Country Report – PHILIPPINES

1. Socio-economic Snapshot
   1. Population

The total population of the Philippines is 103,775,002, and is 12th largest in the world. The ethnic groups of the country are, Tagalog 28.1%, Cebuano 13.1%, Ilocano 9%, Bisaya/Binisaya 7.6%, Hiligaynon Ilonggo 7.5%, Bikol 6%, Waray 3.4%, and other 25.3%. Among the population Catholics are 82.9%, Muslims are 5%, Evangelical 2.8%, Iglesia ni Kristo 2.3%, other Christians 4.5%, others 1.8%, unspecified 0.7%.

* 1. Per Capita Income

Per capita income of Philippines is US $2,223.

* 1. Affordability

The 2006 Family Income and Expenditure Survey shows that the affordable average monthly housing amortisation/rent for households in the first decile is PHP 264.78 (USD6.38); for the second decile, PHP388.71 (USD9.36); and for the third decile, PHP496.38 (USD11.96). The Community Mortgage Programme’s defines average monthly amortization of PHP100 – PHP500 (USD2.41 – USD12.04), depending on the location of the site and size of the lot, is within the range of affordable monthly housing amortisation for households in the lowest thirty percent of the income structure.[[1]](#footnote-1)

1. Measures of Affordability
   1. Income/Repayment/Cost of housing Units
   2. Any State level Definition of Low-Income Housing

The National Shelter Program (NSP), which regulates housing production, regulation and financing, is the Philippines’ banner program for low-income housing provision. The NSP divides housing into ‘socialized’ (valued at less than USD 6,000, targeted at households up to the 30th income percentile) and ‘economic’ housing units (valued at up to USD 40,000, targeted at households up to the 50th income percentile).

Current housing efforts remain inadequate, with figures showing an acute housing shortage estimated at over one million units – still probably a gross underestimate. On average, the NSP has only delivered 26 per cent of its target, or less than 10 per cent of total housing need. Moreover, the housing backlog is likely to worsen, due to worsening poverty and increasing urbanisation[[2]](#footnote-2).

More than half a million people leave in low income housing near the waterways.[[3]](#footnote-3)

The government’s approach is primarily to build “low income rental housing” projects. These would be funded by governmental and donor organizations. There was little analysis performed as to the long term costs of this housing.

1. The Government has embarked on a housing construction program using AusAid funds, and some circles recommend that they evaluate their approach before additional projects are awarded on this model.
2. Housing Finance Institutional Framework:
   1. Housing Finance by Commercial Banks
   2. Specialized HFIs-Public sector

A housing finance system integrating savings, secondary mortgage trading and credit insurance was put in place. This crucial component of the shelter delivery system was undertaken jointly by three government agencies: the Home Development Mutual Fund (HDMF), the National Home Mortgage Finance Corporation (NHMFC) and the Home Financing Corporation (HFC).

Seven key shelter agencies comprise the institutional framework of the Philippine housing sector. These include: i) Housing and Urban Development Coordinating Council ii) National Housing Authority

iii) National Home Mortgage Finance Corporation iv) the Home Guarantee

Corporation v) Home Development Mutual Fund vi) Housing and Land Use Regulatory Board and vii) the Social Housing Finance Corporation.[[4]](#footnote-4)

* 1. Specialized HFIs- Private Sector

Government recognizes the importance of the private business community in housing development in the country. In particular, government has employed “carrot and stick” to schemes to entice the business community (e.g. developers) to invest in low-income housing.

Joint Venture Strategy

The initial effort by government to entice private developers into the mainstream of low-income housing production was joint venture arrangement. About 131 joint venture arrangements have been formed under the NHA joint venture program for the period 1987 to 2001 (Table 10). In more than fifty percent of these arrangements, the contribution of NHA is mainly technical assistance. Technical assistance pertains to NHA providing project packaging and engineering works (e.g. survey) and assisting in marketing. The assistance also includes an extension of financial accommodation to the partners of the program such as bridge financing, purchase commitment line with the NHMFC on buyer’s financing and facilitation for developmental financing. Moreover, NHA also facilitates transactions related to other government agencies such as securing land conversion clearance, approval of permits and licenses and the utilities companies.

It is noted that “technical assistance” has become a standard provision for all types of venture arrangement. This mechanism at times delays in release of payment from NHMFC and in finding the beneficiary that will qualify for mortgage financing under NHMFC. The technical assistance provided by the NHA, however, significantly reduces the transaction costs of the private sector. These costs are often not reflected in the sharing of profits because such costs are mostly translated in terms of time. For instance, it takes an average of one year to obtain approval of permits and licenses. It takes another year before beneficiaries’ loans can be released or taken out by the NHMFC. The availability of bridge financing and access to the commitment line of NHA with the NHMFC thus reduces the opportunity costs resulting from these delays. Clearly, the attractiveness of joint ventures mainly emanates from the provision of technical assistance for the bureaucratic problems. However, these bureaucratic problems are institutional issues and unless these issues are addressed, investments in low-cost housing will remain less attractive.

Technical Assistance (TA) pertains to NHA assistance in project packaging and engineering works. This also includes access to financial services of gov't institutions, facilitating approval of permits and licenses. The TA also provides marketing assistance to strengthen joint venture. Thust NHA has been able to facilitate developments of the land as the private sector infuses investments into the project. This benefit is outweighed by the cost and risk to government. First, NHA does the feasibility study, packaging and finalizing of the project, which it later approves. Second, since NHA has a role in reviewing the mortgage take-out before submitting to the NHMFC, it also shares in the accountability for accounts in default. Third, NHA also takes responsibility in cases when delays are caused by changes in policy of other shelter agencies. NHA has no control over the other agencies. Fourth, in the event that the partner is unable to collect from NHMFC, NHA also suffers from defaults from the bridge financing it has provided.

Private Sector Socialized Housing Developments

Prior to the 1990s, the government has been the main developer of socialized housing (generally called Social Housing Segment), i.e., house and lot packages with maximum selling price of P150,000. There were a few private sector developers who ventured into economic housing Table-11 (houses with selling price above P150,000 but not more than P375,000, also called Market Housing Segment). After 1990, a greater participation of private sector in socialized and economic housing development is observed. Three factors may have contributed to this development: First, the provision of tax incentives for low-income housing development. The Developers who engage in socialized housing developments have been exempted from paying income taxes arising from these business ventures. Second, the creation of a Unified Home Lending Program (UHLP) for end user financing and provision of development finance at lower than market interest rates. Third, the enactment of the UDHA of 1992, which required private developers to set aside 20% of the total project cost of non-socialized housing developments for socialized housing investments. The effect of this law on increasing investments in socialized housing is, however, doubtful. In most cases, developers simply buy into the developed projects of socialized housing developers to comply with this requirement.

Starting 1998, however, a declining share of socialized housing developments to total residential development of the private sector has been observed. Developers attributed this to the suspension of the UHLP. However, it is noted that the developments in the sector correspond to the economic developments that occurred between 1990 and 1998. The period 1992 to 1996 has been one of high growth and the real estate industry has enjoyed a boom during these years. During this period, banks were also aggressive in financing real estate investments. After 1997, however, there has been an economic decline primarily triggered by the Asian financial crises and the real estate industry has been severely affected by this crisis. The decline thus may also be attributed to the more conservative investments of banks in real estate because of the crisis.

* 1. Housing Microfinance Institutions

Social Housing Finance Corporation.

1. Housing Finance Options for LIG

Commercial Banks, Specialized HFIs, HMFIs, and informal sources if any:

To help housing for low income group, the government initiated four community-based housing programs: i) Group Land Acquisition and Development programme ii) Land Tenure Assistance Programme iii) Community Land Acquisition Support Programme iv) Community Mortgage Programme. These housing programmes operate under the concept of community resource mobilisation to provide low income households access to decent shelter and land tenure security. The Home Development Mutual Fund is the main implementing agency of the Group Land Acquisition and Development programme while the National Housing Authority oversees the Land Tenure Assistance Programme and Community Land Acquisition Support Programme. The Community Mortgage Programme, which is the most availed among these community-based housing programmes, is managed by the Social Housing Finance Corporation.[[5]](#footnote-5)

1. Regulatory Framework:

For Commercial Banks and Specialized HFIs , the regulatory agency is Central Bank. For other non-banking institutions, the regulatory framework is not well defined

1. A summary of prevailing regulatory regime for housing finance ( Central bank or a special agency), presence of Prudential regulations, Mortgage law, Mortgage Guidelines etc Constraints in Growth of Housing Finance for LIG

General review:

1. Fiscal Support and Subsidy Programs:

There are four varied types of subsidies in housing: interest rate subsidy, land cost subsidy, tax exemption and cash transfer. The interest rate subsidy represents an implicit subsidy, because the borrower pays a lower interest rate than what he would have paid in the market. The same principle applies to a land cost subsidy and tax exemption subsidy. In the former, the beneficiary pays a lower than market price for the land while in the latter, income or profits of developers from low cost housing developments is not taxed. Cash transfer refers to actual transfer of funds (e.g. grants). Aside from these “programmed” subsidies, loan losses from the housing programs also constitute another form of subsidy. The magnitude of subsidy due to loan losses has yet to be fully measured. Considering the above forms of subsidy, data shows that the bulk (90%) of subsidies to the housing sector for the period 1993-95 consists of interest subsidies provided through end-user and development financing programs. In particular, the United Home Lending Program (UHLP) carries the largest subsidy.

For development type loans, the CMP (Community Mortgage Program) receives about 3.7 percent of the interest subsidy for the same period. Next, to interest subsidies, land cost subsidy constitutes 5.1 percent of total subsidy for 1993-95. This is followed by tax-exempt subsidies obtained from HGC guarantees (4.5%) then cash subsidies (0.4%)[[6]](#footnote-6).

1. Any State level subsidy program Like Interest Rate Subsidy, Tax Incentive, Credit Guarantee

Covered above.

1. Community Based Programs for LIH
   1. State Level Program
   2. NGO Initiatives

Covered above

1. Lessons Learned and way forward: Discuss the constraints in growth of LIH finance, steps needed to address them and way forward[[7]](#footnote-7):
   * Prepare and submit FIRST Application to help produce a strategic roadmap for housing finance in Philippines.
   * Key counterparts to be selected from HUDCC and DOF to work with WB on the project
   * Set up Mortgage Market Development Committee with key public and private stakeholders
   * Alongside this, consider a Housing Finance for the poor development group to steer work for lower income groups
   * Consider a housing finance conference to initiate the work and help build ownership of the work across sector

1. Community Based Housing Finance Initiatives, by UN-Habitat [↑](#footnote-ref-1)
2. Reforming housing for the poor in the Philippines, by Marife Ballesteros, PIDS [↑](#footnote-ref-2)
3. Ira G. Peppercorn, Senior Housing Finance Specialist, December 12-19, 2011 [↑](#footnote-ref-3)
4. Community based housing finance initiatives, by UN-Habitat [↑](#footnote-ref-4)
5. Community-based housing finance initiatives, by UN-Habitat [↑](#footnote-ref-5)
6. Reforming housing for the poor in the Philippines, by Marife Ballesteros, PIDS [↑](#footnote-ref-6)
7. Philippines housing finance post-FSAP follow up - presentation [↑](#footnote-ref-7)