Guam Housing Corporation
FY 2010 Financial Highlights

March 22, 2011

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2010 with an increase in net assets of $416 thousand (K) compared to an increase of $579K in FY 2009. Ernst & Young rendered an unqualified or "clean" opinion on the financial statements; however, in order to receive the clean opinion, four audit adjustments were made which had a cumulative effect of reducing net assets by $3 million (M). GHC's compliance report also identified two material weaknesses in the over valuation of the Lada Estates project and the over estimation of the reserve for allowance for loan leases. Another finding which is a significant deficiency was the issuance of merit bonuses of $174,023 without Board approval.

GHC's Loan Portfolio Improves

In FY 2010, GHC's loan portfolio saw a dramatic improvement with an increase of $7.2M or a 29% increase, going from $24.7M in FY 2009 to $32M in FY 2010. This is the highest loan portfolio since FY 2003. With lower interest rates and decreasing home prices, more GHC applicants were able to realize a higher qualifying amount. As a result, GHC closed 62 loans in FY 2010 totaling $8.6M. GHC processed 25 loan payoffs during the year totaling $869K, in comparison to 39 payoffs totaling $2.1M in FY 2009.

Delinquency Rate and Foreclosures

Total loan delinquencies dropped nearly 4% from 10.61% in FY 2009 to 6.69% in FY 2010. Delinquent loans decreased from $2.6M in FY 2009 to $2.1M in FY 2010, an improvement of $463K. GHC's decreases are a result of a concerted effort in collections and servicing. In FY 2010, GHC did not foreclose on any loans as compared to FY 2009 when five loans were foreclosed totaling $500K. Three foreclosed properties were sold in FY 2010 with an overall gain on sales of $1,600.

Increase in Revenues and Expenditures

GHC's revenues, net of interest expense, nominally increased by $5K, from interest earned from loans, rental income and gain on disposal of assets. Rental income increased as newly renovated Guma As-Atdas building was available for rent and a rental unit that was sold for a gain of $42K. GHC's expenses increased $169K, going from $1.9M in 2009 to $2M in 2010. This increase was primarily attributed to the merit bonuses of $174,023 for the period FY 1991 through FY 2010.

GHC's Accumulated Cash Balance

In August 2002, Public Law 26-123 forgave GHC's debt to the General Fund comprised of $13.7M and accrued interest of $517K. Consequently, GHC recorded revenue of $14M resulting from the debt forgiveness. GHC continues to maintain a strong cash position. Unrestricted cash and the self insurance fund now stand at $6M at of the end of FY 2010, due in part to the General Fund debt forgiveness. Because of the healthy cash position, interest cost on loans are lower than average.

Report on Compliance and Internal Control

Independent auditors issued their report on compliance and internal control which described two material weaknesses and three significant deficiencies. The material weaknesses pertain to the over valuation of the Lada Estates project and over estimation of the reserve for allowance for loan and lease losses. The findings in the report include:

- **Long-Lived Assets:** A prior year adjustment to reduce the value of Lada Estates by $5.2M was made. Public Law 20-225 transferred 46 acres of land from the government of Guam to GHC to develop affordable housing units for sale to first-time homeowners known as Lada Estate Project. Prior to October 1, 2009, the land had a value of $15.8M. Lada Estates experienced theft and damage to its infrastructure and incurred illegal dumping of trash and refuse. Due to the physical damage and construction stoppage, GHC believed the value of Lada Estates improvements was no longer recoverable and was written down to its estimated fair value of $10.6M.

- **Allowance for Loan and Lease Losses (ALLL)*:*** The ALLL totaled approximately $3.4M, which is more than the average total delinquent loan balance of approximately $2.9 million in prior years. GHC did not measure the loss allowance in determining the ALLL as the difference between the carrying value of the loan and the fair value of the collateral less cost to sell as required by the generally accepted accounting principles. As a result of prior period adjustment of $2.3M decreased the ALLL.

- **Merit Bonuses:** In November 2010, the acting President of GHC issued $174,023 in merit bonuses to 20 out of 23 employees without Board approval. The top three highest merit bonuses were paid to senior management. Two out of the three employees that did not receive a merit bonus were unclassified employees.

- **Evaluation of Collateral:** GHC foreclosed on a loan that was collateralized by wetland. The carrying cost of the acquired asset amounted to $96K resulting in inadequate collateral. A full valuation allowance was provided for this acquired asset for the year ended September 30, 2010.

- **Loan Approval:** GHC's lending policy denies the eligibility for loans if the applicant has a history of bankruptcy within the last five years. A loan was approved for an applicant with a history of bankruptcy within the last five years with no evidence of Board's approval. However, it is still a performing loan.

Management Letter

Independent auditors issued a separate management letter identifying five deficiencies in internal control. The issues included incomplete loan documentation, lack of documentation or approval for employees going on vacation leave, lack of movement on a long-outstanding liability account, inadequacy of insurance coverage, and incomplete minutes of board meetings.

For a more detailed commentary, refer to the Management Discussion and Analysis in the audit report. Visit GHC's website at www.guamhousing.org or OPA's website at www.guamopa.org to view the reports in their entirety.