



Guam Housing Corporation FY 2017 Financial Highlights

March 30, 2018

The Guam Housing Corporation (GHC) received an unmodified (clean) opinion on its Fiscal Year (FY) 2017 audit from independent auditors, Ernst & Young, LLP (EY). GHC is commended for its fifth consecutive year without material weaknesses and significant deficiencies in its Report on Compliance and Internal Control. The Office of Public Accountability (OPA) is in the process of selecting a Chamorro designation similar to a “low-risk auditee” for those entities/funds that do not receive federal funding, and has asked the Chamorro Language Commission for assistance. GHC will be recognized for similar designation in FY 2017.

GHC ended FY 2017 with a decrease in net position (net loss) of \$61 thousand (K). Although a loss, this loss was less than FY 2016’s net loss of \$478K.

Loan Portfolio Increased

GHC’s loan portfolio included 392 loans amounting to \$30.0 million (M) in FY 2017, a slight increase from FY 2016 by \$463K but decreased by nine loans. During the year, GHC originated 22 loans totaling \$3.0M, an increase of six loans from those originated in FY 2016. Loan payoffs increased from 26 in FY 2016 to 27 in FY 2017. The principal balance of these payoffs increased from \$638K in FY 2016 to \$772K in FY 2017.

As the lender for those unable to obtain housing loans from conventional lending institutions, GHC assumes a higher delinquency risk. The number of delinquent loans increased from 53 in FY 2016 to 60 in FY 2017, with a principal balance of \$5.8M in FY 2017. Accordingly, GHC has a delinquency rate of 19% in FY 2017, which increased from 16% in FY 2016. GHC referred 30 loans with a principal balance of \$2.6M to legal counsel for further actions or foreclosure proceedings. These loans were referred to legal counsel due to bankruptcy filing, probate issues, and default of loan agreements. There were three foreclosures in FY 2017 with a principal balance of \$368K compared to one foreclosure in FY 2016 with a principal balance of \$21K.

First Time Homeowners Assistance Program (FTHAP) Disbursements Increased

The FTHAP provides 4%, or up to \$10,000 for down payments and closing costs for home purchase or construction. In FY 2017, there were 83 grants disbursed amounting to \$613K, an increase of 30 grants or \$257K disbursed than in FY 2016. Public Law (P.L.) 33-168, enacted in June 2016, designated escheated funds from dormant bank accounts for the FTHAP. In FY 2017, GHC received \$483K of escheated funds from the Department of Administration (DOA).

As with previous years, the funds were not enough for all FTHAP grant applications received by GHC. A waiting list was established awaiting additional 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 (P.L. 33-200) authorized a 10% administrative fee to support the FTHAP and other GHC programs and provide some financial relief.

Income Increased by \$115K

GHC's total operating revenues increased by 5%, or \$116K, from \$2.4M in FY 2016 to \$2.6M in FY 2017. This increase was due to the gain on sale of foreclosed asset and administrative fees collected, which offset the decrease in rental income and interest income from investments. In FY 2017, three foreclosed properties were sold with a gain of \$53K compared to two properties sold in FY 2016 at a loss of \$68K. P.L. 33-200 administrative fees of \$46K increased miscellaneous revenues.

Rental income, GHC's second largest revenue source, declined 2%, or \$18K, from \$857K in FY 2016 to \$838K in FY 2017. This is due to the increase in the vacancy offset by the adjustment for the allowance for uncollectible. Interest on investment held by trustees decreased by 95% or \$51K, from \$54K in FY 2016 to \$3K in FY 2017. This was due to the decrease in investment with trustees and decrease in market for these funds.

Expenses Decreased by \$302K

GHC's total operating expenses decreased by 10%, or \$302K, from \$2.9M in FY 2016 to \$2.6M in FY 2017. This was mainly due to the decrease in retirement contributions, maintenance, impairment loss on foreclosed assets, and miscellaneous expenses.

Retirement and Medicare contributions decreased by \$206K from \$521K in FY 2016 to \$315K in FY 2017 due to the decrease in the net pension liability. Loss on impaired assets totaling \$17K was recorded in FY 2017 to reduce the book value of property that foreclosed in FY 2017 to the appraised value. Miscellaneous expenses decreased by \$41K, from \$89K in FY 2016 to \$48K in FY 2017 due to FTHAP grants funded by DOA in FY 2017 and a the decline in various expenses such as supplies, emergency housing, promotion, advertising, training, and foreclosed houses.

Post-Employment Benefits

In FY 2017, GHC implemented the Governmental Accounting Statements Board (GASB) No. 73, which aligns the reporting of pensions, ad hoc Cost-of-Living Adjustments (COLA), and Supplemental Annuity Payments. As of FY 2017, GHC's net pension liability of \$4.0M includes its proportionate share of the Government of Guam's pension, ad hoc COLA, and Supplemental Annuity Payments. Pension expense amounted to \$330K in FY 2017 and \$480K in FY 2016.

In addition, GASB No. 75 related to post-employment benefits other than pensions is effective and will be recorded in GHC's FY 2018 financial statements. This pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Upon implementation, it is anticipated that GHC will record an additional \$3.3M liability as of FY 2017 arising from other post-employment benefits.

Compliance Report and Management Letter

For five consecutive years, GHC did not have any findings reported in its report on compliance and internal control. However, one deficiency related to an error on the lease agreements was noted in the Management Letter.

Subsequent Events

Although the Trump tax effect is having an adverse effect on Government of Guam operations, GHC is self-sustaining and does not receive funding from the General Fund.

For a more detailed discussion on GHC's operations, see the Management's Discussion and Analysis in the audit report at www.guamhousing.org or www.opaguam.org.