



## MBC Task Force on Housing

### Introduction

In her first State of the Nation Address last 23 July 2001, Her Excellency President Gloria Macapagal-Arroyo identified housing as one of her administration's priority areas. She called on the private sector to help government revitalize this sector. During a meeting with the Board of Trustees of the Makati Business Club on 11 August 2001, she asked the group to spearhead a dialogue with all the key members of the housing industry to explore and identify ways to reinvigorate the industry.

MBC member Ayala Land, chaired by Mr. Fernando Zobel de Ayala, was requested to lead the Shelter and Housing Advisory Group. This was one of six groups or task forces organized by MBC in line with the President's economic agenda. The other task forces were on education, ICT (Information and Communications Technology), agriculture, tax reforms, and tourism.

The Shelter and Housing Advisory Group was created on 7 September. It consisted of committees that would focus on important areas of the housing industry namely : finance, production and processes, and institutional support.

The finance committee was chaired by Mr. Roberto de Ocampo and Mr. Romeo Bernardo; the production and processes committee was headed by Zorayda Amelia Alonzo; and the committee on institutional support was headed by Mr. Monico Jacob. Each of the committees was asked to generate short-term and medium- to long-term recommendations for the housing sector.

The Group worked closely with the Housing and Urban Development Coordinating Council (HUDCC) as well as the other housing agencies and Government Financial Institutions throughout the process to make sure that the recommendations would be acceptable to these institutions. The recommendations of the advisory group were incorporated with the suggestions generated from other regional summits on housing that were taking place around the country. The results of these summits were then presented to the President during a National Housing Summit on 24 October 2001. A copy of the Shelter and Housing Advisory Group report, "*Towards an Invigorated Housing Industry for Catalyzing National Development*," was submitted to H.E. President Gloria Macapagal-Arroyo and Housing Secretary Michael Defensor.

# MBC Task Force on Housing

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## EXECUTIVE SUMMARY

### Production and Processes

#### Short-Term Recommendations

Immediate implementation of the revised processes for permit acquisition that will bring down the processing time from 24 months to 3 months. By doing so, there would be an estimated additional 80,670 units that would be produced in one year's time; (for a total of 123,754 units)

Acceptance of units up to P225,000 in the 20% compliance requirement for Socialized Housing;

Utilize idle government lands for socialized housing; and,

Encourage the use of cheaper non-conventional/indigenous materials where available for lower production cost.

#### Medium to Long-Term Vision

Passage of the National Land Use Act; encourage LGUs to craft and implement Comprehensive Land Use Plans;

Encourage rental housing utilizing innovative approaches such as (1) allowing for joint ventures between government and the private sector in developing idle government lands for rental socialized housing, and (2) developing and implementing an urban renewal program;

Standardize materials (doors, windows, etc.) for low cost and socialized housing to achieve economies of scale, thus bringing down the cost of production; and,

Coordinate areas for socialized housing with the existing and proposed mass transport systems and vice versa (both rail and water transport).

### Finance (for the Commercially-Viable Segment of the Market)

#### Short-Term Recommendations

Encourage and support the use of the Contract-to-Sell (CTS) scheme as an acceptable means of financing by (1) having GFIs channel their support for housing by providing a liquidity mechanism (re-discounting facility) for private financial institutions holding CTS, (2) Pag-IBIG to continue to finance developers exclusively via CTS system backed by buy-back guarantees (5% retention with a 2.5% guarantee fee) of developers, and (3) BIR to issue ruling that CTS does not constitute conveyance of property and therefore, not subject to transfer taxes (capital gains, documentary taxes);

## MBC Task Force on Housing

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Liquefy the portfolio of government housing agencies- NHMFC, Pag-IBIG, HIGC-through sale or Joint Venture Asset Management mechanisms, in order to improve the financial health of these institutions, improve recovery, and provide additional resources to housing via securitization;

BSP supervision should recognize that housing, especially securitized mortgages, has a different risk profile compared to other real estate lending and consider the eligibility of these for rediscounting; and,

Private financial institutions to explore alternative instruments for housing finance, e.g., contract savings for housing scheme.

### Medium to Long-Term Vision

Making government subsidies for socialized housing transparent through a housing assistance fund, an “on-budget” subsidy fund targeted at the bottom 30% of society, with the subsidy period shortened from 25 to 10 years;

Correcting the false premise of earlier programs equating shelter provision to homeownership by giving due attention to the rental housing market, a long ignored segment of the housing sector;

Developing a secondary market for mortgage-backed securities to increase the flow of private funds into the housing sector and ease pressure on public pension and provident institutions to directly shell out funds for unsustainable socialized housing programs; passage of the Securitization Bill;

Support initiatives for the development of a privately managed Secondary Mortgage Institution (SMI) through (1) support by GFIs and endorsement to multilateral funding institutions, (2) provision of HGC guarantees on asset-backed securities, and (3) inclusion by the BSP of securities issued by the SMI among acceptable investments for banks to apply towards their agri requirements and liquidity reserve cover;

Develop on budget, well targeted and time bound subsidy mechanisms, and improve database for targeting subsidies (which can take the form of capital allowance in lieu of interest rate subsidies);

Develop LGUs' capability to undertake socialized housing initiatives, including passage of required local taxes (e.g., on idle lands) to finance these where needed;

Review the roles and responsibilities of public sector entities involved in the government's housing program to improve government's overall intervention in the housing sector;

HLURB to institutionalize the sale of socialized housing credits to lower the cost of providing low-cost housing and thereby reach the lower end of the market;

## MBC Task Force on Housing

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HUDCC to consider increasing the ceiling for socialized housing in Metro Manila to be able to develop socialized housing in Metro Manila;

Repeal of the "Maceda Law" and the provision in the General Banking Act that allows for property redemption within one year after foreclosure; and,

Putting in place a reliable title registry system, including enabling environment for the development of title insurance scheme to protect owners of real estate against defects, forgery, falsification, double titling, etc. in their land titles.

### Finance (for the Non-Commercially-Viable Segment of the Market)

Provide capital subsidies, which are transparent, on-budget, up-front, and allow the private financial system to cater to the lower-income groups without the distortive effects of interest subsidies. Under an appropriate targeting system, it can be highly progressive, directing higher subsidies to lower income groups. The Chilean approach to targeting which other countries have followed, may be applied. It assigns points to applicants of capital subsidies based on: (a) household commitment to addressing its housing problem as evidenced by its savings efforts (time and amount saved), and (b) social factors as family size, income and current housing conditions.

The Philippine government may similarly explore linking provision of capital subsidies to household savings (through perhaps, some bank deposit product) to better target its subsidies, maximize housing resources and direct them to the most needy.

### Institutional Support

Keep the present structure/system but strengthen – "giving more teeth" – to HUDCC through:

- a) Delegating the appointment of the heads and the members of the Boards of the attached agencies to the HUDCC Chairman;
- b) Making the HUDCC Chairman a regular member of the Cabinet;
- c) Investing HUDCC with not just coordinating functions but also policy making and direction setting;
- d) Providing HUDCC oversight functions vis-à-vis the attached agencies; and
- e) Strengthening the planning and policy functions of HUDCC.

Alternatively, the Department of Housing and Urban Development (DHUD) should only be composed of the National Housing Authority (NHA) and the Housing and Land Use Regulatory Board (HLURB). All other housing agencies should remain independent;

NHA be given the specific mandate to address the shelter needs of the most marginalized sector composed of the lowest 30% of the income decile;

Within Metro Manila, HUDCC should pilot rental housing;

## MBC Task Force on Housing

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SSS, GSIS and HDMF should phase out their retail lending activities and eventually concentrate on wholesale purchase of instruments, which are generated by the market. This way they can assist in the development of the secondary mortgage market.

LGUs to play greater role in not only addressing the shelter needs of the lowest 30% but also providing the necessary discipline to make rental housing, for instance, a workable solution. Eviction of tenants who refuse to pay, disciplining abusive landlords etc. are functions the LGUs can provide effective assistance to.