



Guam Housing Corporation FY 2016 Financial Highlights

February 28, 2017

The Guam Housing Corporation (GHC) received an unmodified (clean) opinion on its Fiscal Year (FY) 2016 audit from independent auditors, Ernst & Young, LLP (EY). GHC is commended for its fourth consecutive year without material weaknesses and significant deficiencies in its Report on Compliance and Internal Control. One deficiency relative to annual leave was noted in GHC's Management Letter. EY did not propose any audit adjustments including GASB 68 pension entries. However, GHC ended fiscal year (FY) 2016 with a net loss of \$362 thousand (K), an increase of \$240K from FY 2015's net loss of \$122K primarily due to pension expense.

Loan Portfolio Decreased Slightly to \$29.5M

GHC's loan portfolio decreased slightly by 1.4%, or \$409K, from \$29.9 million (M) in FY 2015 to \$29.5M in FY 2016. The total number of loans also decreased by 10 from 411 loans in FY 2015. Loan payoffs increased by 4 to 26, in FY 2016, however, payoff amounts were \$103K less than FY 2015.

GHC originated 16 loans totaling \$1.6M, a modest increase of 2 loans from those originated in FY 2015: 1) 6 loans totaling \$753K under the Direct Loan Program; 2) 5 loans totaling \$628K under the Revolving Loan Program; and 3) 5 loans totaling \$192K under the Community Affordable Housing Action Trust (CAHAT).

As the lender for those unable to obtain housing loans from conventional lending institutions, GHC assumes a higher delinquency risk. Delinquency rates increased nearly 1% to 16% from FY 2015 for loans over 30 days in arrears. GHC referred 36 loans with a principal balance of \$3.1M to legal counsel for further actions, including foreclosure proceedings. Further, in FY 2016, two properties were sold at a loss of \$69K leaving GHC with four foreclosed properties intended for resale.

First Time Homeowners Assistance Program (FTHAP) Disbursements Decreased

Grants disbursed in FY 2016 under the FTHAP dramatically decreased by \$483K, from \$838K in FY 2015 to \$355K in FY 2016 because of insufficient funding. The FTHAP provides 4% or up to \$10,000 for down payments and closing costs for home purchase or construction. Public Law 33-168, enacted in June 2016, designated escheated funds from dormant bank accounts for the FTHAP. In FY 2016, although \$765K was appropriated, only \$515K was received as of February 2017 and a balance of \$250K is still pending from the Department of Administration.

Meanwhile, GHC continues to receive applications for the FTHAP grant and has established a waiting list while awaiting funding. Applicants may not be able to close on their home loans without this housing assistance. In December 2016, the Housing Trust Fund's Rules and Regulations authorized a 10% administrative fee to support the FTHAP and other GHC programs and provide some financial relief.

Income from Interest and Rental Declined

GHC's total operating revenues decreased by 3%, by \$76K, from \$2.6M in FY 2015 to \$2.5M in FY 2016. Interest from loans receivable, GHC's main source of revenue, and interest from investments collectively decreased by 3%. This was attributed to decreases in the amount of interest bearing loans by \$447K as well as the weighted average interest rate on loans, from 5.61% in FY 2015 to 5.49% in FY 2016. Also, investments with trustees decreased and the market value for the investments had declined.

Rental income, GHC's second largest revenue source, declined 3%, from \$879K in FY 2015 to \$857K primarily due to increases in the allowance for tenant collectibles. This represents the amount due from tenants that are delinquent 60 days and over. GHC's rental units, Lada Gardens, Sagan Linahyan, and Guma As-Atdas, offer affordable rental units to eligible low to moderate income individuals and families. Again, GHC assumes a riskier clientele and collections from these tenants can be challenging.

Expenses Increased & Net Pension Liability

GHC total operating expenses increased by 6%, or \$164K, from \$2.7M in FY 2015 to \$2.9M in FY 2016. The increase was mainly attributed to retirement contributions, loss on sale of foreclosed asset, and FTHAP grants funded by GHC.

Retirement contributions increased significantly, from \$97K in FY 2015 to \$406K in FY 2016 due to recognition of GHC's pro rata share of the Government of Guam's (GovGuam) FY 2016 net pension liability of \$1.4 billion (B). This is due to the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71 related to reporting for pension. GHC's pro rata share increased by \$363K, from \$2.9M in FY 2015 to \$3.3M in FY 2016. GovGuam's net pension liability increased by \$123.9M, from \$1.25 billion (B) in FY 2015 to \$1.37B in FY 2016.

Compliance Report and Management Letter

For four consecutive years, GHC did not have any findings reported in its report on compliance and internal control. However, a Management Letter noted a prior year deficiency related to annual leave form approvals. GHC responded that approvals will be monitored.

For a more details, refer to the Management Discussion and Analysis in the audit report at www.guamhousing.org or www.opaguam.org.