



OFFICE OF THE PUBLIC AUDITOR

Guam Housing Corporation FY 2007 Financial Highlights

April 2, 2008

The Guam Housing Corporation (GHC) reported a \$1.01 million increase in net assets for Fiscal Year (FY) 2007 in its housing and rental divisions, a 5% increase from the prior year's \$963,000. However, GHC's loan portfolio continues to decline and delinquency rates remain high. As a result of rising real estate property values on Guam, GHC approved fewer loans during the year. The shortage of affordable housing inventory may result in difficulty for qualified low to moderate income families who would like to participate in GHC's housing loan programs.

Loan Portfolio in Decline

GHC's portfolio continues to decline from \$39.38 million in FY 2002 to \$25.05 million in 2007. This was due to loan payoffs, foreclosures, and non-performing loans compared to new loans added to the portfolio.

GHC approved 17 new loans totaling \$1.24 million, a decrease from 36 new loans valued at \$2.18 million last year. This decrease can be attributed to the rising real estate property values on Guam, which may prevent GHC clientele from participating in its housing loan programs.

Outstanding loans decreased from 769 in FY 2002 to 470 in FY 2007. There were 56 loan payoffs received in the year, mainly due to refinancing of homes at lower interest rates through other financial institutions to prevent foreclosure by GHC.

Delinquency Rate Remains High

While concerted efforts in collection and servicing improved the delinquency rate to 13.86% compared to 28.17% in FY 2002, this rate is still higher than the standard for most mortgage lending institutions.

Loan foreclosures in FY 2007 totaled \$45,000, an improvement from \$374,000 in FY 2006. This improvement is attributed to more aggressive collection efforts. Foreclosed assets sold in FY 2007 increased to \$881,000 compared to \$826,000 in FY 2006.

Housing & Rental Divisions

GHC is comprised of two divisions: Housing and Rental. The Housing Division enables individuals to secure mortgage financing if they are unable to qualify as borrowers through conventional means. The Rental Division was integrated into GHC in 2003 and provides low-cost rental apartments and houses to eligible individuals and families. Of the \$1.01 million increase in net assets, the Housing Division contributed \$653,000, or 65%, while the Rental Division contributed \$357,000, or 35%.

Report on Compliance and Internal Control

The auditors identified four findings, down from seven in the prior year. These findings were:

- (1) 11 delinquent loans in excess of 90 days were pledged as collateral with the Federal Home Loan Bank of Seattle.
- (2) 2 properties did not have adequate insurance coverage and GHC has assumed additional collateral risk.
- (3) 15 loan files lacked proper file management and documentation.
- (4) 3 loans were missing appraisal reports.

Three of the four findings were repeats.

Management Letter

The auditors identified three areas of opportunities for strengthening internal controls and improving operating efficiency. They are:

- (1) Development and implementation of a Fraud Policy with emphasis on occupational and mortgage fraud and development and implementation of Conflict of Interest Policy.
- (2) Separation of duties for loan monitoring and evaluation.
- (3) Verification and documentation of household composition and citizenship status for each tenant file.

The FY 2007 financial audit of GHC, conducted by J. Scott Magliari & Co., received an unqualified or clean opinion.

See the Management's Discussion and Analysis for further details.