

## Housing Subsidies: A Closer Look at the Issues

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### The National Shelter Program: Bridging the Gap

A tremendous gap between demand for and supply of housing is most noticeable at the lower end of the housing market. The numbers are simply astounding. The government estimated that approximately 3.7 million new housing units will be needed for the period 1993-1998. At the same time, another 1.3 million units will require renovation and upgrading for the same period. The rapid formation of new households, especially in urban areas, and supply side constraints have contributed to the gap.

The government's National Shelter Program (NSP) hopes to eliminate this problem within 10 years. However, apart from the rapid formation of new households, the government has to contend with the huge funding requirement of the NSP, conservatively estimated at some ₱102 billion annually.

Under the NSP, the government has four major programs that are largely subsidized and intended for production of housing units and ownership. These are (a) production, (b) mortgages, (c) development loans and (d) community programs. These programs target either direct end-beneficiaries or private developers/institutions which are encouraged to mobilize their own resources to meet the demand for housing.

**Production.** The government, through the National Housing Authority (NHA), continues to play a significant role in the direct production of housing units. Among its major programs are (a) sites and services, (b) resettlement, (c) joint venture, (d) emergency housing, and (e) dormitory and apartment housing.

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The NHA also has a medium-rise housing program intended for the low- and middle-income groups. The program finances 3- to 4-storey residential buildings that provide a complete dwelling unit to target beneficiaries in high density urban areas. The NHA provides the land while the private sector constructs the buildings. The lowest monthly amortization under the program is ₱4,200 for a family with a monthly income of ₱26,250.

**Mortgages.** Under this program are:

- : Unified Home Lending Program (UHLP),
- : Home Development Mutual Fund's (HDMF) Expanded Housing Loan Program,
- : Home Insurance and Guaranty Corporation's (HIGC) Retail Guaranty Program, and
- : the housing programs of the Social Security System (SSS) and Government Service Insurance System (GSIS), respectively.

The UHLP as administered by the National Home Mortgage Finance Corporation (NHMFC), caters to members of the SSS, GSIS and HDMF. A 25-year loan is used to either purchase a residential lot, finance the purchase of a lot and house construction, or purchase a newly constructed residential unit or construct a new house. Home repairs and improvement are also included under this program.

**Development Loans.** These loans cater to developers, providing them with financing for large-scale housing production. The specific programs are:

- : Social Housing Development Loan (SHDLP),
  - : HIGC's Development Guaranty,
  - : HDMF's Group Land Acquisition Development,
- and
- : SSS corporate housing program.

The SHDLP is a development financing assistance to private developers, NGOs, landowners and LGUs for social housing projects that cost ₱150,000 and below

per unit catering to the lowest 70 percent of the target income group. The HDMF finances and handles private sector proponents, while the NHMFC funds government sector projects.

The HDMF provides loans to developers, project proponents or banks for low-cost housing projects with a selling price of ₱60,000 per house and lot package, and ₱40,000 per lot package. This assistance is available for projects composed of a minimum of 20 housing units. The NHMFC wholesales the funds to interested government and private financing institutions which in turn directly lend to private parties.

**Community Programs.** Under this category is the Community Mortgage Program (CMP) intended for squatters occupying private lands. Target beneficiaries shall organize themselves into a community association and shall buy the private lands using funding from either the Local Government Unit (LGU), nongovernmental organization (NGO), NHA or HIGC. However, the private owner must give his consent to the land purchase. The lowest monthly amortization offered in 1994 for a family earning an estimated monthly income of ₱2,000 was ₱398.66.

A separate program is the *Abot Kaya Pabahay Fund* that provides a five-year amortization support to families with monthly income below ₱5,000. The program has three components:

- : amortization support for families with monthly incomes not exceeding ₱5,000 and borrowing not more than ₱10,000, for the first five years of their housing loan term;
- : development financing assistance to private developers of low-cost housing projects not exceeding ₱100,000 per house and lot package; and
- : cash flow guarantee for funding agencies like SSS, GSIS, and HDMF to absorb the risk of loans granted to developers of mass housing projects, and to families which applied for home acquisition, home repair and improvement.

The specific features of government housing programs are shown in **Table 1**.

Through these programs, the NSP was able “to extend housing assistance to a total of 323,700 families for the period 1993 to May 1995. This number represents 26.11 percent of the targeted 1,239,702 households for the Plan Period 1993-1998 and 94.97 percent of the 341,492 households to be given housing assistance for the period 1993 to May 1995.”<sup>1</sup>

<sup>1</sup>Housing and Urban Development Coordinating Council, unpublished report on the National Shelter Program Performance for the period January to May 1995.

## Policy Framework of Housing Subsidies

Housing is a major expenditure item for families. At the same time, it is the largest and most widely owned asset by households. To substantially improve access to housing by the poor, the government has provided subsidies that are expected to bring down the cost of housing. The government believes that the poor will not be able to afford housing units unless some form of subsidy that brings down the production cost is made available or unless the cost of a housing unit is substantially lowered for the end-user.

This approach has led policymakers to raise as much funding as possible, and make it available as

Table 1  
Features of Government Housing Programs

Programs	Concerned Agency	Description	Target Beneficiaries	Features
Resettlement	NHA	Development of sites to generate serviced homelots	Families displaced due to government projects, Mt. Pinatubo eruption, etc.	Beneficiaries pay from P30 to P50 a month for a 60 sq m lot
Sites and Services	NHA	The government, private sector or NGO would provide land for the urban poor which will be improved by the developer or the government with basic infrastructure facilities; other housing activities will be achieved by the beneficiaries with financing from the UHLP	Poorest section of the community who are potential house builders	Buying and development financing provided thru NHMFC under the UHLP
Joint Venture Program	NHA	Government shares in the financial burden of project development while utilizing the expertise of the nongovernment sector	Low-income families within the 50th percentile of the income structure	NHA contribution up to 40% of total project cost (funds or land); Selling price of at least 60% of the constructed house and lots should be allotted for low-income families
Community Mortgage Program	NHMFC	Covers two types of projects: (a) on site - where land occupied by squatters is purchased by the concerned community formally organized into an association, subdivided and sold to the occupants; and (b) off-site - where a parcel of vacant land is purchased by a community association, subdivided and sold to its members	Slum dwellers and residents of blighted areas	Loans: • P30,000 at 6% interest for undeveloped lot • P45,000 at 6% interest for developed lot • P80,000 at 6% interest for house and lot
UHLP	NHMFC	Provides loans from the SSS, GSIS and HDMF for purchasing residential lots, purchase of lots and construction of dwelling units, purchase of newly constructed units or existing units foreclosed by the government or for construction of a new house	Members of SSS, GSIS and PAG-IBIG	Loans: • up to P150,000, 9%/annum • over P150,000 - P220,000, 12%/annum • over P225,000 - P375,000, 16%/annum;

Table 1 (cont'd.)

Programs	Concerned Agency	Description	Target Beneficiaries	Features
				Term of loan: up to 25 years; Amortization not to exceed 33.33% of monthly income
Abot-Kaya Pabahay Funds	NHMFC	Provision of developmental financing assistance and amortization support for low-cost housing projects (i.e., with selling price of P60,000 per house and lot package and P45,000 per lot package)	Families with gross income not exceeding P5,000/month	<p>Families with gross monthly income &lt; P4,000, maximum loan of P80,000 with the following amortization support for the first five years:</p> <ul style="list-style-type: none"> <li>• amortization period of 1-12 months, 35% of monthly amortization</li> <li>• 13-24 months, 30%</li> <li>• 25-36 months, 25%</li> <li>• 49-60 months, 14%</li> </ul> <p>Families with gross monthly income &lt; P5,000, maximum loan of 100,000 with the following amortization support for the first five years:</p> <ul style="list-style-type: none"> <li>• amortization period of 1-24 months, 25% of monthly amortization</li> <li>• 13-24 months, 25%</li> <li>• 25-36 months, 20%</li> <li>• 37-48 months, 14%</li> <li>• 49-60 months, 7%</li> </ul> <p>Interest rate of loans at 9%/ annum for private and government proponent and 5% for wholesale institution</p>
Social Housing Development Loan	NHMFC	Financial assistance for the development of property and/or construction of housing units	Urban low-income families	<p>Loans for house and lot packages:</p> <ul style="list-style-type: none"> <li>• up to P100,000, 12%/annum</li> <li>• P100,000 to P150,000, 14%</li> <li>• over P150,000, 16%</li> </ul>
Retail Guaranty	HIGC	Extended to individual residential mortgages underwritten by private or government lending institutions to finance the purchase of homebuyers of housing units	Lending institutions	
Developmental guaranty	HIGC	Financial assistance extended to private lending institutions accredited to process developmental loans and are assured of automatic insurance coverage upon enrolment of the loan with HIGC	Lending institutions	
Municipal Pabahay Bonds	HIGC	Enables LGUs to float municipal bonds as a means of generating funds for housing or housing-related programs		Insuring the face value of the bonds and the interest to the extent of 8.5%
Cash Flow Guaranty	HIGC	The fund ensures a viable cash flow for the SSS, GSIS and HDMF by eliminating the risk of noncollection from loans of P150,000 and below	SSS, GSIS, HDMF	Eligible loans: those not exceeding P150,000 bearing interest not exceeding 12%/ annum; in case of default, the fund takes over and pays out the 80% of the total amount due

Table 1 (cont'd.)

Programs	Concerned Agency	Description	Target Beneficiaries	Features
Expanded Housing Loan Program (EHLPL)	Pag-IBIG	Housing loans with purposes same as the UHLP	Members	Same as UHLP plus: • over P375,000 - P500,000, 17%/annum
GLAD	Pag-IBIG	Financial assistance to organized groups of fund members for the acquisition and development of raw land or partially developed land which will serve as the site of their housing units	Members	Maximum loan entitlement per individual is 46x and 36x the fund salary for employees with employer counterpart and employees w/o employer counterpart, respectively; payable in 25 years
Development Loan	Pag-IBIG	Provides financial assistance at lower interest rates and easier terms to developers for the development of housing projects	Private developers, landowners, NGOs, LGUs and other government agencies	Maximum loan of P15 million per project phase per site; applicable rates: • 11%/annum for loan of P150,000 and below • 13% for P150,000 to P225,000 • 15% for P2,250,000 to P375,000 • 17% for P375,000 to P500,000
Local Government Pabahay Program				Maximum amount of P20 million per project phase per site; sells units to households at below-market prices
Medium-Rise Public and Private Housing	NHA	Entails the construction of medium-rise residential buildings by the government or private developers in high-density urban areas	Low-income families	Access to the program either through direct sale with homebuyers' financing assistance or through lease arrangement depending on beneficiaries' affordability
Source documents: Housing Finance, A Road Map. National Shelter Program. Housing Subsidies, 1990-1991. Eduardo Morato, "Strategic Reformulation of the Mass Housing Program: Focus on Housing for the Masses," October 1993. World Bank, "Notes on Subsidies in Housing Sector."				

cheaply as can be particularly for home ownership loans by households from the low income group. Making cheap funds available became largely synonymous to providing interest subsidies to prospective homeowners, and other types of subsidies to the housing sector in general.

**Subsidies.** Subsidies are nonmarket, direct or indirect transfers of resources by the government to the housing sector. The main categories<sup>2</sup> are:

<sup>2</sup>The categories are from Larry Hannah, World Bank.

- : government budget for housing and related expenditures;
- : exemption from taxes and levies normally paid in other sectors;
- : use of public assets in housing-related programs; and
- : regulatory instruction for public or private entities to direct their resources to the housing sector.

**Table 2** shows the different types of housing subsidies enjoyed at present by the housing sector and the beneficiaries.

Table 2  
Forms of Subsidies in Existing Housing Programs

Programs	Housing Sector			Beneficiaries		
	Budget/1	Assets	Regulation	Loans	Assets	Tax Exempt
<b>NHA</b>						
Complete Housing Units	x	x		x	x	
Sites and Services	x	x		x	x	
Resettlement	x	x				
Emergency Housing Assistance	x	x				
Slum Upgrading	x					
Dormitory/Apartment Loan Program	x					
CMP Deliveries	x					
Joint Venture Program	x	x			x	
<b>NHMFC</b>						
Regular UHLP	x		x	x		
Social Housing Development Loan Fund	x			x		
Community Mortgage Program	x			x		
Abot-Kaya Pabahay Fund	x			x		
<b>HIGC</b>						
Guaranty Programs						
Retail	x		x	x		x
Development	x			x		x
Others	x			x		x
Securitization	x			x		
Cash Flow Guaranty	x					
Municipal Finance	x					
Acquired Assets Program						
Retail	x					
Development	x					
Managed Assets Program						
BDC Projects	x					
CMP Projects	x					
Cooperative Housing	x					
Special Projects	x					
<b>HDMF/2</b>						
Regular Mortgages						
EHLP			x	x		
Pag-IBIG II			x	x		
Pag-IBIG Overseas Program			x	x		
Group Land Acquisition & Development			x	x		
Developmental Financing						
Direct Developmental Loan			x	x		
Development Loans (thru banks)			x	x		
Credit Facility/Interim Financing			x	x		
Retail Financing for House Construction			x	x		
Local Government Pabahay		x	x	x	x	
Other Housing Related Loans			x	x		
<b>SSS/2</b>						
Pari-passu			x	x		
Repair/Reconstruction			x	x		
Individual Program			x	x		
Corporate Housing Program			x	x		
<b>GSIS/2</b>						
Individual Housing (REM)			x	x		
Mass Housing Program			x	x		
1/ Includes administrative budget						
2/ Regulatory subsidy arising from compulsory savings						

A common form of subsidy is a credit subsidy where the government allocates housing loan funds that are lent at interest rates way below market rates. The existing UHLP interest rates try to meet the social and market development goals of the government. The 9 percent rate--below current mortgage rates and inflation rate--is a significant, long-term subsidy to borrowers.

**UHLP.** Executive Order 90 under the administration of President Aquino created the UHLP. The UHLP distinguished “socialized” housing from “economic” housing and applied different financing rules and private sector regulations to each. In the past eight years, the government has also established several programs intended to improve the poor’s access to housing, such as the Community Mortgage Program and the *Abot-Kaya* Program.

While a case may be made for providing direct or indirect subsidies to targeted beneficiaries, it is equally compelling to ensure that (a) some degree of *transparency* (who actually gets the subsidies and who pays for them); and (b) a sense of the *relative costs* of housing subsidies (the amount of subsidies provided through the various government interventions in the housing sector) are present in the policy framework for housing subsidies. The socialized housing programs have to be carefully targeted to avoid making the nonpoor as beneficiaries. In addition, the housing subsidy programs must take into account their impact on the public sector’s fiscal deficit, and in the case of the interest subsidies, the distortionary effects on financial markets.

### Beneficiaries, Payors, Transfer Mechanisms and Budgetary Implications

Thus, a review of the housing subsidy program must consider the following:

*First*, weak or flawed targeting mechanisms will allow the unintended beneficiaries to capture the subsidies offered by the state. Typically, the unintended beneficiaries are better educated (and sometimes, better

connected politically), and can present themselves as worthy beneficiaries of government subsidy programs to the prejudice of the intended beneficiaries. This has happened not only in the housing subsidy programs but in most subsidy programs as well. One example is the experience with the agricultural credit subsidies where subsidies were cornered and enjoyed not by the targeted small farmers, but by the big farmers, government technicians and private financial institutions.

*Second*, there may be the imperfections arising from the subsidy transfer mechanisms. The transfer of subsidies occurs through institutions such as banks or lending institutions that may be biased against the intended beneficiaries, mostly poor households. High transaction costs, information asymmetry and perception of high credit risks prevent poor households from accessing the financial markets. However, in compliance with the government’s housing thrusts, banks or lending institutions tend, therefore, to credit ration the intended beneficiaries and to cater to the more creditworthy segment of the borrowing population.

*Third*, the housing subsidy program now in place may have created the wrong incentives for efficient participation in the housing markets by borrowers and lenders alike. Formula lending, as until recently practiced by the financial institutions, does not recognize the borrowers’ probable lack of capacity to pay. Thus, regardless of their lack of capacity to pay or incur additional indebtedness, borrowers are attracted to take a housing loan because it is available.

On the other hand, on the part of private agents, there is no incentive to really screen out those who cannot repay the loan because the government, through the NHMFC will automatically take out the loan exposure from the hands of those private agents, whether they be developers or lending institutions.

Thus, one may very well argue that under the present policy framework, private institutions will participate in the government’s housing programs, especially

the “socialized” programs only when the government continues to subsidize. This means that the private marketplace for housing cannot flourish with a flawed incentive structure that motivates participation only because the government is prepared to assume the full burden of subsidizing housing programs.

Indeed, an important neglected dimension is the role of the private financial system in providing resources to a potentially profitable housing market. The public sector’s budgetary constraint is a strong argument against the prevailing view of providing, *in toto*, direct and indirect housing subsidies to realize the goal of homeownership for all households. That constraint is also an argument for looking for various ways to tap private sector resources. The reality is that unless private resources are effectively harnessed to meet the huge demand for housing, and unless the government directs its subsidies to those most in need and in the most transparent way, the huge demand for housing will remain unsatisfied.

However, given inappropriate policies and incentives, the private sector will avoid risking its resources to the housing markets, but instead follow the line of least resistance -- to act as mere channels of the public sector’s subsidized funding for housing needs.

*Fourth*, where there is limited funding and numerous competing demand for funds, a fundamental issue facing government policymakers is how to allocate the limited public sector resources to where they can be most efficiently used. It is therefore critical for government to use resources efficiently by providing subsidies only to those who really need them.

Effective targeting of subsidy beneficiaries requires  
: a clear-cut policy framework,  
: clear and effective identification of intended and actual beneficiaries,  
: a knowledge of the amount of subsidies channeled to the housing sector and how the subsidies will be funded, and

: awareness of the economic agents (e.g., taxpayers) who will shoulder the burden of the subsidies.

Knowing the actual beneficiaries as well as those bearing the subsidy burden is important in evaluating the efficiency and effectiveness of housing sector policies.

*Fifth*, the budgetary implications of housing subsidies is not to be underestimated. The housing subsidy program involves huge transfers of resources from the public coffers to private individuals. Thus, knowing the extent of subsidization and the distribution of subsidy benefits will surely guide the government’s housing policy. This is even more critical as government faces tough budget problems.

A review must be made to determine whether the government has assumed a burden that is disproportionate to its ability to muster resources for the housing sector, let alone cater to other sectors. For one, the targets that it has set remain unattainable despite the good intentions. For another, there is that recent legislation calling for increased funding and subsidies to the housing sector. Thus, in the end, the government ends up with a mismatch between what the government can and should reasonably provide and the housing targets that are based on the assumption that households must be provided with housing units funded and subsidized from government resources. One thing that the government must seek to prevent is for the subsidies to be enjoyed by people or groups which are not really the intended beneficiaries.

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