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How to Make Government Housing Subsidies Work for the Poor: Reflections on the Community Mortgage Program

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The Community Mortgage Program (CMP), with its 25 year repayment term and 6% p.a. interest, is a very popular program in the Philippines. Together with its variants, such as Presidential Proclamations and similar programs implemented by the Local Government Units and by the urban poor organizations themselves on a self-help basis, the CMP has transformed hundreds of thousands of urban poor families from being squatters into amortizing landowners. The CMP is primarily a strategy to promote the security of tenure for the Urban Poor in the Philippines. The most interesting feature of CMP is that it is primarily the initiative of the urban poor themselves with the government providing the funding and non-government organizations providing the organizing and paper work. The CMP is very appropriate within the Philippine context. In the Philippines: land ownership is concentrated among a few families with the vast majority as illegal occupants very often threatened with evictions; for the poor housing is primarily a secure space with close access to livelihood - neighborhood and home improvements are secondary. Although the program was conceived during the Cory Aquino presidency, it has survived and even grown under the succeeding three presidencies, which in the Philippines is a unique phenomenon.

The Community Mortgage Program (CMP)

The CMP is primarily a strategy to promote the security of tenure for the Urban Poor in the Philippines. It was adopted 1988 by a government owned and controlled corporation (National Home Mortgage Finance Corporation) as a home mortgage program specifically directed towards organized urban poor communities who occupy private lands that they do not own.

The CMP allowed organized communities to borrow as a group to purchase land using the same land as collateral for their loan. Although these communities may also take out a loan for site development and home construction or improvement, more than 95% of the CMP loans are for land purchases.

YEAR	HH REACH	LOAN AMOUNT RELEASED (in PhP M)	AVE. LOAN PER HH (in PhP)
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CMP has helped provide security of tenure to 202,088 families with mortgages worth PhP 7.4 billion.

Presidential Proclamation and Other Similar Programs

The CMP has also promoted similar programs. The President has proclaimed 117 national government properties as social housing sites, benefitting its more than 200,000 household occupants. Local Government Units have also developed their own programs. Many urban poor organizations, impatient with the government’s tedious processes and oftentimes political bias, have on their own come to an agreement with their respective landowners to directly pay for the land on an installment basis. There are no figures on how many have benefitted from these LGU and self-help programs, but it would be safe to assume that these would be no less than 300,000 households.

1989	3,199	62.4	19,519
1990	12,440	235.7	18,947
1991	5,772	121	21,963
1992	4,923	129.9	26,382
1993	10,139	242	23,863
1994	11,690	283.5	24,249
1995	9,290	285.7	30,756
1996	10,192	308.4	30,259
1997	14,591	497.3	34,082
1998	10,844	385.4	35,546
1999	5,668	209.2	36,907
2000	6,088	196.5	32,269
2001	9,457	347.5	36,748
2002	12,331	485.5	39,370
2003	14,026	616.6	43,959
2004	14,129	595.5	42,149
2005	14,199	622.2	43,816
2006	13,783	740.6	53,733
2007	11,822	626.0	52,955
2008(Oct)	7,505	428.3	57,072
TOTAL	202,088	7,419.20	36,713

Together with its variants, such as Presidential Proclamations and other similar programs implemented by the Local Government Units and the urban poor organizations themselves, CMP has transformed at least 700,000 urban poor households from being lowly illegal squatters into dignified amortizing landowners.

Though small in relation to the magnitude of the housing need among the poor, estimated at 3 million and still rapidly growing, CMP has institutionalized the community mortgage scheme as an inexpensive and fairly sustainable public housing program. The average loan amount is PhP36,713 and the program’s beneficiaries are able to pay their loans. CMP boasts of a higher collection efficiency rating compared to other government housing programs, including the UHLP and other government housing finance program, except possibly the present Pag-Ibig program. The NHA’s resettlement projects register an average CER of less than 50% compared to CMP’s CER of around 80%.

CMP has also demonstrated that a well-designed program can actually benefit both landowners and informal settlers. Landowners experiencing problems with illegal occupants now have an option of offering their land to serve a social purpose while receiving a reasonable return from their property at the same time.

Most Interesting Feature of CMP

The CMP is primarily the initiative of the urban poor themselves with the government providing the funding and non-government organizations providing the organizing and paper work.

Its being demand-driven is one of the reasons often cited for the better repayment record of CMP is. The association, assisted by an originator, acts as the borrower. It is also the community which negotiates with the landowner, thus preventing the overpricing of land purchases which often plagues government purchases. Because the community members themselves decide to purchase the property, they are committed to living and establishing their homes in it, unlike the government's resettlement projects which are plagued by numerous cases of abandonment of the awarded lots by the beneficiaries.

The loan - a maximum of Php60,000 per family (Php 80,000 in Metro Manila) - is used by the community association to purchase the land from the landowner. The members amortize the loan over a maximum period of 25 years at 6% interest rate per year. After a few years following loan take-out, the associations apply for the individualization of the titles, and the mortgage accounts are also individualized. The individual family takes possession of the title after full payment has been made.

Stages of a CMP Loan

1. To qualify for the program, the community must fulfill the following requirements:
 - a. The community association (CA) must register itself with the appropriate government agency.
 - b. The community must secure from the landowner a voluntary agreement or intent to sell.
 - c. Loan documents and a Lease Purchase Agreement signed by the CA and individual member-beneficiary must be submitted. The CA engages the services of a loan originator which can be a non-government organization, a local government unit or the National Housing Authority. The originator assists the community to organize into a homeowners association and prepare the loan documents.
2. Issuance of the Purchase Commitment Line (PCL). It is during this phase where both the project and originator are accredited by Social Housing Finance Corporation (SHFC). The loan amount for the project is then allocated based on the selling price of the property and/or cost of site development. Both the appraised value of the property and the borrowers' capacity to pay are considered in the determination of the PCL. If the selling price exceeds the PCL, the CA is required to put up an equity equivalent to the balance. This stage entails site inspection and background investigation assessing the physical conditions of the property as well as the organization's capacity to fulfill the obligations of a borrower and the members' knowledge about the program.
3. Approval of Letter of Guaranty (LOG). By issuing the LOG, SHFC guarantees payment to the owner of the property once the latter transfers the title to the organization. The SHFC board approves the LOG after a loan and mortgage examination has been completed and the requirements fulfilled.
4. Loan take-out. With the release of the loan, the SHFC pays the landowner and the CA members start paying their amortization to SHFC after a month.
5. Post take-out. The CA collects the monthly amortization from its members and remits them to SHFC. They also keep individual records of paid and unpaid amortization. As long as the community title to the property remains with the association, any default in payment by a member is a liability of the entire association. In cases where a defaulting member can no longer service his/her loan, the CA finds a qualified substitute borrower who assumes the rights and obligations of the defaulting member. The conversion of the community title into individual parcels assigned to each member and the transfer of the title to the name of the member is done during this stage. The community loan is also individualized.

Throughout this process, the community associations take charge of ensuring that their financial obligations to the lending institution are met. They collect and remit the payments. They also make decisions concerning defaulting members or recalcitrant residents. They oversee the reblocking and the enforcement of the subdivision plan..

An originator assists the community to set up an organizational structure and to comply with the requirements for a CMP loan. The originator, which could either be a government agency or non-government organization, also goes through an accreditation process with the SHFC. There are today around 250 accredited CMP originators which include NGOs and local governments.

Why CMP

The program is very appropriate within the Philippine context:

- In the Philippines, land ownership is concentrated among a few families with the vast majority as illegal occupants very often threatened with evictions. The CMP helps to correct this injustice, albeit too slowly.
- For the poor housing is primarily a secure space with close access to livelihood - neighborhood and home improvements are secondary. On-site development is the most desirable. Near site relocation is less desirable due to the need of rebuilding homes and infrastructure. Distant relocation, no matter how fully equipped with homes and basic services but far away from jobs and livelihood is never acceptable.
- Given the situation where the housing need is so vast and the available housing resources relatively so little, the ideal “decent housing for all” is not possible. What is possible is “minimum solution for a maximum number.” The more common practice of “maximum housing for a minimum number” does not in fact make sense. Decent housing does remain an ideal. But to benefit many, initial investment must be kept at a minimum. Subsequent investments can be done on an incremental (little-by-little) basis, with the hope that the ideal decent house and neighborhood will eventually be reached if not for ourselves for our children.

Security of tenure is the key to community development. CMP has transformed several slum areas into livable communities. Once tenure is assured, improved housing and community upgrading follows. After the CMP loans were taken out shanties started to be repaired, renovated and repainted and makeshift structures were gradually replaced with more durable ones. Reblocking and clearing of roads were done in some communities which made it easier to undertake site upgrading (e.g. drainage, sanitation and road works).

With their organizations, urban poor residents could then begin to engage with and get the commitment of the local government and utility firms to upgrade their neighborhoods, such as individual electric meters, retaining walls for creeks that run through the communities, water tap installed, muddy pathways replaced with concrete footpaths and even roads, day-care centers, ad infinitum.

Constraints of the CMP

The CMP is very interesting and has been institutionalized and can therefore be easily scaled-up. Not so! The following are its constraints:

- The biggest constraint is bureaucracy. Although CMP is still the least complicated and most inexpensive housing program of the government, the process still remains too tedious and complicated especially for the urban poor and their originators. The bureaucrats must realize that although CMP is a formal financing wherein the mortgages must be enforceable, CMP targets the informal sector. There must be something irregular about the sites they occupy otherwise these sites would not have been squatted on. The standards applicable to the formal sector cannot apply to CMP.
- Being demand driven, CMP depends on the solid organization of the community associations that participate in the program. Community organizing among the poor remains of critical importance as only community organizations with the necessary skills, commitment and knowledge of CMP processes can meet the demands of the program. Transforming poor communities' need for decent housing into actual demand thus necessitates the coming together of these two important actors – the community and the originator. Unfortunately the number of qualified and trained originators is limited by the intense organizing work involved in assisting communities for CMP, not to mention the fact that the origination fees paid to CMP originators can hardly cover the operating costs of providing the service. This is unfortunate as the investment in community organizing more than pays off for these communities as they not only succeed in getting financing for land acquisition through the CMP but they also become skilled and empowered to negotiate with local governments, public and private formal institutions for other community needs.
- The cooperation of landowners is critical for the program to continue to be viable. Community associations can only purchase land from landowners who are willing to sell their property at an affordable price. Expropriation has rarely been resorted to in CMP projects. The availability and the cost of land is very critical. It is worth noting in the first Table that the average loan amount per household has more than doubled (171%) between 1989 and 2007.

Continued Growth

The CMP is a very popular program. Many lobby for it – not just the urban poor and their NGO supporters but also politicians and landowners. Despite the constraints, CMP has continued to grow. Although the program was conceived during the Cory Aquino presidency, it has survived and even grown under the succeeding three presidencies, which in the Philippines is a unique phenomenon.

The continuing advocacy has achieved a good measure of success. In 1992, with the passage of the UDHA, additional incentives were given to the CMP to encourage landowners and urban poor communities to enter into CMP arrangements. In 1994, the Comprehensive and Integrated Shelter Finance Act (CISFA) was passed, which provided for increased yearly appropriations to the CMP for five years. In 2004, again after intense advocacy by NGOs and urban poor groups, the administration of the CMP was

transferred to the Social Housing Finance Corporation (SHFC), a newly-formed subsidiary of the National Home Mortgage Finance Corp. This change was designed to ensure a focused implementation of the CMP, afford its implementing agency the flexibility to adopt policies specifically suited to the constraints and capacities of the poor, and make possible the creation of a broad range of housing finance services targeting poor families.

The CMP will continue to grow. It answers an urgent need. It is relatively simple and inexpensive. It is primarily the initiative of the urban poor themselves with the government providing the funding and non-government organizations providing the organizing and paper work.

Yes, the community mortgage program is a good example of how to make government housing subsidies work for the poor.