



NATIONAL HOME MORTGAGE FINANCE CORPORATION



SECONDARY MORTGAGE MARKET: PHILIPPINES

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Outline



- MBS in the Philippines
- Brief Background on NHMFC
- Bahay Bonds 1 and 2
- Future programs
- Challenges
- Recommendations

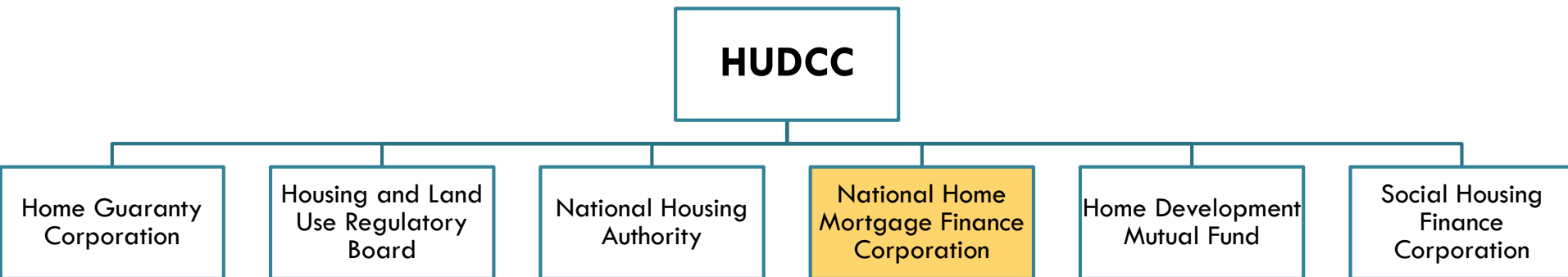
MBS in the Philippines

- Legal framework: Securitization Act of 2004
- Government institutions that play a major role:
Bureau of Treasury (BTr), Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), Home Guaranty Corporation (HGC), Bureau of Internal Revenue (BIR), National Home Mortgage Finance Corporation (NHMFC)

Government Institution	Role in MBS
Bureau of Treasury	Oversees the trading of government securities specifically the auction of government securities and the accreditation and evaluation of government securities dealers
Securities and Exchange Commission	Supervises over-the-counter securities trading as well as other players in the securities industry including brokers and dealers
Bangko Sentral ng Pilipinas	Supervises securities transactions of banks (whether a bank is the originator, trustee or issuer)
Home Guaranty Corporation	Provides guarantees to MBS issued in the Philippines
Bureau of Internal Revenue	Assesses and collects all national internal revenue taxes, fees and charges including income tax of SPEs, withholding tax of yield or income, etc.
National Home Mortgage Finance Corporation	Major government secondary mortgage institution intended to develop the secondary mortgage market in the Philippines

What is NHMFC?

- One of the key shelter agencies under the Housing and Urban Development Coordinating Council (HUDCC) of the Philippines



- Created in 1977 by virtue of PD 1267
- Board of Directors: HUDCC Chairman, NHMFC President, Bangko Sentral ng Pilipinas Governor, Department of Finance Secretary, Department of Budget and Management Secretary

Mission

The NHMFC shall be the government's **major secondary mortgage institution**, able to attract long term funds to provide strong and sustainable housing finance.

Vision

By 2017, NHMFC shall be the **recognized authority** and **preferred partner** of both public and private institutions in the development and operation of the secondary mortgage market. It shall be the **major engine of growth in the housing industry** by ensuring **sustainable housing finance** with high standards of excellence and professionalism.

Major Programs



- Housing Loans Receivables Purchase Program (HLRPP)
- Bahay Bonds

HLRPP

- Aims to purchase valid loans/mortgages/receivables from the originating institutions
- Qualified to apply for HLRPP as originators: developers, GFIs, banks, cooperatives, corporate employers with housing program, LGU engaged in housing development
- Backed up by these loans/mortgages/receivables, marketable securities are issued for sale or listed in the fixed income exchange through securitization

First Bahay Bonds (BB1)

- Issue size: PhP2.06B
- BB1s were tax exempt.
- Home Guaranty Corporation provided a cash flow guarantee for the asset pool/loans.
- The market reception to the Bahay Bonds was very good as the bonds were twice oversubscribed.
- NHMFC was given recognition by the Asset Asian Awards 2009 and was awarded the Triple A Award Category 2009 Securitization of the Year.

Securitization: Bahay Bonds 2 (BB2)

- Residential mortgage-backed securitization (RMBS) of low-cost and socialized housing loans
 - ▣ Socialized housing: Below P400,000
 - ▣ Low-cost housing: P400,000 - P3,000,000
- First ever listed retail RMBS in the country
 - ▣ Structured to attract individual/small investors as less than 1% of households in the Philippines had investments in stocks, mutual funds, and/or fixed-income securities (*Consumer Finance Survey 2012*)
- Issue size: PhP603.74M

Facility for trading

- Philippine Dealing and Exchange Corporation (PDEx)
 - ▣ Venue for the secondary trading of listed fixed income issues
 - ▣ Sole fixed income exchange in the country
 - ▣ Current proposal to integrate PDEx and the Philippine Stock Exchange

Benefits of Listing in PDEX

- Enhanced liquidity
- Daily bid and offer prices available
- Land Bank of the Philippines branches can act as buying and selling agencies
- Land Bank of the Philippines branches can offer loans up to 80% of market value

Future Project: Bahay Bonds 3

□ Key Features:

- ▣ Asset pool will be composed of Community Mortgage Program (CMP) Loans
- ▣ Issue size will be about Php2.2B
- ▣ Senior note (80%) and Subordinate note (20%)
- ▣ Will be an alternative mode of compliance to Section 18 of RA 7279 (Urban Development and Housing Act)

Community Mortgage Program

- A mortgage financing program which assists legally organized associations of residents of “depressed” areas to own the lots they occupy, providing them security of tenure and eventually improve their neighborhood and homes to the extent of their affordability
- CMP is a program of Social Housing Finance Corporation, a subsidiary of NHMFC

Urban Development and Housing Act

- Section 18 of UDHA refers to Balanced Housing Development which requires developers of proposed subdivision projects to **develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost** within the same city or municipality

PH Bond Market, bn pesos

Year	Bond market size	Mortgage-related securities ²	Percentage
2009	2,596 ¹	1.75	0.08%
2012	4,100 ¹	0.420	0.015%
2013	4,637	64.93	1.40%
2014	5,291	60.96	1.15%
2015	6,037	56.16	0.93%
2016	6,888	50.74	0.74%
2017	7,860	45.22	0.58%

¹Source: www.asianbondsonline.org

² Based on the assumption that the housing demand-supply gap will be addressed through securitization

Challenges

- Despite the passage of the Securitization Act in 2004, MBS in the Philippines is still in its infancy stage:
 - ▣ Volume of mortgages securitized is small
 - ▣ Institutions providing securitization services are mostly government-controlled banks or finance corporations
 - ▣ MBS are mostly sold to institutional investors

Recommendations

1. Increase the funding support for NHMFC in the development of the secondary mortgage market in the Philippines
 - Budgetary support from HDMF, IFC, ADB or other multilateral agencies
2. Lessen the “friction” between the roles of government institutions involved in the secondary mortgage market
 - NHMFC one-stop shop
3. Improve processes relating to the primary mortgage market, i.e. credit investigation, asset appraisal, title search
 - Unified forms, computerized database of titles, sharing of database



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THANK YOU!