

WELCOME REMARKS



By

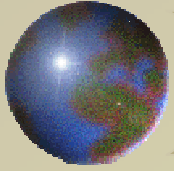
GONZALO BENJAMIN A. BONGOLAN

President, Home Guaranty Corporation

***Summit-Workshop on Securitization and
Secondary Mortgage Market Development***

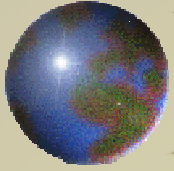
Makati Shangri-la

November 14, 2007



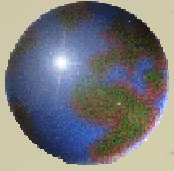
OBJECTIVES OF THE SUMMIT – WORKSHOP ON SECURITIZATION AND THE DEVELOPMENT OF THE SECONDARY MORTGAGE MARKET

- ☞ **Establish a road map that will identify the necessary activities for the sustainable securitization of housing-related financial flows, i.e. home mortgages and Contracts-to-Sell.**
- ☞ **To arrive at a common understanding of the procedures and estimated timelines that will serve as a basis for cost and benefit studies of such undertakings, vis-a'-vis traditional financing modes.**
- ☞ **To identify remaining issues and barriers to securitization and arrive at possible resolutions.**
- ☞ **To present the Government's role in the securitization of housing-related instruments and future plans/direction as this relates to the National Shelter Program.**



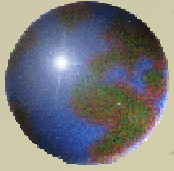
Renewed interest on Securitization brought by the following factors:

- **The market has grown and we may have already attained critical mass**
- **Improved legal framework**
- **Digestion of all the lessons to be learnt from the experiences of the 1990s**
- **Systemic reduction in interest rates**



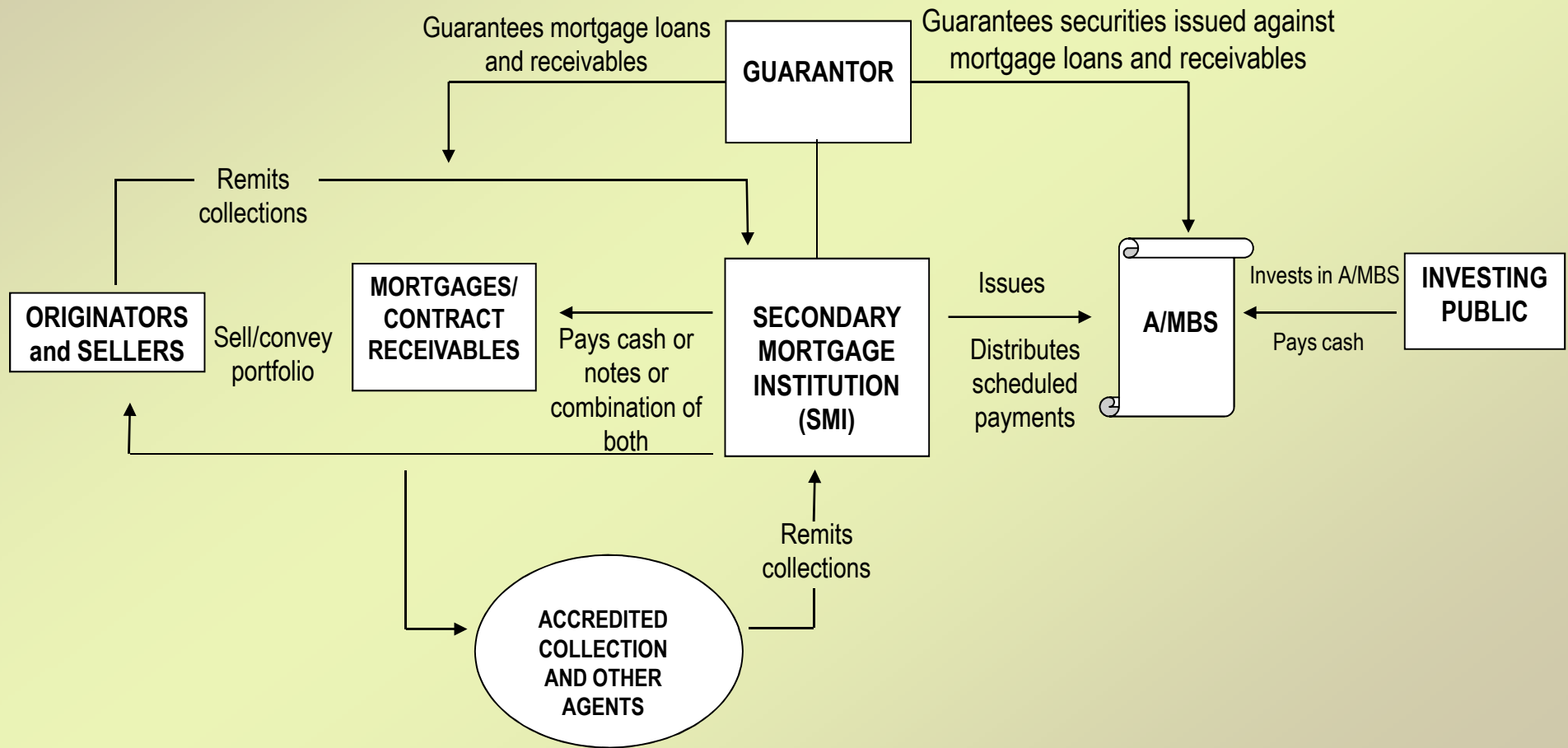
Prospects based on FIES

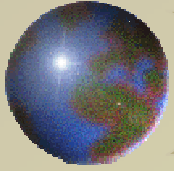
- Total Family Expenditures will climb by 20% to P3 Trillion by 2009 from P2.5 Trillion in 2006
- Share of Housing Expenditures will go down from 12.7% in 2006 to 12.2% over the next 3 years
- Total Housing Expenditures will grow by 15% over the next 3 years from P325.5 Billion in 2006 to P375 Billion in 2009. Growth was 22% from 2003 to 2006, and 4% from 1997 to 2000



REVIEW OF SECURITIZATION FRAMEWORK

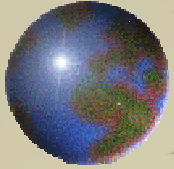
THE SECONDARY MORTGAGE MARKET: GENERAL DYNAMICS





REVIEW OF BENEFITS FROM SECURITIZATION

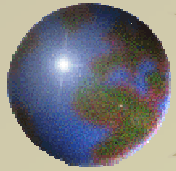
- 1. To provide financial institutions with an alternative liquidity mechanism and increase the velocity of funds to be re-lent for housing.**
- 2. To provide real estate developers with an alternative source of funds for the development of more housing projects.**
- 3. To contribute to the development of the capital market by introducing new products.**
- 4. Encourage long-term credit arrangements that would enhance affordability of housing loans.**



SOME WORDS OF CAUTION

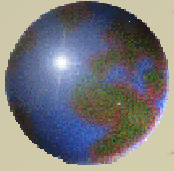
LESSONS FROM PAST SECURITIZATION DEALS

- **Guaranteed securitization deals partly underwrote the 1990s boom**
- **Default rate on HGC-guaranteed APCs was 93%**
- **A Guarantor's presence should only be construed to enhance the credit**
- **The guaranty will not make credit that was bad to begin with, good.**
- **Are the expected flows securitizable in the first place?**
- **Values in the secondary market are derived from the primary market**
- **Avoid securitization for securitization's sake**
- **Incentivized proponents and players may just be out to exit**
- **Securitization transactions proceeded even if there were no flows yet**
- **Some projects did not realize any revenue flow at all**
- **Maintain defaults at manageable levels**



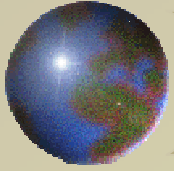
What do we know of the US sub-prime crisis?

- **Excessive lending to Borrowers considered of “low” credit quality**
- **“Teaser” rates were used to entice them**
- **Rates were generally adjustable, and rapidly increased to reflect extra risks**
- **Declining rates and rising house prices during the “Boom” years led to most housing loans being treated as speculative investment; taking out second mortgages was a common practice, even “flipping”**
- **Low interest rates, high liquidity, and low inflation on a global scale led to an over-bullishness in housing markets among Western nations**
- **These Sub-prime loans were securitized into Mortgage Backed Securities or (MBS) by credible mortgage banks and lenders, which hid the risks for sometime**
- **The MBS in turn were pooled into Asset-Backed Securities (ABS) and other Collateralized Debt Obligations (CDOs)**



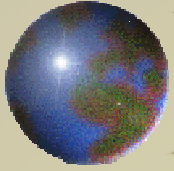
WHAT DO WE KNOW OF THE U.S. SUB-PRIME CRISIS?

- **When the trends reversed, the Sub-prime borrowers found themselves with costlier mortgages against declining house prices and for some, the house values became less than the loan balance**
- **The eventual default in sub-prime loans and falling house prices affected the securities issued against those mortgages and housing related instruments**
- **The subsequent sell-offs of the MBS, ABS and CDOs further lowered the valuation of these securities**
- **The ensuing tailspin in pricing hit the balance sheets of the investing institutions**
- **Rescue or bail-outs and provision of emergency liquidity by Central Banks and big private banks had to be resorted to**



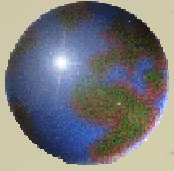
Is The Philippines Anywhere Near?

- **NO, please keep it that way**
- **We already had our own housing sub-prime crisis**
- **Home credit here is based on affordability level, more or less**
- **Interest rates are subsidized for government funded housing; rates are lower for lower-cost housing packages**
- **Housing loans are generally obtained for home ownership.**
- **Housing finance is generally funded through traditional sources**



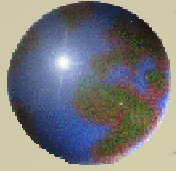
Is The Philippines Anywhere Near?

- **Not much MBS, ABS, and CDOs issued and outstanding**
- **No securitization of NHA and CMP accounts**
- **No more UHLP**
- **Market able to digest lessons from R.P. sub-prime experience of the mid-80s and 1990s**

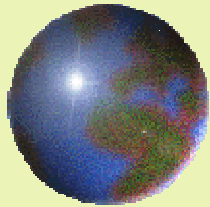


Barriers to Securitization

- Pricing of volatility and risk factors
- Aggregate intermediation costs could inflate overall costs and make it more expensive than traditional lending
- Lack of specialists firms in related areas such as servicing, rating, backroom requirements
- Lack of standardized documents
- Lack of electronic and computerized infrastucture
- Banks reluctance to off-load housing loans from their balance sheet.
- Remaining taxation and legal issues
- Originators may not be willing to sell loans due to lack of qualified intermediaries
- Sale to banks with recourse to developers, instead of to SMI/NHMFC, is much easier since the developer bears risks.



PRE - FINAL WORDS



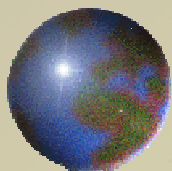
OVERVIEW OF THE HOUSING FINANCE SYSTEM AND THE DEVELOPMENT OF SECONDARY MORTGAGE MARKET IN THE PHILIPPINES



A Presentation of

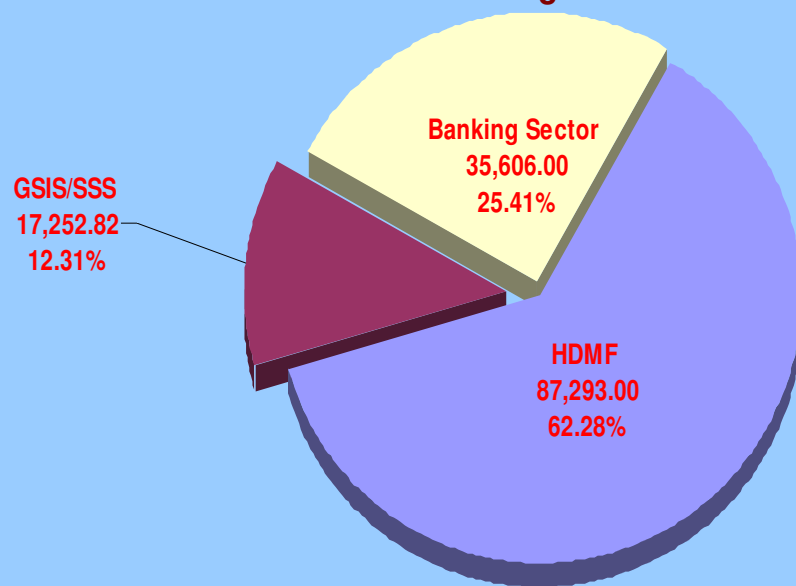
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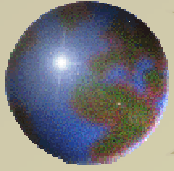
THE PRIMARY MORTGAGE/ CONTRACT RECEIVABLES MARKET 2001 to 2006

Funds Provided for Housing from 2001 to 2006



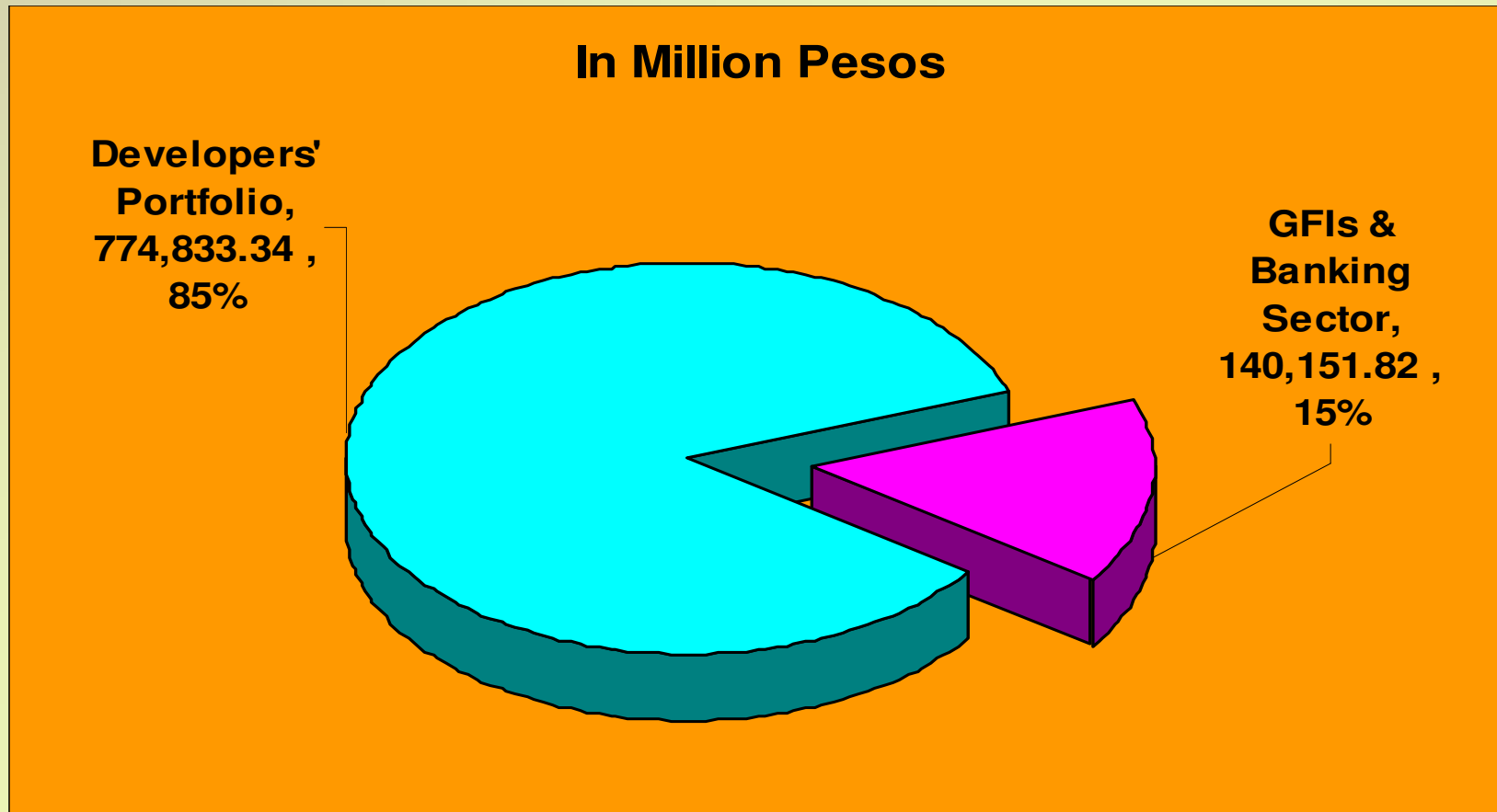
CONTRIBUTORS	Estimated Cumulative Releases (In Million Pesos)	% to Total
Government:		
▪ HDMF	87,293.00	62.28
▪ GSIS/SSS	17,252.82	12.31
Sub-total	104,260.33	74.59
Private Institutions:		
▪ Banks	35,606.00	25.41
Sub-total	35,606.00	25.41
Grand total	140,151.82	100.00

- Note:**
1. SSS figures do not include housing loans conduited to banks/financial institutions amounting to P550.97 Million
 2. HDMF loans include funds conduited to NHMFC & NHA
 3. Bank loans represent the cumulative releases for the period. As of 2006, outstanding housing loans is P134.74 Billion.
 4. Outstanding Receivables Portfolio of NHMFC as of end of 2006 is P27.33 Billion
 5. NHA-completed developments for sale as of end of 2006 is P8.70 Billion

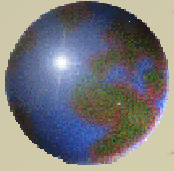


TOTAL PORTFOLIO OF THE HOUSING SECTOR

2001 to 2006

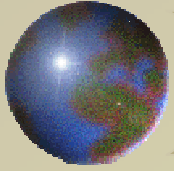


Estimated Value of Total Housing Portfolio = P 914.985 Billion

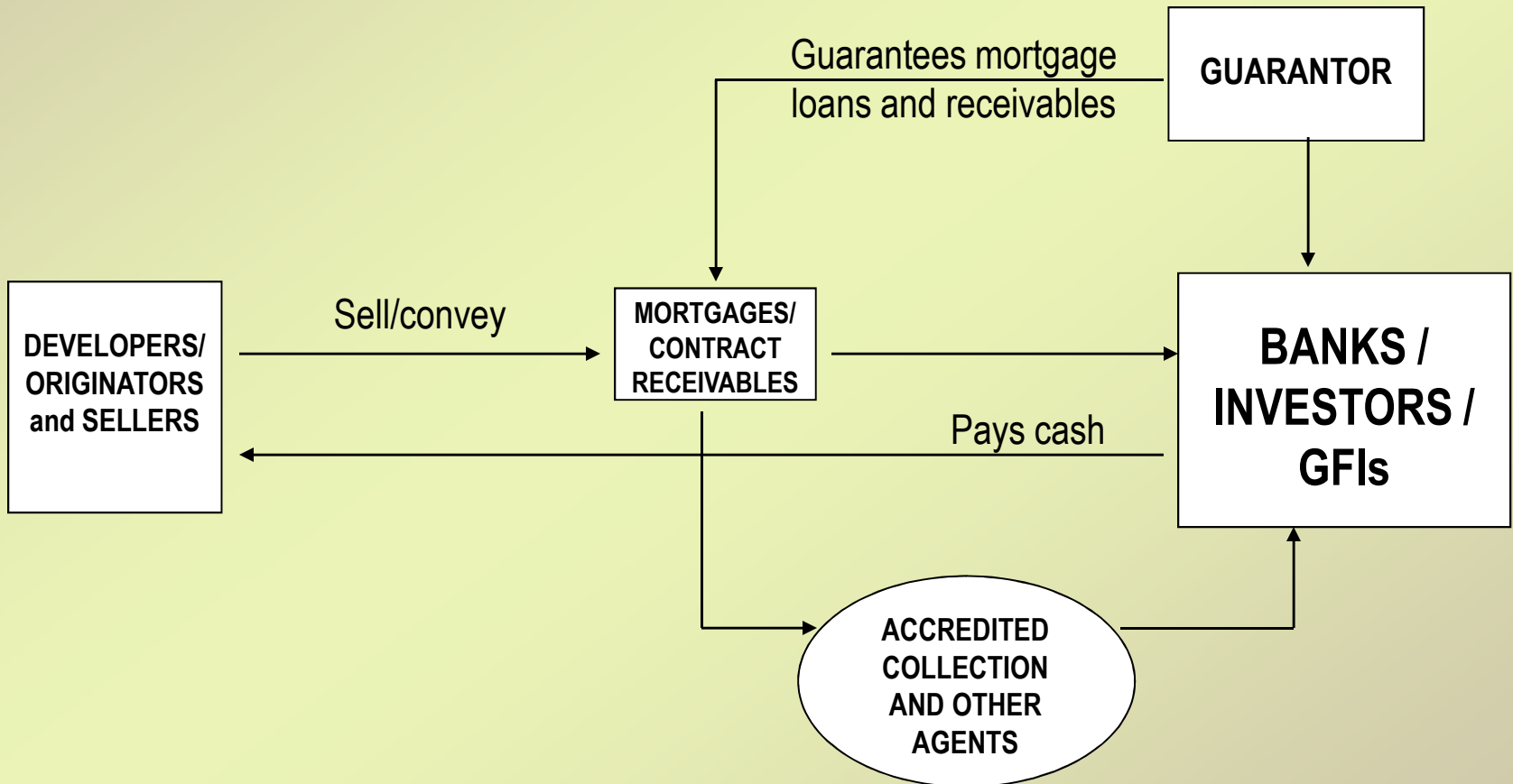


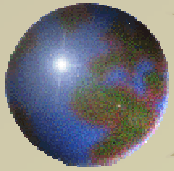
SOME FACTORS FOR CONSIDERATION

- Large potential volume of securitizable housing loans from the banking system and from other institutions
- NHMFC and HGC Charters, the Securitization Law, among others, provide the legal framework
- There is an existing secondary market for housing-related receivables



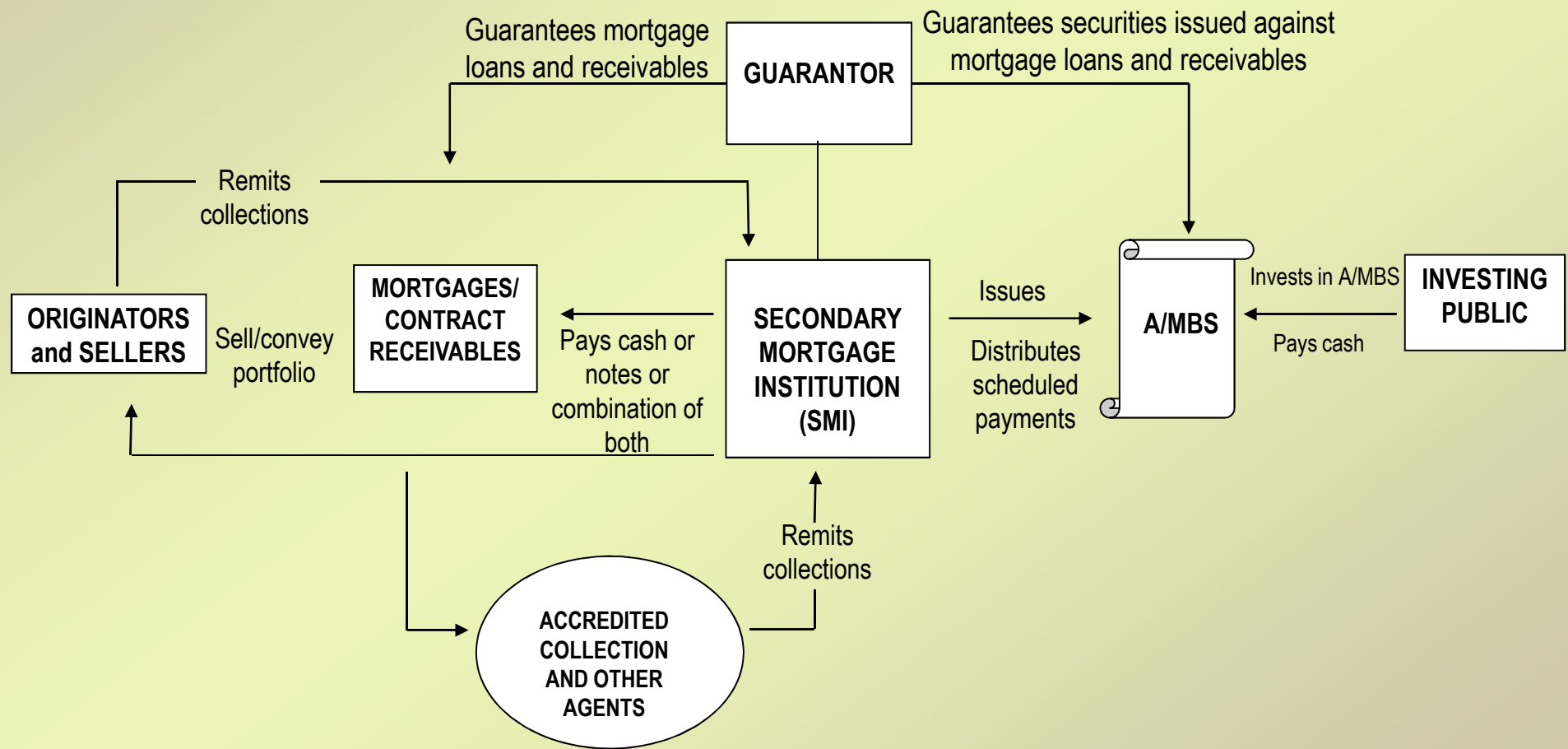
THE CURRENT MARKET SITUATION

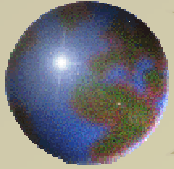




REVIEW OF SECURITIZATION FRAMEWORK

THE SECONDARY MORTGAGE MARKET: GENERAL DYNAMICS





CONCEPT CHART: SECONDARY MORTGAGE MARKET, PRIVATE- INITIATIVE TRANSACTION STRUCTURE/PROCESS

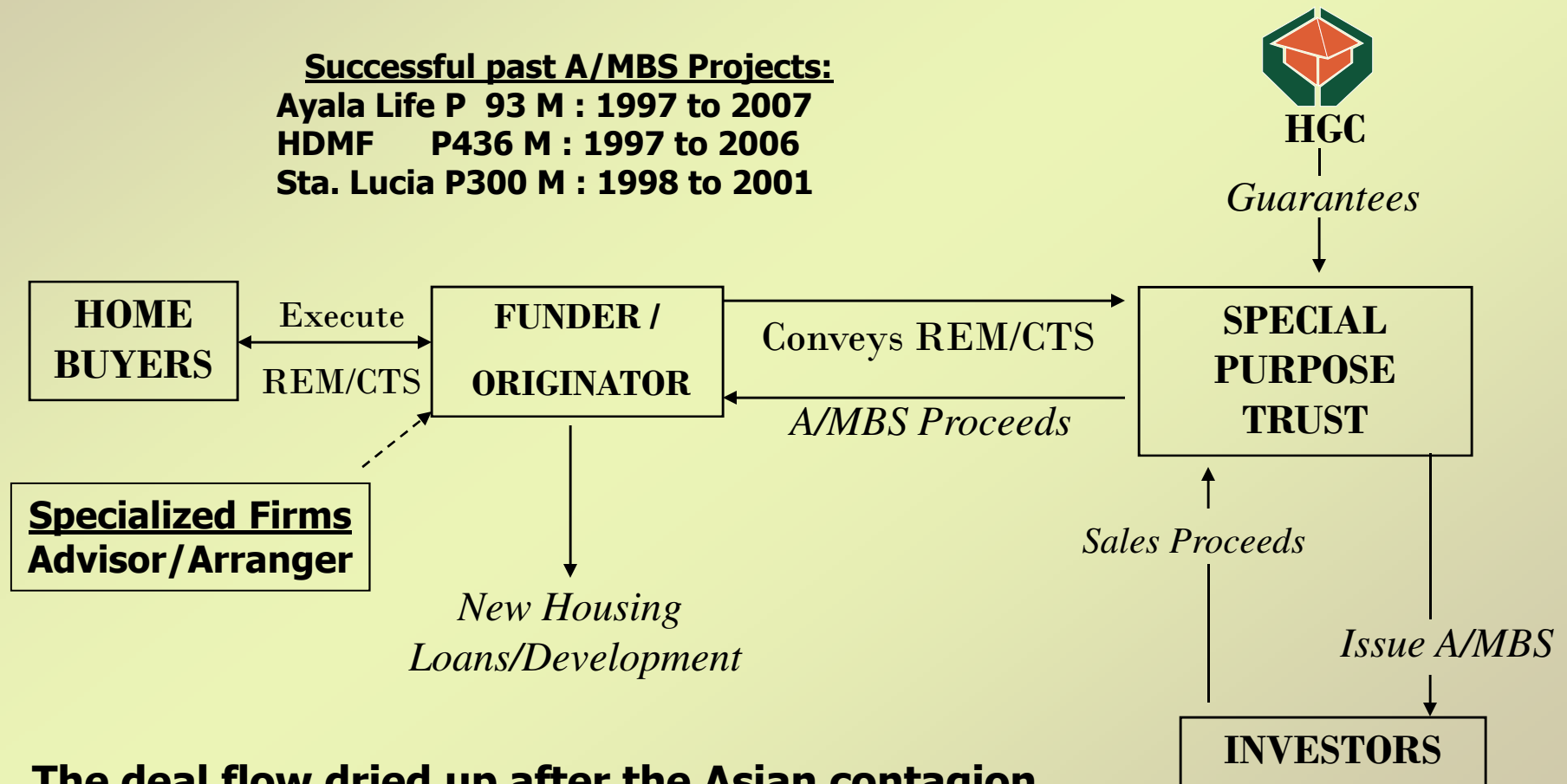
Asset Pooling & Issuance of ABS

Successful past A/MBS Projects:

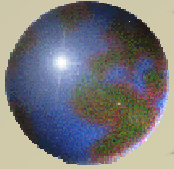
Ayala Life P 93 M : 1997 to 2007

HDMF P436 M : 1997 to 2006

Sta. Lucia P300 M : 1998 to 2001

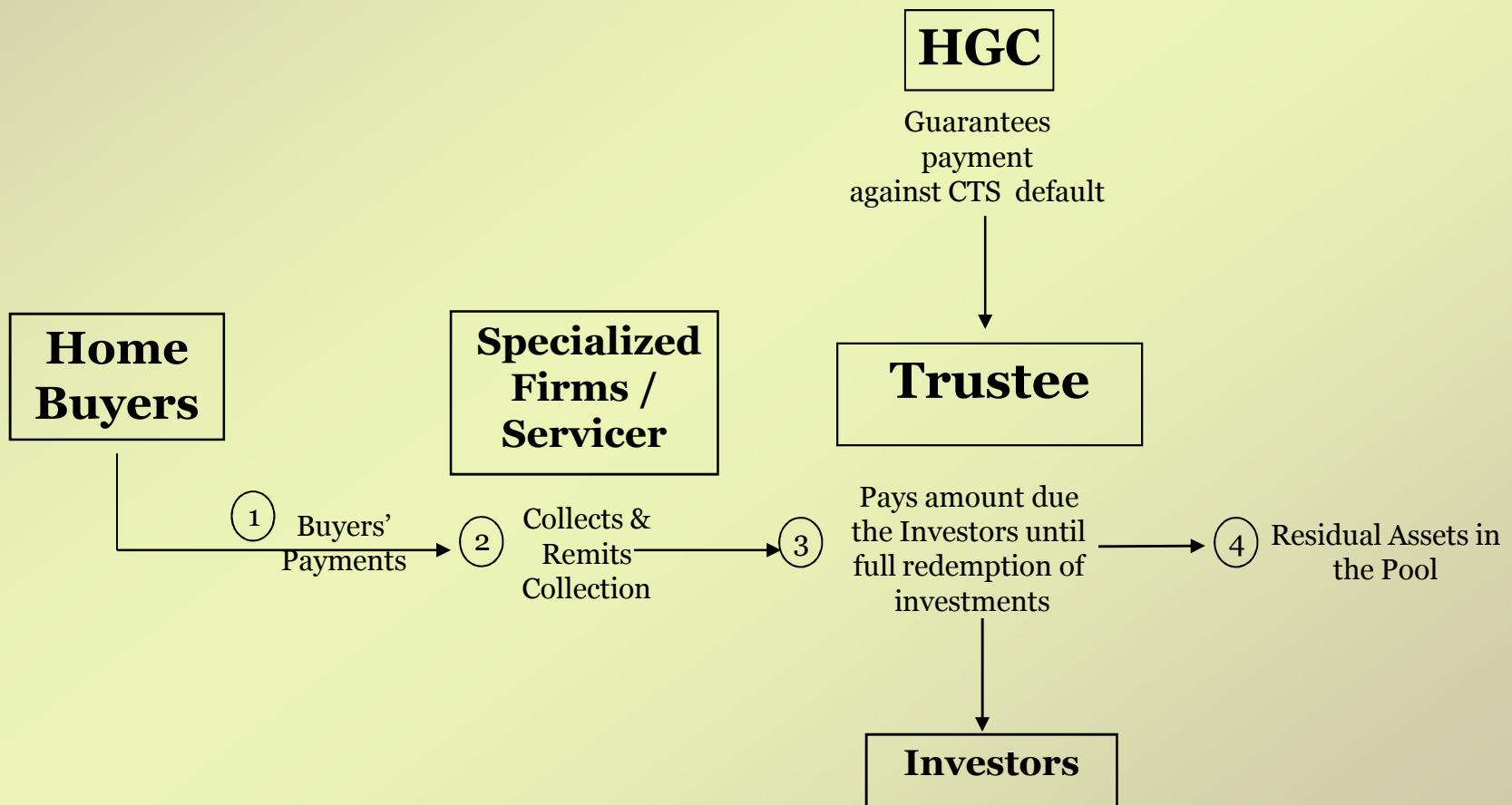


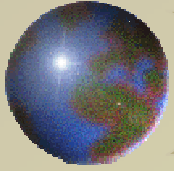
The deal flow dried up after the Asian contagion



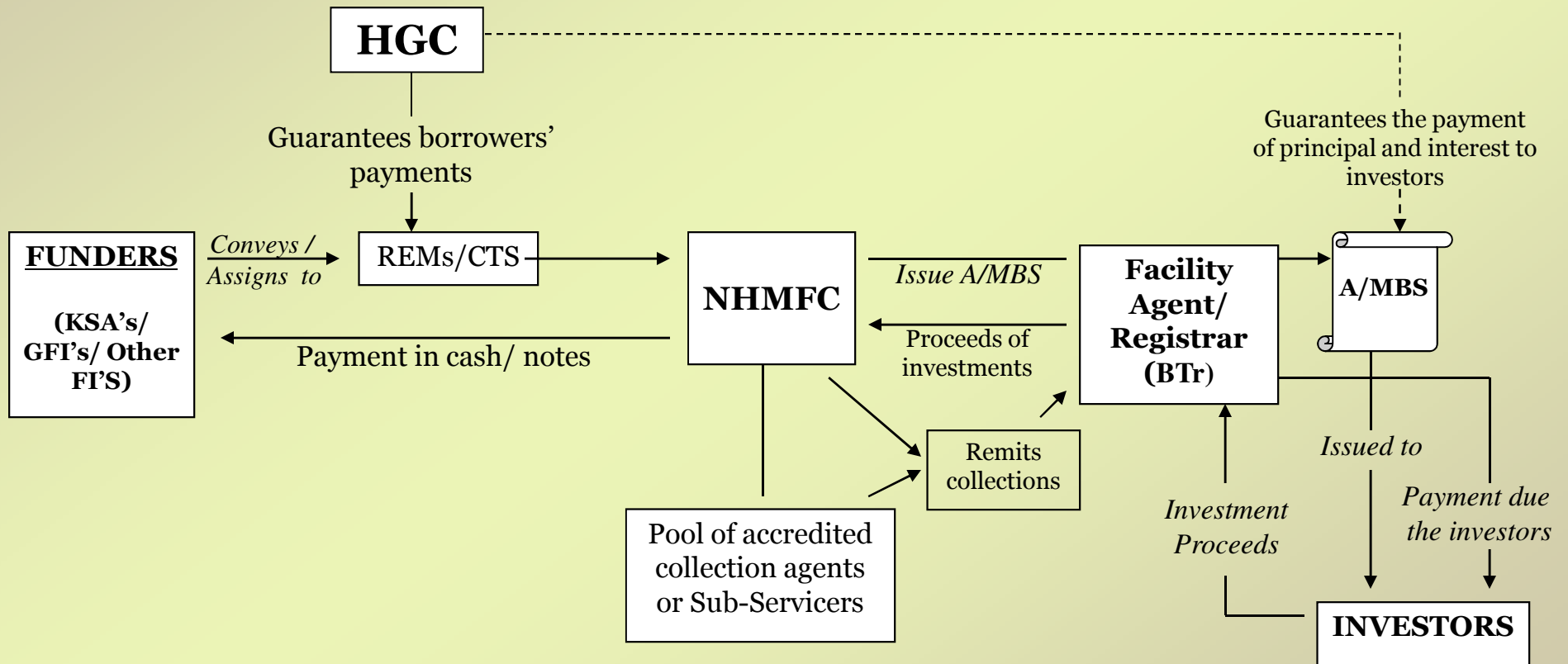
CONCEPT CHART: SECONDARY MORTGAGE MARKET, PRIVATE- INITIATIVE

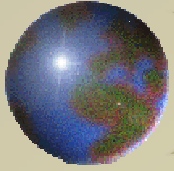
POST A/MBS ISSUANCE SERVICING MECHANICS





CONCEPT CHART: SECONDARY MORTGAGE MARKET, GOVERNMENT- ORIGINATED





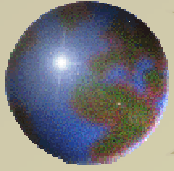
LEAD AGENCIES AND THEIR RESPECTIVE ROLES IN THE DEVELOPMENT OF THE SECONDARY MORTGAGE MARKET

NATIONAL HOME MORTGAGE FINANCE CORPORATION (NHMFC)

- **Lead implementing agency**
- **Buying and selling of securitizable mortgages and contract receivables from loan originators.**
- **Issue securities to the investing public**
- **Act as master servicer, may also accredit and engage sub-servicers, collection and other agents.**
- **Engage a trustee for the securitized assets.**

HOME GUARANTY CORPORATION (HGC)

- **Co-lead implementing agency**
- **Extend credit guaranty against the payment of the borrowers of the securitized assets.**
- **Work with NHMFC in the structuring of the securities to be issued against the pool of qualified accounts or mortgages/contract receivables and extend its guaranty on such securities.**



BENEFITS OF SECURITIZATION AND PRESENCE OF AN ACTIVE SECONDARY MORTGAGE MARKET

■ BENEFITS TO FUNDERS, ORIGINATORS, SELLERS

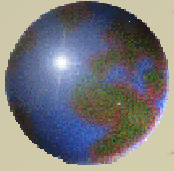
- Provides liquidity and take-out.
- Pure sale transaction makes it off-balance sheet financing.
- No duration mismatch between medium term to long-term mortgage and receivable portfolio and short-term deposits, once assets are sold by banks to SMI.
- The following regulatory taxes are eliminated for banks:
 - Capital requirement (risk-based capital)
 - Reserve requirement for demand deposits.
- New funds are generated for re- lending
- Develop pool of quality mortgages/receivables based on uniform or standardized documentation and eligibility criteria.

■ CAPITAL MARKETS

- Broaden the spectrum of investment alternatives with the addition of A/MBS and possible variants
- Provide information on characteristics of pool of mortgages/receivables as basis for investment decision.
- Operation of secondary mortgage market allows for integration between primary mortgage market and capital markets possible.

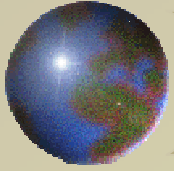
■ NATIONAL SHELTER PROGRAM

- Promotes sustainability and viability of the formal shelter finance system.
- Forsters greater efficiency in the housing finance system through standardization and quality of underwritten loans.



STEPS TO BE UNDERTAKEN BY HGC/SMI IN SMM DEVELOPMENT

1. SMI and HGC to define and establish the eligibility criteria for selecting the accounts to be securitized.
2. SMI/HGC obtains list of qualified accounts from originators and evaluate eligibility for inclusion in pool
3. SMI AND HGC approve eligible accounts, communicate to, negotiate and agree with on the terms of asset pooling.
4. SMI secures HGC guaranty to cover borrower's payment default. HGC shall extend a cash flow guaranty on the receivables (amortization payments, principal and guaranteed interest)
5. SMI and HGC work on the structure of the asset/mortgage backed securities (A/MBS).
6. Procurement of services of financial intermediaries.
7. SMI/HGC engage the services of a facility agent
8. Contracts for execution (Asset Pooling, Servicing & Trust Agreement, Contract of Guaranty, Underwriting Agreement, others)
9. Implementation



TYPES OF SPECIALIZED FIRMS/SERVICERS NEEDED

Advisors/ Arrangers

Underwriters/ Bookrunners

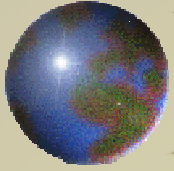
Legal Experts & Tax Lawyers

Custodians/Trustee

Collection Agents

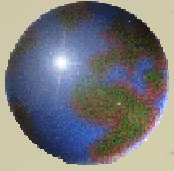
Credit Rating Agencies

Other Backroom Specialists



FINAL WORDS

- These are just templates
- Revise as you may deem fit
- The design is different in other jurisdictions
- HGC-centric, for obvious reasons
- HGC and other KSAs are here to help
- The next wave is upon us. Now is the time



Thank You