

Highlights of Bill 95
Community Affordable Housing Action Trust Act
"CAHAT"

Scope and Nature: The "CAHAT" bill is designed to achieve three major objectives (1) Make GHC's subsidy program usable, (2) Create a new subsidy program utilizing private financial institutions to fund and originate mortgage for first time home owners whose income place them in categories beyond the scope of the GHC subsidy program, and (3) Identify a funding source for the new subsidy program.

Section 1: "CAHAT"

OVERVIEW: The main purpose of the proposed CAHAT legislation is to assist middle income families and individuals to realize the dream of home ownership. The CAHAT legislation is targeted at the middle income segment of the community; those whose earnings are between the Median income level and 200% of the medium income. Because the GHC subsidy program encompasses the segment of the community whose incomes fall between the medium income level and 80% of the medium income level and the Farmers Home Administration program caters to those whose income are less than 80% of the medium income, the CAHAT legislation income levels were targeted to begin at the medium income level. Figure 1 illustrates the relationship between the three programs

Figure 1.1- Housing Ownership Assistance Program Target Group

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<u>PROGRAM</u>	<u>TARGET GROUP</u>	<u>TARGET GROUP 1989 INCOME LEVELS</u>
Farmer's Home Administration	Less than 80% of Median Income.	Less than \$24,080 per year.
Guam Housing Corp. Subsidy Program	80% of Median to 100% of Median.	\$24,080 to \$30,100 per year.
Proposed CAHAT Program	100% of Median to 200% of Median.	\$30,100 to \$60,200 per year.

How the Program Works:

Applicants for the CAHAT program apply at GHC and those that qualify will be given an eligibility letter and list of participating institutions. The customer will take the eligibility letter to the financial institution and apply for a mortgage loan. Upon approval of the application by the financial institution, the loan packet will be forwarded to GHC for review and finalization of the subsidy agreement between the financial institution, the borrower, and GHC. After the agreement is completed, the financial institution will then close the loan.

GHC shall forward all subsidy funds to the financial institution as scheduled by the terms of the agreement.

Figure 1.2 below illustrates how CAHAT increases the home buyer's purchasing power:

Figure 1.2 -

HOW CAHAT WORKS?

ASSUMPTIONS

INTEREST RATE: 10.00%
 PRIME RATE: 10.00%
 MAXIMUM LOAN TO INCOME: 28.00%
 ANNUAL INSURANCE RATE: 1.01%
 ANNUAL REAL ESTATE TAXES: \$200.00
 TERM OF THE LOAN: 30 YEARS

CAHAT INCREASES A FAMILY'S PURCHASING POWER

<u>ANNUAL INCOME</u>	<u>MONTHLY INCOME</u>	<u>MAX. MO. PMT</u>	<u>SUB. SCH.</u>	<u>MAX. LOAN WITHOUT SUBSIDY</u>	<u>MAX. LOAN WITH SUBSIDY</u>
\$36,000	\$3,000	\$840	I	\$85,600	\$114,650
\$45,000	\$3,750	\$1,050	II	\$107,450	\$136,275
\$55,000	\$4,583	\$1,283	III	\$131,700	\$158,650

The status of the loans shall be monitored periodically by GHC to ensure compliance with the terms of the agreement. Figure 1.3 briefly illustrates the procedures that will be implemented for GHC borrowers applying for CAHAT.

Figure 1.3 - GHC Procedures for CAHAT Applicants

- (1) Preliminary Interview: New customers come in to GHC for an interview with a loan officer. Applicants that qualify for GHC's subsidy program are processed by GHC and those whose incomes are in excess of GHC's subsidy program are placed on an eligibility list for CAHAT.

- (2) Eligibility: Those customers placed on the eligibility list shall be given an eligibility letter, a list of participating financial institutions, and three bank rejection letters. The order of preference for eligibility letters shall be based on the date of application. Those individuals who do not qualify for bank loans under CAHAT shall be eligible for a CAHAT subsidy under GHC's regular lending program.
- (3) The Agreement: An agreement shall be entered into between the borrower, the financial institution, and GHC for all qualified eligible applicants. Those applicants that are eligible for a CAHAT subsidy under GHC's regular lending program shall enter into an agreement with GHC only.

JUSTIFICATIONS FOR SPECIFIC SECTIONS

(1) Income Levels: The HUD established median income figures for Guam are the basis for the income levels for CAHAT. The range for the program is the median income to 200% of the median income or \$30,100 to \$60,200. Although the 200% range appears quite liberal, when compared to average resale home prices of \$150,000 to \$200,000, the 200% range is barely adequate. Figure 3 illustrates the relationship between various levels of income and home purchasing ability.

Figure 1.4 -30 Year Fixed rate Mortgage at 10.50%

<u>ANNUAL INCOME</u>	<u>MONTHLY INCOME</u>	<u>UNSUBSIDIZED LOAN</u>	<u>SUBSIDIZED LOAN</u>
\$60,200.00	\$5,016.67	\$138,950.00	\$166,200.00
\$51,170.00	\$4,264.17	\$117,850.00	\$148,100.00
\$42,140.00	\$3,511.67	\$ 96,750.00	\$128,050.00
\$30,100.00	\$2,508.33	\$ 68,500.00	\$ 90,850.00

Assumptions:

- (1) The loan to income ratio is 28%.
- (2) The hazard Insurance premium is 1.01% of the loan.
- (3) Monthly RE taxes are assumed to be \$16.67.

(2) Prime Rate Index: Almost every Guam financial institution has different mortgage rates. The one rate that fluctuates with economic changes is the prime rate. The subsidy levels are indexed to the prime rate on the day the mortgage is closed. When the prime rate is high, borrowers will receive a larger subsidy and conversely when the prime rate is low borrowers will receive a lower subsidy.

Section 2: "The GHC Subsidy Program"

Overview: There are two significant changes that were made in the proposed legislation to revamp GHC'S subsidy program: (1) The VA limitation has been changed to the GHC rate limitation and (2) The subsidy schedules were lengthened and the subsidy rates increased.

Changes from VA rate to GHC rate: The VA rate limitation that added to GHC's subsidy program last October is the one major stumbling block that prevents GHC from implementing the subsidy program. GHC cannot afford to implement the program at the VA rate. GHC's rate is set by its Board based on economic conditions. When setting GHC's lending rates, the Board is responsible for ensuring that there are (1) sufficient revenue to pay expenses, (2) excess revenue contributes to positive loan portfolio growth and (3) that all loans made from loan payoffs have rates that would allow for positive cash flow over the original loan that was made to fund the loan that was paid off.

In recent years, GHC has paid the price of its poorly negotiated 1983, 1985, and 1986 loan agreements that resulted in GHC paying up to 11% on one loan and 10.25% on new money. Seventy five percent of all mortgages that GHC generates from operations come from early payoffs of mortgages funded by these loan agreements. If GHC had implements the subsidy program at the current VA rate of 9.5%, the losses will result in negative net interest income leaving no money left for operational expenses and portfolio growth.

Changes in the Subsidy rate schedules: The present subsidy schedules would only allow for loans up to \$73,000. The new subsidy schedules could allow for loans over \$100,000 . The change is necessary to allow qualified borrows the opportunity to own more suitable homes which are usually higher priced.

Section 3. "Right of First Refusal Provisions".

Since the borrower of a CAHAT or GHC subsidy program loan will benefit from substantial savings on their mortgage payments a a result of the subsidy, the right of first refusal provision should be included in the bill. This provision will greatly limit the borrower's ability to turn around and sell the home at a higher price immediately after buying it. If GHC exercises it's right of first refusal, it can buy the home at prices below market value and sell them as affordable housing units.

Section 4. "Interest Retained by the Funds."

Since the subsidies are to be disbursed over an eight to

ten year period. Large amounts of interest may accumulate during this period. This interest can be used for additional subsidies thus reducing the need for future appropriations.

Section 5. The Guam Housing Corporation Mortgage Insurance Program.

The benefit derived from a mortgage insurance program is that it allows more people to purchase homes. It does this by allowing lower down payments; thus, more people can afford a home. In addition, the use of mortgage insurance lessens risks and makes mortgage investments more attractive.

The need for the Guam Housing Corporation Mortgage Insurance Program arises because of two factors: (1) Private Mortgage Insurance is not available on Guam and (2) the limited availability, red tape, slow processing, and low loan limits associated with FHA mortgages.

Although the ideal situation would be to help borrowers to obtain a mortgage with no money down, it is almost impossible because of new restrictive financial institution regulations. Because of the recent rash of bank and S & L defaults as a result of risky loans, FDIC and FSLIC the institutions that insure depositor's funds restrict banks and S & Ls from loan above the 80% loan-to-value ratio without mortgage insurance. Even with mortgage insurance, the financial institution may only lend up to a 95% loan-to-value ratio.

The FHLMC (Freddie Mac) and FNMA (Fannie Mae) which are the largest buyer of mortgages limits the financial institution's exposure to 75% on all loans that exceed the 80% loan-to-value ratio. To meet the requirements of the regulators and the secondary mortgage market, the financial institution's exposure cannot exceed 75%, GHC must insure at least 20%, and the home buyer must make a down payment of 5%.

The creation of the GHCMIP has been left for GHC to develop under The Administrative Adjudication Law. Since much research and complex formulas must be developed, it would be unwise at this time to legislate the actual program.

Figure 5.1 illustrates how the GHCMIP may be used to insure loans. Figure 5.2 illustrates how the premiums and capital from the government are used and maintained by a typical mortgage insurance program.

Glossary of Terms

Annual Audit: The annual audit is the financial appraisal of the finances of the GHCMIP. Since the GHCMIP is to be a separate entity apart from GHC, it would need a separate annual audit conducted by a public accounting firm to ensure the program is operating under sound financial practices.

Claims: Claims are the amounts of monies that the financial institution requests for as the beneficiary of a mortgage insurance policy in the event of a loss on foreclosure of an insured loan.

GHCMIP: The Guam Housing Corporation Mortgage Insurance Program.

GLGF: The Government Loan Guarantee Fund. This fund is the account the government uses to receive appropriations that are to be used to capitalize the GHCMIP.

Investment Income: This is income earned as a result of investment of policy reserves. Typical examples of investment income are interest, dividends, and capital gains.

Management Fees: These are fees paid for by the GHCMIP to GHC for management, record keeping, and other expenses of the GHCMIP.

Premiums: Premiums for mortgage insurance purposes are the consideration paid by borrowers for insurance coverage against losses in the event of default and subsequent foreclosure on a mortgage.

Unearned Premiums: The portion of insurance premium paid in advance and not yet earned.

Reserves: These are amounts that GHCMIP must keep invested to secure the financial integrity of the GHCMIP.

Contingency Reserve: This is a special reserve normally required by law to protect mortgage lenders against the type of catastrophic loss that can occur in severe economic periods. Usually half of each premium dollar received goes into this reserve and cannot be used for a period of 10 years, unless the losses in a calendar year exceed 35 percent of the earned premiums.

Loss Reserve: This reserve is established for losses or potential losses on a case-by-case basis and for necessary expenses of the program.

Unearned Premium Reserve: Premiums received but not yet earned are placed in this reserve.

Figure 5.1

GUAM HOUSING CORPORATION MORTGAGE INSURANCE PROGRAM

BENEFITS OF MORTGAGE INSURANCE

PORTION OF HOME PRICE	LOAN WITH NO MORTGAGE INSURANCE	LOAN WITH MORTGAGE INSURANCE
MAXIMUM LENDER'S EXPOSURE:	80.00%	75.00%
INSURANCE PROTECTION:	0.00%	20.00%
DOWN PAYMENT REQUIRED:	20.00%	5.00%

GHCMP FUNDING REQUIREMENTS

GOVERNMENT CONTRIBUTION:	20.00% OF GUARANTEED AMOUNT
INITIAL PREMIUMS:	
LOANS 15 YEARS OR LESS:	0.50% OF LOAN AMOUNT
LOANS MORE THAN 15 YEARS:	1.00% OF LOAN AMOUNT
ANNUAL PREMIUMS:*	
LOANS 15 YEARS OR LESS:	2.00% OF MONTHLY P & I PAYMENT
LOANS MORE THAN 15 YEARS:	3.00% OF MONTHLY P & I PAYMENT

* MAY BE COLLECTED BY LENDER ON A MONTHLY BASIS

GHCMP LIMITATIONS

THE MAXIMUM LOAN GUARANTEE IS THE LESSER OF 22% OF THE LOAN AMOUNT OR 20% THE LESSER OF THE APPAISED VALUE OR SELLING PRICE.

MAX. HOME PRICE W/GUARANTEE: \$200,000.00

\$1,000,000.00 APPROPRIATION USAGE

TOTAL VALUE OF LOANS GUARANTEED:	\$25,000,000.00
TOTAL NUMBER OF HOMES @ \$100,000 EACH:	250

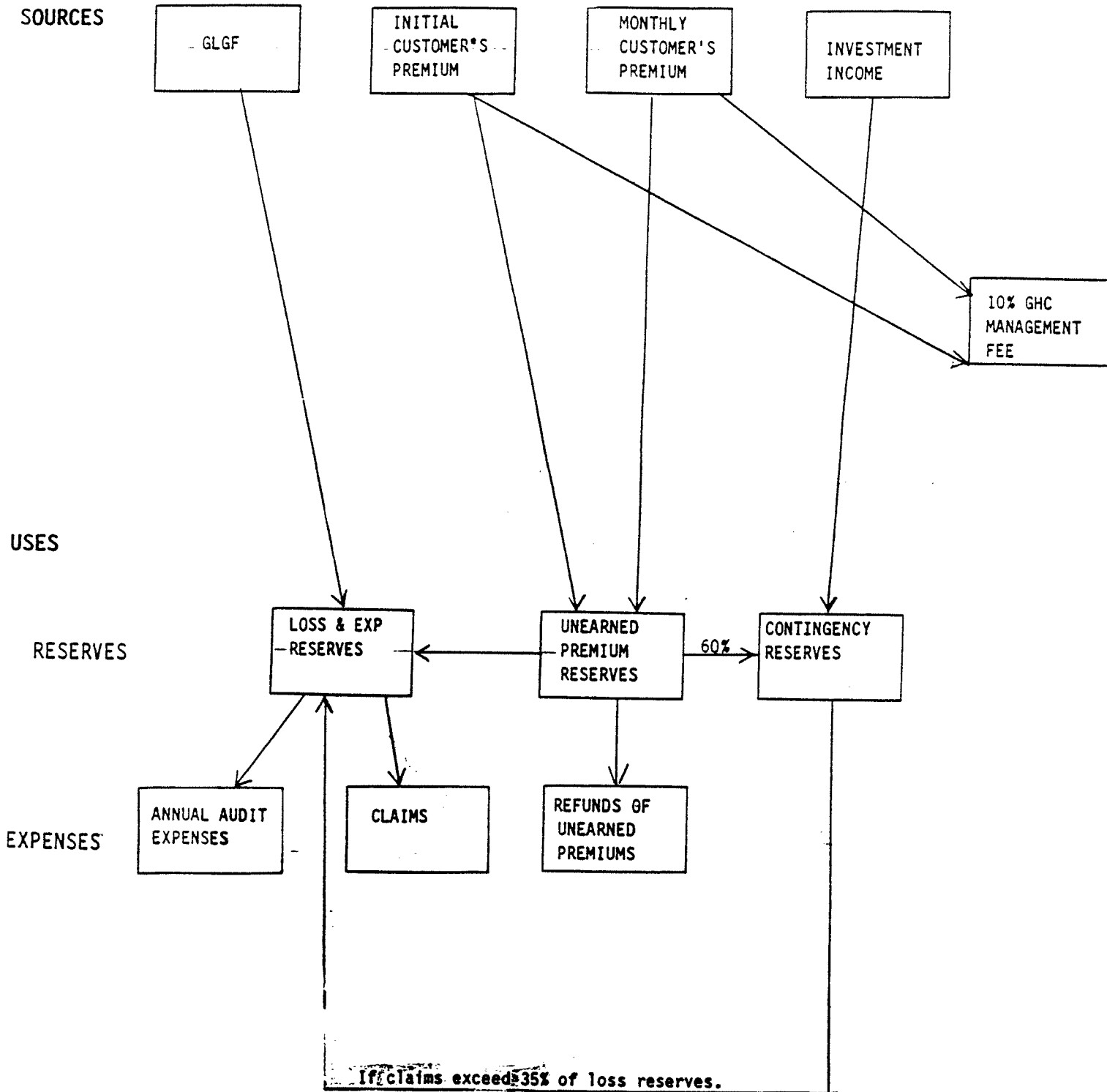
RESTRICTIONS

- 1) MAXIMUM LTV ON ALL LOANS IS 95% DUE TO LENDER'S REGULATORS
- 2) MUST BE A FIRST TIME HOME OWNER; MUST NOT HAVE OWNED RESIDENTIAL REAL PROPERTY DURING THE LAST 3 YEARS

Figure 5.2

GUAM HOUSING CORPORATION MORTGAGE INSURANCE PROGRAM

SOURCES AND USES OF FUNDS



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AGAT, GUAM 96928
565-2524

FEBRUARY 25, 1991

TESTIMONY IN SUPPORT OF BILL #95

GOOD AFTERNOON, MR. CHAIRMAN AND SENATORS.

MY NAME IS ANTONIO C. BABAUTA, MAYOR OF AGAT, AND IN BEHALF OF THE PEOPLE OF AGAT, I AM HERE TO TESTIFY IN SUPPORT OF BILL NUMBER 95.

MR. CHAIRMAN AND SENATORS, I AM HERE ARMED WITH 775 SIGNATURES FROM MY MUNICIPALITY WHO ARE INTERESTED IN OWNING THEIR HOUSE HERE IN GUAM. APPROVAL OF BILL #95 WILL ASSIST THESE PEOPLE AND YOUNG COUPLES TO MAKE THEIR AMERICAN DREAM COME TRUE.

MR. CHAIRMAN, I SALUTE THE AUTHOR AND SPONSORS OF THIS BILL, BECAUSE IF APPROVED, IT WILL ENCOURAGE AN UNMARRIED PERSON TO BUILD HIS/HER HOUSE BEFORE HE/SHE TAKES A SPOUSE. THIS BILL MIGHT JUST HELP REDUCE THE SEPARATION AND DIVORCE RATE ON GUAM, BECAUSE PEOPLE WILL BE ABLE TO AFFORD THEIR OWN HOME WITHOUT THE FINANCIAL ASSISTANCE OF THEIR PARENTS, COMPADRE OR COMADRIES.

I APOLOGIZE FOR NOT BEING ABLE TO PRESENT THESE 775 PEOPLE PHYSICALLY TO THIS COMMITTEE THIS AFTERNOON, SOME ARE WORKING AND SOME I CANNOT TRANSPORT, HOWEVER, THEIR ADDRESS IS ALSO LISTED AND CAN BE CHECKED IF THERE ARE ANY DOUBTS.

RESPECTFULLY,


ANTONIO C. BABAUTA