

For many years, thousands of housing loan accounts have remained delinquent with borrowers. Faced with this reality, government initiated programs to address the worsening crisis: (i) the sell down and management outsourcing of the most highly delinquent accounts from the National Home Mortgage Finance Corporation to the private sector, and (ii) the passage and enactment of the new loan restructuring and condonation act.



## BALIKATAN HOUSING FINANCE ACQUIRES HIGHLY DELINQUENT MORTGAGE PORTFOLIO THROUGH A JOINT VENTURE WITH NHMFC

**The Transaction.** In 2005, BHFJ acquired in a competitive bid a portfolio of over 52,000 of the most highly delinquent mortgage loan accounts from the NHMFC. These mortgage loans are highly delinquent because, at the time they were sold by NHMFC, they were all more than four years in arrears (and in fact were mostly 10 to 15 years in arrears) and less than 20% of the original principal was repaid (and indeed more than 30% of the borrowers had made no payment at all since the start of the loan). This highly delinquent portfolio was specially carved out by NHMFC with the help of its financial advisor, Ernst & Young, for sale to a third party which was well equipped to turn the delinquent portfolio around.

**The Mandate.** The mandate of BHFJ, through its exclusive service provider, Bahay Financial Services, Inc. (BFS), is to facilitate collection from the highly delinquent borrowers for the benefit of its shareholders, including the NHMFC, and its original funders, SSS, and Pag-IBIG, and ultimately the many millions of pension fund members whose contributions were used to fund housing loans to its members through the NHMFC and are disadvantaged as pension fund money is lost through non-payment of mortgage loans.

## ALIGNED CONDONATION PROGRAMS

FEATURES	Balikatan Housing Highly delinquent accounts transferred from NHMFC	RA 9507 Delinquent accounts of Government Financing Institutions (GSIS, SSS, HDMF, NHMFC, SHFC, HGC and NHA)
<b>COVERAGE</b>		
<b>Borrower Type</b>		
• Formal sector borrowers, employed and members of pension funds	YES	YES
• Socialized Housing Accounts subsidized by the government	N/A	YES
<b>Delinquency Type</b>		
• Certain types of delinquent accounts	YES	NO
✓ Any account without a single payment since take out		
✓ An account covering a housing unit that has been abandoned by the borrower-owner for more than one (1) year from the date of delinquency		
✓ An account which housing unit is occupied by a third party other than the original registered beneficiary or his/her legal heirs		
<b>PENALTY CONDONATION</b>	YES	YES
<b>INTEREST CONDONATION</b>	YES <small>(Where appraised value is lower than the Principal + Interest)</small>	YES <small>(Subject still to Board approval by respective GFIs)</small>
<b>PRINCIPAL CONDONATION</b>	YES <small>(Where appraised value is lower than the Principal)</small>	NO
<b>TERM RESTRUCTURING</b>	YES	YES
<b>INTEREST RATE AT 12%</b>	YES <small>(Variable 12-14% relative to discounted settlement amount)</small>	YES
<b>STRICT FORECLOSURE FOLLOW THROUGH FOR DEFAULTING LOANS</b>	YES	YES

Qualified / Available (YES)

Not Qualified / Not Available (NO)

Not Applicable (N/A)



The NHMFC-BHFJ joint venture strengthens the integrity of the home loan funding and repayment cycle, thus encouraging funders to any housing finance program to continue plowing back capital towards financing basic housing needs of the country without the fear of losing their invested capital. Touted as the "model NPL resolution transaction", the joint venture represents a step in the right direction for a government committed to resolving the financial sector's nonperforming loan problem, particularly in the housing finance sector.

## REPUBLIC ACT NO. 9507 (THE NEW HOUSING LOAN RESTRUCTURING AND CONDONATION ACT OF 2008)

RA No. 9507 took effect on March 16, 2008, paving the way for more delinquent borrowers to avail of opportunities to settle their loans. Through the efforts of House Speaker Prospero Nograles, Jr., the main proponent of the House Bill from, as well as Sen. Miguel Zubiri, main proponent of the Senate Bill, as well as Chairman of the Senate Housing Committee, the bill was finally passed by a bicameral conference and signed into law by President Gloria Macapagal Arroyo last October 2008.

Borrowers with delinquent loans with any government financing institution (GFI) may avail of loan restructuring and condonation under the program, which was created to help out those who have fallen behind their mortgage payments and are in danger of losing their homes. As stated by Housing and Urban Development Coordinating Council (HUDCC) Chairman Vice President Noli "Kabayan" De Castro, the program "saves borrowers from having their homes foreclosed and joining the ranks of the homeless...the GFIs and housing agencies can also get their non-performing loans moving again and improve their cash flow."