and not the need by income groups for which information is scanty. Regardless, comparisons of housing production over the past decade with population growth and family formation demonstrate clearly that the need is not being met. The problem continues to be that of increasing production to meet the needs of all income groups.

D. COOPERATIVE HOUSING

In mid-1983, the Cooperative Housing Foundation of Washington, D.C., evaluated the status and needs of the cooperative housing movement in the Philippines. CHF's report discussed a number of structural, financial, production and training constraints to the development of an effective cooperative housing program. It concluded that the cooperative housing movement is in an early stage of development, but that there are opportunities to build upon the current cooperative housing experience and expand it into a more comprehensive effort. Among CHF's recommendations were that the Ministry of Human Settlements consider development and implementation of a non-profit cooperative housing program; a non-profit technical services organization be created; additional external financial sources be tapped; and in-house training of MHS in cooperative housing be considered.

This SSA does not elaborate further on the status of cooperative housing in the Philippines. Rather, the team held additional discussions with MHS officials which confirmed CHF's analysis of the cooperative housing movement. MHS officials emphasized the need for technical assistance and training so that cooperative housing will be able to make a more positive contribution to the resolution of housing problems in the Philippines. Once the cooperative housing movement has enhanced its capacity to plan and implement activities, then MHS financial assistance for the development of cooperative housing projects could be made available.

TABLE III-9: TOTAL NUMBER OF OCCUPIED DWELLING UNITS,

1970 AND 1980

Region	1970	1980	Percentage
Metropolitan Manila	602,096	1,062,174	76.40
Region I	470,862	639,186	35.74
Region II	280,858	400,414	42.56
Region III	551,662	829,699	50.30
Region IV	1,081,019	1,099,172	7.97
Region V	445,260	601,871	35.17
Region VI	552,403	781,471	41.40
Region VII	500,473	696,533	39.17

Source: NCSO 1980 Census (Provisional Data)

IV. ANALYSIS OF GOVERNMENT INSTITUTIONS

A. OVERVIEW

The provision of housing and the development of the shelter sector have become priorities of the Philippine government only in recent years. Between 1947 and 1970, none of the seventeen national development plans addressed housing needs, and as a result, housing production by the government was negligible. The construction and financing of housing was left to the private sector which almost exclusively benefitted upper income households. Regulatory agencies and public corporations concerned with shelter sector problems were established on an ad hoc basis, rather than in response to a coordinated and articulated public policy. The resulting plethora of agencies with overlapping responsibilities created a complex bureaucratic structure which tended to constrain housing production, particularly due to a lengthy regulatory process. Public agencies did not focus adequate attention on the housing needs of lower income families, and in fact, the government's intervention in the low income sector was largely regulatory and even punitive, primarily characterized by slum clearance and forced relocation of squatter families.

By 1975, the government's housing policies began to change. The overwhelming number of families living in impoverished conditions, and their growing demands for basic services and land tenure, brought about the establishment of the National Housing Authority (NHA) which represented the first effort to rationalize the existing bureaucracy and reorient policy with regard to low income households. Six housing agencies were consolidated by the NHA which began to coordinate, plan and implement a wide range of shelter-related activities. Government policy shifted away from slum removal to in situ improvements, and low income settlements were expanded through planned sites and services projects.

In 1978, greater priority was given to the housing sector with the establishment of the Ministry of Human Settlements (MHS). All government functions related to housing were placed under MHS, to an extent repeating the process of creating NHA three years earlier. MHS formulated a more comprehensive approach to the entire shelter sector, giving particular attention to the potential of mobilizing private sector resources and utilizing market mechanisms to stimulate housing production. By 1980, MHS had developed a long-term housing strategy embodied in its National Shelter Program and established an institutional delivery system for its implemenation. New housing finance institutions were created to fill functional gaps in the overall delivery system, complementing the activities of existing agencies. In contrast to the situation prior to the mid-1970s, the responsibilities of the different housing agencies were clearly defined, and in the process, NHA's responsibilities were narrowed from a broad coordinating and policymaking role to only the provision of basic services and housing for low income families.

In order to coordinate the government's housing activities, MHS has formed the National Shelter Program Secretariat (NSPS) comprised of representatives from the following seven key institutions:

- Home Development Mutual Fund
- National Home Mortgage Finance Corporation
- Home Financing Corporation
- National Housing Authority
- Human Settlements Development Corporation
- National Housing Corporation
- Human Settlements Regulatory Commission

To date, the National Shelter Program Secretariat is not an operational organization per se, but instead functions as a committee to facilitate coordination and information sharing between shelter-related programs. Ultimately, it is anticipated that the NSPS will operate offices in which representatives from the seven above-mentioned institutions will assist developers in moving projects quickly through the project approval process, from design approval to take-out financing.

A major problem in the past in terms of housing provision was the unwillingness of the Philippine private financial or banking sectors to respond to housing needs except for high income households. Virtually no long-term mortgage financing was obtainable, interest rates were high, and the availability of only short-term mortgage loans at high interest rates made housing unaffordable to the vast majority of families. In turn, the construction industry targetted production to high cost units where there was the greatest effective demand, though not the greatest need.

To address these deficiencies in the shelter sector, MHS has established a new finance system, centered around the introduction of a secondary mortgage institution, which is intended to leverage long-term financial resources from the private sector and provide a permanent incentive for housing production at lower costs. With the exception of NHA, all of the housing agencies represented in the National Shelter Program Secretariat play a role in this new finance system. The provision of low income housing remains the sole responsibility of NHA, and to date it has not benefitted from MHS' initiative. NHA's exclusion from the new finance system results more from the fact that the system has been in a start-up or developmental period, during which it has strived to achieve certain initial objectives which have not given priority to the low income shelter sector, rather than from a conscious decision to limit NHA's accessibility to its resources over the long run. Nevertheless, competition has arisen beween NHA and the other agencies for government assistance and even for the credibility of their different programmatic or philosophical approaches to solving housing problems. A major challenge presently facing MHS is to create mechanisms whereby NHA's low income constituents have access to the new finance system's resources to ensure that the institutional framework becomes responsive to their needs.

Outside of NSPS's network, two other governmental institutions, the Social Security System (SSS) and Government Service Insurance System (GSIS), play significant roles in housing finance. SSS and GSIS are both provident or retirement funds for formal sector employees which offer housing loans to their contributing members. Prior to the advent of MHS' new system, these two funds, together with the government-owned Development Bank of the Philippines, represented the major sources of mortgage financing in the Philippines for moderate and upper-middle income families.

This section of the Shelter Sector Assessment will examine the responsibilities, activities and effectiveness of the agencies under the National Shelter Program Secretariat and the SSS and GSIS. Emphasis will be given to the responsiveness of these institutions to the housing needs of lower income families. Section V will examine the role in housing of the private financial and banking institutions, including government-owned banks.

B. MINISTRY OF HUMAN SETTLEMENTS AND THE NATIONAL SHELTER PROGRAM

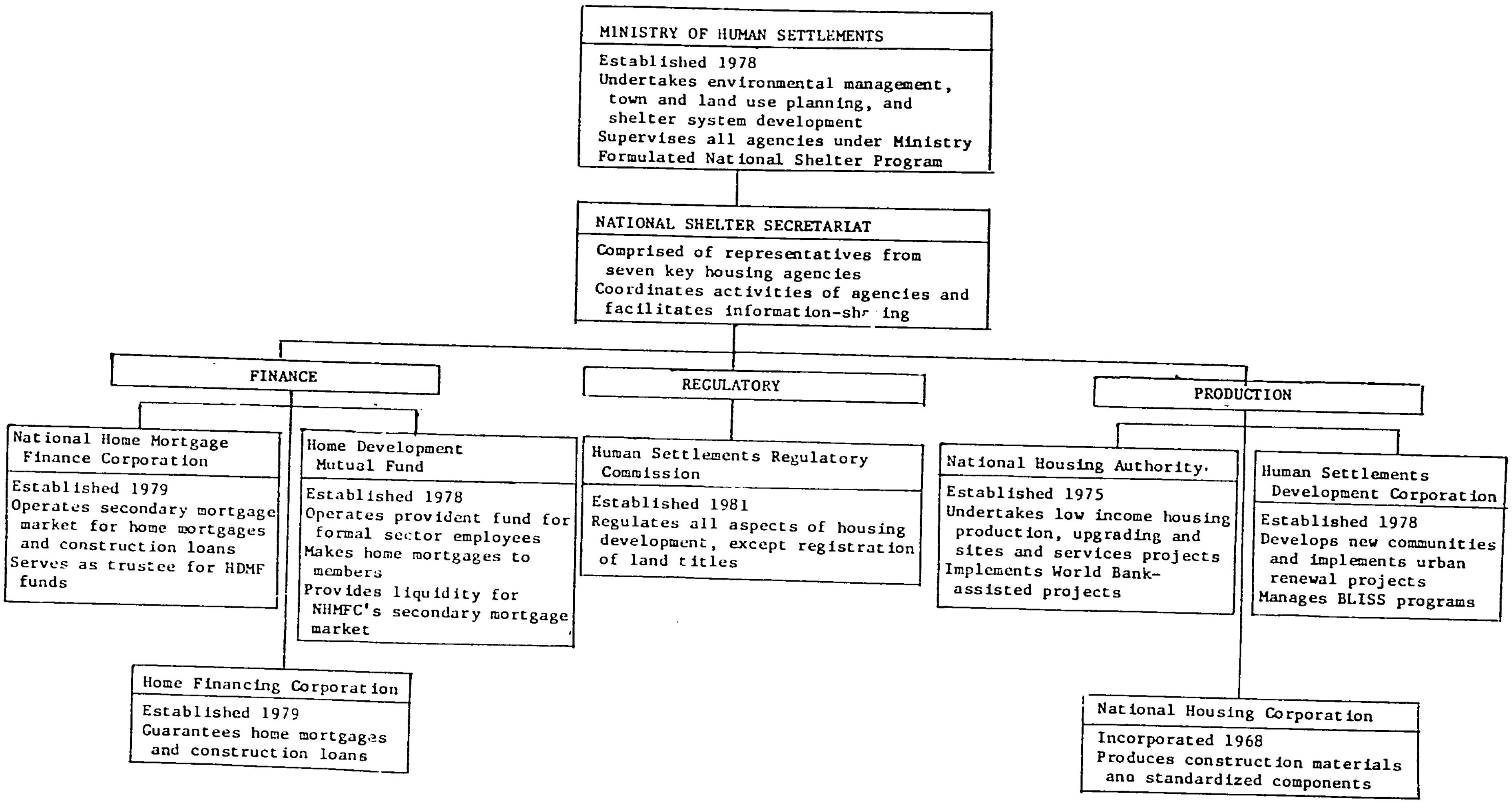
The Ministry of Human Settlements (MHS) was established in 1978 by Presidential Decree 1367 with the mandate to coordinate all aspects of housing in the Philippines. The Ministry's broad areas of responsibility include environmental management, town planning, land use planning and shelter system development. Early on, MHS established as its objectives the production of low-cost housing on a large scale, the generation of long-term funds for housing finance and the creation of a secondary mortgage institution. Housing production is to be integrated with other shelter-related services, such as water, power and roads. Prior to the establishment of MHS, public sector housing initiatives had been concentrated in Metro Manila, and the creation of MHS was intended to coordinate and target housing resources to other areas in the country. In practice, however, the overwhelming need for housing and related services in Manila has meant that most assistance continues to be focused in the metropolitan region.

MHS performs a central planning, policymaking and coordinating role. Substantive functions are delegated to other corporate entities or agencies, with the exception of the Private Sites and Services Project (discussed later in this section) which is managed directly by MHS' staff. MHS has identified eleven sectors which relate to human settlements planning, and therefore fall under its auspices.1/ Only two of these sectors--ecological balance and shelter--are directly under the Ministry's jurisdiction. The others involve no less than twenty-four different government entities, and their shelter-specific programs come under the Ministry's purview.

By 1980, the Ministry's three-fold objectives of increased housing production, generation of long-term finance and establishment of a secondary mortgage market had become the key elements in a National Shelter Program. Underlying the National Shelter Program is a recognition of the need to expand the output of lower and middle income housing by the private sector if the country's existing and rapidly growing housing needs are to be met. To implement this program, MHS has formed the National Shelter Program Secretariat with respresentatives from seven key housing agencies. These agencies cover three major functional aspects in the provision of housing: financing (Home Development Mutual Fund, Home Financing Corporation and National Home Mortgage Finance Corporation); production (National Housing Authority, Human Settlements Development Corporation and National Housing Corporation) and regulatory (Human Settlements Regulatory Commission). (See Figure IV-1.)

By establishing these functional divisions, with clearly delineated responsibilities for each agency, MHS has laid the foundation for a rational housing delivery system. Critical to the Ministry's National Shelter Program is

Figure IV-I: Agencies Implementing the National Shelter Program



the recently-organized secondary mortgage market, administered by the National Home Mortgage Finance Corporation (NHMFC), which is intended to leverage private sector investment in housing by providing liquidity for home mortgage portfolios and security for long-term lending. Two other financial agencies, the Home Development Mutual Fund (HDMF) and the Home Financing Corpoation (HFC), play key roles in generating financial resources for housing investment and providing mortgage insurance, respectively. This HDMF-NHMFC-HFC network constitutes MHS' new finance system.

The strategy behind the new finance system is to mobilize resources for long-term mortgage financing, and in turn stimulate private sector construction of affordable units. Regulatory changes have been made to facilitate housing delivery as an incentive to private sector investment, as well as to increase the pace of production. Private financial institutions perform the function of originating mortgage loans, which are then sold to NHMFC. Presently, nearly all qualified mortgages originated in the country are sold to NHMFC.

The private sector's response to MHS' new system finance system has been cautious but positive. An increasing number of lenders are participating with NHMFC, and the growth in the number and value of mortgage loans has been dramatic. The construction industry is building less expensive units, though still not reaching affordability levels of low income families in most instances. Although the government's policy is to leave construction largely to the private sector, in fact two public agencies - the Human Settlements Development Corporation and the National Housing Authority - continue to play significant roles in housing production.

With the creation of the HDMF-NHMFC-HFC finance system, the government has clearly decided to play a lead role in the shelter sector and to make housing a national priority. In just three years, the system has come to dominate housing finance in the Philippines and to redirect the activities of the construction industry. The system itself represents a departure from NHA's project-oriented philosophy; instead, it represents a program-oriented approach to housing delivery. Inherent to the system is the ability to leverage and revolve financial resources on an on-going basis, and not to address specific problems on a project-by-project basis. The system's major shortcoming to date has been its failure to make its resources accessible to NHA and its low income constituents, and in turn NHA finds itself increasingly isolated from the formulation and direction of national housing policy. NHA remains largely dependent on annual government appropriations to provide low income shelter solutions, but given the recent poor performance of the Philippine economy (see Section VIII), the ability of NHA to secure sufficient national resources for its programs will likely become increasingly difficult. Appropriate mechanisms will need to be created to bridge NHA with the HDMF-NHMFC-HFC network to ensure that the housing needs of all income levels receive adequate attention.

1. Financial Agencies

The government's housing finance system, organized by MHS in 1978/79, created two new institutions, the Home Development Mutual Fund (HDMF) and the National Home Mortgage Finance Corporation (NHMFC), and expanded the activities of the Home Finance Corporation (HFC) which had been in operation since the 1950s, though under a different corporate name. All three agencies are presently managed by competent and dedicated staffs, and their activities appear reasonably well coordinated. The first four years of the system's operations can best be characterized as a developmental or start-up period, during which operating procedures have been established and credibility with the private sector has been fostered. To date, the system has largely benefitted moderate and upper income households, which was MHS' initial strategy for establishing a sound track record and fiscal viability, in turn gaining acceptance by private financial institutions. Two other factors have contributed to the system's upper income focus: the construction industry was not building units affordable by lower income families, and NHA's projects were not completed to the point of having generated low income home mortgages which could be brought into the system.

Many of these initial considerations have changed. The three financial institutions are operating smoothly, the private sector is increasingly supportive of the new system, and NHA now has a seasoned mortgage loan portfolio. In turn, MHS has expressed its interest in broadening the finance system's impact to reach lower income families, and this interest appears to be genuine. Consideration has been given to potential linkages between the HDMF-NHMFC-HFC network and NHA, and a limited effort has been organized to encourage private sector involvement in the low income housing market (see the discussion of the Private Sites and Services Project later in this section). These efforts, however, have been nominal or not carried out to date, and they will need to be greatly expanded before having any significant impact on low income housing needs.

The combined activities of HDMF and NHMFC are intended to principally address two critical problems which faced home buyers in the past: the lack of long-term mortgage financing and high interest rates. HDMF is a mandatory savings scheme for all formal sector employees, with matching contributions by employers, and these savings are essentially used to back bonds sold by NHMFC. The objective is for HDMF's funds to represent sufficient collateral to enable NHMFC to use them as leverage in selling even more bonds, thus expanding the availability of financial resources for housing beyond the level of HDMF's contributions. In turn, proceeds from bond sales are used to purchase first mortgages made to HDMF's members by loan originating institutions, both government banks and private financial intermediaries. Through this scheme, HDMF's members are eligible for mortgages at 9 percent per annum, amortized over 25 years - clearly an improvement over the past when mortgage loans typically had one-year to at most ten-year repayment terms with interest rates of about 20 percent.

As the finance system has become operational, two major problem areas have surfaced. First, when comparing the income distribution of HDMF's members to the distribution of loan sizes, only the top 10 to 15 percent of the wage earners qualify for a mortgage, clearly indicating that lower income families are subsidizing the program for the benefit of upper income households. This is a basic inequity in the system which must be addressed by reaching lower income classes if HDMF is to continue to enjoy broad public support. Second, the cost of funds to NHMFC exceeds the yield on its mortgages, meaning that NHMFC is operating on a negative spread which has serious implications for its long-term financial viability. This problem needs to be addressed through changes in NHMFC's fiscal management policies. These are critical issues to be resolved in the near-term in order for the HDMF-NHMFC-HFC system to successfully stimulate housing delivery over the long-term in the Philippines.

a. Home Development Mutual Fund

The Home Development Mutual Fund (HDMF), popularly called 'Pag-Ibig',2/ was established by Presidential Decree 1530 in 1978 as a means to generate long-term funds for housing finance as part of the National Shelter Program. Pag-Ibig is a mandatory provident fund for all formal sector employees and employers. Employees are required to contribute 3 percent of their monthly base salary, up to a maximum base salary of P3000 (or a maximum monthly contribution of P90), with a 3 percent matching contribution by employers. By legislation, employees are guaranteed a 7.5 percent dividend return on twice their contributions, with periodic bonus dividends. Recently, HDMF began paying 10 percent on contributions (the guaranteed 7.5 percent plus a 2.5 percent bonus), partly in an effort to encourage new membership, and HDMF expects to regularly pay 10 percent. After 20 years, Pag-Ibig members are entitled to withdraw in full both their own and employers' contributions and accrued earnings.3/

HDMF was created to generate a pool of funds for housing investenment which have been used to provide liquidity for the secondary mortgage institution operated by NHMFC. NHMFC serves as trustee for all contributions to HDMF, net provident fund reserve requirements. Just over 90 percent of HDMF's contributions were entrusted to by NHMFC at the end of 1983, but this amount is expected to gradually decrease to about 85 percent of total contributions as reserve requirements increase. On funds held in trust, NHMFC currently pays 12.75 percent to HDMF to cover operating expenses and dividend payments. By law, HDMF's operating expenses may not exceed 2 percent of the net fund assets for the previous year, except for the initial operating years when NHMFC is authorized to make reimbursable advances to HDMF cover excess expenses. During the first four years of operation, HDMF's expenses exceeded this 2 percent ceiling, but their percentage of the previous year's net fund assets has been decreasing rapidly. HDMF anticipates operating within the 2 percent limitation by 1985, and that all deferred charges can be fully amortized by 1987.

When the Pag-Ibig fund was first established in 1978, membership was voluntary, but became mandatory in 1980. All members of the Social Security System (SSS) and Government Service Insurance System (GSIS) are required to contribute to the fund, and together these other two provident systems presumably represent the vast majority of formal sector employees. In addition, self-employed persons may elect to join Pag-Ibig, paying 6 percent of earnings to cover required contributions from both the employee and employer. All employed persons are technically required to join Pag-Ibig, but its membership coverage has not been as broad as its mandate would suggest. HDMF has adopted a policy of encouraging membership through persuasion rather than threats of legal recourse. In addition, employers may ask for a membership waiver if they have a superior provident scheme which pre-dates HDMF, if they offer an employee housing program, or if they are part of a distressed industry. By mid-1983, an estimated 800,000 employees have received waivers from membership, equivalent to nearly one-fourth of all SSS and GSIS members.

The percentage of monthly base salary has not always been 3 percent, but started at 1 percent in 1980, rising to 2 percent in 1982 and peaking at 3 percent in 1983. Employer contributions also increased accordingly. In most cases, collections are made through payroll deductions, using the existing SSS and GSIS systems; self-employed persons make their contributions at HDMF's offices or through local banks.

Two benefits accrue to Pag-Ibig's members. First, HDMF is a tax-exempt savings program earning contributors a good rate of interest, and upon retirement, each member is entitled to the full amount of earnings deposited with HDMF. Second, Pag-Ibig members are automatically eligible to apply for a mortgage loan on concessionary terms for an amount up to 48 times their base salary. Loans are made for 90 percent of the appraised value of land and housing units, and commitment fees and other closing costs may be rolled back into the principal amount, resulting in a loan-to-value ratio of approximately 95 percent. The actual monthly amortization can not exceed 30 percent of total household income which takes into account the member's base salary, cost of living allowance and incomes of other family members in the household. Members who take advantage of Pag-Ibig's loan program no longer earn the guaranteed 7.5 percent interest on their contributions to the fund, but they must continue to make monthly contributions and are eligible for their full remittance after 20 years. Also, borrowers still receive any bonus dividends which HDMF declares, presently 2.5 percent. (In the future, it is likely that some borrowers will have contributed more to the fund than the amount they borrow, but no policy has been established as to whether or not they will receive the 7.5 percent interest on their contributions in excess of the loan amount. Since the maximum contribution to date by any one member is approximately P15,000, and the average loan is in excess of P100,000, this issue does not need to be resolved for several years.)

HDMF was created to achieve two objectives: generating a sizable pool of funds for housing investment, and providing wage earners, especially from income classes previously unserved by the financial sector, with the opportunity to obtain a home mortgage. In assessing how effectively HDMF has been in meeting these objectives, two issues must be examined: the growth in membership and contributions, and the extent to which the loan program has reached moderate and low income households.

Membership and contributions increased sharply between 1980 and 1983, due to a number of factors: the program was just getting underway and membership could be expected to grow rapidly; membership became mandatory and not voluntary; the percentage of salary contribution rose from 1 to 3 percent; and Pag-Ibig has effectively marketed its program by stressing the advantages of its loan program. Home builders commonly advertise the availability of Pag-Ibig financing, similar to ads for VA and FHA loans in the U.S., which has assisted HDMF in achieving high visibility. HDMF itself has conducted national surveys to judge the public's response to its program, and generally the response has been favorable, particularly among middle and higher income classes. Table IV-1 shows HDMF's actual growth between 1980 and 1983, and projected growth by year-end between 1984 and 1986. By 1986, it is projected that HDMF will have 2.63 million members with total cumulative contributions approaching P12 billion.4/

Two factors exert constraints on membership growth: the actual number of formal sector employees, and the granting of membership waivers. Estimating the

Table IV-1: HDMF Membership and Total Contributions 1980-1986

Year-end	Membership		Contributions	
	Number (millions)	% Growth	Millions Pesos	% Growth
1980	.38	-	9.61 (est)	-
1981	1.54	305.7	113.61	1,082.2
1982	1.90	23.4	643.81	466.7
1983	2.10	10.5	1,106.23	71.8
1984 (proj.)	2.28	8.5	1,300.37	17.6
1985 (proj.)	2.45	7.5	1,754.27	34.9
1986 (proj.)	2.63	7.5	2,357.30	34.4
Cumulative	2.63	-	7,285.19	-

Source: HDMF and NCSI calculations.
(See Annex I for fuller discussion of these projections.)

number of formal sector employees is difficult due to a reasonably poor data base. Five sources of data on employment are available in the Philippines - the Social Security System, Government Service and Insurance System, Bureau of Internal Revenue, National Census and Statistics Office and the Ministry of Labor and Employment - and data from these sources vary.

The Ministry of Labor estimates the country's workforce to be about 9 million, including overseas contractors, self-employed persons, and private and public sector employees. HDMF, however, estimates only 4 million formal sector employees, largely attributing the Ministry of Labor's much higher figure to double-counting which can occur when employees change jobs, as well as to poor data collection. In 1982, HDMF reports that 3.5 million persons paid withholding taxes, somewhat substantiating its claim that the workforce is closer to 4 million. SSS reports total membership of 9 million, but in 1980, only 2.323 million persons contributed to SSS, suggesting that the vast majority of SSS members are no longer employed in the formal sector or have retired. In 1980, there were 1,046,662 GSIS members. Si :e SSS and GSIS members are required to contribute to Pag-Ibig, their combined membership of approximately 3.369 million members would suggest an upward limit to HDMF's potential growth.

The 1986 membership projection of 2.63 million Pag-Ibig members represents about 78 percent of the current SSS and GSIS membership, but this does not take into account the membership waivers which have been granted to date nor growth in the formal sector's workforce. Assuming that all 800,000 waivers have been granted to either SSS or GSIS members, the potential for Pag-Ibig membership falls from 3.3 million to 2.5 million, and the 1986 projected number of contributors exceeds this potential. Some of this difference could partially be made up through individuals joining Pag-Ibig and through expansion of the formal sector workforce. The projection for 2.63 million members itself is not overly ambitious, representing only 65.8 percent of HDMF's own estimates for the total workforce or 78 percent of the combined SSS/GSIS membership, but the primary constraint to Pag-Ibig's achieving its membership projections will be the number of waivers permitted.

Recognizing the importance of sustaining membership growth, HDMF began a more concerted effort in 1983 to market its program through a process called 'integration' as an alternative to waivers. Integration was offered to companies with superior retirement and/or housing plans, and by year-end, 25 companies had integrated their programs with Pag-Ibig, registering over 15,000 new members. In searching for new markets, HDMF reports receiving support from government agencies, trade unions and employee associations. In more distant provinces, where compliance with Pag-Ibig's mandatory membership requirements is more difficult to enforce, local officials been increasingly active in encouraging HDMF membership. In summary, through the combination of these efforts, HDMF should be able to meet is membership goals.

The issue of membership growth is important in that it is the basis for expanding the pool funds available for housing investment. Membership growth is also closely linked to Pag-Ibig's ability to extend housing finance opportunities to all income levels. In August 1983, HDMF surveyed 1,750 members and non-members in four regions, including Metro Manila, and 78 percent of the respondents indicated their familiarity with the fund's loan program, compared to only 24 percent familiarity with its benefit as a provident or savings fund.

Among non-members, 31 percent indicated their intention to join Pag-Ibig to take advantage of the loan program. Higher and lower income groups expressed greater reluctance to becoming members, the former because they already own a home or have access to other credit, and the latter because their low incomes would not enable them to take advantage of the loan program. Among members, lower income respondents frequently cited their inability to secure a loan as a principal drawback to HDMF membership. Clearly, the extent to which HDMF's loan program is extended to all income levels will have a direct impact on membership growth.

The basic Pag-Ibig loan is offered to members at 9 percent interest and amortized over 25 years, for an amount up to 48 times the member's monthly base salary. For instance, a Pag-Ibig member earning P1,000 per month would qualify to borrow P48,000 at Pag-Ibig rates. The amount of a loan which exceeds the maximum allowable under the Pag-Ibig basic loan is referred to as an 'Open Housing' loan which is offered at 16 percent and amortized over 15 years. The same member who wants to borrow P65,000 would be eligible to borrow P48,000 at 9 percent and P17,000 at 16 percent. Non-Pag-Ibig members can also apply for home loans at Open Housing rates, but not for 9 percent Pag-Ibig financing. No individual may borrow more than P100,000 and the monthly amortization can not exceed 30 percent of the total household income.

Pag-Ibig and/or Open Housing loans are generally for home purchase, but up to 40 percent of the loan may be used to refinance an existing mortgage, enabling homeowners with sufficient equity to use the Pag-Ibig program for home improvements. In the latter part of 1983, policy changes made it possible for HDMF members to purchase a lot only, rather than a house and lot; and HDMF members and non-members alike who are apartment tenants in Manila may purchase the unit they are occupying under a special apartment acquisition program of NHMFC. Most loans are offered on a straight or regular amortization plan with equal monthly payments. A Graduated Amortization Plan is offered to special groups, such as members of the armed forces and teachers, under which the initial monthly payments are half the payments under a regular amortization, gradually increasing over the term of the loan for full pay-out in 25 years. To date, fewer than 2 percent of all mortgages have been made under this graduated plan.

Up to three Pag-Ibig members, not necessarily in the same household, may pool their borrowing priveleges to purchase a single unit. As an example, a husband and wife can pool their borrowing priveleges; or a Pag-Ibig family member, such as a sister, can use her Pag-Ibig loan to enable another family member with whom she does not necessarily co-reside, such as her brother, to buy a house. The same sister, however, would not be able to borrow again for her own home purchase, unless she did not utilize her own allowable maximum when assisting her brother. Pag-Ibig members who pool their rights need not be related, but usually they are. The maximum allowable borrowing authority combining Pag-Ibig and Open Housing loans for one unit is P300,000, and the amount of a loan in excess of P300,000 must be borrowed at commercial rates. HDMF, and NHMFC which purchases all Pag-Ibig loans, require a first mortgage on the property, and since most banks also require a first mortgage, typically houses sold above P300,000 are not offered with a combination of Pag-Ibig/Open Housing and commercial financing, but this is not always the case. Large finance companies which also act as developers may be in the position to offer second mortgage financing, and in some instances, HDMF/NHMFC have been willing to finance on a pari passu basis, meaning that HDMF/NHMFC and the finance company share a first mortgage. In all cases, the qualifying income requirement is that the monthly amortization cannot exceed 30 percent of total household income.

Prior to the establishment of the Pag-Ibig loan program, real estate developers generally built high cost units which were targetted to the only market segment which could afford to purchase a home and secure financing. The interest rate on bank loans approached or at times even exceeded 20 percent, and most lenders considered a five-year amortization to be long-term. It was not uncommon for a bank to make only a 50 percent loan on appraised value, and not to even consider making a loan for a unit appraised under P300,000 to P400,000. By setting the maximum loan amount per unit at P100,000 per borrower or P300,000 for up to three borrowers, HDMF has effectively provided a strong incentive builders to construct less expensive units. As evidence that this has occurred, HDMF points out that its average loan in 1980 was over P200,000, but had been brought down to P124,200 as of August 1983. During the first quarter of 1984, however the average Pag-Ibig mortgage edged upward to approximately P126,700.

Through the first fiscal quarter in 1984, 26,528 mortgages have been purchased by the HDMF/NHMFC system, including all Pag-Ibig and Open Housing loans and 654 existing mortgages which were purchased by NHMFC at its start-up. There have been approximately 1.6 borrowers per unit, indicating that members are taking advantage of the opportunity to pool their borrowing rights to buy a home. The smallest loan has been for approximately P50,000. As of August 1983, the median loan size was approximately P100,000 and the average loan was P124,200. Table IV-2 summarizes loan sizes for the first quarter of 1983.

Despite the program's achievements in making over 26,500 mortgages and bringing down the average cost per unit, only upper income HDMF members have benefitted from the loan program. In February 1983, a survey of HDMF's members indicated that their median base salary was approximately P500. Base salary is used to determine how much a member is eligible to borrow at Pag-Ibig rates, but the actual income level used in qualifying a borrower for monthly payments also takes into consideration cost of living allowances, which on the average account for an estimated 35 percent in income above base salary. Accordingly, the median total monthly income for HDMF's members was an estimated P675. Table IV-3 shows the results of HDMF's survey, indicating both base salaries and estimates of total income. For comparison purposes, Table IV-4 shows the distribution by income of households in Metro Manila and the entire country.

As Table IV-4 indicates, the approximate monthly median incomes for Metro Manila and the Philippines is P2,400 and P1,125, respectively. On first glance, these income levels would appear to be significantly higher than for HDMF's membership, but it should be noted that Table IV-3 refers to only individual incomes whereas Table IV-4 refers to total household incomes which may include more than one income earner. Data for total household income for HDMF members is not available.

As of August 1983, the average Pag-Ibig loan was P124,200, requiring a monthly qualifying income of P3,127, based on 9 percent interest and amortized over 25 years. Only 7.5 percent of HDMF's members qualified for this loan, taking into consideration cost of living allowances. This compares to 19.5 percent of all households in Metro Manila and 6 percent of all households in the

Table IV-2

Amount of Loans of Borrower Per Unit

January to March, 1983

Loan Size	Percent	Cumulative Percentage
Below- ₱55,000	4.55	4.55
55,000- 64,999	3.76	8.31
65,000- 74,999	4.75	13.06
75,000- 84,999	7.33	20.39
85,000- 94,999	8.91	29.30
95,000-104,999	21.58	50.88
105,000-114,999	5.54	56.42
115,000-124,999	6.93	63.35
125,000-134,999	3.56	66.91
135,000-144,999	4.16	71.07
145,000-154,999	3.76	74.83
155,000-164,999	3.07	77.90
165,000-174,999	1.78	79.68
175,000-184,999	2.48	82.16
185,000-194,999	2.28	84.44
195,000-204,999	6.04	90.48
205,000-224,999	1.49	91.97
225,000-244,999	1.29	93.26
245,000-264,999	2.08	95.34
265,000-284,999	0.50	95.84
285,000-304,999	3.47	99.30
305,000-& Above	0.50	99.80
Not reported	0.30	100.00
Total	100.00	

Table IV-3: Income Distribution of

HDMF Members, February 1983

Monthly Base Salary (Pesos)	Total Monthly Income a) (Pesos)	% of Members	Cumulative Percentage
0- 200	0- 270	2.5	2.5
201- 400	271- 540	15.0	17.5
401- 600	541- 810	39.0	56.5
601- 800	811- 1,080	18.8	75.3
801- 1,000	1,081- 1,350	7.7	83.0
1,001- 1,500	1,351- 2,025	6.3	89.3
1,501- 2,000	2,026- 2,700	1.7	91.0
2,001- 2,500	2,701- 3,375	0.8	91.8
2,501- 3,000	3,376- 4,050	0.5	92.3
3,001- 3,500	4,051- 4,725	0.2	92.5
3,501- 4,000	4,726- 5,400	0.3	92.8
4,001- 4,500	5,401- 6,075	0.2	93.0
4,501- 5,000	6,076- 6,750	0.1	93.1
5,001- 6,000	6,571- 8,100	0.3	93.4
6,001- 7,000	8,101- 9,450	0.1	93.5
7,001- 8,000	9,451-10,800	0.0	93.5
8,001- 9,000	10,801-12,150	0.1	93.6
9,001-10,000	12,121-13,500	0.0	93.6
over 10,000	over 13,500	0.0	93.6
No response	-	6.0	99.6 b)

a) Calculated based on a 35% increase to basic monthly salary to account for cost of living allowances.

b) Does not total 100% due to rounding of numbers.

Source: HDMF Membership Survey

Table IV-4: Distribution of Households by Income Class, 1983

Income Class (Pesos)		Philippines		Metro Manila	
Annual	Monthly	% House-holds	Cumula-tive	% House-hold	Cumula-tive
2,000 or less	166 or less	2.9	2.9	0.1	0.1
2,000 - 3,999	167 333	8.0	10.9	1.2	1.3
4,000 - 7,999	334 - 666	18.8	29.7	3.6	4.9
8,000 - 11,999	667 - 999	15.3	45.0	8.5	13.4
12,000 - 15,999	1,000 - 1,333	12.6	57.6	10.6	24.0
16,000 - 19,999	1,334 - 1,666	8.7	66.3	10.2	34.2
20,000 - 29,999	1,667 - 2,499	13.2	79.3	17.4	51.6
30,000 - 39,999	2,500 - 3,333	7.6	87.1	13.7	65.3
40,000 - 59,999	3,334 - 4,900	6.9	94.0	15.2	80.5
60,000 - 79,999	5,000 - 6,666	2.5	96.5	6.6	87.1
80,000 - 99,999	6,667 - 8,333	1.5	98.0	5.4	92.5
100,000 & over	8,334 & over	2.0	100.0	7.5	100.0

Approximate median income for
Philippines: P1,125/month
Approximate median income for
Metro Manila: P2,400/month

Source: National Census and Statistics Office and NCSI estimates

Philippines. Even for the smallest loan made under Pag-Ibig, for approximately P50,000, only 10.7 percent of HDMF's members qualify, but as many as 65.8 percent of households would have qualified in Manila. Based on the data shown in Table IV-2, however, only 4.6 percent of all loans were in the range of P50,000. The median loan size is approximately P100,000, and qualifying households number 7.7 percent and 48.4 percent for HDMF members and Metro Manila, respectively. Table IV-5 summarizes the percent of households qualifying for these various loan amounts. Assuming that two HDMF members are pooling their borrowing rights to qualify for all Pag-Ibig loans (the actual pooling factor is 1.6 borrowers per unit), this would enable the program to reach down twice as far into the income levels indicated in Table IV-5. Even so, based on qualifying income for the median loan, just over 15 percent of HDMF's members can take advantage of the loan program.

The skewing of Pag-Ibig's benefits to upper income households raises other related concerns. Both Pag-Ibig and Open Housing loans are offered at interest rates well below market or commercial rates, and the ability to offer 'subsidized' rates is dependent on HDMF's ability to collect monthly contributions from members of all income levels. Since only upper income members are receiving home loans, the result is that lower wage earners subsidize homeownership for higher wage earners. To partially compensate for this inequity, Pag-Ibig borrowers no longer earn full interest on their contributions while non-borrowers are guaranteed dividends. This trade-off, however, is insufficient to remedy this basic inequity in the system. HDMF's own survey points out that the Pag-Ibig loan program is regarded as a far more important benefit by members and non-members alike than the provident savings plan, and in general homeownership is almost always regarded as preferable to a basic savings scheme since homeownership itself represents a form of savings, a hedge against inflation and security - concerns which take on added importance for low income families.

HDMF has moved beyond the start-up stage, and accordingly, its operations and its distribution of benefits are coming under increasing scrutiny. A common criticism beginning to appear in newspaper articles and journals is that the program is benefitting only upper income families. This perception will not change until HDMF takes steps to ensure a more equitable distribution of mortgage loans.

The activities of the construction industry have played a significant role in bringing about the upward distribution of Pag-Ibig's benefits. As previously noted, developers have built housing units to meet effective demand, and commonly only upper income families could afford to purchase a home. Through a combination of offering lower interest rates and setting a maximum loan amount of P300,000 per unit, HDMF has attempted to make homeownership affordable to more families and to stimulate construction of lower cost units. More concerted efforts on HDMF's part, however, are needed to ensure that the loan program equitably benefits all income levels. Two alternatives HDMF should consider are broadening eligibility for the Graduated Amortization Plan to lower income families, thereby qualifying more families for loans, and creating linkages between the activities of HDMF/NHMFC and the programs of the National Housing Authority.

Table IV-5

Monthly Amortizations and Percent of Households Qualifying for PAG-IBIG

Loan Size	P50,000 (approx. lowest)	P100,000 (approx. median)	P124,200 (average)
Monthly Amortization* (Pesos)	420	839	1,042
Qualifying Household Income (Pesos)	1,400	2,797	3,473
Qualifying HDMF Members	10.7%	7.7%	7.5%
Qualifying Households in Metro Manila	54.4%	38.4%	15.3%
Qualifying Households in Philippines	23.0%	11.9%	3.3%

*9% amortized over 25 years

Source: HDMF, NCSO, and NCSI calculations

b. National Home Mortgage Finance Corporation

The National Home Mortgage Finance Corporation (NHMFC), established in 1979, is a secondary mortgage institution which purchases first or primary residential mortgages in the Philippines. NHMFC's activities are intended to generate long-term capital for housing investment and to eliminate the problem of liquidity for loan originating institutions which traditionally have been unwilling to commit assets for long-term loans.

NHMFC's operations are relatively simple. Under a five-year renewable agreement, NHMFC serves as trustee for most of HDMF's funds which NHMFC uses as leverage to issue bonds to raise capital from the financial sector. The proceeds from bond sales are used to buy Pag-Ibig and Open Housing mortgages from loan originating institutions, such as banks. NHMFC automatically purchases these mortgages which the Home Financing Corporation (HFC) fully guarantees. The loan originating institutions receive a 3 percent loan origination fee 5/, and in most cases they contiue to service the lonas, collecting 2 percent of monthly principal and interest payments. Figure IV-2 illustrates these institutional relationships.

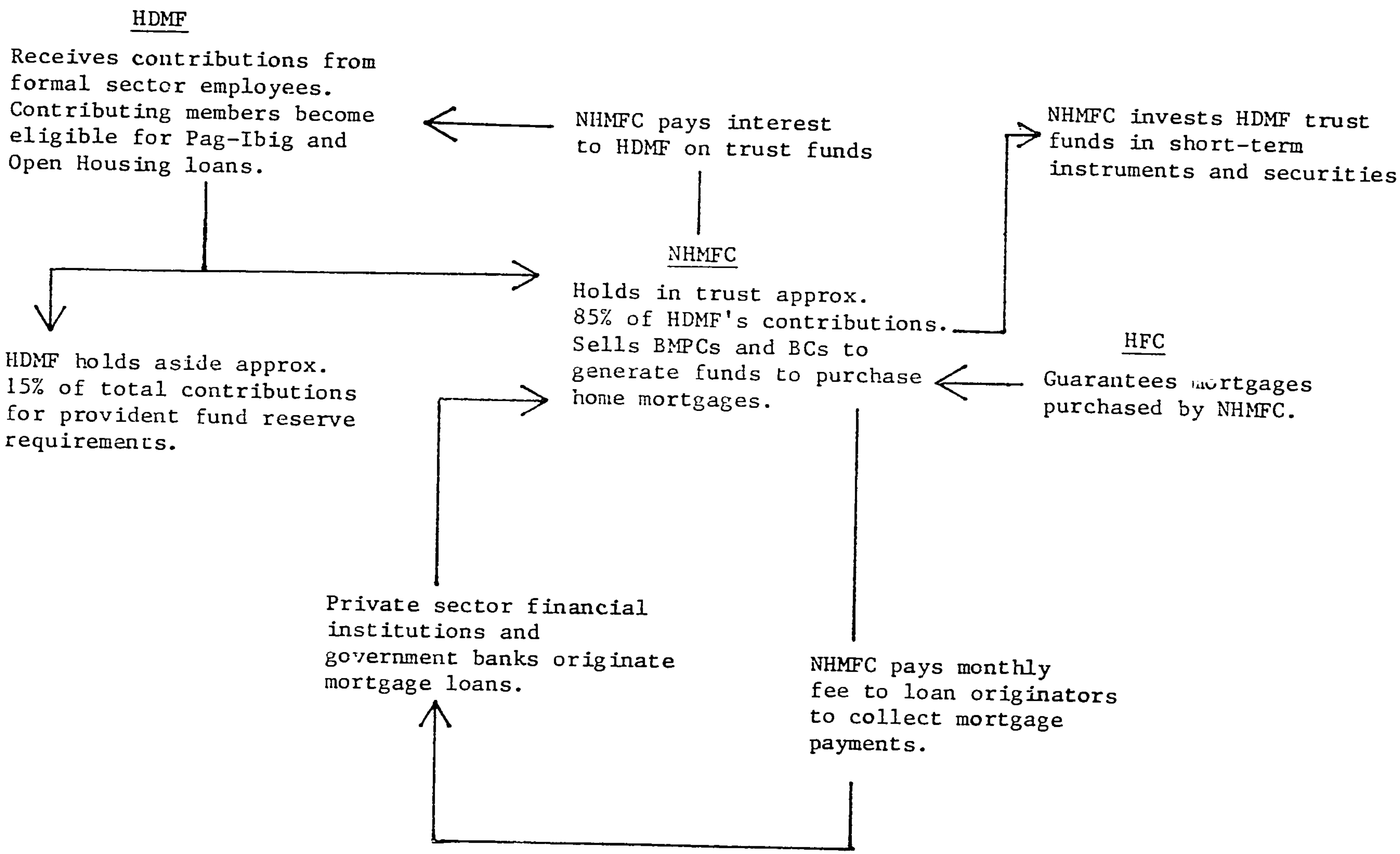
In creating NHMFC, the Ministry of Human Settlements was attempting to overcome a major constraint in the country's housing sector; namely, the lack of availability of long-term financing for mortgages. Virtually all financial institutions preferred short-term lending, considering a five-year loan to be long-term. Short terms combined with high interest rates had made formal sector housing affordable only to the highest income families.

Through bond sales, backed by the liquidity of HDMF's trust funds, NHMFC's strategy is to generate sufficient resources to cover the cost of mortgage purchases. The HDMF trust funds themselves are not directly used for mortgage purchases in order to preserve the integrity of the provident fund; rather, they are used as an incentive or leverage to promote bond sales. Initially, bonds were backed by both HDMF's funds and NHMFC's mortgages, but subsequent bond issues have been marketed as corporate debentures and not secured notes.

NHMFC has been authorized to float two bond issues: the Bahayan Mortgage Participation Certificates (BMPCs) and Bahayan Certificates (BCs). BMPCs were authorized for P1 billion and were sold as Series A tax-exempt bonds, with a nominal yield of 8.5 percent, and Series B taxable bonds, with a nominal yield of 14 percent. Both Series A and Series Bonds have six-year maturities. When BMPCs were first offered in 1980, sales of the tax-exempt Series A bonds outpaced Series B sales, but monetary and tax reforms in the same year diminished the Series A tax advantage. By the time that the BMPCs were fully subscribed in early 1983, Series A bonds represented less than 7 percent of total sales.

In 1983, NHMFC was authorized to sell $700 million in BCs, and through September had sold P600 million. BCs are taxable two-year bonds with a nominal yield of 15 percent. In contrast to the sale of BMPCs, which had been placed with financial institutions and sold at auction, the first issue of BCs totalling P400 million was sold by the Monetary Board of the Central Bank in a sealed bid process. This offering was over-subscribed, which has been attributed to the banks maintaining very liquid positions in light of the country's uncertain economic conditions. While this sale can be interpreted as

Figure IV-2: The HDMF-NHMFC-HFC System



a sign of the growing maturity of NHMFC's operations, it leaves NHMFC more vulnerable to adverse interest rate developments. Also, the second sale of BCs for P200 million was a bilateral sale by NHMFC to the Human Settlements Development Corporation which detracts somewhat from the significance of the first offering. Table IV-6 provides a profile of BMPC and BC buyers.

To date, the use of HDMF funds to mobilize resources through bond sales has not been efficient. At the end of September 1983, NHMFC held in trust P1.36 billion and had sold P1.6 billion in bonds, or a ratio of 1:1.18 which demonstrates only negligible leverage. By year-end 1983, HDMF funds held in trust exceeded P1.85 billion while total bond sales remained at P1.6 billion, dropping the leverage ratio to only 1:.86. 6/ However, as Table IV-6 indicates, 38.1 percent of the bonds have been purchased by the private sector, totalling over P600 million. These bond purchases represent new private sector resources which previously were not available for long-term financing, and in that sense represent leverage of the private sector.

Two current priorities of NHMFC are to increase the amount of bond purchases by the private sector and to realize a much greater leverage over HDMF's funds. Several operational and policy changes have been made in the context of these priorities. Previously, bond sales were largely promoted by NHMFC's own staff, but recently NHMFC has started to utilize the services of a government securities underwriting firm in order to improve its marketing. The bond terms themselves have been changed to become more competitive, having shorter maturities and higher interest rates. Finally, NHMFC is relying on its three-year track record to float bonds which are debentures rather than secured notes, attempting to break the linkage that has developed between bond sales and level of trust funds. To NHMFC's credit, it is attempting to bring about private sector participation based on the merit of the overall program and the competitiveness of the bonds, rather than through political pressure which has characterized some government-sponsored initiatives to mobilize private sector resources in the past. The problem this poses is that in order for its bonds to be competitive, NHMFC has been forced to raise interest rates on BCs which increases the cost of funds for NHMFC.

The private sector has been responsive to NHMFC in terms of originating home mortgages. NHMFC reviews the lending practices of individual institutions, accredits qualified lenders to originate mortgages, committing a line of credit to each institution against which it grants mortgages. Through August 1983, over eighty institutions had been accredited, and 58 were active loan originators. Of these 58, only two were government banks and the rest were private sector institutions. In actual mortgage volume, however, government banks accounted for over 51 percent. Table IV-7 provides a breakdown by type of loan originator for the 15,238 mortgages NHMFC purchased through August 1983.

For loan originators, the NHMFC system can be reasonably lucrative with little risk. NHMFC pre-commits to each institution the value of the mortgages it will buy from the institution; thus, the institution knows how many mortgages it can generate and be assured that they will be purchased by NHMFC. Loan originators are paid a loan origination fee, plus they generally collect a monthly servicing fee. Originally, NHMFC publicly committed itself to process the purchase of all mortgages within fourteen work days, but delays of several weeks frequently occurred as NHMFC reviewed the paperwork on each loan. As a

Table IV-6

BMPC and BC Buyer Profile as of September 30, 1983

Buyer Classification	Number of Agencies	Purchases (Millions of Pesos)	% of Total
Government Banks	3	735.465	46.0
Government Corporations	6	253.500	15.9
Commercial Banks	3	177.000	11.1
Private Development Banks	3	13.070	.8
Savings and Loan Assns.	11	3.225	.2
Savings and Mortgage Banks	4	105.830	6.6
Insurance Companies	19	131.410	8.2
Investment Houses	3	71.000	4.3
Government Securities Dealers	1	70.000	4.4
Other Investors	-	39.500	2.5
TOTAL	53	1,600.000	100.0%

Source: NHMFC

Table IV-7: NHMFC Mortgage Purchases by

Classification of Loan Originators

as of August 31, 1983

Classification	Number of Agencies	Mortgage Amounts (millions of pesos)	% of total	Number of Units	Average Mortgage (thousands of pesos)
Government Banks	2	969.119	51.2	8541	113.5
Commercial Banks	9	84.593	4.5	638	132.6
Private Development Banks	16	217.681	11.5	1623	134.1
Savings and Loans Associations	22	211.895	11.2	1716	123.5
Sagins and Mortgage Banks	6	364.742	19.3	2219	164.4
Insurance Companies	2	29.871	1.6	370	80.7
Building and Loan Associations	1	14.888	.8	131	113.7
Total	58	1,892.790	100.0%	15,238	124.2

Source: National Home Mortgage Finance Corporation result, NHMFC was criticized by both the banks which did not want to hold onto the mortgages they were generating for NHMFC and the borrowers who must pay commercial rates to banks until such time that the mortgages are purchased by NHMFC. In response to this criticism, NHMFC has guaranteed loan originators a 14-day take-out, provided the same institutions purchase bonds equivalent to the value of one-third the mortgages they are generating which they must pledge as collateral to NHMFC in the event that the supporting documents they have produced are incorrect or faulty.

Under the process described above, NHMFC, and HFC which guarantees all the mortgages purchased by NHMFC, assume all the risk. NHMFC attempts to minimize its risk by assuring that mortgage amounts are based on 90 percent of appraised value, plus closing costs, and not on an inflated market value. HFC plays a critical role in this process since it establishes appraisal guidelines and criteria. All properties must be appraised by HFC or an accredited lending institution, and in one instance, NHMFC reports dis-accrediting a loan originating institution because of poor appraisal practices.

The activities of NHMFC and HDMF are closely related and their respective fiscal policies have a direct impact on the other institution. During the start-up period for the HDMF-NHMFC-HFC finance system, both HDMF and NHMFC made it their immediate objectives to develop a track record with private financial institutions and to make housing loans affordable to as many HDMF members as possible. Fiscal management policies were adopted to carry out these priorities, including keeping mortgage interest rates low and enticing private sector participation in the secondary mortgage market by making it relatively risk free and lucrative for them. These policies have been successful in achieving their start-up objectives, but longer-term problems requiring changes in HDMF's and NHMFC's financial management policies are becoming apparent.

HDMF is in the enviable position of being able to pass on all of its operating costs to another agency, namely NHMFC. HDMF collects monthly contributions from its members, and turns over most of these funds to NHMFC which, in turn, pays HDMF interest for use of its funds which is sufficient to cover HDMF's dividend payments on its members' accounts and operating costs. Members are guaranteed a 7.5 percent return on their contributions, but HDMF is currently paying 10 percent. HDMF's operating expenses are currently in excess of a mandated ceiling of 2 percent of the previous year's net assets, and these higher costs have simply been passed on to NHMFC in the form of a higher interest rate which NHMFC must pay on HDMF's trust funds. Thus, while HDMF's financial position is sound, its fiscal policies have a direct bearing on NHMFC and have tended to increase the cost of funds for NHMFC.

The financial position of NHMFC, on the other hand, is not as sound. Annex 1 provides a detailed analysis of NHMFC's current and projected fiscal position through 1986, based on three different projections for HDMF's fund growth and NHMFC's bond sales. In each case, NHMFC is projected to incur sizable annual operating deficits for each year.7/

NHMFC's operating losses can largely be attributed to the fact that it is operating on a negative spread between the yield on its investments and its cost of funds. NHMFC derives income from mortgages, loan commitment fees, management fees from HDMF and other investments, and in 1983, the blended yield on investments was approximately 12.55 percent. The blended cost of funds, including interest payable on bonds, HDMF trust funds and mortgage servicing fees, was approximately 14.34 percent, resulting in a negative spread of 1.79 percent.

Partly in response the problems posed by this negative spread, in late 1983 NHMFC formulated a plan to 'season' mortgages, whereby loan originating institutions would hold Pag-Ibig and Open Housing mortgages in their portfolios for three to five years. During this period, NHMFC would pay the difference to the banks between market and Pag-Ibig or Open Housing interest rates, while investing a portion of bond proceeds in higher-yielding investments. While market interest rates hovered at about 21 percent, in fact this program would have resulted in some reduction in NHMFC's negative spread, but with interest rates closer to 26 percent at present, this advantage has been lost.

In order to secure funds to pay these interest subsidies on seasoned mortgages, NHMFC has requested government appropriations, justifying its request on the grounds that its role in stimulating housing production has substantially increased ancillary economic activities which have resulted in greatly increased tax revenues. In other words, NHMFC has requested a 'reflow' of taxes back into its operations. In late 1983 the government authorized NHMFC an additional P25 million, presumably to support its seasoning program. Through 1984's first fiscal quarter, NHMFC had made 759 seasoned loans, for a total value of P83 million. Approximately 85 percent of these loans were on Pag-Ibig terms, and 15 percent on Open Housing terms, reflecting the basic make-up of NHMFC's own loan portfolio. If seasoned mortgages are placed at the same rate for all 1984, the government's contribution of P25 million will not be sufficient to cover the entire interest subsidy required for this year alone.

During the first quarter of this year, seasoned mortgages have been equivalent to 20 percent of new HDMF mortgages (that is, Pag-Ibig and Open Housing mortgages). In 1985 and 1986, NHMFC projects that seasoned mortgages will be equivalent to 25 percent of HDMF mortgages. A greater proportion of total assets than at present are projected to be placed in higher-yielding investments, though an amount equivalent to seasoned mortgages can not be redirected if NHMFC is to meet its own projections for purchasing mortgages. As a result, the negative spread on NHMFC's portfolio is expected to increase to about 5 percent by year-end 1986.

Another program initiative contemplated by NHMFC is to offer Guaranteed Pass-Through Certificates (GPTCs) as a means to raise capital. GPTCs would be backed by a pool of mortgages and redeemable in three years, earning an effective interest rate of 15.79 percent, only somewhat less than the effective yield on BCs of about 16.25 percent. While this would lower NHMFC's cost of funds, the benefit would be only marginal, particularly given the growing size of the projected negative spread on its overall portfolio.

The staff at NHMFC is aware of the long-term implications of operating with a negative spread, and they have considered a number of options to remedy the situation, all of which they feel have shortcomings. The most obvious solution is to raise mortgage interest rates, thereby increasing the portfolio's yield but NHMFC fears that, in doing so, housing would be affordable to still fewer HDMF members, and both NHMFC and HDMF are sensitive to the criticism that the program is assisting only higher-salaried members. NHMFC realizes that eventually interest rates will need to be higher, but preferably not until per unit construction costs have moved down to the point that higher rates will not greatly affect affordability. As an alternative to higher rates, NHMFC could continue to seek additional equity funds from the government, but the Philippine government has been experiencing growing deficits itself and is not likely to make any significant funding available to NHMFC on an on-going basis, especially when the entire HDMF-NHMFC-HFC system is characterized and promoted as a self-financing operation.

The most practical long-term solution for NHMFC is a combination of lowering the cost of its funds and increasing the yield on its portfolio. Two alternatives for lowering the cost of money should be considered:

1. Using HDMF funds directly to purchase mortgages. Presently, NHMFC uses the presence of HDMF's trust funds as an incentive to the private sector for purchase bonds, and uses the revenues generated by bond sales to purchase mortgages. HDMF funds are generally invested in shorter term instruments, thereby keeping the HDMF fund liquid. NHMFC should consider using a portion of HDMF's funds for direct investment in mortgages, rather than using the costlier bond revenue. This would make the HDMF fund less liquid, and in turn moderate the ability of the system to expand its resources through leverage, but substituting these funds for bond revenues would directly reduce NHMFC's cost of money. By legislation, HDMF's trust funds can be invested in government securities or housing; thus, NHMFC could use these funds for mortgage purchase.8/

2. Floating tax exempt bonds. Initially, NHMFC floated a Series A tax exempt bond, with a nominal interest rate of 8.5 percent, but these bonds did not sell as well as the taxable Series B bonds because the tax advantage was not sufficiently competitive. NHMFC should consider selling a second series of tax exempt bonds with a sufficiently high yield to make them popular with buying institutions, but still lower than the 15 percent currently offered on BCs, thereby lowering the cost of bonds to NHMFC. Naturally, floating a second series of tax exempt bonds would require approval by the government's monetary authorities, and such approval may not be easy to obtain.

The most immediate and preferable way to increase the yield on NHMFC's portfolio is to raise mortgage interest rates. At 9 percent, Pag-Ibig loans are well below market rates offered by private financial institutions which were around 21 percent in 1983 and have increased to about 26 percent in early 1984. In comparison, the National Housing Authority makes loans to low income residents at 12 percent, and thus the Pag-Ibig program is lending to moderate and upper income households at rates below what is offered to low income families. Rates will need to move upward to reflect the actual cost of money, and a considerable margin exists for increasing Pag-Ibig's interest rate before it begins to approach market rates at private banks. At the same time that interest rates are raised, HDMF could consider broadening the coverage of the Graduated Amortization Plan to ensure that mortgage financing remains affordable to as many members as possible.

During their start-up phases, both HDMF and NHMFC have been managed by competent staffs who have implemented policies designed to achieve the early objectives of each institution. Clearly, the time is quickly approaching when adjustments in fiscal management and policy must be made to ensure the long-term viability of these two institutiuons. It would not be prudent to continue operating under present policies when faced with projections for substantial losses, hoping for a last minute bail-out by the government. In doing so, HDMF and NHMFC run the risk that the government's assistance will be insufficient or not forthcoming, and future options to achieve fiscal soundness may prove to be more limited and more difficult than the present alternatives.

c. Home Financing Corporation

The Home Financing Corporation (HFC) was established in 1979 as a result of upgrading and expanding the activities of the Home Financing Commission which had been in operation since 1956. Under its Credit Insurance and Guarantee program HFC guarantees individual home mortgages and construction loans. In the HDMF-NHMFC-HFC finance system, HFC provides 100 percent guarantees on all Pag-Ibig and Open Housing loans. Mortgages granted outside of the finance system can also be guaranteed by HFC. The guarantee fee for Pag Ibig and Open Housing loans is .5 percent on the original guaranteed amount, which is included in the borrower's monthly payment, and 1 percent for other mortgage and construction loans with the fee similarly passed on to the borrower. HFC does not guarantee home loans made by the Social Security System or the Government Service Insurance System.

An HFC guarantee represents an unconditional guarantee of the government, thereby reducing the risk to loan originators and NHMFC. Banks are permitted to classify guaranteed loans as non-risk assets for regulatory purposes. This regulatory advantage is somewhat offset by limitations on the interest rate banks are permitted to charge on a guaranteed loan: 8.5 percent if the interest income is declared tax-exempt or 14 percent if declared as taxable income. These same limitations apply to HDMF loans, but are only relevant to Open Housing mortgages. HFC guarantees accrued interest only at the rate of 14 percent per annum, and the balance of interest accruing at 16 percent on Open Housing loans is not covered by HFC. HFC reports that not all construction loans originated in the Philippines are backed by HFC, but data on the number or value of non-guaranteed loans is unavailable. With regard to individual mortgages, HFC estimates that approximately 90 percent of all mortgages granted in the Philippines are made through HDMF/NHMFC, SSS and GSIS. In addition to its guarantee program, HFC's functions include setting appraisal standards for construction projects and mortgage loans, performing project appraisals in some instances, and accrediting financial institutions which want to participate in its guarantee program. HFC reviews developmental or construction projects, in conjunction with private financial institutions, but generally entrusts appraisals on home loans to the loan originating institutions.

HFC's net assets bear little relationship to the amount of outstanding guarantees it has approved. The legislation authorizing HFC provides for a total government equity contribution of P1 billion, but by year-end 1982 it had received only P134 million from the government and had accumulated another P27 million in retained earnings through fees and investments, for total net assets of P161 million. This compares to total guarantees outstanding through 1982 of P1,069 billion, or nearly seven times HFC's net worth. By year-end 1983, HFC projected its net assets would be approximately P200 million, with total guarantees outstanding to be in excess of P3,400 million, or over seventeen times its net worth. With regard to this difference between net worth and outstanding guarantees, HFC operates under a policy that it can grant guarantees up to fifteen times its total authorized capital, for a total of P15 billion, and that it does not need to adjust its guarantee level to reflect only its net assets. To an extent, this policy is supportable since only a situation of wholesale defaults would tend to jeopardize a guarantee agency's financial position. However, two factors, a change in policy in 1980 with regard to HFC's pay-out on called guarantees and the increased pace at which HFC is making guarantees, suggest that it would be prudent on HFC's part to begin to link the value of its outstanding guarantees to a fixed percentage above actual net assets.

Prior to 1980, HFC's guarantees were paid out in bonds rather than cash. The bonds, which had an interest rate of 8.5 percent, were discounted so that at maturity, commonly after ten years, the value of the bond plus accrued interest totalled only the amount of the defaulted principal amount. In other words, banks and other financial intermediaries were offered guarantees on principal only without liquidity, and the HFC bonds tied up their assets in non-income-earning instruments. Not surprisingly, loan originators were reluctant to call a guarantee, and in fact none were called; instead, they preferred to foreclose on property and sell it themselves to minimize their losses and keep their assets current. In 1980, HFC changed this procedure, providing cash guarantees rather than bonds, and in response loan originators have started to call guarantees. In 1982, ten construction loans were called for a total of approximately P20 million, and in 1983 HFC anticipated another fifteen defaults for a total of P30 million. HFC reports only 50 defaulted mortgage loans, between 1980 and mid-1983, for an estimated value of P5 million. Although the mortgage loan default rate is low, the construction loan deaults were equivalent to 12 percent of HFC's net assets in 1982 were are projected to reach 15 percent of net assets in 1983.

As loan originators begin to call their guarantees, HFC finds itself in the position of foreclosing on real property which it must sell to recover the guarantee amount. In the case of occupied residential units, a one-year redemption law, under which an owner has one year after foreclosure to refinance the house and thereby regain possession of it, prevents HFC from recouping its losses for one year and increases HFC's own costs through legal and property management expenses. Construction projects confront HFC with the problem that the construction may not be completed, and therefore HFC must finance the completion of the project before it can be sold, again delaying HFC's ability to recoup the guarantee amount and adding to HFC's expenses. Thus, the change from bond guarantees to cash guarantees has resulted in placing the burden and expenses of foreclosure on HFC, and accordingly, HFC should institute a policy whereby its level of approved guarantees corresponds more closely to its actual net asset base. Otherwise, HFC may find itself in the position where a high percentage of its own assets are illiquid or eroded through unrecoverable defaulted loans, in turn detracting from its credibility with private financial institutions.

HFC has been increasing its guarantee volume substantially over the last three years, averaging a 170 percent annual growth in the amount of total outstanding guarantees which reflects the expansion of HFC's activities through the Pag-Ibig loan program as well as the stimulus the HDMF-NHMFC-HFC finance system has provided the construction industry. The percentage of HFC's total guarantee portfolio for construction loans has actually been declining, from over 90 percent in 1980 to a year-end projection of 70 percent in 1983; overall, the total value of construction guarantees has been growing on the average by just under 150 percent for each year between 1980 and 1983 (see Table IV-8). This increase in construction loan guarantees will ultimately increase the demand on the resources of NHMFC which accounts for the majority of buyer financing. Most construction projects are phased over three years, with one-third of a project's total units completed and put on the market in each year. The mark-up factor between the value or a construction loan and end value of market price is roughly 1.6; in other words, a P100 million construction loan will result in P160 million in buyer financing (mortgages). Not all HFC guaranteed construction loans end up as mortgages in NHMFC's portfolio, but the majority do. Construction loans for projects which will be sold to buyers through the GSIS loan program will not be purchased by NHMFC, and SSS loans are essentially construction loans themselves which HFC does not guarantee. An estimated 90 percent of the balance of home mortgages generated by HFC's construction loans are sold to NHMFC.

Land Investment Trust. The Land Investment Trust (LIT) is an initiative of the Ministry of Human Settlements which has been organized and administered by HFC. MHS has identified as a particular problem confronting any housing sector initiative, especially in Metro Manila, the shortage of sizable land parcels which can be purchased through formal market mechanisms for housing development. MHS estimates that in the greater Manila area, between 25 to 30 percent of all land may be 'undeveloped,' meaning that approved developments have not taken place, but commonly these parcels are the sites of squatter settlements. This situation is especially true closer to the center of the city. Apparently, individuals and families have inherited large tracts of land, with titles dating as far back as Spanish land grants, and this land has never been developed for a number of reasons: the landowners have held onto the land for speculation; or the land has been settled by squatters, making it difficult for the owners to obtain clearances to develop the properties; or simply that the owners are not entrepreneurial and have not been inclined to undertake development.

LIT is intended to address this problem of land availability. Landowners entrust their property to HFC for housing development, at the same time receiving a Land Investment Trust Certificate (LITC) for the appraised market value of the undeveloped land. HFC guarantees the principal amount of these certificates. A maturity date for the certificate is established, by which time HFC guarantees that the land will be developed, the landowner will be paid for the land, and the profits will be shared based on a negotiated percentage between the landowner and developer - either a private developer or government

Table IV-8: Approved HFC Guarantees, 1979-1983

(Millions of Pesos)

Year	Mortgage Loans				Construction Loans				Total		
	Amount Outstanding (cum)	Increase over previous year	% Increase	% of Total Outstanding	Amount Outstanding (cum)	Increase over previous year	% Increase	% of Total Outstanding	Amount (cum)	Increase over previous year	% Increase
1979	6.1	-	-	3.4	174.0	-	-	96.6	180.1	-	-
1980	18.1	12.0	196.7	9.6	170.9	(3.1)	(1.8)	90.4	189.0	8.9	4.9
1981	123.0	104.9	579.6	20.6	472.9	302.0	176.7	79.4	595.9	406.9	215.3
1982	272.0	149.0	121.1	25.5	797.0	324.1	68.5	74.5	1,069.0	473.1	79.4
1983 June	1,020.0[a)]	748.0	275.0	30.0[a)] (est)	2,380.0[a)] (est)	1,583.0	198.6	70.0[a)] (est)	3,400.0[b)]	2,331.0	218.1

a) NCSI estimates
b) As of June

Source: HFC

agency. If the development is not completed by the maturity date, the landowner has the option of renewing or voiding the agreement, or cashing in the LITCs. The LITCs themselves are issued is multiple denominations which can be traded on the two stock exchanges in the Philippines.

The advantage of this system to the landowners is that regulatory problems, especially obtaining site clearance permits, and development costs are borne by the government or government-selected developers. Also, a market for large land parcels has generally not existed in Manila, given the high cost of land, and the LITCs enable landowners to sell shares in property without one buyer having to come up with the full purchase price. Finally, the presence of squatters on land is an obstacle to development, since any slum removal involves a lengthy regulatory process, but through LIT the government assumes this burden.

LIT is a relatively new program and thus it is premature to judge its effectiveness in making land available for housing development. Only one LIT project has actually been undertaken, near the center of Manila, and HFC reports a 60 percent profit for the landowner, but detailed information on the project's implementation has not been made available.

2. Production Agencies

Three agencies - the National Housing Authority, Human Settlements Development Corporation and National Housing Corporation - comprise the production arm of the National Shelter Program. Their broad responsibilities include interfacing with private developers and contractors to implement housing projects, including assisting them in securing construction financing, and procuring or manufacturing building materials. The activities of the National Housing Authority are targetted to low income families primarily in Metro Manila. The Human Settlements Development Corporation manages the BLISS Development Corporation, with rural and urban components, and it recently became responsible for the general management for the National Housing Corporation which is principally involved in manufacturing low-cost pre-fabricated housing units.

a. National Housing Authority

The National Housing Authority (NHA), established in 1975 by Presidential Decree 757, represented the government's first effort to rationalize the housing sector's bureaucracy, and to give at least limited priority to low income housing needs. To an extent, the creation of NHA was a response to the increasing number and size of squatter settlements in Manila, and the growing demands by low income residents for basic services and land tenure.

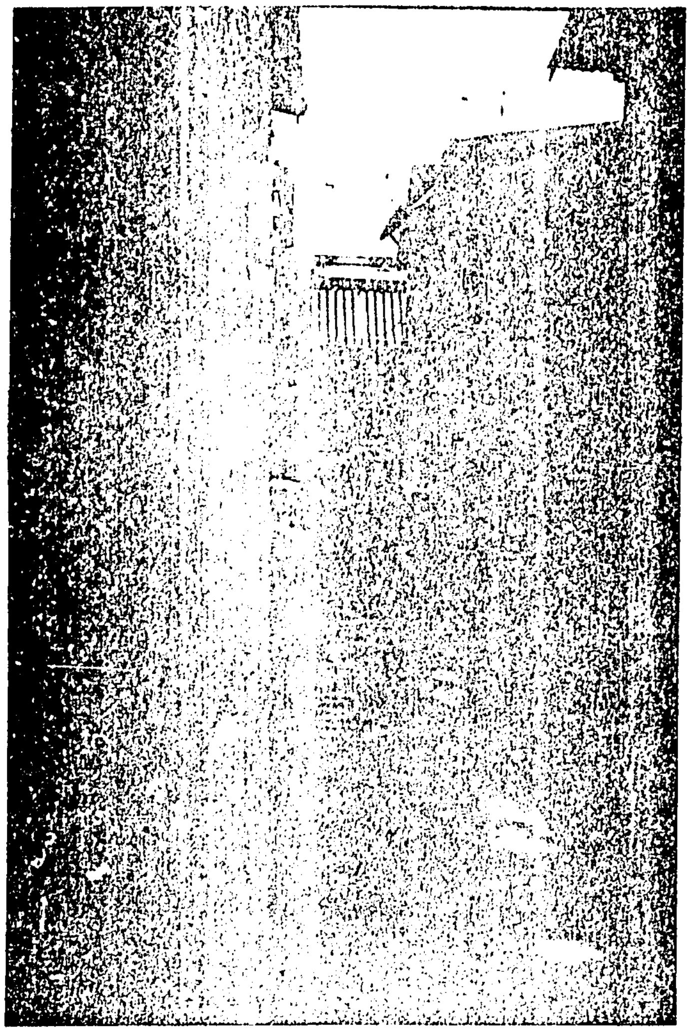
Prior to NHA's establishment, government intervention in the housing sector was limited to the creation of ad hoc agencies, primarily regulatory in nature, which addressed specific issues when they became problems. A comprehensive, articulated national housing policy had not been developed. With regard to low income settlements, government intervention consisted of slum clearance and forced relocation of squatter families, and did not encompass any comprehensive approach to meet their growing needs. The majority of the families who were moved to areas outside of Manila eventually returned, demonstrating the failure of the government's relocation policies and underscoring the need for a different and more appropriate low income shelter policy.

The creation of NHA represented a shift in government policy. Six agencies9/ were consolidated in forming the NHA to coordinate the planning and implementation of housing projects. NHA was explicitly mandated to undertake programs to upgrade slums and marginal communities, and to develop sites and services projects, signalling a change in policy away from slum removal in favor of in situ improvements. When the Ministry of Human Settlements was established in 1978, NHA's responsibilities were narrowed to implementing only low income housing programs, and MHS assumed responsibility for the general oversight and coordination of the government's housing institutions.

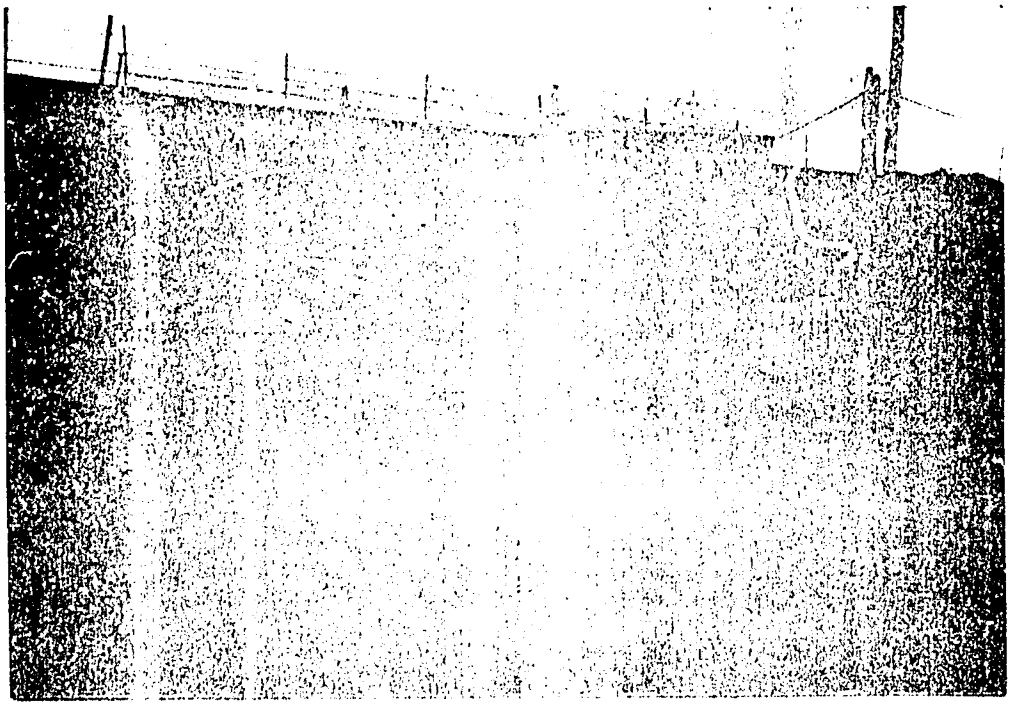
Most of NHA's activities have been concentrated in Metro Manila where large numbers of low income families reside in overcrowded slum conditions. Nearly one-third of Manila's 6 million residents are estimated to live in slums and squatter communities, indicating the extent of low income housing needs. To meet these needs, NHA has given priority to slum upgrading and sites and services projects, with less emphasis on resettlement and new construction. Resettlement generally occurs only when squatters have occupied dangerous areas, such as easements along railroad tracks, or priority areas for development, such as along the port's waterfront. In some instances, resettlement results from slum upgrading activities when the provision of water lines, footpaths or roads necessitates clearance of some housing units, and NHA has made a genuine effort to minimize the trauma of resettlement by developing serviced sites near centers of employment and in some cases near the residents' former community.

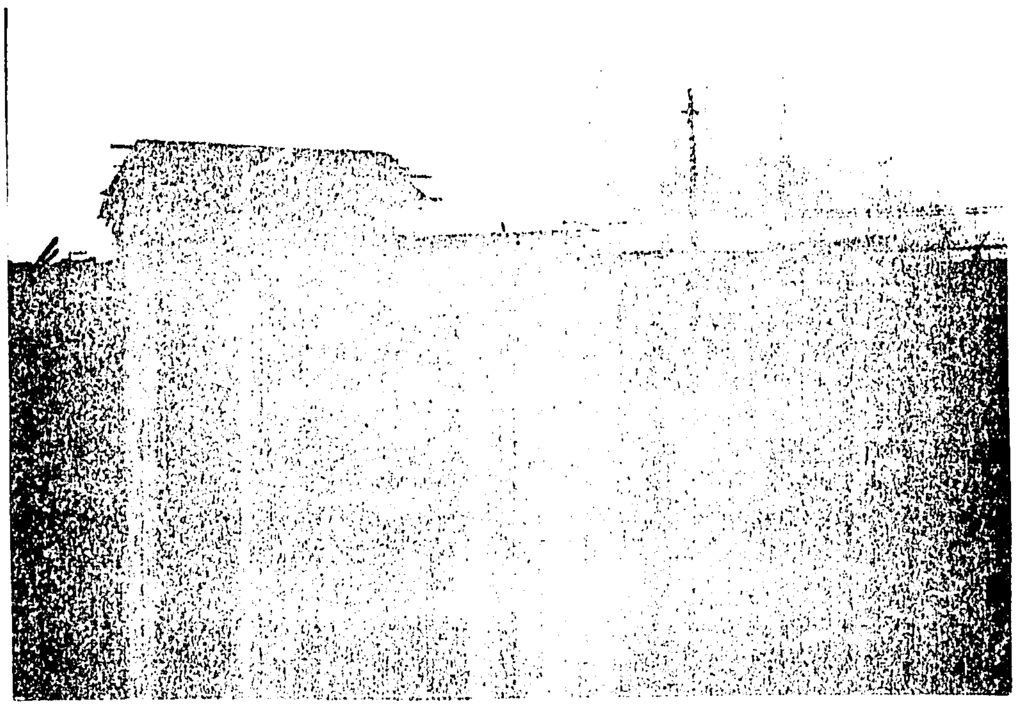
NHA has identified 418 blighted areas in Metro Manila, of which it considers 245 as suitable for upgrading activities. With relatively limited resources compared to overall need, NHA has been able to work in only a handful of Manila's blighted areas, but where projects have been completed or are near completion, NHA's efforts have been successful. Between 1976 and 1983, NHA has improved 42,270 slum dwellings, developed and serviced 45,900 sites and constructed 6,660 new houses. With few exceptions, NHA's projects have been carried out with World Bank assistance (see discussion of donors in Section VIII). NHA is currently operating under a policy that all of its projects should be affordable to low income families, that the project itself should be replicable in terms of project design, and that NHA should realize full project cost recovery. NHA emphasizes the importance of affordability as the key to achieving the other objectives of replicability and cost recovery.

NHA's first projects in the Tondo Foreshore and neighboring Dagat-Dagatan represent its major accomplishments to date. Both projects were carried out with World Bank assistance, under its Urban I and II loans. In 1976, when NHA's work in Tondo began, it was reputedly the largest slum in Asia with over 17,000 structures, 27,000 families and 180,000 persons - all crammed into 137 hectares with a density of 1,313 persons per hectare. At the time NHA was established, Tondo's residents were organized and had participated in stree demonstrations, demanding assistance to ameliorate their living conditions which were characterized by no water, no electricity and gang warfare. The community was located on landfill in Manila Bay, close to employment opportunities in the city's center. The residents were squatters but did not want to move away from their jobs or out of the community where many families had lived for nearly thirty years, and one of their demands was for land tenure. The Tondo Foreshore

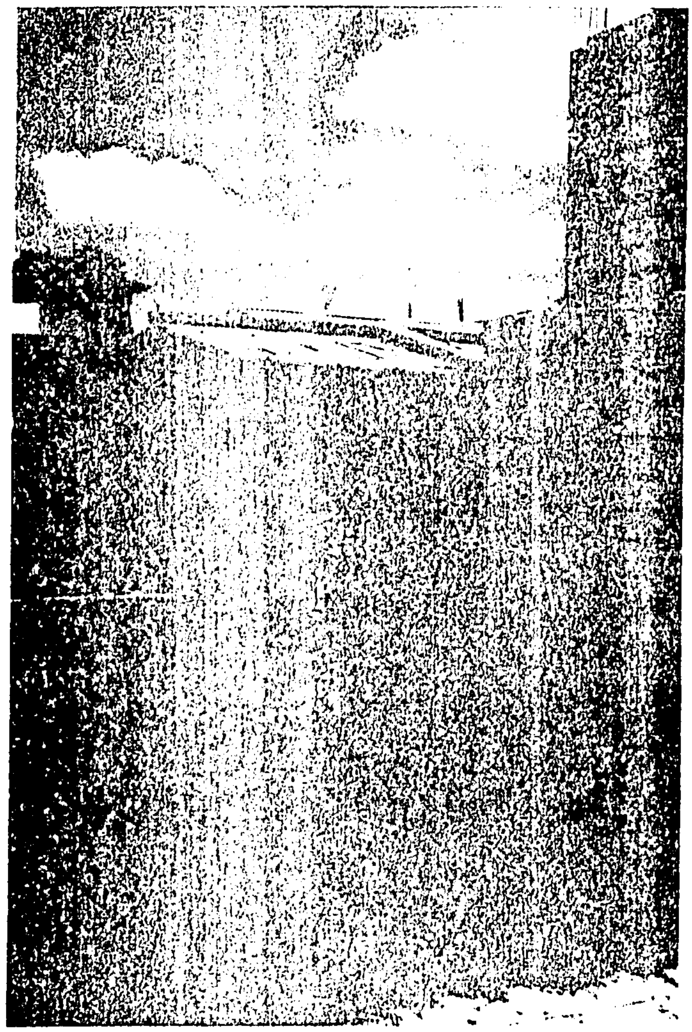


One of the many footpaths in Tondo. The provision of footpaths required the re-blocking of lots and realignment of the majority of structures in Tondo.

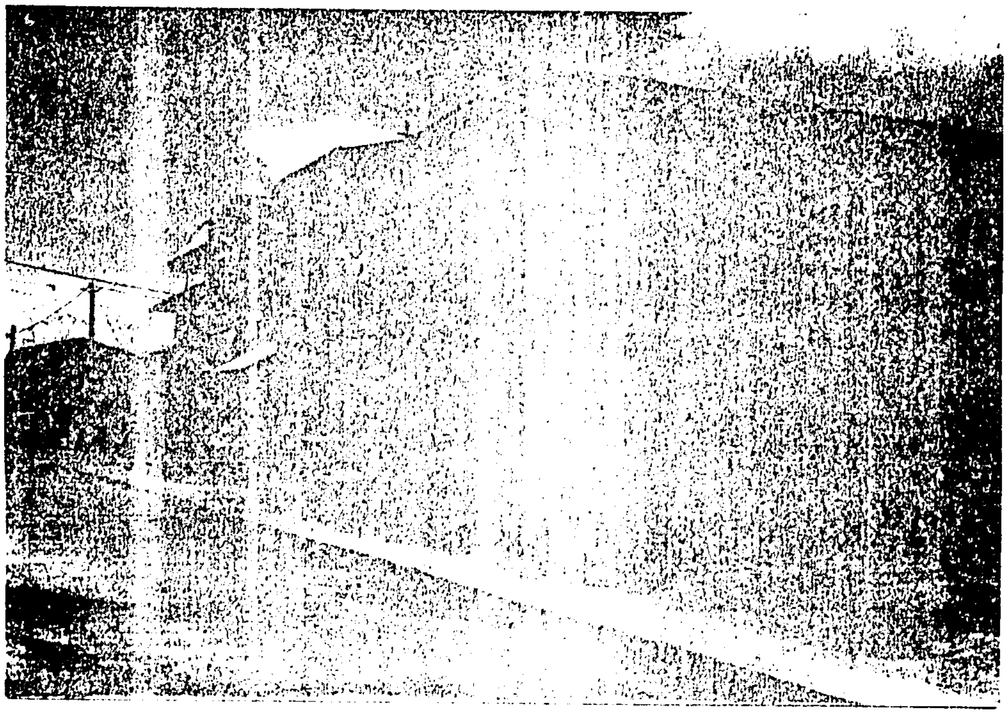




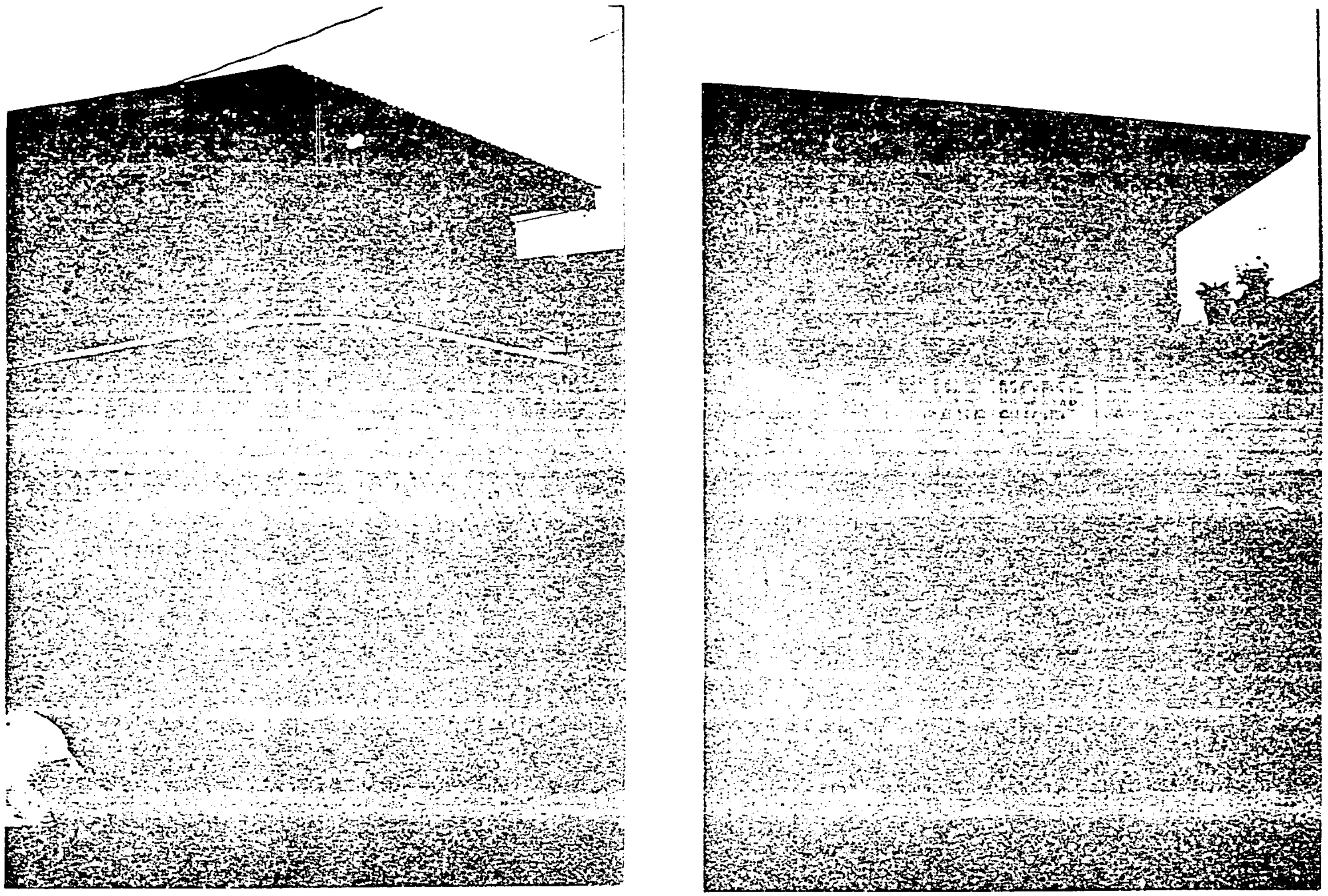
Shanty dwellings built just outside the Tondo Foreshore project area, along a wall near to Manila's Port. These are located in an area designated as a national priority area for development, and the families will likely be resettled by NHA nearby Dagat-Dagatan or other project sites.



This serviced site with a 'wet core' at Dagat-Dagatan represents NHA's lowest cost shelter solutions. A family can purchase this lot for approximately P10,000, and can borrow up to P15,000 at 12 percent over 15 years for home-building materials.



Homes in Dagat-Dagatan which have been constructed by local residents, taking advantage of NHA's home improvement loan program.



On the left, a Tondo house which the family has improved under NHA's home improvement loan program. On the right, a unit in Tondo which has been substantially improved under NHA's Accelerated BLISS program, showing the mix of residential and commercial activities which characterizes much of Tondo and other project sites.

Development Authority was one of the agencies consolidated under the NHA, and Tondo became NHA's first priority.

NHA had never carried out a slum upgrading project, and the task was not made any easier by Tondo's size. In initiating the project, NHA adopted four broad objectives: the maximum retention of existing structures, the provision of land tenure to Tondo's residents, maximum community praticipation in the planning and implementation of the project, and the provision of comprehensive social services as part of the community's overall development. A major aspect of the project was the reblocking of lots in Tondo in order to provide access for water and sewerage lines, pave footpaths and roads, and survey properties in the process of land titling. Reblocking required realignment of some homes and displacement of others. Displaced families were resettled in Dagat-Dagatan, three kilometers north of Tondo, which NHA is still developing as 410-hectare sites and services project. Three thousand structures were moved from Tondo to Dagat-Dagatan, and 5,400 Tondo families have moved there.

In the course of upgrading and site development, families living in the project sites have been able to acquire their home lots. In Tondo, land prices were kept artificially low for political considerations, with residential lots selling for P5 per square meter, compared to an actual market value o approximately P200 to P250 per square meter. Lot sizes range from 20 to 50 square meters, and in most cases families have purchased their lots outright rather than finance their purchase through NHA. Only a portion of the development costs have been passed on to residents, who pay P.95 per square meter per month for twenty-five years which NHA acknowledges will not result in full cost recovery. In Dagat-Dagatan, land prices have more closely reflected actual market value with serviced residential lots selling for about P180 per square meter.

In Dagat-Dagatan and later projects, as well as to a limited extent in Tondo, NHA employs the concept of 'cross subsidies' in an effort to recover its own costs while keeping down the purchase price of homesites. In these projects, lots facing main throughways are designated as commercial lots and sold at rates closer to their actual market value. In many instances, NHA has acquired project sites for less than full market value, and by selling commercial lots for more than NHA's own cost of acquisition, the profits from commercial lot sales are used to subsidize the purchase price for residential lots. These 'cross subsidies' could be better described as 'net subsidies' since they enable NHA to net out its project costs. In Dagat-Dagatan and Tondo, 20 percent and 10 percent of the serviced lots are designated as commercial, respectively.

NHA's strategy for community upgrading in Tondo and Dagat-Dagatan includes making home improvements and small business loans to residents on reasonable terms. In Tondo, home improvement loans for up to P3,000 are offered at 12 percent interest and amortized over 10 years. The loans are given to the borrowers in the form of the equivalent value in building materials and not in cash. Over 2,700 home improvement loans have been made, for an average of P2,021 per account which would require a qualifying monthly income of P145, assuming that the monthly payment can not exceed 20 percent of a household's total income. To borrow the maximum of P3,000, a family's household income would need to be P215 per month. Based on NHA's survey of lower income households income (see Table II-7), only 7.6 percent of the households in NHA's project sites in Manila have incomes below P500 per month, meaning that nearly all of NHA's beneficiary households can qualify for the maximum loan amount.

Dagat-Dagatan residents have access to home improvement loans up to a maximum of P15,000 at 12 percent interest and amortized over 15 years. Land acquisition is offered under the same terms. These are higher loan amounts and longer repayment terms than available to Tondo residents, reflecting the fact that Dagat-Dagatan is primarily a sites and services project where residents need to construct their dwellings, whereas in Tondo the housing units were already on-site. Close to 370 home improvement loans have been made to Dagat-Dagatan families, averaging P5,000 and requiring a monthly household income of P250. To borrow the maximum of P15,000, household income must be P900 per month. The minimum lot size in Dagat-Dagatan is 50 square meters, costing P10,000 which includes P1,000 for the wet corner. For P25,000, a family can acquire a serviced lot and take out the maximum loan amount, resulting in a monthly payment of P300 and requiring a household income of P1,500. Based on NHA's survey of household incomes in its project sites (see Table II-7), 67.9 percent of all households qualify for a P25,000 loan; in all Manila (see Table IV-4), approximately 76 percent of all households would qualify for this loan amount. Stated differently, NHA is reaching into the 30th decile income class for Manila households.

In conjunction with the physical development aspects of its projects, NHA operates the KKK Livelihood Program which is a job training and employment program. Residents are trained in cottage and light industries, and small businesses are opened in the project communities to provide local employment opportunities. Small business loans are also available to local entrepreneurs. In Tondo, NHA reports making 337 KKK loans, for an average of P5,100, which in turn have created some 1,500 employment opportunities. Through the KKK program, NHA is attempting to respond to the income-generating needs of slum residents.

Physical improvements in Tondo have been completed and about 71 percent of the land titles have been awarded. At Dagat-Dagatan, about 50 percent of the development has been completed, and as more resources become available, NHA will continue to expand the project area. The implementation of these projects have not been without problems, including delays and cost overruns, but ultimately they have been a success. Today, Tondo is a lively, thriving community; the homes are serviced and generally maintained; small shops, pushcarts and other commercial activities fill the streets. Many families have constructed second and third storeys on their homes, providing income opportunities through rental units and more efficiently utilizing their limited land. Other slum neighborhoods in Manila attest to what Tondo must have been like on a much larger scale, and clearly Tondo represents a vast improvement. Dagat-Dagatan is a newer project and not as near completion, but already it has the appearance of a settled neighborhood with integrated residential and commercial activities.

NHA has recently embarked on a second phase of home improvement in Tondo, referred to as Accelerated BLISS wich takes its name from the BLISS housing program of the Human Settlements Development Corporation (see following discussion). Administered by NHA, Accelerated BLISS offers Tondo residents home improvement loans of up to P20,000, based on affordability. Relatively high design standards are required under this program, and NHA either carries out these improvements through its own contractors or provides technical assistance to residents in their self-help efforts. Accelerated BLISS aims to do away with the last vestiges of slum conditions in Tondo, demonstrating the possibility of turning a blighted area into an aesthetically pleasing community. Loan amounts and terms do not differ significantly from the home improvement loans offered to Dagat-Dagatan residents, but the philosophy behind the program is markedly different, representing an effort to create a model community rather than just providing basic services. Accelerated BLISS has the potential of diverting needed resources away from NHA's important role of assisting low income families who do not have access to water and sanitary services, NHA should be circumspect in the priority it gives to this program.

Criticism of NHA's programs, by both the Ministry of Human Settlements and World Bank, points out problems with cost overruns, delays in project implementation and inadequate cost recovery. The World Bank estimates that, on the average, slum upgrading projects have taken 50 percent longer to implement thanplanned, and cost overruns have ranged as high as 84 percent. Similarly, sites and services projects have taken twice as long to implement as planned, and cost overruns have ranged as high as 63 percent. Though these criticisms are valid when comparing project implementation to plans, these problems do not necessarily reflect upon NHA's ability to carry out projects; rather, they may reflect over-ambitious goals in the project plans themselves. In the case of Tondo in particular, the sheer magnitude of the community's size and problems makes it somewhat remarkable that the project has been completed in just six years, and project plans which called for a shorter implementation period simply did not adequately address the obstacles facing NHA in Tondo. It is to NHA's credit that activities in Tondo were not made through fiat, but instead involved community residents throughout the upgrading process in an effort to maintain and improve the neighborhood's social as well as physical environment. This community participation lengthened the implementation period with a concomitant increase in project cost. NHA realizes that the lengthy process in Tondo resulted in higher costs than are fully recoverable, and as a result, it has made efforts in subsequent projects to shorten the implementation period and reduce costs. For instance, reblocking and realignment of structures ae kept at a minimum, rather than trying to achieve completely rectangular blocks and straight streets.

NHA's efforts for full cost recovery deserve some attention. In Tondo and Dagat-Dagatan, as well as later projects, full site development costs are not passed on to the beneficiaries. Other government agencies are expected to pay for costs which they would normally incur; for instance, the Department of Highways is expected to pay for the construction of main access roads to the project site, but not the project's internal smaller roadways and footpaths. NHA initially incurs these costs but has agreements with the other agencies to be reimbursed upon project completion, but in fact NHA has found it difficult to collect from the other agencies. The percentage of total project cost which is intended to be recovered from other agencies apparently varies greatly from project to project, and in some instances is as high as 60 percent of total cost.

NHA has not attempted in all cases to recover all infrastructure or upgrading costs from beneficiairies, with the most notable example being Tondo where families acquired improved lots at very low concessionary prices. NHA's collection of accounts has been poor; for instance, NHA reports about a 50 percent delinquency rate on land acquisition accounts in Tondo and Dagat-Dagatan. A number of factors account for this poor collection record. NHA has utilized the Development Bank of the Philippines to collect on loans, but DBP has only one office in Manila's financial district which is several kilometers away from the project sites. Tondo's residents are expected to make their monthly payments at the bank itself, and DBP's distance from the projects has made it difficult for families to keep current on their accounts. In April 1983, NHA began to use cooperatives located in Tondo to receive monthly payments, and it expects that this new procedure will improve its collection record. NHA did not actually start to require payment on accounts in Tondo until 1982 because the community was not fully serviced with water until that time. In a few cases, NHA has been confronted by families who feel that the land should have been given to them for free, but NHA indicates that it will start foreclosing on their property if they do not start to pay as agreed.

Clearly, NHA could improve cost recovery efforts, and increasingly it has become concerned with achieving full cost recovery, making it a priority in current and future project designs. The failure to recover costs tends to undermine the credibility of NHA's approach to housing problems, and has tended to weaken the government's support in terms of funding priorities.

In carrying out its programs, NHA has been confronted with other problems and obstacles, some of which are out of its direct control. These key problem areas are summarized below:

1. Unpredictable Flow of Funds

The government has a shortage of funds to invest and a number of competing priorities from other sectors. The budgetary process itself is lengthy, requiring that budget submissions literally be made one year prior to the first funds being released. Often the release of funds does not coincide with the Philippines' dry season when NHA attempts to do most of its construction and site development. At other times, NHA's appropriation has only been partially released by the Treasury.

2. Management Capacity

Public sector management in the Philippines tends to be highly centralized, and NHA is no exception. Little or no authority and/or responsibility is delegated to mid-level managers field staff, which tends to slow down decisionmaking and delays project implementation. In addition, centralized management has prevented the regionalization of the NHA which would enable it to better address housing needs outside of Metro Manila.

3. Trained Manpower

Public sector jobs are secure, but low pay scales, unclear career advancement and lack of other incentives has resulted in high turnover of the best trained staff who find more rewarding jobs in the private sector. For NHA, the shortage of middle management and senior technical personnel is acute. Dozens of middle management staff have resigned, and junior staffpersons have been promoted to fill their positions. Since 1980, sixty senior engineers and architects have left NHA, and their positions have been filled mostly by inexperienced junior staff and a few senior level professionals from outside NHA.

4. Land Acquisition Procedures

The public sector is confronted with considerable difficulties in acquiring land, despite its powers of expropriation and willingness to use them. Acquisition is constrained by laws, government regulations and lack of sufficient funds. In cases of expropriation, often court hearings are required to determine the appropriate compensation for the landowner, and transfer of title may take up to five years.

5. Lack of Agency Coordination

NHA has had little leverage over other agencies with regard to meeting their responsibilities for on-site and off-site infrastructure improvements, especially for larger projects. In turn, delays are experienced in project implementation and cost recovery. Establishment of the National Shelter Program Secretariat could potentially address this problem of coordination.

NHA has received funds for its low income shelter programs largely from World Bank loans and the government's counterpart assistance. Recent World Bank initiatives, however, have involved local municipalities and programs other than the NHA under the Ministry of Human Settlements, and in turn assistance to NHA has decreased. Direct government contributions have also experienced some decline, due to constraints on the national budget as well as a policy shift in favor of the HDMF-NHMFC-HFC finance system as a mechanism for housing delivery in the country. Table IV-9 provides a breakdown of NHA's government appropriations for the last few years:

Table IV-9: Government Appropriations for NHA, 1978-1984
(Millions of Pesos)

1978	76
1979	60
1980	279
1981	276
1982	400
1983	202
1984 (proj.)	323

The sharp decrease beween 1982 and 1983 reflects the government's across-the-board budget cutbacks as well as the commencement of the World Bank's Urban III project which primarily supports the activities of four regional municipalities. The 1984 projection of P323 million is still tentative, and the final authorization will be based on the government's willingness to allow for NHA to avail itself of World Bank assistance given the Philippines' present difficulties in servicing its foreign debt (see Section VIII). The decision to allow NHA to continue borrowing from the World Bank will be made in the context of the country's overall priorities for development, and there is the possibility that housing may not be considered as much of a priority as other sectors at this time.

NHA's failure to achieve full cost recovery limits its availability of resources to continue its housing activities which can have serious ramifications if government assistance is significantly reduced. Exacerbating this problem is the fact that a substantial portion of NHA's resources are tied up in long-term mortgage loans. NHA and the institutions comprising the Ministry's new finance system have had very preliminary discussions of the possibility of NHMFC purchasing mortgages held by NHA, thereby providing greater liquidity to NHA's own portfolio. To date, NHMFC has been reluctant to purchase these mortgages largely because of NHA's poor collection record and the perceived higher risk that these mortgages represent. In fact, NHA's record has not been poor in all cases; for instance, NHA has made 2,700 home improvement loans in Tondo, of which 74.8 percent are current. Presumably many of these Tondo mortgages are seasoned and therefore would not represent an undue risk to NHMFC. If NHMFC indicated a genuine willingness to purchase seasoned mortgages from NHA, it would provide a strong incentive for NHA to improve its performance on collections and would free up resources NHA needs to continue its low income programs. At the same time, it would enable the HDMF-NHMFC-HFC network to reach much lower income levels than the system currently benefits.

The introduction of the HDMF-NHMFC-HFC finance system was a recognition on the government's part that the growth of a stable housing sector and industry had been seriously hampered by the availability of only short-term credit at high interest rates for home mortgages. As this system has developed, increasingly the government has favored its approach to housing delivery, shifting emphasis away from NHA and isolating NHA in the policymaking process. The success of NHA's programs, however, validates its approach to shelter solutions for low income families, and the fact is that both NHA and the new system are needed to ensure that all income levels have access to adequate housing. Until such time that the HDMF-NHMFC-HFC system begins to significantly benefit NHA's low income constituency, the government will need to continue to appropriate substantial resources for NHA, and every effort should be made to ensure that NHA plays an active role in formulating the country's overall housing policy.

With regard to problems of project implementation as discussed previously, the following recommendations are made:

1. NHA should adhere to its policy of full cost recovery, and all costs not reimbursable from other agencies should be identified as recoverable costs, including administrative expenses. To the extent that administrative expenses are excessive, as a result of such factors as a highly centralized bureaucracy which delays decisionmaking, then changes in its operations should be implemented to lower these expenses in order to keep project costs within the affordability range of low income families. Moreover, the government should ensure that other government agencies reimburse NHA in a timely fashion for those project costs which are their responsibility.

2. NHA should take all steps necessary to improve loan collections, keeping track of individual accounts in order to demonstrate their repayment record. To

preserve the integrity of its loan program, NHA should enforce penalties and begin foreclosure proceedings against borrowers in default.

3. NHA should address the problems in its own operations. Incentives should be provided to encourage development and tenure of professional staff. Decisionmaking should become less centralized in order to facilitate project implementation and build staff capacity.

b. Human Settlements Development Corporation

The Human Settlements Development Corporation (HSDC) was concurrently established with the Ministry of Human Settlements in 1978 to act as MHS' corporate arm for construction. HSDC's stated functions are the development of new communities which are economically viable and environmentally sound, and the renewal of urban communities through housing and other related improvements. The corporation's broad mandate would imply its undertaking of activities related to a community's economic development, such as projects which generate employment opportunities, but to date HSDC's emphasis has been largely confined to housing construction.

HSDC has two main operating divisions: Special Projects, and the BLISS Development Corporation. The Special Projects program is principally concerned with the construction of markets and new town developments, with little relevance to the shelter sector. The Bagong Lipunan Improvement of Sites and Services or BLISS program previously operated as a separate division within HSDC, with rural and urban components, but has recently been incorporated as a separate subsidiary known as the BLISS Development Corporation under HSDC's general management. BLISS projects have become the most visible of the government's housing programs, due as much to their relatively high construction standards in desirable locations as to MHS's efforts to 'showcase' BLISS projects as examples of new housing in the Philippines.

BLISS continues to operate in urban and rural areas, characterized by different housing types. In urban areas, primarily Metro Manila, BLISS has typically constructed four-storey walk-up apartment buildings, with 16-20 units per building costing in the range of P75,000 to P90,000 per unit (excluding land and infrastructure costs). More recent projects have included attached town-houses, duplexes and quadriplexes. The projects are constructed under contracts with private developers. The purchase of BLISS homes is almost always made through the Pag-Ibig program, and they have been made affordable to lower income families only through heavy subsidies. Rural BLISS projects typically involve the development of small communities in regional towns on a minimum of a 2.5 hectare site accommodating 50 families in detached units. Local governments provide the land for the projects. The services and standards employed in rural BLISS are comparable to the higher ranges of NHA's programs, and affordability has tended to be limited to middle- and upper-income households.

Table IV-10 reports the number of BLISS-constructed homes since 1981:

Table IV-10: BLISS-Constructed Units, 1981-1983

Year	Units: Urban	Rural	Total
1981	3,210	-	3,210
1982	1,837	4,808	6,645
1983 (Aug.)	2,741	N/A	2,741
1984 (year-end proj.)	5,726	N/A	5,726

N/A: Not available.

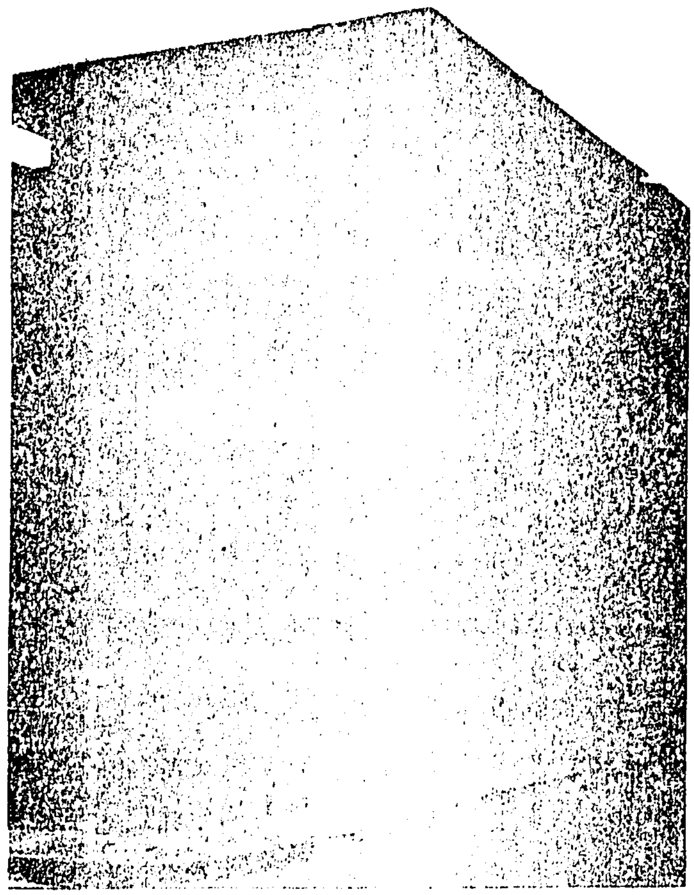
Source: HSDC and NHMFC.

HSDC reports that the sharp drop in the number of urban BLISS units since 1981 resulted from difficulties encountered in land acquisition, but many of these problems have been resolved, enabling it to increase the pace of urban construction. Over 5,700 urban units were expected to be completed by year-end 1983, and construction of another 6,554 units has been proposed for 1984.

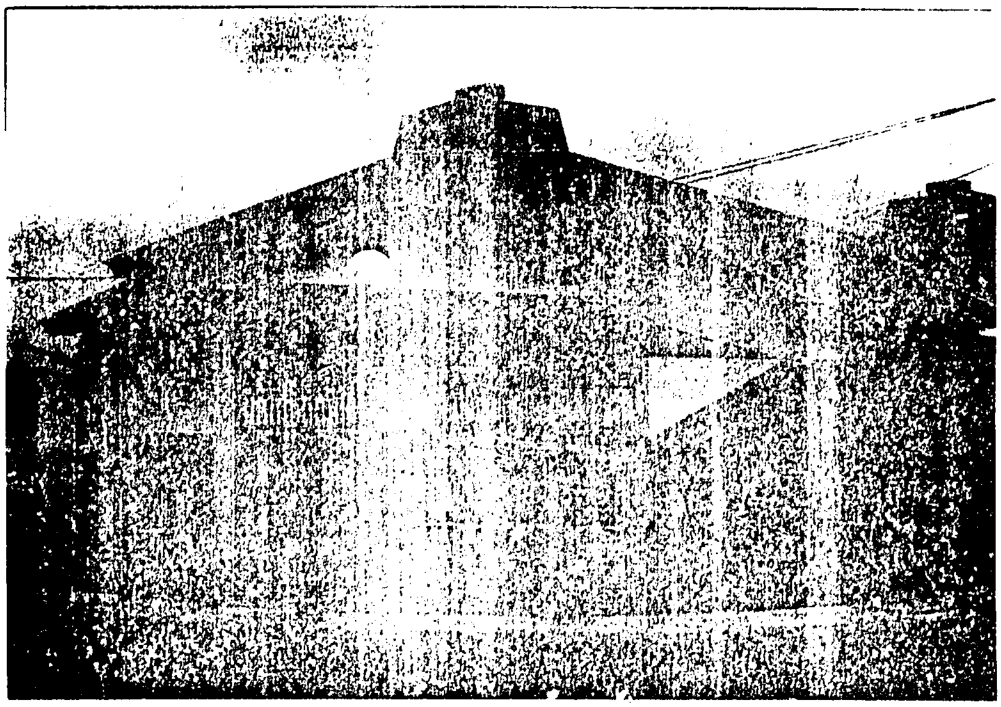
BLISS largely finances its own operating costs, and to some extent construction costs, through the sale of Biglang Bahay Bonds. These interest-free bonds are sold to the public in denominations of P10, P20, P50 and P100, and bond purchasers are eligible to win a house through a lottery. HSDC holds a lottery weekly, awarding a P100,000 house and lot to the winning bond holder. Through this scheme, HSDC has been able to raise about P1 billion in capital.

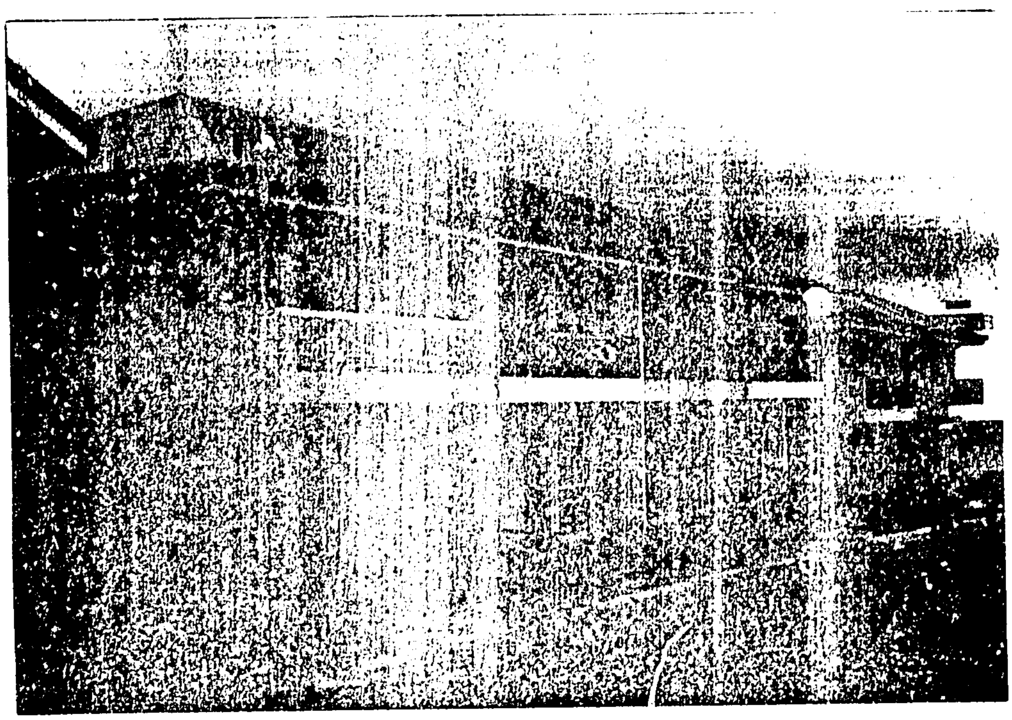
HSDC reports that financing for all purchases of BLISS units has come through the Pag-Ibig loan program, and that only the commitment of NHMFC to purchase BLISS mortgages has enabled HSDC to continue to operate the BLISS program. Otherwise, HSDC would be forced to provide long-term mortgage financing since banks are unwilling to do so, and this would tie up HSDC's own assets in long-term mortgages without sufficient liquidity to act as a developer. Not all BLISS units are quickly sold, however. HSDC reports completing over 2,700 units as of August 1983, but NHMFC reports purchasing only 400 BLISS mortgages in the same period. Delays in selling BLISS homes are unique to each project, and in some cases involve considerations regarding land title which have not been fully settled by the time construction is completed. In such cases, HSDC begins to collect monthly payments from residents, usually at a higher rate of interest than under Pag-Ibig's loan program, until such time that take-out financing can be arranged.

The affordability of BLISS homes has been limited to only upper income families. Through August 1983, NHMFC had purchased 1,740 BLISS mortgages for an average value of P82,850. Based on Pag-Ibig's loan terms and income qualifications, in order to purchase this average unit, the household's monthly income



This unit is a four-story walk-up apartment building located at HSDC's UP San Vicente BLISS project site. This type of construction is typical of many past BLISS projects.





These newly-constructed units are at HSDC's Capitol BLISS project site. At top, a quadriplex design, and at bottom, attached townhouses. The estimated minimum qualifying income to purchase a unit at Capitol BLISS will be P2,660 per month.

would need to be P2,316. Only 9 percent of HDMF's members and 34.7 percent of all households in metro Manila are in this income class (see Tables IV-3 and IV-4). In BLISS projects currently under construction, HSDC reports that the minimum income required to purchase a unit will be P2,600 per month, and again only 9 percent of HDMF's members and 34.7 percent of all households in Metro Manila will qualify for these units.

Initially, the BLISS program was designed to accomplish two objectives. First, the private sector had not been constructing houses for sale prices in the range of P80,000 to P100,000, and BLISS was intended to demonstrate that a market existed for houses in this price range. The ability to dovetail the BLISS program with the HDMF-NHMFC-HFC finance system facilitated HSDC's achieving this objective. Second, the private sector had been extremely reluctant to develop mixed-income housing projects, and BLISS was determined to demonstrate that such projects were viable, both socially and economically. In earlier BLISS projects, different unit designs or standards were used, targetting affordability to three monthly household income levels or ranges: P500 to P1,500, P1,500 to P2,500, and over P2,500. In each project, one-third of all units were set aside for each income levelas exemplief in the UP San Vicente project where monthly rents or payments initially ranged from P150 to P550 per month. At the lowest qualifying household income of P500 per month, over 80 percent of HDMF's members and 95 percent of all households in Metro Manila qualified for these units; at P1,500 per month, just over 10 percent of HDMF's members but approximately 60 percent of all Manila's households qualified. The highest income level of P2,500 per month restricted eligibility to only 7.7 percent of HDMF's members, but still reached 35.7 percent of Manila's households.

The UP San Vicente units have not actually been sold outright to residents, since land title has been retained by the University of the Philippines and HSDC has a 50-year lease on the property, but the residents enjoy most priveleges of homeownership, including the ability to 'sell' their rights to the units at a modest profit. HSDC is able to raise the monthly rents, which have increased by 30 percent over four years, but still the lower cost units remain affordable to lower income families. The fact that HSDC did not purchase the property, but leases it for P1 per annum, subsidizes the project which enables HSDC to make it affordable to lower income classes. In more recent projects, HSDC has adopted a policy of full cost recovery, and the affordability range has narrowed. For instance, at the Capitol BLISS project which is nearby UP San Vicente, the minimum qualifying household income to purchase a unit will be about P2,500 per month.

Through BLISS, HSDC has been successful in setting an example for the private sector which has begun to build houses in the same price range (see Section VII). As a result, however, BLISS is now directly competing with the private sector which is an inappropriate role for a government agency. Since HSDC is authorized to sell interest-free bonds for operating capital, in effect BLISS unfairly competes with the private sector because it can write off costs which the private sector must recover. HSDC's resources would be more appropriately used if targetted to meet the unmet shelter needs of lower-middle and low income families. The programmatic framework already exists for HSDC to do so; as examples, either working with the programs of the National Housing Authority, targetting resources to the new Private Sites and Services Project (see discussion later in this section), or providing low cost funds for NHMFC to purchase the mortgages of low income families. Still other mechanisms could be created to facilitate HSDC's intervention in the low income shelter sector. In any event, HSDC should not be competing with the private sector to provide housing for a market which can be adequately addressed without government assistance.

Sariling Sikap Homes Program. In early 1984, HSDC announced an initiative in the area of low-cost housing, known as the Sariling Sikap Homes Program, to be managed by the BLISS Development Corporation. This program embodies the concept of self-help housing in an effort to reduce overall housing costs. The program envisions the development of a core unit which buyers will complete through self-help, thereby realizing savings in labor and developer add-ons such as overhead, contingencies and profit margin. The core units will consist of a firewall, roof, and partial utility line for services. Unit costs are projected to be to be in the range of P49,330 to P73,490, based on size and design. The BLISS Development Corporation has defined its role in the Sariling Sikap program as that of:

- Designing the detailed systems and procedures for the program's implementation, including accreditation of construction materials suppliers;
- Developing architectural standards for the program;
- Undertaking the production of the core units, either by itself or through joint venture arrangements; and,
- Encouraging private sector participation in the program.

Sariling Sikap homes are being offered to Pag-Ibig members, thereby assuring the availability of financing through NHMFC. The first projects are already being advertised, with project sites in Camarin, Novaliches and Caloocan City - areas within Metro Manila.

Information available to the Shelter Sector Team at this time does not indicate the number of Sariling Sikap units that BLISS anticipates producing, nor does it clarify how this initiative might interface with the Private Sites and Services Project or the programs of NHA. Also, information is not available on whether buyers will have access to home improvement loans to complete the core units, and the sources, amounts and terms of those loans. Nevertheless, Sariling Sikap appears to represent an important and positive departure from HSDC's past activities for two reasons: the project is targetted to a lower income constituency than past BLISS projects, and it encourages the participation of the private sector rather than competing with it.

c. National Housing Corporation

The National Housing Corporation (NHC) is the third agency under the production arm of the Ministry of Human Settlements. When the National Housing Authority was established in 1975, it assumed responsibility for the general management of NHC, though NHC continued to operate relatively autonomously. In 1983, responsibility for NHC's general management was shifted to HSDC, signalling a change in NHC's operations away from basically providing project support for NHA and more toward operating independently and competitively in the construction materials business.

NHC produces and stockpiles construction materials which it provides to the government's housing agencies and private developers. Currently, NHC's major initiative is the production of "flexihomes", which are pre-fabricated units which the government hopes to mass produce at low cost and make available to low income families, either in conjunction with the NHA's sites and services projects or similar programs. In general, through mass production and stockpiling, NHC's efforts are directed to bringing down the per unit cost of housing in the Philippines. (See Section VII for a discussion of the construction industry, including production of flexihomes.)

3. Regulatory Agency: Human Settlements Regulatory Commission

The Human Settlements Regulatory Commission (HSRC), established in 1981 by Executive Order 648, combines zoning, land use and subdivision regulatory functions into a single organization with regional offices. HSRC is a quasi-judicial body with regulatory oversight of all aspects of urban land use. HSRC implements laws and regulations related to housing development and construction, enforces land use development controls along national roads, facilitates changes from agricultural to urban land uses in specified areas and administers the ban on new pollutive industries within 50 kilometers of Manila.

Until recently, the regulatory process for housing activities in the Philippines had been disjointed and time-consuming, and applicants were often subjected to uneven treatment. HSRC has successfully reformed the process and established a "one-stop shop" for all clearances, in turn cutting the processing time from six months to two to six weeks. All necessary approvals including zoning clearance, preliminary and final site plan approvals, building permits, and licenses to sell can be obtained through HSRC. The only part of the process which is not internal to HSRC is the approval and registration of land titles which must be referred to the Bureau of Lands and the Land Registration Committee where major delays still occur.

Batas 220. HSRC has been instrumental in revising the guidelines for subdivision and building code standards which allow for lower construction standards. These new regulations, known as Batas 220 (from Parliament Bill 220 passed by the Batasang Pambansa in March 1982), incorporate standards which are compatible with sites and services projects for low income families. Specifically, Batas 220 permits a minimum lot size of 36 square meters and a minimum house size of 20 square meters, which are half the previous size standards. By legitimizing lower standards, the Batas 220 regulations are intended to stimulate private sector involvement in the low income shelter market. These regulations also provide the regulatory framework for the Private Sites and Services Project (see following discussion).

4. Private Sites and Services Project

The Private Sites and Services Project (PSSP) is a component of the World Bank's Urban III loan which is being implemented directly by the Ministry of Human Settlements rather than delegated to one of the agencies which come under MHS' authority.

Table IV-11

Projected Sale Price
and Qualifying Incomes for PSSP Serviced Lots

Project	Cielito Homes Subdivision	De La Costa Housing Project	Potenciano Country Estate	Mayland Subdivision
Minimum Lot Size (M^2)	47.85	65.0 a)	65.25	65.0
Development cost Per M^2 (Pesos)	118	113	137	125
Total Lot Development Cost	5,646	7,345	8,939	8,125
Sale Price with 25% Mark-Up (Pesos)	7,058	9,181	11,173	10,156
Minimum Qualifying Income for Purchase (Pesos/month)	196	257	313	283
Percent Qualifying HDMF Members	99%	99%	97.5%	97.5%
Percent Qualifying Households in Metro Manila	99.9%	99.0%	98.8%	99.0%

a) Average lot size. Minimum lot size not provided.

Source: PSSP and NCSI estimates.

TABLE IV-12: Projected Sale Price and Qualifying Incomes for PSSP Serviced Lots with $20m^2$ Housing Unit

Project:	Cielito Homes Subdivision	De La Costa Housing Project	Potenciano Country Estate	Mayland Subdivision
Sale Price of Lot and House (Pesos)	31,058	33,181	35,173	34,156
Minimum Qualifying Income for Purchase (Pesos/month)	867	830	983	957
Percent Qualifying HDMF Members	43.5%	43.5%	43.5%	43.5%
Percent Qualifying Households in Metro Manila	91%	91%	87%	87%

Source: PSSP and NCSI estimates.

PSSP combines several components of MHS' national shelter program as well as serves as a vehicle for public and private sector participation in providing low income housing in the Metro Manila area, and as such represents an important initiative in the low income shelter sector. Total World Bank assistance for this project will be P70 million.

Through PSSP, MHS solicits proposals from private developers for sites and services projects. MHS offers developers interim financing at 9 to 12 percent interest, who in turn are required to develop sites which are targetted to affordability ranges of low income families. In most cases, three income ranges are designated, and larger lot sizes are sold to higher income households with smaller lots going to lower income households. Through this process, developers can employ the 'cross subsidy' concept, whereby profits realized on larger lots subsidize some of the development costs on smaller lots. The Batas 220 regulations permit the development and sale of much smaller lots than regulations previously allowed, thereby reaching much lower income classes. NHMFC is committed to purchasing the mortgages generated through the sale of homesites, thus ensuring that even low income families will have access to financing.

The private sector has been moderately responsive to PSSP, though unfortunately MHS has been slow in the program's implementation. As of August 1983, only two projects had been approved and another two were under evaluation, for a total of 9,800 sites. Another eleven projects have been identified for implementation over the next four years, accounting for an additional 15,700 sites.

An analysis of the first four projects indicates that PSSP will be able to reach low income families. Table IV-11 estimates the market prices for the smallest size lots, using the average square meter development cost based on total project cost and total saleable land area and allowing developers a 25 percent mark-up over costs. Based on Pag-Ibig loan terms, nearly all HDMF members and households in Metro Manila will qualify to buy these lots. Table IV-12 similarly analyzes the affordability of these same lots with a 20 square meter housing unit (the smallest unit permitted under Batas 220) assuming a construction cost of P1,200 per square meter or a total of P24,000. Again using Pag-Ibig loan terms, 43.5 percent of HDMF's members and as many as 91 percent of all households in Manila could qualify to purchase a home and lot. Other costs may eventually get passed on to the buyers, in turn narrowing these affordability ranges, but still PSSP appears capable of providing a housing solution to very low income families.

When implemented, PSSP will represent a bridge between the public and private sectors in the provision of housing with each sector playing its appropriate role: the private sector acting as developer and the public sector serving as a catalyst for development. The progam is designed to achieve full cost recovery. The only problem identified to date is the slow pace at wich the program is being implemented, and MHS should take whatever steps are necessary to bring about PSSP's timely implementation.

C. OTHER GOVERNMENTAL NON-BANK FINANCIAL INSTITUTIONS

In addition to the financial agencies participating in the National Shelter

Program, two governmental non-bank institutions have also played an active role in housing finance in the Philippines: the Government Service Insurance System (GSIS) and the Social Security System (SSS). Both GSIS and SSS ar public pension funds, with the former covering government employees and the latter covering formal sector employees. In 1980, their combined membership was 3,369,662 (1,046,662 in GSIS, excluding armed forces; 2,323,000 in SSS). GSIS and SSS have both been major investors in intermediate-term government securities, and in addition, they have provided housing loans to their policyholders or members. At year-end 1980, the combined assets of GSIS and SSS totalled P18.5 billion, or one-third of the total assets of the non-bank financial sector in the Philippines.

1. Government Service Insurance System

The Government Service Insurance System (GSIS) is a social security system for government employees. Participants in the plan are eligible to borrow from GSIS for housing, and in fact, GSIS has played a relatively active role in housing finance. Between 1970 and 1980, GSIS financed approximately 21,000 units in mass housing projects and another 14,000 individually-constructed homes. In the early 1970s, GSIS' lending activity was primarily for individually-constructed homes; for instance, between 1970 and 1973, GSIS financed a total of 8,500 owner-built homes compared to only 534 units in mass housing projects. By 1980, individually-constructed homes represented only a negligible part of GSIS' activity, accounting for only 30 units compared to 2,376 in mass housing projects. Most of GSIS' lending has been concentrated in Metro Manila; in 1980, for example, only 15 percent of GSIS' total loans were for units outside of Manila. Table IV-13 summarizes GSIS' housing finance activity over the last five years.

Members are eligible for loans amortized for up to 25 years and interest rates based on the loan amount: 6 percent for loans under P30,000 and 9 percent for loans over P30,000, up to a maximum of P100,000. Housing developers are also able to borrow from GSIS to finance interim construction for houses designated for GSIS members. Interim loans are offered at 12 percent compounded monthly, with repayment over 18 to 36 months and a loan-to-value ratio of 70 percent. Employee contributions are the source of funds for all loans.

GSIS qualifies borrowers based on total family income, and not just the individual member's salary, thus making its underwriting standards comparable to the Pag-Ibig program and more liberal than private lending institutions. Nevertheless, the GSIS loan program has served only its upper income members. To qualify for a loan, the monthly amortization cannot exceed 25 percent of the total household income. In 1980, the average GSIS mortgage was approximately P90,000 with a blended interest rate of 8 percent. Based on a 25-year amortization, the monthly qualifying income would need to be P2,780. In fact, the average mortgage in 1980 was amortized over 15 years, requiring a monthly household income of P3,440. Based on the salary distribution of GSIS members, a mere 1.2 percent qualified for this average loan even if amortized over the full 25 years (see Table IV-14).

As previously indicated, qualifying income includes cost of living allowances and other household income. In 1980, GSIS estimated that a member's total income, including cost of living allowances, accounted for 86 percent of household income.10/ By adjusting the base salaries upward by 35 percent to reflect

TABLE IV-13: GSIS Housing Activity 1978-1983

Date	Number of Units Finance	Average Mortgage Amount (Pesos)[a]
1978	3,484	54,040
1979	2,418	47,470
1980	2,406	90,190
1981	1,959	N/A
1982	3,212	N/A
1983 (proj.)	3,600	N/A

a) Does not include mortgages for individually-constructed homes which accounts for a very small number of units but a high per unit cost which would distort a review of GSIS' basic housing finance activity.

Source: GSIS

TABLE IV-14: Salary Distribution of GSIS Members, 1980

Annual Salary (Pesos)	Percentage	Cumulative Percentage
500 or less	26.69	26.69
500 - 750	38.47	65.16
750 - 1,000	15.70	80.86
1,000 - 1,500	12.46	93.92
1,500 - 2,000	3.62	96.94
2,000 - 2,500	1.26	98.20
2,500 - 2,750	.32	98.52
2,750 - 3,000	.28	98.80
3,000 - 3,500	.27	99.07
3,500 - 4,000	.40	99.47
4,000 - 4,500	.13	99.60
4,500 - 5,000	.16	99.76
5,000 - 6,000	.11	99.87
6,000 and over	.13	100.00

Source: GSIS

cost of living allowances, and assuming this income represents 86 percent of household income, eligibility for GSIS' average loan is still limited to less than 4 percent of its membership. (For purposes of comparison, 9 percent of HDMF's members and 48.4 percent of all households in Metro Manila would qualify for a P90,000 loan on GSIS terms, based on the income distributions shown in Tables IV-3 and IV-4.)

Amendments to the GSIS authorizing legislation in 1977 were intended to effectively end GSIS' housing finance activities, converting the fund into purely a pension and insurance system. Despite these legislative changes, GSIS has continued its involvement in housing finance, though its involvement in housing finance declined in the late 1970s. Total real estate loans, including non-residential real estate, dropped from 59 to 42 percent of its portfolio between 1970 and 1980; in 1980, individual mortgages accounted for only 11 percent of the GSIS portfolio. The National Shelter Program, however, projects an increase in GSIS' home mortgage lending, suggesting that GSIS will be making loans for at least the next few years.

2. Social Security System

The Social Security System (SSS), a pension fund for non-government employees, also extends mortgage credit to members, in this case only for new primary residences. Borrowers are required to own a services homesite with no housing unit prior to loan approval, and loan proceeds are disbursed during the construction process. Essentially, SSS loans represent construction financing with a long amortization. An existing mortgage on the lot itself can be refinanced with an SSS loan, provided the loan amount is sufficient to cover the costs of both land purchase and construction of a unit which meets minimum standards. Technically, SSS requires a minimum lot size of 120 square meters with an 8-meter frontage, though SSS routinely financing is provided for construction on smaller lots.

The SSS loan maximum is P50,000 with repayment over 25 years. The interest rate is 6 percent on the first P30,000 and 9 percent on the balance, resulting in an effective rate of 7.2 percent on a P50,000 loan. The loan-to-value ratio can be as high as 90 percent, though the portfolio average is an estimated 70 percent, reflecting the fact that prior to 1973 loans were made for only 60 percent of appraised value.

Similar to GSIS, investment activity by the SSS in the late 1970s reflected a relative shift away from housing loans to government securities. Between 1970 and 1980, th representation of housing loans in its investment portfolio dropped from approximately 40 to 20 percent; the number of applications dropped from about 6,400 in 1978 to 4,800 in 1980. This decline in demand was attributed in part to the fact that a P50,000 loan was increasingly less useful as housing prices increased. Also, rising interest rates on government securities make other investments more attractive to SSS. Since 1980, however, SSS' housing finance activity has been on the rise, as evidenced by Table IV-15.

Table IV-15: Number of SSS Mortgage Loans, 1980-1983

Year	Number of Loans
1980	4,400
1981	4,700
1982	5,169
1983 (proj.)	5,400

Source: SSS

SSS reports that the majority of its loans are now made for housing construction in the peripheries of Manila where land prices are lower. Consideration has been given to increasing the maximum loan amount above P50,000 to accommodate the needs of more members, but SSS has decided to retain the present maximum in an effort to target its resources to lower income households, particularly in view of the fact that the Pag-Ibig loan program is available to assist upper income families.

Participants in SSS are predominately moderate income. In September 1983, SSS surveyed a small sample of its membership, and derived the income distribution shown in Table IV-16.

Table IV-16: Household Income Distribution of SSS Members

Income Class (Pesos/Month)	Percent of Household
Under 1,000	1%
1,000 - 1,999	75%
2,000 - 2,999	16%
3,000 - 3,999	5%
4,000 and over	3%

Source: SSS

The survey sample represented in Table IV-16 is too small and the income ranges too broad to enable a detailed analysis of SSS' income distribution. Nevertheless, it would appear that the median household income for SSS members at the tme of the survey was approximately P1,350 per month, compared to P2,400 for all households in Manila (see Table IV-4). In 1980, SSS reported that 80 percent of its members' households incomes were below P900 per month, suggesting that the actual median income may be much lower than reflected in Table IV-16.

The average SSS loan in 1982 was P49,000, close to the maximum. Based on SSS' loan terms, this would require a monthly qualifying household income of P1,170, indicating that SSS is making loans to households at about median income for its members and well below median income for all households in Manila. Table IV-17 provides data on the percentage distribution of mortgages by household income for 1978-1980.

Table IV-17: Income Distribution of SSS Mortgage Beneficiaries, 1978-1980 (Figures in Percentages)

INCOME RANGES (Pesos/Month)	1978	1979	1980
1,000 and below	6.87	5.05	2.15
1,000 - 1,239	15.01	9.30	6.24
1,240 - 1,749	44.12	51.11	50.38
1,750 - 2,189	17.26	14.95	17.87
2,190 - 2,959	11.23	14.02	16.83
2,959 and over	5.51	5.57	6.53

Source: SSS

Table IV-17 indicates that the median household income of mortgage beneficiaries in 1980 was approximately P1,400 per month. Comparable data for subsequent years is not available. It should be noted that SSS' lending patterns reflect a modest trend toward assisting higher income households between 1978 and 1980, but this may in part be attributed to overall salary increases due to inflation and cost of living adjustments.

D. OTHER GOVERNMENT AGENCIES IN THE HOUSING SECTOR

A number of other government agencies are involved in planning and development in the housing sector, particularly in infrastructure provision. The housing-related activities of these organizatcns fall under the broad coordinating authority of the MHS, in addition to the seven key agencies identified under the National Shelter Program.

1. Ministry of Local Government and Community Development

The Ministry of Local Government and Community Development (MLGCD) focuses on urban shelter problems in secondary cities through four programs: City Development Assistance Program also known as Rural Services Center program; Barangay Water Project; Real Property Tax Administration; and Rural Roads Program. MLGAD is primarily involved in social and physical infrastructure development, and is only incidentally involved in the shelter sector.

One of MLGDC's major programs is the City Development Assistance Program, which is sponsored by U.S. AID and has as its main objectives upgrading the administrative capacity of local governments, increasing citizen participation in the planning and implementation of projects, and assisting and/or developing projects financed either locally or in conjunction with other agencies. The project has focused its activities in about provincial 30 cities, with benefits targeted to the most disadvantaged households.

2. National Economic Development Authority

The National Economic Development Authority (NEDA) is the socio-economic planning authority for the Philippines. Since 1975, it has been organized on a regional basis. Although not a housing agency *per se*, NEDA assesses contemplated public investment in housing for national development plans, and prepares housing demand guidelines for regional plans.

3. Water Supply Agencies

The Metropolitan Water and Sewerage System operates the potable water supply systems for Manila; the Local Water Utilities Administration (LWUA) similarly provides services to communities in the provinces of over 30,000 population, except where municipal waterworks exist and are operated by the local government; and smaller communities, including rural settlements are serviced under the Barangay Water Project of MLGCD.

Throughout the Philippines, the water system is inadequate, contributing to a high incidence of communicable diseases. Less than 50 percent of the population has access to potable water; in urban areas, slightly over 55 percent of the population is served by municipal systems, with roughly half located in Metro Manila. More than 1,000 barrios, 800 municipalities and 6 cities were estimated to be without water supply systems as recently as the late 1970s. The expansion of water distribution systems has not kept pace with urban population growth. In fact, their carrying capacity has decreased and leakage has increased due to fractures caused by settling and increased traffic. Many of the municipal systems have suffered from lack of regular maintenance since their operating costs have been heavily subsidized. The majority of households served by water systems receive inadequate service since water pressures are low. In many areas, negative pressures have resulted in back siphonage and contamination of potable water supplies.

Low income households frequently have less access to water and pay a higher proportion of their incomes for it. Outside of National Housing Authority's project areas, water service networks do not extend to slum and squatter communities except for occasional standpipes where both water pressure and volume are low. In some cases, particularly in the neighborhoods in southern Manila, there are neither piped water nor wells, and water supplies must be brought in by tanker. Residents commonly pay about 15 percent of their income for water from these vendors.

LWUA was established as a specialized lending institution for the promotion, development and financing of local water utilities. Loans are provided at 9 percent interest and amortized up to 30 years, for immediate improvements in the existing waterworks as well as systems development. By mid-1978, 350 local water districts had been formed under LWUA's auspices. As quasi-public corporations, these local water districts are not subject to any taxation nor are they under the jurisdiction of any political subdivision, though LWUA borrowers are subject to administrative management by LWUA during the term of the loan.

4. Energy Sector

The Ministry of Energy is responsible for the development of national energy programs and policies. The energy sector is composed of over 800 public and private utilities, most of which purchase power from the National Power Corporation, a parastatal of the Ministry of Energy and the largest single power-producing utility. The National Electrification Administration is in charge of the distribution and cooperative management of electrical power supplies. Small private and municipal systems provide power to more isolated areas not covered by the national system.

E. SUMMARY OF THE GOVERNMENT's HOUSING FINANCE ACTIVITY

Through the introduction of the HDMF-NHMFC-HFC finance system, the Ministry of Human Settlements has successfully increased the level of mortgage lending in the Philippines, and in fact has come to play the dominant role in the housing sector. Table IV-18 enumerates the housing units financed or produced by the major governmental institutions between 1980 and 1983. As the new finance system has become operational, its level of activity has increased sharply with NHMFC mortgage purchases almost tripling between 1982 and 1983. Overall, the number of units financed, including upgraded and serviced sites, increased by close to 90 percent between 1980 and 1983.

By most estimates, the total mortgages granted through NHMFC, GSIS and SSS currently represent at least 90 percent of all mortgages made in the Philippines. All of the private bankers interviewed by the Shelter Sector Team reported that they were selling all of the mortgages they originate to NHMFC, though the bankers were aware larger mortgage loans that were being held by private banks in a few instances. Since non-HDMF members are able to secure an Open Housing loan at 16 percent interest which is still well below the rate offered by private banks, then it is a reasonable conclusion that only mortgages in excess of the Open Housing program's maximum loan of P300,000 are being held in the portfolios of private lending institutions. In fact, it is probable that the combined NHMFC-GSIS-SSS mortgages represent more than 90 percent of all mortgages granted, but insufficient data is available for a closer examination. Without qualification, however, it can be stated that HDMF-NHMFC-HFC system dominates housing finance in the country.

Table IV-19 summarizes the lending activity of the government institutions by average loan sizes and number of qualifying households, based on each institution's mortgage terms. An 'average' private bank loan is also included for comparative purposes. As this table indicates, among Government lenders the Pag-Ibig loan program is reaching the smallest percentage of households in Metro Manila (15.3 percent) primarily due to its relatively larger loan sizes and higher rate of interest than under GSIS and SSS. NHA and SSS are reaching the lowest income levels. Other NHA programs which provide lower cost shelter solutions are within reach of almost all households in Manila.

The Ministry's new finance system has achieved its initial objectives of increasing the pace of housing production and level of financial resources. In addition, the system has brought about a standardization of lending practices as a result of underwriting standards established by NHMFC. At this time, the resources which have become available through MHS' initiatives should become accessible to the families served by NHA's programs which are reaching a much broader spectrum of Philippine households and income classes.

Table IV-18: Summary of Housing
Finance Activities by Governmental
Institutions, 1980-1983
(Number of Units)

Institution	1980	1981	1982	1983	TOTAL
NHMFC	973	1,454	5,202	15,202	22,831
GSIS	2,406	1,959	3,212	3,600(est.)	11,177
SSS	4,400	4,700	5,169	5,400(est.)	19,669
NHA					
Sites and Services	5,977	7,010	7,942	12,868	33,797
Upgraded Units	9,667	9,190	6,992	7,134	32,983
New Construction	784	1,225	949	1,442	4,400
Total for NHA	16,428	17,425	15,883	21,444	71,180
T o t a l	24,207	25,538	29,466	45,646	124,857

Source: NHMFC, GSIS, SSS, NHA and NCSI projections.

Table IV-19: Summary of Lending Activity and Percent of Qualifying Members or Households for Government Housing Finance Institutions

	Average Loan Amount (Pesos)	Minimum Income to Qualify (Pesos/month)	Percent Qualifying Members or Member Households	Percent Qualifying Households in Metro Manila
HDMF (Pag-Ibig)	124,200	3,473	7.5%	19.5%
GSIS	90,000	2,780	3.1%	48.4%
SSS	49,000	1,170	60.0% (est)	86.6%
NHA[a)]	25,000	1,500	67.9%	76.0%
Private Banks[b)]	350,000	23,323	N/A	under 5%[c)]

a) Based on the maximum loan amount made available to Dagat-Dagatan residents. 'Member' refers to residents in NHA project sites.

b) Inserted for comparative purposes. The average loan amount is shown at P350,000 which exceeds the maximum available under Pag-Ibig or Open Housing. Loan terms used are 21% interest amortized over ten years. Actual loan terms often have higher interest rates and shorter repayment periods

c) Available information on income distribution does not provide detailed percentage breakdowns for upper income households, and it is probable that this figure is less than 1%.

Sources: HDMF, GSIS, SSS, NHA and NCSI estimates.

V. THE FINANCIAL SECTOR

A. OVERVIEW

The financial sector in the Philippines is relatively well-developed. In recent years, it has grown rapidly and become increasingly sophisticated, offering a wide range of services through an impressive network of offices. The first half of the 1960s witnessed a rapid growth in total financial resources as new commercial banks, development banks and rural banks were established. Growth of the banking sector continued into the 1970s, with concomitant growth of non-bank financial intermediaries starting to occur as a result of the expansion of money market activities and other new services. By the mid-1970s, non-bank financial institutions had become an important component of the country's financial sector.

By year-end 1982, assets of the financial sector totalled P421.5 billion, compared to the GNP for the same year of P336 billion. Between 1975 and 1980, financial institutions experienced an 8 percent real growth in assets, compared to 6 percent for the GNP. (Table V-1 summarizes aggregate growth in current terms for the period 1976-1981.) Complementing the growth in asset base, the number of offices of financial institutions has also grown, from 2,285 in 1970 to 4,918 in 1980, comprising around 9,800 population per office. This ratio compares favorably with many developing countries. Financial activity is not evenly disbursed throughout the country, but concentrated in Manila, with about half of the head offices located in the metropolitan region.

In the Philippines, financial institutions have traditionally failed to provide long-term credit for any purpose which has had a negative impact on the shelter sector by discouraging housing investment in general and, through short amortization periods, making housing loans unaffordable for most families. To encourage housing investment, in 1979 the government established the National Home Mortgage Finance Corporation (see Section IV), a secondary mortgage institution, for the purpose of bringing about liquidity of mortgage portfolios and thereby providing an incentive to private institutions to enter the housing market. Other monetary reforms were introduced in 1979/80 to increase the efficiency and competition of the banking system, as well as encourage longer-term savings to provide the basis for long-term credit. Specific reforms included:

1. Interest rates were gradually allowed to increase in 1980, and by July 1981, interest rates on all loans, except for loans of less than one-year maturity, were deregulated. Real interest rates had been substantially negative in 1979, due to high inflation resulting from increased costs for petroleum imports, but through deregulation real positive rates were obtained. In order to encourage longer-term lending, banks were permitted to make loans with variable interest rates pegged to a specified margin above the Manila Reference Rate. 1/

2. Universal banking was introduced through changes in legislation which previously had fostered institutional specialization. Many of the prior distinctions between financial institutions were eliminated, with the exception of the requirements for start-up capitalization for different types of lending institutions. Qualifying commercial banks

Table V-1: Financial Sector and GNP Growth, 1976-1981
(Amounts in Billions of Pesos)

	1976	1977	1978	1979	1980	1981	1982
Total Assets of Financial Sector	142.8	158.5	199.9	253.1	311.1	350.2	421.5
% Growth	-	11.0	26.1	26.6	22.9	12.6	20.4
Banking System Assets[a)]	80.0	95.3	121.2	154.0	188.8	220.7	269.7
% Growth	-	19.2	27.2	27.1	22.6	16.9	22.2
Non-Bank Financial Intermediaries	33.8	34.2	40.3	48.1	56.9	65.3[b)]	71.7
% Growth	-	1.2	17.8	19.4	18.3	14.8	9.8
GNP	132.71	152.77	177.67	220.96	265.01	303.16	336.02
% Growth	-	15.1	16.3	24.4	19.9	14.4	10.8
Financial Sector Assets as % of GNP	107.6	103.8	112.5	114.5	117.4	115.5	125.4

a) Not including Central Bank.

b) Estimates

Source: Central Bank of the Philippines; International Monetary Fund.

are now permitted to engage in equity investments; thrift banks have been granted full domestic banking powers; rural banks may engage in branch banking; and the Monetary Board has been granted authority to ease restrictions on financial institutions based on their financial resources, professional capability and past operating performance.

3. The commercial paper market was brought under increased regulation. Specifically, commercial paper is now registered under government supervision, and a government-designated credit bureau is responsible for improving the quality of information on issuers of commercial paper.

These reforms, including the establishment of NHMFC, have not resulted in any significant increase in long-term lending for housing by private institutions. The amount of mortgage lending has increased sharply, but only due to the fact that NHMFC purchases almost all mortgages from loan originating institutions. Private financial intermediaries are not holding mortgages in their own investment portfolios, which would represent an increase in long-term lending on their part; rather, they are originating mortgages only because NHMFC is pre-committed to their purchase. Nor have these reforms had any impact of the segmentation of beneficiaries by income class which has characterized the financial sector, whereby private intermediaries have served high income households and government programs have benefitted lower and moderate income groups. Private credit is still available only at high interest rates over short terms, denying access to lower income families due to affordability.

B. STRUCTURE OF THE BANKING SECTOR

The banking sector constitutes the largest part of the financial system in the Philippines, accounting for just over 65 percent of the total assets of the financial system in mid-1982. Commercial banks, thrift institutions, rural banks and government-owned banks comprise the banking sector, with commercial banks clearly dominating its activity with nearly 73 percent of the sector's total assets (see Table V-2).

Through World War II, only four commercial banks existed in the Philippines. In response to post-war rehabilitation programs and increased private sector business activity, the commercial banking sector started to expand rapidly in the 1950s. Liberal Central Bank regulations, such as having no requirement for minimum capitalization, enabled family businesses to establish their own banks. Today, as many as two-thirds of the commercial banks are owned by families or their businesses. Only three banks have stocks listed on the Philippine stock exchanges.2/ In 1980, there were 1,503 commercial bank offices in the Philippines, of which 32 were head offices. In 1982, assets of the commercial banks represented approximately 58 percent of the GNP, over 46 percent of the financial system's total assets and over 72 percent of the banking sector's total assets. The largest commercial bank is the government-owned Philippine National Bank (PNB).

Thrift institutions include stock savings and loan associations (SSLAs), savings and mortgage banks, and private development banks (PDBs). SSLAs extend credit for up to one year for a variety of purposes; savings and mortgage banks invest depositors' funds in bonds or housing loans; and PDBs provide credit for

Table V-2: Assets of the Banking Sector
1982 and 1983
(Millions of Pesos)

Type of Institution	As of June 1983[a]			As of December 1982		
	Total Assets	As Percentage of Banking Sector's Total Assets	As Percentage of Financial Sector's Total Assets	Total Assets	As Percentage of Banking Sector's Total Assets	As Percentage of Financial Sector's Total Assets
Commercial Banks	221.6	72.9	47.4	195.8	72.6	46.5
Thrift Banker	14.7	4.8	3.1	12.6	4.7	3.0
Rural Banker	8.5	2.8	1.8	8.0	3.0	1.9
Government-Owned Banks	59.3	19.5	12.7	53.3	19.8	12.6
Total	304.1	100.0	65.1	269.7	100.0	64.0

a) Preliminary

Source: Central Bank of the Philippines

small- and medium-scale businesses, generally with funds received from the government-owned Development Bank of the Philippines. Thrift institutions have experienced over a six-fold increase in their assets between 1974 and 1981. In 1980, thrift institutions had 673 offices, of which 144 were head offices. Their assets totalled P12.6 billion in 1982, representing 3.0 and 4.7 percent of the total assets of the finance system and banking sector, respectively.

Rural banks are the main source of credit for farmers, cooperatives and merchants in rural communities. In 1980, there were 1,096 rural bank offices, of which 985 were head offices. Rural banks' total assets were P8 billion in 1982.

The three specialized government-owned banks, the Development Bank of the Philippines (DBP), the Land Bank and the Philippine Amanah Bank, were set up to provide specific services. The Land Bank was established to finance the government's acquisition of landed estates as part of its land reform program. The Amanah Bank provides credit to Muslim communities in Mindinao in the southern Philippines. DBP, the largest of the three, has traditionally been the principal source of long-term credit for industrial and commercial development in the Philippines. DBP's funds are obtained through government equity investments, deposits (principally government deposits), sale of bonds, borrowings from the Central Bank and foreign borrowings guaranteed by the government. Total assets of the government-owned banks were P53.3 billion in 1982. DBP's assets were over P45 billion.

C. THE BANKING SYSTEM's LENDING PRACTICES: TERMS, INTEREST RATES AND BENEFICIARIES

The lending practices of Philippine banks are characterized by short terms and high interest rates. These factors, combined with escalating housing costs, have effectively excluded all but high income households from the formal finance sector, and relatively little credit has been made available to the housing sector. Despite efforts of the government to encourage longer-term lending, through monetary reforms and the establishment of NHMFC, the availability of long-term credit in the private sector has not increased significantly. Moreover, the deregulation of interest rates, which has resulted in higher costs for borrowing, has made it even more difficult for lower income families to obtain credit.

For many years, interest rates in the Philippines were statutorily limited to 12 and 14 percent on secured and unsecured bank loans, respectively. Through the 1960s, these interest rate ceilings did not pose a problem when the annual rate of inflation averaged only 4.4 percent. In the 1970s, inflation rates began to increase, peaking at a 34.5 percent rate of inflation in 1974 and averaging an annual 12.7 percent between 1970 and 1978. In 1974, approximately 60 percent of commercial bank loans were in the range of 12 to 14 percent, and the balance of their loan portfolios was at even lower rates, meaning that the real rate of return (defined as the nominal rate of interest minus the rate of inflation) was at least a negative 20.4 percent and the overall portfolio performance was much worse.

From 1970 to 1978, the real rate of return on savings deposits was negative in each year except for 1976, when the rate of return was a low .9 percent (see

Table V-3). The annual average real rates for the period 1970-1978 for savings deposits and time deposits were -6.4 percent and -4.2 percent, respectively. As a result, investors began to shift cash assets into the burgeoning money markets which were not subject to usury limitations. This situation prompted the government to begin to gradually deregulate banking interest rates in the mid-1970s. By 1980, interest rates for loans with over one-year maturities were entirely deregulated in response to the problems caused by high inflation rates as well as to encourage longer-term lending by the private sector.

Following the monetary reforms of 1979/80, interest rates rose sharply, and are continuing to gradually increase on loans of all maturities (see Table V-4 and V-5). In 1980, mortgage rates at commercial banks averaged 16.92 percent, typically with shorter than ten-year maturities. Today, private and government banks report that, if they were making mortgage loans which they intended to keep in their portfolios rather than sell them to NHMFC, they would offer the same terms as for commercial loans. In late 1983, DBP reported that it was making agricultural and industrial loans with 5- to 25- year maturities at 15 percent for loans up to P170,000, 18 percent for loans between P170,000 and P1.7 million, and 21 percent for loans over P.17 million, with most loans falling into this last category. DBP has been an active mortgage loan originator, making 8,470 loans between 1980 and mid-1983, but all of these mortgages have been sold to NHMFC. DBP's lending terms are relatively concessionary compared to many other lenders. For instance, in the Philippine National Bank (PNB) was lending at 21.25 percent for loans maturing in one year and at 22.25 percent for longer repayment periods, with no loans amortized for more than ten years. PNB's loan terms are more typical than those of DBP for commercial loans in the Philippines. Currently, long-term rates have jumpted to about 26 percent in response to higher rates of inflation and general economic uncertainty.

The banks' short-term lending practices have not resulted from having a short-term asset base, as represented by deposit maturities. In fact, between 1970 and 1980, time deposits at commercial banks as a percentage of total deposits increased from 19 to 50.7 percent, while demand and savings accounts fell from 80.9 to 49.3 percent of total deposits (see Table V-6). The maturity periods for time deposits themselves have increasingly become long-term, as evidenced by Table V-7. The banking system has traditionally considered a three-year loan to be long-term, and thus it is noteworthy that, in 1980, time deposits with maturities of three years or longer comprised nearly 45 percent of the time deposits at commercial banks, and 8.3 percent and 14.8 percent of the time deposits at savings banks and private development banks, respectively.

Table V-3: Inflation Interest Rates
and Real Interest Rates, 1970-1978
(Figures in Percentages)

Year	Rate of inflation a)	Savings Deposits		Time Deposits	
		Interest rate b)	Real rate of return c)	Interest rate b) (360 days)	Real Interest rate c)
1970	14.3	6.0	-8.3	7.0	-7.3
1971	14.7	6.0	-8.7	7.0	-7.7
1972	10.3	6.0	-4.3	7.0	-3.3
1973	11.0	6.0	-5.0	7.0	-4.0
1974	34.5	6.0	-28.5	9.5	-25.0
1975	8.2	6.0	-2.2	9.5	1.3
1976	6.1	7.0	0.9	10.0	3.9
1977	7.9	7.0	-0.9	10.0	2.1
1978	7.6	7.0	-0.6	10.0	2.4

a) Measured by changes in the consumer price index.

b) Rates offered by commercial banks; rates by other financial institutions were generally 0.5% higher since July 29, 1974.

c) The real interest rate is defined as the nominal interest rate minus the rate of inflation.

Source: International Monetary Fund and Central Bank of the Philippines

Table V-4: Nominal Interest
Rates on Commercial Banks Selected Accounts

(Figures in Percentages)

Type of Account	1976-1979	1980	1983
Savings Deposits	7.0	9.0	9.7
Time Deposits			
1-year	10.0	14.0	N/A[a)]
2-year	12.0	14.0	N/A
all-maturities	N/A	N/A	14.9
Lending Rates			
Up to 2 years	12-14	16-18	18-21
Over 2 years	19	21	21-25

a) Data not available.

Source: World Bank Report No. 3861-PH, and the Central Bank of the Philippines.

Table V-5

WEIGHTED AVERAGE INTEREST RATES (WAIR)

Semesters 1982-1983
(In Percent)

Item	1st Semester 1983	2nd Semester 1982	1st Semester 1982
Savings Depostis [a]	9.749	9.729	9.893
Time Deposits, all maturities	14.918	15.053	16.291
Leading, all maturities	18.479	18.728	17.623
Prime rate[b], simple average	17.956	-	-
Manila Reference Rate (MRR)			
60-days	14.2458[c]	14.7059	15.9837
90-days	14.6380[c]	15.1413	16.3124
180-days	15.2517[c]	15.8904	15.9699

a) Simple average of monthly WAIRs

b) Based on posted/published rates.

c) Weighted average for May and June 1983.

Source: Central Bank of the Philippines

Table V-6

Structure of Deposits of Commercial Banks, 1970-80
(Millions of Pesos)

End of year	Demand Deposits	Savings Deposits	Time Deposits	Total Deposits
1970	2,459 (32.0)	3,757 (48.9)	1,470 (19.1)	7,686 (100.0)
1971	2,916 (31.6)	4,410 (47.9)	1,890 (20.5)	9,216 (100.0)
1972	3,735 (34.1)	4,670 (42.6)	2,559 (23.3)	10,964 (100.0)
1973	5,276 (34.7)	6,865 (45.2)	3,044 (20.1)	15,185 (100.0)
1974	6,062 (33.0)	8,281 (45.1)	4,032 (21.9)	18,375 (100.0)
1975	6,665 (32.1)	8,951 (43.1)	5,131 (24.7)	20,747 (100.0)
1976	7,482 (28.7)	11,022 (42.3)	7,558 (29.0)	26,062 (100.0)
1977	9,045 (26.8)	13,263 (39.3)	11,470 (33.9)	33,778 (100.0)
1978	9,602 (22.0)	17,314 (39.7)	16,737 (38.3)	43,653 (100.0)
1979	11,397 (20.4)	20,884 (37.3)	23,717 (42.3)	55,998 (100.0)
1980	12,792 (17.6)	23,047 (31.7)	36,791 (50.7)	72,630 (100.0

Note: Figures in parentheses indicate percentages of the total.

Source: Central Bank of the Philippines.

Table V-7: Maturity of Time Deposits, 1975 and 1980
(Figures in Percentages)

	Maturities of 2 years And Below		Maturities Above 2 Years	
	1975	1980	1975	1980
Commercial Banks	77.7	23.6	22.3	76.4
Savings Banks	39.5	42.8	60.5	57.2
Private Develop. Banks	57.9	36.5	42.1	63.5

Source: Central Bank of the Philippines

The longer-term liability or deposit structure which developed in the 1970s should have positioned the banks to make longer-term loans, but a significant shift from short- to long-term lending did not occur. In commercial bank portfolios, between 1977 and 1980, long-term loans increased from 4.2 percent to only 11.8 percent (see Table V-8).

Table V-8: Loans Outstanding of Commercial Banks by Maturity, 1977-1980

End of Year	Short-Term (less than 1 year)	Intermediate (1-3 years)	Long-Term (over 3 years)
1977	85.3	10.5	4.2
1978	82.0	10.3	7.7
1979	70.7	13.7	15.6
1980	78.1	10.1	11.8

Source: Central Bank of the Philippines.

Short term loans, with one year maturities or shorter, are still predominant. Banks are unwilling to be locked into a fixed interest rate for a number of years without knowing which way interest or deposit rates are going to move, and they are concerned with the liquidity of their portfolios in the context of needing to respond to a changing economic situation (see Section VIII).

Obviously, many credit needs require longer amortization periods, such as housing or capital investments, and where banks are willing to lend for these

Table V-9: Outstanding Loans of DPB by Maturity

(As Percent of Total)

	1973	1974	1975	1976	1977	1978
	As of June 30		As of December 31			
Up to 2 years	26.5	23.5	25.8	15.5	5.8	16.5
Over 2 & up to 5 years	27.9	31.1	24.6	19.9	18.5	16.7
Over 5 & up to 10 years	40.5	40.9	33.7	34.4	48.5	39.0
Over 10 years	5.2	4.6	15.9	30.2	27.3	26.8

Source DBP

Table V-10: DBP Housing Loan Approvals, 1971-80

Fiscal Year	Number	Amount (millions of pesos)
1971	1,394	7.4
1972	1,706	9.6
1973	3,400	22.8
1974	3,798	25.7
1975	1,892	21.8
1976	5,020	56.7
1976 (Jul-Dec)*	1,897	21.8
1977	3,019	36.2
1978	3,898	60.1
1979	6,638	218.4
1980	7,421	468.9
	40,078	949.4

*/ Fiscal year changed to coincide with calendar years.

Note: Total amount P687.30 for 1979 and 1980 represents 72% of total loan approvals from 1971 to 1980, and the number of loan approvals of 14,059 represents 35% of aggregate approved loans for the same 10-year period.

Source: DBP

purposes, the common practice has been to lend for one year and refinance or rollover the loan for another year at maturity. It is difficult to determine the exact proportion of rolled over credits and their maturities, but rough estimates suggest that at least half of the short-term loans are refinanced for another year, and another third are refinanced for one to three years.3/ This practice is profitable for banks which collect loan origination fees each time a loan is rolled over. Preferred and established bank customers are willing to borrow under these circumstances, but the environment of uncertainty created by these lending practices poses an obstacle to new customers and low income families. Borrowers are not guaranteed that their loans will be refinanced, and banks are unwilling to pre-commit an interest rate, which means that interest rates in subsequent years could be higher. Also, the loan origination fees increase the costs of borrowing.

It was precisely to fill this gap in long-term financing that the various specialized government banks were established. The Development Bank of the Philippines has been the most actively involved in long-term lending, with 26.8 percent of its loans outstanding amortized over ten years in 1978 (see Table V-9). However, DBP has been primarily engaged in industrial development and not housing finance. In 1978, only 10.7 percent of DBP's loan disbursements were for real estate activities, compared to 71.2 percent for the industrial sector. Nevertheless, in the late 1970s, DBP's housing finance activity significantly increased over prior year (see Table V-10). DBP offered mortgage loans at 12 to 14 percent interest for amounts up to P120,000, but as Table V-11 indicates, DBP's loans went primarily to moderate income households in 1979 and 1980. Since 1980, DBP has only been originating mortgages for sale to NHMFC.

Table V-11: DBP Mortgage Loan Activities by Activities by Annual Household Income of Beneficiaries, 1976-1980
(Figures in Percentages)

	1976	1977	1978	1979	1980
P 50,000 and below	-	95.63	98.03	53.98	21.37
P 50,000 - P100,000	-	0.45	-	45.47	68.44
P100,000 - P500,000	-	3.92	0.65	0.55	10.19
P500,000 - P1 million	-	-	1.32	-	-
Over P1 million	100,000	-	-	-	-

Source: Central Bank of the Philippines

Commercial banks dominate the banking system, and they have the largest investment in housing finance: over P767 million in 1980 or 81.3 percent of the total private sector's investment in housing finance. The next largest group of banks, savings banks, had invested only P107.5 million or 11.3 percent of total investment in housing for the same year. Table V-12 provides a breakdown of

Table V-12: Private Sector Housing Finance Loans by Major Institutions, 1975-1980

(Thousands of Pesos)

	1975	1976	1977	1978	1979	1980
Commercial Banks	10,756	21,791	92,141	195,637	504,247	767,786
Savings Banks	2,204	10,370	50,513	41,069	113,866	107,535
Private Development Banks	997	923	791	1,282	5,506	6,505
Insurance Companies	27,279	18,705	30,044	34,529	55,473	62,139
Total	41,236	51,788	173,489	272,517	679,092	943,965
Growth Rate (%)	-	25.6	235.0	57.1	149.2	39.0

Source: World Bank, Report No. 3732-P4

private sector housing finance, and includes insurance companies which have invested about one-fifth of their portfolios in housing finance.

In the past, most of the commercial bank's credit to the housing sector had been for construction and development, and not home mortgages, though the introduction of the HDMF-NHMFC-HFC system has technically brought about an increase in their mortgage lending. In 1980, for example, only about 22 percent of the housing finance loans were for individual mortgages. At the end of 1980, only 3 percent of total commercial bank loans outstanding were classifed as real estate loans, reflecting an actual drop in real estate lending in the late 1970s. This limited involvement in mortgage financing is consistent with the banks' preference for short-term lending and is corroborated by a high ratio of loans granted to loans outstanding. In 1980 this ratio was 1.05, indicating that the average maturity for a housing finance loan was less than one year. By contrast, the ratio for the same year for savings banks was about .21, indicating an average maturity of about 5 years, reflecting the fact that most housing finance activity of savings banks is for mortgage loans with less than 10 percent of their loans used for construction or development finance.4/ Private development banks have played only a limited role in housing finance, representing less than 1 percent of the private sector's total housing finance loans in 1980.

Tables V-13 and V-14 provide a breakdown of mortgage loans granted by banks between 1975 and 1980 by beneficiary income levels and loan size. Clearly, commercial banks and savings banks are servicing higher income families. In 1980, the Philippine annual median family income was about P12,000, but only 17.7 and 4.0 percent of mortgage loans made by commercial and savings banks, respectively, went to households with incomes below P50,000.

Distribution by loan size also indicates that commercial and savings banks have tended to make larger loans than private development banks, and through the 1970s, the distribution of loan size was steadily toward larger loans, reflecting higher housing costs. Between 1975 and 1980, for example, the percentage of commercial bank loans below P50,000 fell from 80.9 to 22.6 percent, while the percentage of loans for over P100,000 increased from 12.8 to 38.7 percent. Although Table V-14 shows a significant number of loans to be below P50,000, the distribution of beneficiaries by household incomes suggests that these were probably for home improvements rather than home purchase or construction. Since 1980, the impact of the HDMF-NHMFC-HFC finance system has been to reverse this trend toward larger mortgage loans.

Table V-13

Mortgage Loans Granted by Private Intermediaries
by Beneficiary Income, 1975-80
(Figures in Percentages)

	Pesos				
	50,000 and below	50,001-100,000	100,001-500,000	500,001-1,000,000	More than 1 million
Commercial Banks					
1975	1.3	2.4	96.3	-	-
1976	7.5	1.3	91.2	-	-
1977	9.7	4.7	85.6	-	-
1978	35.0	5.5	59.5	-	-
1979	5.5	6.3	87.6	0.6	-
1980	17.7	4.4	37.0	40.9	-
Savings Banks					
1975	26.9	73.1	-	-	-
1976	6.0	34.7	58.2	-	1.1
1977	6.0	10.5	32.3	14.9	36.3
1978	7.5	28.9	50.2	6.5	6.8
1979	7.1	30.6	45.3	7.0	10.0
1980	4.0	11.3	53.9	14.3	16.5
Private Development Banks					
1975	90.1	9.9	-	-	-
1976	76.9	23.1	-	-	-
1977	87.2	12.8	-	-	-
1978	83.5	16.5	-	-	-
1979	24.5	14.0	61.5	-	-
1980	32.6	8.6	40.9	-	17.9

Source: Special survey of selected financial institutions conducted by the Central Bank.

Table V-14: Mortgage Loans Granted by Private Intermediaries, By Loan Size, 1975-80
(Figures in Percentages)

	Pesos			
	50,000 or below	50,000-100,000	100,000-500,000	Over 500,000
Commercial Banks				
1975	80.9	6.3	12.8	-
1976	37.5	9.1	53.4	-
1977	23.2	3.3	36.0	37.5
1978	33.1	13.3	47.0	6.6
1979	8.1	4.3	32.1	55.4
1980	22.6	10.1	38.7	28.6
Savings Banks				
1975	11.8	39.4	48.8	-
1976	6.1	14.9	57.9	21.1
1977	3.4	7.0	44.6	45.0
1978	3.3	14.9	59.3	22.6
1979	3.9	9.3	57.0	29.8
1980	3.2	5.1	48.9	42.9
Private Development Banks				
1975	100.0	-	-	-
1976	100.0	-	-	-
1977	100.0	-	-	-
1978	69.2	18.3	12.5	-
1979	43.2	10.1	46.7	-
1980	27.2	24.0	48.8	-

Source: Special survey of selected financial institutions conducted by the Central Bank.

VI. LAND

A. INTRODUCTION

This section on land and the following on construction are brief updates of the situation in these two areas of the shelter sector. Essentially, two important activities have taken place here over the past five years. One was the establishment of the Human Settlements Regulatory Commission, which rationalized to a far greater degree the process of approval for shelter projects, as well as removed many impediments to the approval process. The other activity was the enactment of Batas 220, which reduced minimum standards, thereby allowing for the construction of less expensive housing for low-income families. While the situation in the land and construction areas has otherwise not been static, for example, prices have risen and land is more scarce, these changes have not made any major impacts in the sectors.

B. GENERAL COMMENTS

In recent years, urban land has been characterized by increasing scarcity and escalating prices. Urban spread has accelerated as families have tended to encroach on underdeveloped areas close to urban centers in their efforts to find suitable sites for construction at affordable prices. Developers have responded to the growing pressure from home-seeking families by converting rural, agriculture land to residential use. As expected, speculation has exacerbated normal market forces, forcing the price of land higher and higher.

Recognizing the land problem, the GOP has enacted a number of pieces of legislation as well as approved several administrative and presidential decrees, in an effort to resolve the most pressing problems. New programs have evolved which are definitely having an impact on the land sector. However, the continuing growth in population concomitant with even more rapid growth in most of the urban centers make it increasingly difficult to resolve the land problems.

C. LAND AVAILABILITY

There are several factors that influence the availability of land in the Philippines, but particularly in Metro Manila. Price is one important factor. Choice land is available in most urban centers if purchasers are willing to meet the market prices. This is especially true in the City of Manila (as distinguished from Metro Manila), which is the oldest and most developed area of Metro Manila and where land is at a premium. Even in Manila, small parcels of land are for sale; however, the commercial value of those few parcels preclude their use for residential purposes except for more expensive developments, including high-rise luxury condominiums. A second factor influencing land is the availability of infrastructure and services to the site. This factor is especially inhibiting in smaller cities and outlying areas of Manila, where the price of raw land may be quite reasonable. However, the lack of roads, water and electricity often detract from the suitability of many parcels as home sites. When services are added, they often increase prices way beyond what prospective purchasers can afford. A third factor is the consideration of physical constraints. Again using Metro Manila as an example, physical constraints to special developments are largely lacking. Manila is on the edge of a large plain, and in theory its potential expansion is unlimited. Undoubtedly, such unlimited growth would not be desirable in that the Luzon Plain is one of the principal food-producing areas of the country and decreasing its agricultural acreage significantly would harm that sector of the economy.

D. LAND COSTS

As might be expected, urban land, and its value and use are location-specific; accordingly, land prices are largely location-linked. In Metro Manila, land prices definately follow that criterion. In prime real estate areas, such as Makati, land prices for residential purposes can reach as high as P2,000/m2, which dictates that such land be used for upper incomer housing. Relatively well located home sites, but not prime sites, would sell for as low as P500/m2, and generally homes for middle income groups are built on lots at that price.

Other than sites in the NHA sites and services projects, low-income families are able to purchase affordable lots in the outlying areas of Metro Manila, generally 20 to 30 kilometers from downtown Manila. For example, a 100m2 lot in one of these latter locations, served with a septic tank, well water, and graded but unpaved road sells for about P70 per square meter. A higher grade developments, say with asphalt roads instead of graded roads costs about P100 per square meter. At outlying developments such as Carmona, with infrastructure consisting of concrete roads, and central water and sewer systems, lots sells for P150 to P300 per square meter depending on the size and location within the development.

Land prices have tended to increase over the past few years at a much faster rate than other prices. During the period 1975-1979, one company published data showing that some raw land had increased by over 700 percent in Metro Manila, and that in no case had the increase been less than 117 percent. Conversations with developers indicate that trend continues today (see Table VI-1).

E. LAND REGULATIONS

The most important event to occur in the area of land regulation was the establishment of the Human Settlements Regulatory Commission (HSRC) in early 1981. Its creation was a tacit recognition of the need to bring some coherence to the land use and regulatory component of the shelter sector as well as to facilitate and implement the government's expanded housing program. The objectives of HSRC are to promote land development together with land use control measures. Additionally, the HSRC is charged with fostering the growth and renewal of urban and rural communities through an integrated approach that promotes optimum land use and environmental protection. Accordingly, HSRC implements a number of pieces of legislation, the most important of which are:

- PD 815, regulating of the conversion of agricultural lands to non-agricultural uses;

- LOI 729, requiring local governments to submit land use plans and zoning ordinances for review and subsequent implementation;

Table VI-1: LAND PRICE INCREASES WITHIN METRO MANILA, 1975-79 /a

Area	1975 price (P/sq.m.)	Percent change 1975-79
A. Manila, Pasay, Mandaluyong,/b San Juan		
- Developed sites	160	134
B. Quezon City		
- Development sites	150	117
- Raw land	18	150
C. Navotas, Caloocan, Malabon		
- Developed sites	110	173
- Raw land	7	442
D. Muntinlupa, Las Pinas, Paranaque		
- Developed sites	78	317
- Raw land	9	733
E. Makati, Greenhills, Ortigas		
- Developed sites	350	214
F. Pasig, Marikina, Pateros, Taguig, Valenzuela		
- Developed sites	72	152
- Raw land	14	364

/a Based on means of reported high and low values.

/ Excludes the Greenhills and Ortigas areas which are included in Group E.

Source: Compilation of transactions data by the RGV Group of Companies.

- Executive Order 648, providing for the enforcement and implementation of land use policies as well as all regulatory aspects of various statutes, such as the Urban Land Reform Program and the Subdivision and Condominium Buyers Protective Decree;

- BP 220, reducing site development and building standards for low income housing.

  HSRC's major functions are to:

  - Promulgate zoning and other land use control standards and guidelines.

  - Review, evaluate and approve or disapprove comprehensive land use/development plans and zoning ordinances.

  - Issue rules and regulations to enforce policies, mandates and legislations regulating the use of land, land values, and rental and improvement of land.

  - Ensure compliance with policies, plans, standards and guidelines on human settlements.

  - Act as the appelate body on decisions and actions of local and regional planning and zoning bodies and of the deputized officials of HRSC.

  - Develop and implement prototype projects supportive of its regulatory functions.

  - Issue orders, after conducting the appropriate investigation, for the cessation or closure of any use or activity and for the vacating or demolition of any building or structure for violation or failure to comply with relevant laws and directives.

With respect to land development for residential use, HSRC has provided major benefits. Prior to its creation, developers had to secure approval and permits from a number of bureaus before initiating work on a site, and it was not uncommon for this approval process to last six months or more. Moreover, there were contradictions and overlaps by the varous agencies which complicated the land development process. With the establishment of HSRC, developers are able to obtain all approvals at one location. If project proposals are complete and in order, approval can be obtained in as few as 15 days which not only speeds up the planning period but reduces the development cost.

One of the major recent activities of HSRC was to prepare an inventory of all the squatter settlements in Manila. This document was recently published, and it maps and describes 244 squatter settlements slated for priority attention. Unfortunately, only a handful of these settlements have received any financial and technical assistance due largely to budgetary constraints. The establishment of HSRC is another indication of the favorable trend over the past few years leading to improvements in the shelter sector.

F. LAND REGISTRATION

One component of the building approval process that has been left out of the HSRC processing system is the land registration system, which is handled independently by the Land Registration Commission. In transferring a registered land title from seller to buyer, the process is relatively easy and expeditious. However, in cases where larger parcels of land are to be subdivided into smaller lots, which is the case both for new subdivision developments and slum settlements being blocked out for sale to squatters, delays in processing have occurred. For new projects on vacant land, these delays cause inconveniences as well as increase the costs to the developers. At squatter settlements, delays in handing over titles to the occupants often prevents the public sector developer, in most cases the National Housing Authority, from initiating collections. While payments will be collected at the tail end of the collection period, it causes a cash flow problem for NHA in the interim. Expediting the process for registering new titles would assist the shelter sector, especially as it relates to low income solutions.

G. LAND USE PLANNING

One of the major programs of HSRC is to assist cities and municipalities to formulate town plans and zoning ordinances, and to provide assistance to these local governments for the implementation of such plans and ordinances. Of the 1,570 cities and municipalities nationwide, about 900 have prepared town plans which have been either granted approval or conditionally approved. Once approved, in effect these town plans become zoning ordinances. A local government officer is then designated as a zoning administrator, whose task is to regulate and moniter the zoning ordinance. HSRC assumes the task of training and supervising Zoning Administrators so as to continue improving the performance of these officials.

VII. CONSTRUCTION INDUSTRY

A. INTRODUCTION

The construction industry is one sector of the economy that has registered relatively constant growth over the past few years, increasing from 7.2 percent of GNP in 1977 to 8.2 percent in 1981. Most of the increases, particularly in 1982, derived from the rapid growth in the residential component of the construction sector and reflects the impact of the increased funds flowing into the construction sector and reflects the impact of increased funds flowing from the HDMF-NHMFC-HFC shelter finance system. In 1984, overall construction is projected to experience an overall 3 percent decline, but residential construction is expected to continue to expand by about 5 percent.

B. ORGANIZATION OF THE SECTOR

The capacity of the local construction industry is considered adequate for most types of projects carried out in the Philippines. With the exception of complex building projects, local contractors are capable of undertaking general construction projects, including all types of residential construction projects. However, Philippine contractors have not yet reached the stage of development to compete on international jobs, as have the Koreans, for example.

There are an estimated 400 contractors in the Philippines who are considered capable and qualified, most of whom are located in Manila where much of the construction activity takes place. Many are small contractors, with few assets, who generally operate with rented equipment and contract labor, and only mobilize when a job is in hand. The larger contractors have sophisticated management, often use computers to manage construction operations, and maintain permanent staff and equipment. Larger contractors also have development subsidiaries to promote new projects, which in turn are built by affiliated contractors. These contractor/developers are usually associated with a bank, perhaps holding an equity position, in order to facilitate obtaining construction financing.

Most builders and developers belong to the Chamber of Real Estate and Building Association, Inc. (CREBA), a trade association of 26 construction-related associations, plus 400 individual builders, developers and building material suppliers. CREBA functions as the industry's lobbying group, and has had a significant input in proposals to reduce minimum standards for low income housing. CREBA is a strong supporter of recent government initiatives to revise building standards and increase housing production.

Major contractor/developers, such as Ayala, Ortigas, and Soliven, have not yet become involved in lower income housing projects, preferring instead to concentrate on larger projects such as office buildings and upper income housing, including highrise condominiums. Other major contractor/developers, somewhat smaller than the three mentioned above, have started to build lower income projects to complement their more typical higher cost projects. Cityland Development Corporation which in the past has usually developed condominium offices and residences is now developing a lower income housing project, producing units with a sales price as low as P73,000. In other cases, the new government programs have encouraged the formation of companies to develop company-owned property for low income housing projects.

C. LABOR SUPPLY

The supply of labor is adequate. As expected, unskilled labor is in abundant supply while skilled labor suffers shortages from time to time. In general, however, the availability of labor is not a constraint. The Philippines is a major source of workers for other developing countries where labor is in short supply. In 1982, about 330,000 Filipinos were contracted to work overseas, largely in the Gulf States, and many of whom were employed in the construction industry. However, this has not caused either a shortage of construction workers in the Philippines nor has it increased labor costs.

D. CONSTRUCTION MATERIALS

Construction materials, particularly those materials used in low income housing, are for the most part locally produced. The two most common materials, wood and cement, are produced in abundance. There is evidence of excessive logging, with reseeding programs not keeping pace with cuttings. For that reason, log exports are being terminated, but lumber production for local use is not to be curtailed.

The principal concern of local builders is the expected increase in the cost of building materials. Although most materials are produced locally, there is an import component in all products, particularly with regard to energy requirements. With the recent devaluations of the peso, material costs have and probably will continue to increase. While some costs may be passed on to the consumer, builders must absorb these increases for pre-sold houses where the sales price is fixed before construction is initiated or completed. In the long run, increases in material costs will increase the cost of housing. Only if wages and salaries of prospective homebuyers increase at rates in excess of construction costs will the consumer be able to maintain an edge.

The most recent information indicates that material costs are increasing rapidly. The Wholesale Price Index for selected construction materials shows that reinforced steel increased by 108.6% in the one-year period ending in January 1984. During that same period, structural steel increased by 66.6 percent and lumber by 36.3 percent. Portland cement, a key element in all types of housing, shows an increase of 18.9 percent, the smallest rate of increase for all construction materials in the index.

E. CONSTRUCTION COSTS

As a result of recent increases in materials and labor, construction costs have been climbing upwards, although in the case of low-cost housing, relative costs vis-a-vis incomes may have decreased due to the lowering of building standards. One study shows that over the five-year period ending in 1981, housing prices in Manila increased by 75 percent, while outside Manila the increase was slightly below 100 percent for the same period. While this is only somewhat in excess of inflation, it would appear that the real increases in housing costs are found in the valuation of raw land (see Section VI).

Table VII-1: Price Indices for Houses and Serviced Lots

1977 - 1981

	Metro Manila			Outside Metro Manila		
	House and Lot	House	Serviced Lot	House and Lot	House	Serviced Lot
1977	100	100	100	100	100	100
1978	114	117	140	111	110	117
1979	136	131	181	120	118	128
1980	156	148	211	188	176	217
1981	181	175	221	194	196	234

Source: RVG Group of Companies

As Table VII-1 shows, serviced lots have increased at a faster pace that houses alone, again confirming that the increase in dwelling unit costs, including land, have been largely confined to a large degree to land costs. Costs of construction alone for low- to middle-income housing ranges today from P1,000 to 1,800 per square meter depending on the materials used and the level of finish.

One developer claims to be building a finished concrete block for sale at P1,100/m2. In another case, a developer builds a 36m2 unfinished concrete block home for about P900/m2. By unfinished, he excludes all interior partitions, except for the sanitary core, and painting of the exterior and the interior walls. Another developer will deliver a 42m2, concrete panel home for P1,200/m2, with partitions and fully painted.

The least expensive home encountered was what is called the 'flexihome', being sold at P1,000/m2. The flexihome is a prefabricated dwelling unit being manufactured by the National Housing Corporation (NHC), an agency under the auspices of the Ministry of Human Settlements. The purpose of building such a unit is to provide a low-cost housing solution that can be erected rapidly on a building plot. The unit is manufactured completely in the NHC plant and then trucked to a prepared site. A flexihome delivered in the morning can be ready for occupancy in the evening.

Flexihome units are constructed in modules, beginning with a 17m2 core, which consists of one room and a sanitary core. Additional modules are added to the core, including a second floor, to attain a maximum size of 77m2. The units themselves are built essentially of wood, which is readily available in the Philippines. It is an attractive unit, being built in an A-frame style so as to combine part of the wall and roof area, thereby reducing costs. Production of the first units have just been initiated, with the expectation that production will expand to an estimated 10,000 units annually. Marketing efforts have been undertaken, with residents of low income communities being brought to the plant to view the homes. According to NHC, the response has been favorable. If the NHC can maintain its proposed price of P1,000/m2, which NHC claims is a non-subsidized price, then it is possible that a market for flexihomes will materialize. Experience has shown, however, that in many cases, prefabricated housing units are not always marketable or price-competitive.

NHC expects to sell the flexihome to purchasers of serviced lots in Tondo, Dagat-Dagatan, and other sites where both the National Housing Authority and other MHS agencies are involved. At a lower price than any competitor now produces, NHC should have a competitive edge over other builders and building systems manufacturers. The market, therefore, should determine if the flexihome is in fact a marketable dwelling unit. It is understood that purchasers of serviced lots provided under government programs will not be obligated to purchase a flexihome as a condition for approval of a home site.

F. BUILDING REGULATIONS

Batas 220 is the legislative decree that has had a major effect on the development of low income housing. Prior to its enactment in early 1982, all shelter development projects were covered by a single set of minimum standards which precluded the construction of homes for low income families by the formal sector. By accepting the concept of affordability, the GOP established a complementary set of minimum standards which reduced dramatically the cost of a home. Finishing standards, minimum lot sizes, dwelling units, room sizes and heights have all been reduced. Infrastructure standards have also been reduced accordingly. For example, the Batas 220 standards permit the construction of 20m2 unit versus a 40m2 unit under the previous standards. The effect of Batas 220 is that a developer can choose to develop a project under these reduced minimum standards and thereby reach a new market group. Developers may, of course, continue to use the other set of standards for more conventional housing for moderate and higher income families.

The enactment of Batas 220 was also crucial to the implementation of MHS' new housing finance programs, as are explained fully in Section IV. Needless to say, it would not have been feasible to implement a housing program for all Filipinos through the HDMF/NHMFC finance system, had not builder/developers been able to construct affordable units for all eligible families. Batas 220 permits this course of action.

The Builders Association has suggested that the standards for low income housing be relaxed further, and it has drafted legislation to that effect. While an interesting concept to consider, it is more important to encourage builders to respond to the present set of minimum standards, and once accepted and tested fully, additional modifications can be attempted.

VIII. ECONOMIC CONSIDERATIONS

A. INTRODUCTION

Economic conditions in the Philippines are rapidly changing. In fact, since the field work for this SSA was completed in September 1983, public announcements relating to new economic events have been made almost weekly. Efforts have been made to keep abreast of these changes and incorporate them into this SSA. However, the very magnitude of these changes, their impact on the economy, and the lack of accurate and up-to-date information in Washington, may leave gaps in this analysis of the Philippine economy. Moreover, the economy has not stabilized, nor is it likely to stabilize in the next few months or perhaps years. In that case, periodic updates of the economic situations will be necessary in order to keep the SSA current.

Given this situation, this section on the Philippine economy only highlights economic conditions as they might affect a foreign loan for housing as well as to give the reader a sense of the economic situation in the country. For more detailed information, reference should be made to documentation prepared by the Philippine Central Bank. Furthermore, as a result of Philippine requests to the various international finance agencies for financial assistance, both the World Bank and the International Monetary Fund have compiled extensive reports on the economy. While current political events in the Philippines are not covered in this SSA, it is clear that they are having a decidedly negative impact on the performance of the economy.

B. THE ECONOMY

By 1981, per capita income in the Philippines had attained a level of US$740, which reflects a real GNP average growth rate of 6.3 percent annually over the previous decade. However, the rate of economic growth began to drop in the 1980s. Real GNP increased by only 3.8 percent in 1981, and by an even smaller increase of 2.8 percent in 1982. Preliminary estimates show that GNP may have reached 2 percent in 1983, while the projection for 1984 is that GNP will decline to zero or become negative. Accordingly, per capita income as calculated in U.S. dollars has fallen to about $600 annually, which reflects both the decrease in the growth rate of GNP as well as the devaluation of the peso.

Until mid-1983, some sectors of the economy such as agriculture, were affected less than others by this economic slowdown. The mining sector, on the other hand, suffered a decline in production of 7.3 percent in 1982 alone, as copper prices dropped to their lowest level since 1979. Manufacturing grew by only 2.4 percent in 1982, in part resulting from a reduction in export demand. The bright spots in the economy in the past two years (to mid-1983) are the following:

a) Sustained self-sufficiency in rice, and increased production of corn and other crops;

b) Increased production from local energy sources from 5 percent in 1970 to about 32 percent in 1980 of total requirements;

c) Reduction in inflation from 32.2 percent in 1980 to an annual rate of 6.7 percent as of April 1983; and

d) Steady expansion of the construction sector, and more particularly residential construction, with a concomitant increase in employment opportunities.

In spite of these economic bright spots, events in the past year alone have exacerbated the economic situation, and to some extent, they emphasize the fragility of the Philippine economy. Such problems include a rapidly deteriorating balance of payments account, rising unemployment and under-employment, falling international reserves, a weak currency, increased inflation, and a growing problem in the country's ability to service its foreign debt. Moreover, the construction sector, formerly a leader in economic growth, has fallen on much harder times.

C. BALANCE OF PAYMENTS

As late as June 1983, the Central Bank had projected that that year's balance of payments deficit would reach US$562 million. By the end of the third quarter, the Central Bank announced that the deficit had widened to about US$800 million, with one fiscal quarter still remaining in the year. At that rate, the year-end deficit would be roughly double the rate projected at mid-year. In fact, the actual shortfall recorded for the 1983 year to mid-october was US$2.05 billion.

The government has devalued the peso twice recently as one measure to reverse the balance of payments deficit. On October 5, 1983, the peso was devalued by 21.4 percent against the U.S. dollar, which effectively lowered the value from 11 to 14 pesos to the dollar. Eight months later, the government allowed the peso to "float" to a new level against the U.S. dollar. It is expected that the government will let the peso reach the unofficial market level of 18 to 20 pesos to the dollar. By devaluating the peso, the government expects to reduce the trade gap by making its exports more attractive and boosting the prices of imports into the Philippines. Moreover, by setting a cheaper exchange rate, the government expects to reduce the capital flight from the Philippines, which is believed to be a major factor in the deteriorating balance of payments situation.

The devaluation in October 1983 was decided upon only after the IMF had required financial reforms as a condition to granting standby credit, which still had not been granted as of mid-June 1984. The second devaluation, aimed at reducing the gaps between the official and unofficial exchange rate and coinciding with other reform measures, would appear to enhance the possibility of obtaining standby credit from the IMF.

Over the course of the last 8 to 10 months, the government has applied a number of additional measures aimed at reducing the balance of payments deficit. These measures have included various restrictions on imports and the activities of commercial banks, all of which are aimed at generating and/or conserving reserves and improving the balance of payments. However, the situation has continued to deteriorate.

The most recent devaluation was accompanied by a number of other measures, including an additional 2 percent tax on imports and a 5 percent cut in government spending. All these efforts are directed toward resolving the economic crisis and obtaining the credit. The anticipated US$650 million IMF credit would not only bring in badly needed hard currency, but would also pave the way for rescheduling the foreign debt and gaining access to an additional US$1.65 billion in new trade credits from foreign banks.

D. FOREIGN DEBT

By the end of June 1983, the government of the Philippines estimated that the foreign debt amassed by the combined private and public sectors totalled about US$18 billion. Of this total, US$13.4 billion was classified as fixed debt, while US$4.6 billion was revolving credits, mostly supplier credits. At that time, there was some dispute as to whether the foreign debt figure provided by the GOP was on the low side. Many international bankers heavily involved in loans to the Philippines estimated that the total debt was as high as $22 billion, while Morgan Guaranty stated that the true figure was $20.8 billion. By October 1983, it became clear that even the highest estimate was much lower than the country's actual debt, and while hard figures are not available, all observers, including the Philippine government, agree that the total foreign debt is in the US$25 billion range.

The government has not been able to service this debt. In October 1983, negotiations were concluded between the Central Bank and representatives of foreign lenders which led to a three-month moratorium on loan repayments of principal until the end of this year. It is assumed that interest payments will continue to be made.

This moratorium has been extended for two additional three-month periods and it is expected that there will be another extension in July 1984. While this action has provided some respite from the demands of foreign creditors, it has not resolved the problem. Until such time that an agreement is reached with the IMF, this problem of repayment on foreign loans is not likely to be satisfactorily resolved.

The Central Bank limited new external borrowings in 1983 to $2 million. The Bank approved $1.28 million, of which $508 million is long-term of at least 12 years while the other $212 million is shorter term. The purpose of imposing a ceiling on new foreign loans was to maintain the debt service ratio (roughly calculated as the ratio of foreign debt to the foreign debt payments) below the statutorily mandated maximum of 20 percent. The Central Bank calculates the ratio at 19.6 percent for this year, based on a total foreign debt of around $18 billion. If the debt exceeds that amount, as some foreign bankers expect, then it is likely that this 20 percent ratio will be exceeded. On the other hand, borrowings have actually slowed down, leading some observers to believe that no more than $1.5 million may be borrowed this year. (It should be pointed out that the World Bank calculates that the 20 percent ratio has been exceeded, based on a different formula the World Bank employs to calculate debt service ratios.)

The Philippines has had recourse to the World Bank's Structural Adjustment Loan Program. The first US$200 million SAL was designed to cover primarily Manila, to reduce its reliance on imported energy, and to reduce and reorganize the country's highly protective tariff structure. The program is on schedule thus far, but it has come up against some emergency measures the government took to maintain this year's balance of payments deficit at the projected level which may delay the program. However, as mentioned earlier, the balance of payments deficit has already exceeded the projected deficit for the year. A second US$300 million SAL was signed in April of this year, which included a program to rationalize industrial incentives. This has resulted in the enactment of a new Investment Incentives Act. Discussions for a third US$300 to US$350 million SAL are now underway, which would include programs for agricultural credit and incentives, as well as reforms in the nation's agricultural institutional framework.

E. INTERNATIONAL RESERVES

Information on international reserves has been stated in differing amounts over the past year. As of June 1983, government figures indicated that the Central Bank's gross international reserve stood at US$2.3 billion, which was about 10.2 percent or $260 million less than the amount recorded six months earlier. The decrease reflects the government's use of its reserves to finance the continuing imbalance of trade. At that time, the reserve was equivalent to three months of import requirements, which, while not ideal, was at least adequate. By the end of the third quarter of 1983, reserves had officially decreased to about US$1.5 billion. Days later, on October 17, the government announced that reserves had dropped to US$430 million - a drop of US$1 billion in 17 days - attributed to massive capital flight. Later, the government admitted that the reduction represented a correction of the previous erroneous statement of reserves. By the end of 1983, the IMF reported that reserves had increased to about $800 million, but had fallen once again to settle at $680 million as of March 1984, reflecting in part the fact that exports continue to exceed imports.

F. IMPACT OF A HOUSING LOAN ON THE ECONOMY

The provision of a long-term external loan at market rates to be used for the construction of low income housing or the purchase of low income mortgages, the proceeds of which would then be reinvested in low income housing resulting in a favorable impact on the Philippines' economy in several respects. First, additional funds for housing construction implies a need to increase the production of materials and hiring of labor, all of which has a salubrious effect on employment, one of the major problems of the economy. Second, since the Philippine economy is almost self-sufficient in the production of building materials, especially those materials required for low income housing, local currency use would be maximized, leaving the hard currency derived from the foreign currency loan for use by the Central Bank to cover other hard currency needs. Third, the hard currency would bolster the international reserves account, at least for the short term, or conversely, long-term loan funds could be used to improve the composition of the foreign debt portfolio by reducing the amount of short-term loans. Finally, the construction sector of the economy would be given a boost, which in turn would spill over into other sectors of the economy, helping to lead, however small, to a recovery in the economy.

IX. OTHER DONOR ACTIVITIES

In 1981, total donor activity as reflected in Official Development Assistance attained a level of US$412 million of which US$258 were loans, and the remainder grants. The major bilateral donor was Japan followed by the U.S., while the International Bank for Reconstruction and Development (IBRD) was the major multilateral donor. Commitments for Official Development Assistance (ODA) appear to be much higher, with USAID reporting that slightly more than US$1 billion in ODA was committed in 1978 alone. Except for the World Bank, little ODA has flowed to shelter projects.

A. IBRD

In the shelter area, the IBRD has been the major, almost the only donor. To date, the World Bank has approved four urban projects, all of which have shelter components, with three additional urban projects in the planning or preparatory stage of development. The status of the four approved projects are as follows:

- Urban I - Upgrading of Tondo Foreshore Squatter Settlements. Implementation period was 1976-1982. It involved upgrading a squatter settlement of approximately 17,000 families, plus the provision of some 1,500 site and service units for displaced families. Total project cost for both activities was about P445 million.

- Urban II - Dagat-Dagatan Sites and Services Project. Implementation period was 1979 to the present, with completion expected in 1984. It involved the provision of about 5,000 sites and services and community facilities at Dagat-Dagatan, for displaced families from Tondo-Foreshore. Project cost is estimated at P227 million.

- Urban III - Metro Manila Slum Upgrading Project. Implementation began in 1980, with completion expected in early 1984. The project consists of upgrading 13 slums, consisting of 17,000 plots and 29,000 families. Total project cost is estimated at P337 million.

- Urban IV - Secondary Cities Project. This loan was approved in the spring of 1983, and implementation has just begun. It includes squatter upgrading and site and service projects in the cities of Davao, Cagayan de Oro, Iloilo City and Bacalod City, and some transportation work in Manila. It is expected to cost US$115 million.

- Urban V - Municipal Development Project, is still in the conceptual stage of design development.

- Urban VI - Central Visayas. Urban project will comprise of a number of site and service projects, urban upgrading and transportation projects in cities in the Central Visayas region. It is still in the project preparation stage.

- Urban VII - Municipal Services Development Program, for 17 secondary cities in Luzon. Same status as Urban VI.

(For a more detailed review of the World Bank's experience and projects in the Philippines, refer to Section IV's discussion of the National Housing Authority.)

B. K.F.W. - THE WEST GERMAN AID AGENCY

The Germans provided a below market loan to finance the development of 1,500 units and some community facilities as a part of the overall packaging of the Dagat-Dagatan slum upgrading project. They have not financed any other shelter projects.

C. U.S. AID PROGRAM

The 1979 Amendment to the Military Bases Agreement stipulated that US$200 million in economic assistance would be provided to the Philippines. Under this Amendment, Economic Support Funds (ESF) would be directed principally to areas surrounding the military bases. To date, projects have been approved in such project areas as school construction, municipal development, access and feeder roads, rural energy development and markets. The largest single component is the Municipal Development Fund project with US$68 million in grant funds budgeted. Its purpose is to provide financial and technical assistance to eligible cities and municipalities in three areas: 1) technical assistance to improve administrative and project development and management capabilities; 2) infrastructure development, such as roads, bridges, and flood control: and 3) public enterprise development. While there is no shelter component in this related activity, cities and municipalities will benefit from AID's assistance. The implementing agency is the Ministry of Human Settlements.

D. ASIAN DEVELOPMENT BANK

The Asian Development Band (ADB) has limited its urban programs to infrastructure improvement projects; It has not prepared any shelter projects, however, there have been discussions with the IBRD about how the two institutions might collaborate on a joint urban or shelter project. Due to ADB policy, any such project would probably be directed to secondary cities rather than Metro Manila.

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FOOTNOTES

II. POPULATION AND INCOMES

1/ This assumption is taken from a study by Encarnacion N. Rarnlio; however, many experts believe that the attraction of Metro Manila is too strong to effectively counter the city's rapid urban growth patterns.

IV. ANALYSIS OF GOVERNMENT INSTITUTIONS

1/ The eleven sectors identified by the Ministry of Human Settlements as being shelter-related and therefore falling under its purview are: water, power, food (agriculture), clothing (cottage industries), economic base (livelihood), medical services, education, culture and technology, ecological balance, sports and recreation, shelter (housing and credit utilization), and mobility (roads, transportation and communication).

2/ The acronym 'Pag-Ibig' stands for Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya at Gobyerno, roughly translated to mean: Union between You, Bank, Industry and Government. 'Pag-Ibig' itself is the word 'love' in the Philippine national language, and was chosen by HDMF as part of its marketing strategy.

3/ Besides retirement, other conditions which enable HDMF members to withdraw their contributions include permanent emigration, death, disability or insanity.

4/ As late as mid-1983, HDMF was projecting membership growth in 1986 to reach 2.78 million and cumulative contributions to total P6,247 billion. The projected membership growth shown in Table IV-1 is somewhat lower, reaching only 2.61 million members, though conceivably HDMF membership could total the original projections. On the other hand, contributions are projected to be nearly P12 billion, based on projected membership growth, a monthly base salary in 1983 of P1,300 and an annual compounded salary increase of 20 percent.

5/ Through mid-1983, NHMFC received a 4 percent loan commitment fee, and banks received 3 percent. By late 1983, NHMFC's commitment fee had been increased to 5 percent, but available information makes it unclear as to whether the commitment fee payable to loan originating institutions is still 3 percent or if it has been lowered to 2 percent.

6/ Bond sales are assumed to have stayed at P1.6 billion, since available information does not reflect any additional sales. However, it should be noted that NHMFC's year-end statements indicate bond liabilities of P1.61 billion, though it is unclear where the additional P10 million in sales occurred, since additional offerings have not been reported. In any event, this incremental difference does not significantly affect this analysis.

7/ Annex 1 shows an operating deficit of over P237 million for 1983, while NHMFC's year-end statement reflects a surplus of P6.8 million. The discrepancy appears to be largely in the amount of interest NHMFC has paid or accrued. In 1982, interest on BMPCs totalled P147.4 million, and presumably the same charges applied in 1983 since these bonds are still outstanding. In addition, interest payable on BCs is estimated to have been P99.1 million for the same year, bringing total bond interest to P246.5 million. NHMFC reports interest paid in 1983 as only P202.8 million, which presumably includes interest on BMPCs, BCs and HDMF trust funds. The effective rate of interest on HDMF trust funds is 13.5 percent, and interest paid should have ranged from P138.9 million to P 250 million, based on year-end cumulative funds held in trust for 1982 and 1983, respectively. The 1983 income and expense statement in Annex 1 has used the figure P202.8 million as the amount paid to HDMF, assuming that the amount of interest reported paid was that paid to HDMF, while interest owing on bonds may be accounted for on an accruel basis, though NHMFC's year-end reports do not provide clarification on this point. The statements appearing in Annex 1 are thought to more accurately represent NHMFC's actual expenses, though they may not have been fully incurred on a cash basis as a result of accruing bond interest.

8/ Consultants who have visited the Philippines subsequent to the field work of the Shelter Sector Team report that NHMFC has begun using HDMF trust funds for this purpose, but the extent of their use to purchase mortgages is uncertain, and it is unclear if this represents a permanent departure from past policy or if it is only a temporary measure.

9/ The six agencies consolidated by NHA were:

- People's Homesite and Housing Corporation
- Presidential Assistant on Housing and Resettlement Agency
- Tondo Foreshore Development Authority
- Central Institute for the Training and Relocation of Urban Squatters
- Presidential Committee for Housing and Urban Resettlement
- Sapang Palay Development Committee
- Inter-Agency Task Force to undertake the Relocation of Families in Barrio Nabicaan, Villanueva and Misamis Oriental

10/ World Bank. "The Philippines: Housing Finance." Report No. 3732-PH. World Bank (Washington, D.C.), April 12, 1982, p.58.

V. FINANCIAL INSTITUTIONS

1/ The Manila Reference Rate is an average of deposit costs at the five largest banks in Metro Manila.

2/ There are two stock exchanges in the Philippines, the Manila Stock Exchange and the Makati Stock Exchange. (Makati is Manila's financial district.) There are only 26 and 18 companies trading shares on these exchanges, respectively. These exchanges have never been especially active or quantitatively important for a number of reasons:

a) Private entrepreneurs are not disposed to share control of their enterprises, and therefore have not tended to raise new equity through stock sales.

b) Traditionally, the high interest rates and tax advantages on short-term money have biased the preferences of savers toward short-term investments and constrained the demand for long-term growth investments, such as stocks.

c) Stocks are not an investment of high liquidity because the market size is limited.

d) Substantial swings in the stock market foster the sentiment that the market is inadequately controlled by regulatory authorities.

e) Information dissemination about the stock market has been poor, especially to small investors.

3/ World Bank. "The Philippines: Aspects of the Financial Sector." Report No. 2546-PH. World Bank (Washington, D.C.), October 1, 1979, p.16.

4/ World Bank. "The Philippines: Housing Finance." Report No. 3732-PH. World Bank (Washington, D.C.), April 12, 1982, p.50.

ANNEX 1

HDMF and NHMFC Financial Projections

The financial conditions and performance of the Home Development Mutual Fund (HDMF) and the National Home Mortgage Finance Corporation (NHMFC) are closely inter-related. Annex 1 reviews these linkages based on actual year-end figures through 1983, with projections through 1986 based on current operating policies and past performance. Longer-term projections have not been made since the economic situation in the Philippines has entered a period of change and adjustment, making projections beyond 1986 somewhat irrelevant. It is worthwhile to note, however, that the National Council of Savings Institutions has developed a computer program for generating the following data; thus, if there are changes in the assumptions, variables or conditions upon which these projections are premised, updated projections can be readily prepared.

Three scenarios for 1984-1986 have been projected, based on different growth rates for HDMF and NHMFC, as follows:

Case 1 - moderate growth rate
Case 2 - low growth rate
Case 3 - high growth rate

The growth rate and related conditions projected in Case 1 appear attainable and perhaps this case should be considered the most realistic scenario, thus warranting closer consideration. Cases 2 and 3 have been included to provide general parameters in which to analyze the HDMF/NHMFC system's fiscal conditions and future viability. All three cases show similar trends which will be discussed later.

For the purposes of developing these projections, three factors have been used to establish growth rates:

1. HDMF membership growth. HDMF's membership growth has a direct bearing on the financial resources which will become available to NHMFC. Through payroll deductions, members contribute to the HDMF fund. In turn, HDMF passes on or invests most of these funds in NHMFC. NHMFC holds these funds in trust and uses their presence to leverage or stimulate bond sales (BMPCs and BCs). Case 1 projects annual membership growth at 8.5 percent between 1983 and 1984, and 7.5 percent in 1985 and 1986. Similarly, Case 2 projects membership growth at 8.5 percent between 1983 and 1984, but only 5 percent in 1985 and 1986. Case 3 projects membership growth at 9.5 percent for each year after 1983.

2. Base salary and salary increases. HDMF members contribute 3 percent of their base salary to the HDMF (or Pag-Ibig) fund which is matched by employer contributions. As salaries increase, the fund's assets will likewise increase. Year-end contributions for 1983 would suggest an average base salary of about P730. In 1984, inflation is reportedly in the range of 40 to 50 percent, and in some instances the government has authorized corresponding salary increases. However, such high rates of salary adjustments seem too high to assume across-

the-board or to project for each year through 1986. Accordingly, Case 1 assumes an average base salary in 1983 of P730 with an annual compounded increase of 25 percent. Case 2 assumes a base salary of P700 with a 20 percent increase, and Case 3 assumes a base salary of P760 with a 30 percent increase.

3. Bond sales. A principal objective of the HDMF/NHMFC finance system is to use Pag-Ibig contributions as leverage to sell bonds of even greater value. By leveraging Pag-Ibig funds in this manner, the objective is to increase the availability of resources for housing investment and expand the system. As a means of evaluating the system's performance in this regard, the system's managers commonly calculate the ratio of bond sales to cumulative HDMF funds held in trust by NHMFC, and projected future bond sales are based on increasing this leverage ratio. By mid-1983, NHMFC had achieved an approximate 1.2 leverage ratio, but by year-end this ratio had fallen to .87 as a result of an increase in contributions without a concomitant increase in bond sales. NHMFC still anticipates a much improved leverage ratio, perhaps reaching 2:1 by 1986, but the country's economic climate will probably mitigate against such growth in the next two to three years. Accordingly, the projections in Annex 1 incorporate a much lower growth rate in bond sales. In Case 1, bond sales are shown to be 75 percent of HDMF's cumulative contributions in 1984, reaching 125 percent by 1986. Cases 2 and 3 show lower and higher leverage ratios, respectively.

Eight separate tables are provided for each case, all of which are largely keyed to these three initial assumptions. Each table's individual or principal assumptions appear at the end of the table. These tables and the information they provide are:

HDMF MEMBERSHIP GROWTH AND CONTRIBUTIONS, 1980-1986

The significance of this table has previously been discussed. Estimated base salaries, annual salary increases, membership growth, and annual and cumulative contributions are shown. Actual figures through year-end 1983 have been provided by HDMF. Contributions continued to grow rapidly between 1982 and 1983 as the result on an increased rate of contribution (from 2 percent of salaries in 1982 to 3 percent in 1983), growth in membership and improved collection efficiency. The fund's growth rate is projected to decline over past rates in all three cases.

NHMFC BOND SALES, 1980-1986

This table shows actual bond sales through 1983, and projects sales through 1986. The amount of sales is calculated as a percentage of total HDMF contributions, and not as a percentage of funds actually invested in NHMFC. The line item cited as 'total bonds outstanding' includes both BMPCs and BCs sold through year-end less the amount of bonds which have matured based on their redemption dates. Also, it should be noted that NHMFC has proposed selling Guaranteed Pass-Through Certificates as a means to raise additional capital. In a sense, these can be regarded as three-year bonds. Whether GPTCs would replace or augment bond sales is unclear, but since they would be offered at about the same rate of interest as BCs, it is not considered important to make the distinction between BCs and GPTCs for this analysis.

LEVERAGE OF HDMF FUNDS

As discussed above, the ratio of bond sales to HDMF funds is commonly used as an indicator of the system's ability to expand investment resources beyond Pag-Ibig members' contributions. In this table, two leverage ratios are calculated: ' total bond sales:cumulative HDMF contributions' and 'total bonds outstanding:total funds held in trust by NHMFC'. Thus, while the previous table indicates bond sales to be in excess of Pag-Ibig funds by 1986 for all three cases, the leverage ratio in this table does not exceed 1:1 since the total of bond sales is reduced by the amount of bonds maturing.

NHMFC TOTAL PROGRAM ASSETS, 1980-1986

This table projects the availability of funds to NHMFC to purchase mortgages. It is not a projection of NHMFC's total assets, which would include equipment, accounts receivable, etc. Two principal assumptions are employed in these calculations. First, 90 percent of HDMF's cumulative contributions are invested in NHMFC in 1984 and 1985, dropping to 85 percent in 1986 to reflect an increase in HDMF's own reserve fund requirements. Second, government equity in NHMFC is not projected to increase beyond 1983's level of P220 million.

NHMFC YEAR-END INVESTMENT PORTFOLIO, 1983-1986

This table projects the make-up of NHMFC's investment portfolio through 1986 based on past performance and current policies. Several points or assumptions should be explained:

1. For lack of a better title, a new term has been introduced, 'HDMF loans', which refers to Pag-Ibig and Open Housing loans in order to make a distinction between NHMFC's regular loan purchases and the new program of seasoning mortgages.

2. HDMF loans and other investments are based on the availability of total program assets from the previous table, again distinguishing these investments from seasoned mortgages. The percentage of total program assets used to purchase HDMF loans is projected to decline, from 76 percent in 1983 to 50 percent in 1985 and 1986, reflecting plans to redirect funds into higher-yielding investments while continuing to arrange for mortgage financing through the seasoning program. Accordingly, other investments as a percentage of total program assets increase, from an estimated 20 percent in 1983 to 35 percent in 1985 and 1986.

3. The ratio of Pag-Ibig to Open Housing loans, which was approximately 80:20 in 1983, is projected to be 85:15 in 1984-1986. First quarter statements for 1984 indicate this trend, which to some extent reflects NHMFC's growing emphasis on providing financing to moderate and lower income families.

4. 'Seasoned mortgages' refers to NHMFC's recently-initiated program of having loan originating institutions retain mortgages in their portfolios while paying these same institutions the difference between market interest rates for mortgages and the rates on Pag-Ibig and Open Housing loans. In doing so, NHMFC can redirect its own program assets into higher-yielding investments while still meeting its own goals for providing

housing finance. The value of seasoned mortgages has not been projected as a percentage of total program assets; rather, it is a function of new HDMF loans. Based on NHMFC's first quarter statements for 1984, seasoned mortgages are projected to be equivalent to 20 percent of HDMF loans in 1984, but increasing to 25 percent in 1985 and 1986 based on NHMFC's own projections.

NHMFC PROJECTED INCOME AND EXPENSES, 1983-1986

This table and its assumptions are reasonably self-explanatory. However, a few additional comments are in order:

1. The yields on investments and costs of funds are based on effective interest rates as provided by HDMF and NHMFC. These rates are referred to in the assumptions as 'estimates' owing to the fact that there is some deviation from time to time, but not to any significant degree.

2. The effective yield on seasoned mortgages is estimated at 11.22 percent, which represents the blended rate for Pag-Ibig and Open Housing loans in a ratio of 85:15, reflecting the actual blend for seasoned mortgages in the first quarter of 1984 and the projected blend through 1986.

3. The market rate on seasoned mortgages is projected to be 26 percent in 1984, 24 percent in 1985 and 22 percent in 1986. Recent reports from the Philippines indicate that the current market rate is approximately 26 percent. This rate is projected to decline in anticipation of improvements in the general economy, possibly resulting from economic reforms brought about by IMF and World Bank initiatives. At the same time, it should be noted that interest rates in the Philippines have been high traditionally, and it is possible that they will remain higher than projected through this period.

4. The year-end operating balance for 1983 differs considerably from NHMFC's own financial statements. The table shows a deficit of P237.5 million while NHMFC reports a surplus of P6.8 million. A plausible explanation for this difference appears in footnote 7 to Section IV.

NHMFC COST OF FUNDS COMPARED TO YIELDS, 1983-1986

This table estimates the spread between NHMFC's blended yield on investments and blended cost of funds. Yields have been weighted to include loan commitment fees and costs have been weighted to include mortgage servicing fees. These calculations take into account Pag-Ibig, Open Housing and seasoned mortgages, other investments, HDMF funds, and their respective yields and costs.

NUMBER OF MORTGAGES TO BE PURCHASED BY NHMFC, 1984-1986

Projections are provided on the number of HDMF mortgages NHMFC will purchase, as well as the number of seasoned mortgages to be arranged. The total of these mortgages is compared to NHMFC's own projections for the number of mortgage purchases. These projections are based on a mid-1983 average mortgage value of P124,200, with compounded increases over the previous year of 20 percent in 1984, and 15 percent in the following two years. With regard to average mortgage values, two conflicting trends are at work. The Ministry of Human Settlements through special programs (such as the Private Sites and Services Project and Sariling Sikap) is attempting to provide lower cost housing which would reduce the average mortgage value. At the same time, the rate of inflation is currently estimated at 40 to 50 percent, which can be expected to result in an overall increase in housing costs. Thus, these assumptions on average mortgage values for 1984-1986 are considered reasonably conservative.

In all three scenarios, lower or higher rates of growth in membership and program assets result in enhancing the system's ability to meet its own program objectives, as reflected in such indicators as the leverage of bond sales to HDMF contributions or projected mortgage purchases compared to planned purchases. As would be expected, the higher the growth rate, the more positive these indices become. Two troubling trends also emerge in all three cases: NHMFC is projected to incur sizable annual operating deficits, and the negative spread between its cost of funds and yield on investments is projected to increase. The higher the growth rate, the more negative these indices become. The projected operating deficits are a function of the negative spread which is projected to be in the range of -3.96 (Case 2) to -4.62 (Case 3) in 1986. In the same year, the year-end deficit is projected to range from P369.6 million (Case 2) to P553.7 million (Case 3).

The size of these deficits underscores the need for the HDMF/NHMFC to revise its lending policies by bringing mortgage yields in line with its cost of funds; otherwise, the integrity and viability of the entire system will be jeopordized. The recently-initiated practice of seasoning mortgages appears to be especially problematic in this regard. Under Case 1, the negative spread by 1986 including seasoning is projected to be -4.33 percent; if seasoned loans are disregarded, this negative spread drops to an estimated -2 percent. (This second calculation is based on a different blend in NHMFC's total investment portfolio, reflecting trends between 1981 and 1983. The entire spectrum of new assumptions is too lengthy to detail in this analysis.)

Even moderate changes in the interest rate structure will not totally alleviate this problem. The table below projects NHMFC's spread through 1986, based on the assumptions which follow:

	1984	1985	1986
Cost of Funds	11.82	16.52	16.75
Yield on investments	15.89	16.55	16.65
Spread	4.07	.03	(.09)

Assumptions:

1.	Effective yield/Pag-Ibig loans (est.):	14.10	percent
2.	Effective yield/Open Housing loans (est.):	19.56	percent
3.	Effective yield/seasoned mortgages (est.):	19.56	percent
4.	Effective yield/Other investments (est.):	18.50	percent
5.	Management fee received from HDMF is:	1.00	percent of total HDMF

funds invested in NHMFC.

6.	Loan commitment fees collected by NHMFC are: mortgages placed in 1984-1986, and	5.00 percent of all new 4.00 percent in 1983.
7.	Interest expense payable to HDMF is:	11.00 percent of total HDMF funds invested in NHMFC.
8.	Effective rate of interest on BMPCs is:	14.74 percent
9.	Effective rate of interest on BCs is:	17.25 percent
10.	Est. interest rate/seasoned mortgages is:	26.00 percent (1984) 24.00 percent (1985) 22.00 percent (1986)

11. Mortgage servicing fee is 2 percent of monthly payments, amortized over 25 years at nominal loan rates.

The principal changes to the assumptions which appear at the end of the table entitled 'NHMFC Projected Income and Expenses, 1983-1986' are: 1) increasing the interest rate on Pag-Ibig loans from 10.1 percent to 14.1 percent and on Open Housing loans from 17.56 percent to 19.56 percent 2) seasoning only Open Housing loans; 3) increasing the yield on investments from 16.1 percent to 18.5 percent; 4) decreasing the interest payable to HDMF from 13.5 percent to 11 percent, and 5) increasing the interest rate on BCs from 16.25 percent to 17.25 percent. This last change, increasing the cost of BCs, is an effort to reflect the fact that interest rates are increasing generally in the Philippines, and for NHMFC to be able to sell BCs, it is likely that at least a marginal increase in their interest rate will be necessary.

Despite these changes, NHMFC is still projected to incur a negative spread by 1986, though a slight -.09 percent. Projections beyond 1986 would likely show a worsening negative spread, since this problem tends to be compounded as NHMFC's total operations expand.

Case 1: Moderate Growth Rate

HDMF AND NHMFC FINANCIAL PROJECTIONS

HDMF MEMBERSHIP AND CONTRIBUTIONS, 1980-1986

Year	Membership		Contributions	
	Number (Millions)	Percent Growth	Millions of Pesos	Percent Growth
1980	.38	-	9.61	-
1981	1.54	305.70	113.61	1,082.21
1982	1.90	23.40	643.81	466.68
1983	2.10	10.50	1,106.23	71.83
1984 (proj.)	2.28	8.50	1,300.37	17.55
1985 (proj.)	2.45	7.50	1,754.27	34.91
1986 (proj.)	2.63	7.50	2,357.30	34.37
Cumulative	2.63		7,285.19	-

Assumptions:

Membership growth 1984 - 1986:	7.50	percent annually
Salary increase 1983 - 1986:	25	percent annually
Average member salary in 1983:	730	pesos monthly
Average member salary in 1984:	913	pesos monthly
Average member salary in 1985:	1,141	pesos monthly
Average member salary in 1986:	1,426	pesos monthly

Case 1: Moderate Growth Rate

NHMFC BOND SALES, 1980-1986
(Thousands of Pesos)

	1980	1981	1982	1983	1984	1985	1986
BMPCs (cum.)	152.815	256.040	898.930	1,000,000	1.000.000	1.000.000	1,000.000
BCs (cum.)	0	0	0	610,000	1,380,220	3.927.894	8.106.488
Total (cum.)	152.815	256.040	898.930	1.610.000	2.380.220	4.927.894	9.106.488
Total bonds maturing							
BMPCs	0	0	0	0	0	152.815	256.040
BCs	0	0	0	0	0	610.000	1.380.220
Total bonds outstanding	152.815	256.040	898.930	1.610.000	2.380.220	4.165.079	7.470.228

Assumptions:

1984 bond sales equal	75	% of cum. HDMF contributions
1985 bond sales equal	100	% of cum. HDMF contributions
1986 bond sales equal	125	% of cum. HDMF contributions

Case 1: Moderate Growth Rate

LEVERAGE OF HDMF FUNDS

Year	Total Cumulative HDMF Funds (Mill. of Pesos)	Total HDMF funds Held in Trust by NHMFC (Mill. of Pesos)	Total Bonds Outstanding (Mill. of Pesos)
1981	123.22	121.37	256.04
1982	767.03	732.94	898.93
1983	1,873.26	1,851.83	1,610.00
1984	3,173.63	2,856.26	2,380.22
1985	4,927.89	4,435.10	4,165.08
1986	7,285.19	6,192.41	7,470.23

Leverage (Bonds/HDMF Total Cumulative Funds)	Leverage (Bonds/Funds Held in Trust by NHMFC)	Year
2.08	2.11	1981
1.17	1.23	1982
.86	.87	1983
.75	.83	1984
.85	.94	1985
1.03	1.21	1986

Case 1: Moderate Growth Rate

NHMFC TOTAL PROGRAM ASSETS, 1980-1986

(Thousands of Pesos)

	1980	1981	1982	1983	1984	1985	1986
HDMF Investment (cumulative)	.03	121,370	732,939	1,851,828	2,856,265	4,435,105	6,192,412
NHS Funds (cumulative)	0	0	20,592	21,903	45,000	70,000	70,000
Gov't Equity	1,002	5,897	195,000	195,000	220,000	220,000	220,000
Total Bonds Outstanding	152,815	256,040	898,930	1,610,000	2,380,220	4,165,079	7,470,228
Total Program Assets	153,817	383,307	1,847,461	3,678,731	5,501,485	8,890,184	13,952,640

Assumptions:

90% of HDMF's cumulative contributions are invested in NHMFC in 1984 and 1985, and 85% in 1986.

Note: 'Total program assets' is an estimate of total funds available to NHMFC to purchase mortgages and make other investments. It is not intended to represent total assets.

Case 1: Moderate Growth Rate

NHMFC YEAR-END INVESTMENT PORTFOLIO, 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Loans (cum.)				
Pag-Ibig	2.244.852	3.273.384	3.778.328	5.929.872
Open Housing	561.213	577.656	666.764	1.046.448
Total HDMF Loans	2.806.065	3.851.039	4.445.092	6.976.320
Seasoned mortgages	0	208.995	357.508	990.315
Total loans	2.806.065	4.060.034	4.802.600	7.966.635
Other investments (cum.)	735.746	1.100.297	3.111.564	4.883.424
HDMF loans as a % of total program assets	76	70	50	50
Pag-Ibig as % of HDMF loans	80	85	85	85
Open housing as % of HDMF loans	20	15	15	15
Seasoned mortgages as % of new HDMF loans	0	20	25	25
Investments as % of program assets	20	20	35	35
Value of new HDMF mortgages made in year	1,909.422	1.044.974	594.053	2.531.228
Value of new seasoned mortgages in year	0	208.995	148.513	632.807
Value of total new mortgages for year	1.909.422	1.253.969	742.566	3.164.035

Case 1: Moderate Growth Rate

NHMFC PROJECTED INCOME AND EXPENSES. 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Income				
Pag-Ibig loans	155.900	330.612	381.611	598.917
Open Housing loans	*	101.436	117.084	183.756
Seasoned mortgages	0	23.449	40.112	111.113
Other investments	24.800	177.148	500.962	786.231
Management fee (HDMF)	20.105	28.563	44.351	61.924
Loan commitment fees	45.406	62.698	37.128	158.202
Total income	246.211	723.906	1.121.248	1.900.144
Expenses				
Interest on HDMF funds	202.800	385.596	598.739	835.976
Interest on BMPCs	147.400	147.400	124.875	87.134
Interest on BCs	99.125	224.286	539.158	1.093.019
Seasoned mortgages	0	54.339	89.982	283.538
Mortgage servicing fee	6.500	9.097	10.761	17.851
Operating expenses	27.931	30.724	33.797	37.176
Total expenses	483.756	851.442	1.397.311	2.354.693
Surplus/(Deficit)	(237.545)	(127.535)	(276.063)	(454.549)

Assumptions:

1. Income projections are based on effective yields, applied to total investments.
2. Effective yield/Pag-Ibig loans (est.): 10.10 percent
3. Effective yield/Open Housing loans (est.): 17.56 percent
4. Effective yield/seasoned mortgages (est.): 11.22 percent
5. Effective yield/Other investments (est.): 16.10 percent
6. Management fee received from HDMF is: 1.00 percent of total HDMF funds invested in NHMFC.
7. Loan commitment fees collected by NHMFC are: 5.00 percent of all new mortgages placed in 1984-1986. and 4 percent in 1983.
8. Interest expense payable to HDMF is: 13.50 percent of total HDMF funds invested in NHMFC.
9. Effective rate of interest on BMPCs is: 14.74 percent
10. Effective rate of interest on BCs is: 16.25 percent
11. Market rate on seasoned mortgages is: 26 % (1984)
24 % (1985)
22 % (1986)

12. Mortgage servicing fee is 2 percent of monthly mortgage payments. amortized over 25 years at nominal loan rates.
13. Operating expenses are shown as actual for 1983. with a projected 10 percent increase each year thereafter.

* Year-end statements provided by NHMFC for 1983 combine yields from Pag-Ibig and Open Housing loans. In its year-end operating statements. NHMFC apparently has not included interest owing or accruing on BMPCs and BCs. Estimates of this interest have been included in the above projections which appears to largely account for the difference between NHMFC's statements and the above figures. (Refer to Footnote #7 to Section IV for further discussion of this point.) Also, it should be pointed out that the 'nuances' of NHMFC's activities have not been incorporated into the above projections. such as the timing of the the receipt of investible funds and the purchase of mortgages: rather. these projections are intended to illustrate the outcome of NHMFC's general investment trends and policies.

Case 1: Moderate Growth Rate

NHMFC COST OF FUNDS COMPARED TO YIELDS, 1983-1986
(Percentages)

	1983	1984	1985	1986
Cost of Funds	14.34	12.41	17.41	17.42
Yield on investments	12.55	12.28	13.15	13.09
Spread	(1.79)	(.14)	(4.26)	(4.33)

Assumptions:

1. On Pag-Ibig, Open Housing and seasoned mortgages, NHMFC collects a 5% loan commitment fee and pays the banks a 2% loan servicing fee on monthly collections of loan payments.
2. Seasoned mortgages are equivalent to 20% of combined Pag-Ibig and Open Housing loans in 1984, and 25% in 1985.
3. Market rates for mortgages are projected to be 26% in 1984, 24% in 1985, and 22% in 1986. These rates represent the cost of funds for seasoned mortgages.

NUMBER OF MORTGAGES TO BE
PURCHASED BY NHMFC, 1984-1986

	1984	1985	1986
Number of HDMF mortgages, based on projected funds to be invested in mortgages	7,011	3,466	12,842
Number of mortgages NHMFC projects to purchase	23,500	23,500	28,000
HDMF mortgages as a % of NHMFC's projections	29.84	14.75	45.86
Number of seasoned mortgages	1,402	866	3,211
Total mortgages to be purchased	8,414	4,332	16,053
Total mortgages as a % of NHMFC's projections	35.80	18.44	57.33

Assumptions:

Average mortgage in 1983:	124,200	pesos
Average mortgage in 1984:	149,040	pesos (20% incr. over 1983)
Average mortgage in 1985:	171,396	pesos (15% incr. over 1984)
Average mortgage in 1986:	197,105	pesos (15% incr. over 1985)

Case 2: Low Growth Rate

HDMF AND NHMFC FINANCIAL PROJECTIONS

HDMF MEMBERSHIP AND CONTRIBUTIONS, 1980-1986

Year	Membership		Contributions	
	Number (Millions)	Percent Growth	Millions of Pesos	Percent Growth
1980	.38	-	9.61	-
1981	1.54	305.70	113.61	1,082.21
1982	1.90	23.40	643.81	466.68
1983	2.10	10.50	1,106.23	71.83
1984 (proj.)	2.28	8.50	1,218.22	10.12
1985 (proj.)	2.39	5.00	1,557.18	27.82
1986 (proj.)	2.51	5.00	1,962.05	26.00
Cumulative	2.51	-	6,610.71	-

Assumptions:

Membership growth 1984 - 1986:	5.00	percent annually
Salary increase 1983 - 1986:	20	percent annually
Average member salary in 1983:	700	pesos monthly
Average member salary in 1984:	840	pesos monthly
Average member salary in 1985:	1,008	pesos monthly
Average member salary in 1986:	1,210	pesos monthly

Case 2: Low Growth Rate

NHMFC BOND SALES, 1980-1986

(Thousands of Pesos)

	1980	1981	1982	1983	1984	1985	1986
BMPCs (cum.)	152.815	256.040	898.930	1.000.000	1.000.000	1.000.000	1.000.000
BCs (cum.)	0	0	0	610.000	1.009.461	3.183.794	6.602.315
Total (cum.)	152.815	256.040	898.930	1.610.000	2.009.461	4.183.794	7.602.315
Total bonds maturing							
BMPCs	0	0	0	0	0	152.815	256.040
BCs	0	0	0	0	0	610.000	1.009.461
Total bonds outstanding	152.815	256.040	898.930	1.610.000	2.009.461	3.420.979	6.336.814

Assumptions:

1984 bond sales equal 65 % of cum. HDMF contributions

1985 bond sales equal 90 % of cum. HDMF contributions

1986 bond sales equal 115 % of cum. HDMF contributions

Case 2: Low Growth Rate

LEVERAGE OF HDMF FUNDS

Year	Total Cumulative HDMF Funds (Mill. of Pesos)	Total HDMF funds Held in Trust by NHMFC (Mill. of Pesos)	Total Bonds Outstanding (Mill. of Pesos)
1981	123.22	121.37	256.04
1982	767.03	732.94	898.93
1983	1.873.26	1.951.83	1.610.00
1984	3.091.48	2.732.33	2.009.46
1985	4.648.66	4.183.79	3.420.98
1986	6.610.71	5.619.10	6.336.81

Leverage (Bonds/HDMF Total Cumulative Funds)	Leverage (Bonds/Funds Held in Trust by NHMFC)	Year
2.08	2.11	1981
1.17	1.23	1982
.86	.87	1983
.65	.72	1984
.74	.82	1985
.96	1.13	1986

Case 2: Low Growth Rate

NHMFC TOTAL PROGRAM ASSETS, 1980-1986

(Thousands of Pesos)

	1980	1981	1982	1983	1984	1985	1986
HDMF Investment (cumulative)	.03	121.370	732.939	1.851.828	2.782.331	4.183.794	5.619.102
MHS Funds (cumulative)	0	0	20.592	21.903	45.000	70.000	70.000
Gov't Equity	1.002	5.897	195.000	195.000	220.000	220.000	220.000
Total Bonds Outstanding	152.815	256.040	898.930	1.610.000	2.009.461	3.420.979	6.336.814
Total Program Assets	153.817	383.307	1.847.461	3.678.731	5.056.792	7.894.773	12.245.917

Assumptions:

90% of HDMF's cumulative contributions are invested in NHMFC in 1984 and 1985, and 85% in 1986.

Note: 'Total program assets' is an estimate of total funds available to NHMFC to purchase mortgages and make other investments. It is not intended to represent total assets.

Case 2: Low Growth Rate

NHMFC YEAR-END INVESTMENT PORTFOLIO, 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Loans (cum.)				
Pag-Ibig	2.244.852	3.008.791	3.355.279	5.204.515
Open Housing	561.213	530.963	592.108	918.444
Total HDMF Loans	2.806.065	3.539.754	3.947.386	6.122.958
Seasoned mortgages	0	146.738	248.646	792.539
Total loans	2.806.065	3.686.492	4.196.032	6.915.497
Other investments (cum.)	735.746	1.011.358	2.763.171	4.286.071
HDMF loans as a % of total program assets	76	70	50	50
Pag-Ibig as % of HDMF loans	80	85	85	85
Open housing as % of HDMF loans	20	15	15	15
Seasoned mortgages as % of new HDMF loans	0	20	25	25
Investments as % of program assets	20	20	35	35
Value of new HDMF mortgages made in year	1.909.422	733.689	407.632	2.175.572
Value of new seasoned mortgages in year	0	146.738	101.908	543.893
Value of total new mortgages for year	1.909.422	880.427	509.541	2.719.465

Case 2: Low Growth Rate

NHMFC PROJECTED INCOME AND EXPENSES, 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Income				
Pag-Ibig loans	155.900	303.888	338.883	525.656
Open Housing loans	*	93.237	103.974	161.279
Seasoned mortgages	0	16.464	27.898	88.923
Other investments	24.800	162.829	444.870	690.057
Management fee (HDMF)	20.105	27.823	41.838	56.191
Loan commitment fees	45.406	44.021	25.477	135.973
Total income	246.211	648.262	982.941	1.658.079
Expenses				
Interest on HDMF funds	202.800	375.615	564.812	758.579
Interest on BMPCs	147.400	147.400	124.875	87.134
Interest on BCs	99.125	164.037	418.242	908.839
Seasoned mortgages	0	38.152	62.610	220.418
Mortgage servicing fee	6.500	8.260	9.402	15.496
Operating expenses	27.931	30.724	33.797	37.176
Total expenses	483.756	764.188	1.213.737	2.027.641
Surplus/(Deficit)	(237.545)	(115.926)	(230.796)	(369.562)

Assumptions:

1. Income projections are based on effective yields, applied to total investments.
2. Effective yield/Pag-Ibig loans (est.): 10.10 percent
3. Effective yield/Open Housing loans (est.): 17.56 percent
4. Effective yield/seasoned mortgages (est.): 11.22 percent
5. Effective yield/Other investments (est.): 16.10 percent
6. Management fee received from HDMF is: 1.00 percent of total HDMF funds invested in NHMFC.
7. Loan commitment fees collected by NHMFC are: 5.00 percent of all new mortgages placed in 1984-1986, and 4 percent in 1983.
8. Interest expense payable to HDMF is: 13.50 percent of total HDMF funds invested in NHMFC.
9. Effective rate of interest on BMPCs is: 14.74 percent
10. Effective rate of interest on BCs is: 16.25 percent
11. Market rate on seasoned mortgages is: 26 % (1984)
24 % (1985)
22 % (1986)
12. Mortgage servicing fee is 2 percent of monthly mortgage payments, amortized over 25 years at nominal loan rates.
13. Operating expenses are shown as actual for 1983, with a projected 10 percent increase each year thereafter.

* Year-end statements provided by NHMFC for 1983 combine yields from Pag-Ibig and Open Housing loans. In its year-end operating statements, NHMFC apparently has not included interest owing or accruing on BMPCs and BCs. Estimates of this interest have been included in the above projections which appears to largely account for the difference between NHMFC's statements and the above figures. (Refer to Footnote #7 to Section IV for further discussion of this point.) Also, it should be pointed out that the 'nuances' of NHMFC's activities have not been incorporated into the above projections, such as the timing of the the receipt of investible funds and the purchase of mortgages; rather, these projections are intended to illustrate the outcome of NHMFC's general investment trends and policies.

Case 2: Low Growth Rate

NHMFC COST OF FUNDS COMPARED TO YIELDS, 1983-1986
(Percentages)

	1983	1984	1985	1986
Cost of Funds	14.34	12.14	17.55	17.06
Yield on investments	12.55	12.29	13.17	13.10
Spread	(1.79)	.15	(4.39)	(3.96)

Assumptions:
1. On Pag-Ibig, Open Housing and seasoned mortgages, NHMFC collects a 5% loan commitment fee and pays the banks a 2% loan servicing fee on monthly collections of loan payments.
2. Seasoned mortgages are equivalent to 20% of combined Pag-Ibig and Open Housing loans in 1984, and 25% in 1985.
3. Market rates for mortgages are projected to be 26% in 1984, 24% in 1985, and 22% in 1986. These rates represent the cost of funds for seasoned mortgages.

NUMBER OF MORTGAGES TO BE
PURCHASED BY NHMFC, 1984-1986

	1984	1985	1986
Number of HDMF mortgages, based on projected funds to be invested in mortgages	4,923	2,378	11,038
Number of mortgages NHMFC projects to purchase	23,500	23,500	28,000
HDMF mortgages as a % of NHMFC's projections	20.95	10.12	39.42
Number of seasoned mortgages	985	595	2,759
Total mortgages to be purchased	5,907	2,973	13,797
Total mortgages as a % of NHMFC's projections	25.14	12.65	49.28

Assumptions:

Average mortgage in 1983:	124,200	pesos
Average mortgage in 1984:	149,040	pesos (20% incr. over 1983)
Average mortgage in 1985:	171,396	pesos (15% incr. over 1984)
Average mortgage in 1986:	197,105	pesos (15% incr. over 1985)

Case 3: High Growth Rate

HDMF AND NHMFC FINANCIAL PROJECTIONS

HDMF MEMBERSHIP AND CONTRIBUTIONS, 1980-1986

Year	Membership: Number (Millions)	Membership: Percent Growth	Contributions: Millions of Pesos	Contributions: Percent Growth
1980	.38	-	9.61	-
1981	1.54	305.70	113.61	1.082.21
1982	1.90	23.40	643.81	466.68
1983	2.10	10.50	1.106.23	71.83
1984 (proj.)	2.30	9.50	1.392.45	25.87
1985 (proj.)	2.52	9.50	1.982.15	42.35
1986 (proj.)	2.76	9.50	2.821.59	42.35
Cumulative	2.76	-	8.069.44	

Assumptions:

Membership growth 1984 - 1986:	9.50	percent annually
Salary increase 1983 - 1986:	30	percent annually
Average member salary in 1983:	760	pesos monthly
Average member salary in 1984:	988	pesos monthly
Average member salary in 1985:	1.284	pesos monthly
Average member salary in 1986:	1.670	pesos monthly

Case 3: High Growth Rate

NHMFC BOND SALES, 1980-1986

(Thousands of Pesos)

	1980	1981	1982	1983	1984	1985	1986
BMPCs (cum.)	152.815	256.040	898.930	1.000.000	1.000.000	1.000.000	1.000.000
BCs (cum.)	0	0	0	610.000	1.775.850	4.772.639	9.893.744
Total (cum.)	152.815	256.040	898.930	1.610.000	2.775.850	5.772.639	10.893.744
Total bonds maturing							
BMPCs	0	0	0	0	0	152.815	256.040
BCs	0	0	0	0	0	610.000	1.775.850
Total bonds outstanding	152.815	256.040	898.930	1.610.000	2.775.850	5.009.824	8.861.853

Assumptions:

1984 bond sales equal 85 % of cum. HDMF contributions

1985 bond sales equal 110 % of cum. HDMF contributions

1986 bond sales equal 135 % of cum. HDMF contributions

Case 3: High Growth Rate

LEVERAGE OF HDMF FUNDS

Year	Total Cumulative HDMF Funds (Mill. of Pesos)	Total HDMF funds Held in Trust by NHMFC (Mill. of Pesos)	Total Bonds Outstanding (Mill. of Pesos)
1981	123.22	121.37	256.04
1982	767.03	732.94	898.93
1983	1.873.26	1.851.83	1.610.00
1984	3.265.71	2.939.14	2.775.85
1985	5.247.85	4.723.07	5.009.82
1986	8.069.44	6.859.02	8.861.85

Leverage (Bonds/HDMF Total Cumulative Funds)	Leverage (Bonds/Funds Held in Trust by NHMFC)	Year
2.08	2.11	1981
1.17	1.23	1982
.86	.87	1983
.85	.94	1984
.95	1.06	1985
1.10	1.29	1986

Case 3: High Growth Rate

NHMFC TOTAL PROGRAM ASSETS, 1980-1986

(Thousands of Pesos)

	1980	1981	1982	1983
HDMF Investment (cumulative)	.03	121.370	732.939	1,851.828
VHS Funds (cumulative)	0	0	20.592	21.903
Gov't Equity	1.002	5.897	195.000	195.000
Total Bonds Outstanding	152.815	256.040	898.930	1,610.000
Total Program Assets	153.817	383.307	1.847.461	3.678.731

1984	1985	1986	
2.939.136	4.723.068	6.859.024	HDMF Investment (cumulative)
45.000	70.000	70.000	VHS Funds (cumulative)
220.000	220.000	220.000	Gov't Equity
2.775.850	5.009.824	8.861.853	Total Bonds Outstanding
5.979.986	10.022.892	16.010.877	Total Program Assets

Assumptions:

90% of HDMF's cumulative contributions are invested in NHMFC in 1984 and 1985, and 85% in 1986.

Note: 'Total program assets' is an estimate of total funds available to NHMFC to purchase mortgages and make other investments. It is not intended to represent total assets.

Case 3: High Growth Rate

NHMFC YEAR-END INVESTMENT PORTFOLIO, 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Loans (cum.)				
Pag-Ibig	2,244,852	3,558,092	4,259,729	6,804,623
Open Housing	561,213	627,899	751,717	1,200,816
Total HDMF Loans	2,806,065	4,185,990	5,011,446	8,005,439
Seasoned mortgages	0	275,985	482,349	1,230,847
Total loans	2,806,065	4,461,975	5,493,795	9,236,286
Other investments (cum.)	735,746	1,195,997	3,508,012	5,603,807
HDMF loans as a % of total program assets	76	70	50	50
Pag-Ibig as % of HDMF loans	80	85	85	85
Open housing as % of HDMF loans	20	15	15	15
Seasoned mortgages as % of new HDMF loans	0	20	25	25
Investments as % of program assets	20	20	35	35
Value of new HDMF mortgages made in year	1,909,422	1,379,925	825,456	2,993,993
Value of new seasoned mortgages in year	0	275,985	206,364	748,498
Value of total new mortgages for year	1,909,422	1,655,910	1,031,820	3,742,491

Case 3: High Growth Rate

NHMFC PROJECTED INCOME AND EXPENSES, 1983-1986

(Thousands of Pesos)

	1983	1984	1985	1986
Income				
Pag-Ibig loans	155,900	359,367	430,233	687,267
Open Housing loans	*	110,259	132,001	210,863
Seasoned mortgages	0	30,966	54,120	138,101
Other investments	24,800	192,556	564,790	902,213
Management fee (HDMF)	20,105	29,391	47,231	68,590
Loan commitment fees	45,406	82,795	51,591	187,125
Total income	246,211	805,334	1,279,965	2,194,159
Expenses				
Interest on HDMF funds	202,800	396,783	637,614	925,968
Interest on BMPCs	147,400	147,400	124,875	87,134
Interest on BCs	99,125	288,576	676,429	1,319,158
Seasoned mortgages	0	71,756	121,283	357,709
Mortgage servicing fee	6,500	9,998	12,310	20,696
Operating expenses	27,931	30,724	33,797	37,176
Total expenses	483,756	945,237	1,606,308	2,747,841
Surplus/(Deficit)	(237,545)	(139,903)	(326,343)	(553,682)

Assumptions:

1. Income projections are based on effective yields, applied to total investments.
2. Effective yield/Pag-Ibig loans (est.): 10.10 percent
3. Effective yield/Open Housing loans (est.): 17.56 percent
4. Effective yield/seasoned mortgages (est.): 11.22 percent
5. Effective yield/Other investments (est.): 16.10 percent
6. Management fee received from HDMF is: 1.00 percent of total HDMF funds invested in NHMFC.
7. Loan commitment fees collected by NHMFC are: 5.00 percent of all new mortgages placed in 1984-1986, and 4 percent in 1983.
8. Interest expense payable to HDMF is: 13.50 percent of total HDMF funds invested in NHMFC.
9. Effective rate of interest on BMPCs is: 14.74 percent
10. Effective rate of interest on BCs is: 16.25 percent
11. Market rate on seasoned mortgages is: 26 % (1984)
    24 % (1985)
    22 % (1986)
12. Mortgage servicing fee is 2 percent of monthly mortgage payments, amortized over 25 years at nominal loan rates.
13. Operating expense are shown as actual for 1983, with a projected 10 percent increase each year thereafter.

* Year-end statements provided by NHMFC for 1983 combine yields from Pag-Ibig and Open Housing loans. In its year-end operating statements, NHMFC apparently has not included interest owing or accruing on BMPCs and BCs. Estimates of this interest have been included in the above projections which appears to largely account for the difference between NHMFC's statements and the above figures. (Refer to Footnote #7 to Section IV for further discussion of this point.) Also, it should be pointed out that the 'nuances' of NHMFC's activities have not been incorporated into the above projections, such as the timing of the the receipt of investible funds and the purchase of mortgages: rather, these projections are intended to illustrate the outcome of NHMFC's general investment trends and policies.

Case 3: High Growth Rate

NHMFC COST OF FUNDS COMPARED TO YIELDS, 1983-1986
(Percentages)

	1983	1984	1985	1986
Cost of Funds	14.34	12.65	17.29	17.70
Yield on investments	12.55	12.27	13.13	13.08
Spread	(1.79)	(.38)	(4.16)	(4.62)

Assumptions:

1. On Pag-Ibig, Open Housing and seasoned mortgages, NHMFC collects a 5% loan commitment fee and pays the banks a 2% loan servicing fee on monthly collections of loan payments.
2. Seasoned mortgages are equivalent to 20% of combined Pag-Ibig and Open Housing loans in 1984, and 25% in 1985.
3. Market rates for mortgages are projected to be 26% in 1984, 24% in 1985, and 22% in 1986. These rates represent the cost of funds for seasoned mortgages.

NUMBER OF MORTGAGES TO BE
PURCHASED BY NHMFC, 1984-1986

	1984	1985	1986
Number of HDMF mortgages, based on projected funds to be invested in mortgages	9,259	4,816	15,190
Number of mortgages NHMFC projects to purchase	23,500	23,500	28,000
HDMF mortgages as a % of NHMFC's projections	39.40	20.49	54.25
Number of seasoned mortgages	1,852	1,204	3,797
Total mortgages to be purchased	11,111	6,020	18,987
Total mortgages as a % of NHMFC's projections	47.28	25.62	67.81

Assumptions:

Average mortgage in 1983:	124,200	pesos	
Average mortgage in 1984:	149,040	pesos	(20% incr. over 1983)
Average mortgage in 1985:	171,396	pesos	(15% incr. over 1984)
Average mortgage in 1986:	197,105	pesos	(15% incr. over 1985)

ANNEX 2

LIST OF CONTACTS

Ministry of Human Settlements
- Jose Conrado Benitez - Deputy Minister
- Roberto P. Alvarez - Assistant for Shelter Development
- Vincente Evidente - Assistant for Community Development & Services Delivery

National Housing Authority
- Guadencio V. Tobias - General Manager
- Antonio A. Fernando - Assistant General Manager

Home Development Mutual Fund
- Florencio B. Orendain - President
- Marilou O. Adea - Deputy Chief Executive Officer

National Home Mortgage Finance Corporation
- Teofilo de Vera - Vice President, Mortgage Marketing Group
- Ernesto Atienza - Manager, Product Development Department
- Esther M. Gale - Senior Planning Specialist

Human Settlements Regulatory Commission
- Ernesto Mendiola - Commissioner

Home Financing Corporation
- Florencio N. Ongkingko - Senior Vice President
- Florante A. Castillo - Project Consultant

BLISS Development Corporation
- Jose Marin - Senior Vice President

Ministry of Local Government and Community Development
- Salvador P. Socrates - Deputy Minister

Land Registration Commission
- Oscar R. Victoriano - Commissioner

Bureau of Lands
- Ramon H. Casanova - Director

National Census and Statistics Office
- Nelia R. Marquez - Chief Census Statistical Coordination

Social Security System
- Ramon Pineda - General Manager, Real Estate Division

Development Bank of the Philippines
- Amador Hukom - Assistant Manager

Philippines National Bank
    Crisanto N. de la Fuente, Assistant Manager

Chamber of Real Estate and Builder Associates
    Jose V. Manalad, Manager

A. L. de Castro Construction
    Arsenio de Castro, President

Cityland Development Corporation
    Erlanda G. Tan, Manager

VMA Construction and Development Corporation
    Oscar Violago, President

Ormon Development Corporation
    Juanito L. Ordoveza, President

PAIG Savings and Mortgage Bank
    Francisco B. Singain, President

Beneficial Life Insurance Company, Inc.
    Ignacio A. Macrohon, Jr., Executive Vice President

Urban Development Bank
    Seveno L. Santillana, Executive Director

Asian Development Bank
    Mazhar A. Khan, Manager, Social Infrastructure Division

U.S. Agency for International Development
    Anthony Schwarzwalder, Former Director, USAID/Manila

    Philip-Michael Gary, Assistant Director, Asia,
    Office of Housing and Urban Programs

    Robert S. DeVoy, Regional Housing Advisor, Asia,
    Office of Housing and Urban Programs

ANNEX 3

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