



Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2008- 015

To : **ALL BANKS**

Subject : **Housing Microfinance Product**

The Monetary Board in its Resolution No. 185 dated 14 February 2008 has approved the Housing Microfinance Product pursuant to the terms of the Housing Microfinance Product Manual, which include, but not limited to, the following:

- a. Banks that want to provide the facility must be accredited by the Housing and Urban Development Coordinating Council (HUDCC) governed by the terms of Memorandum of Agreement (MOA) between the Bangko Sentral ng Pilipinas (BSP) and the HUDCC on the accreditation criteria and conditions that will be signed following product approval; and
- b. Banks that want to provide housing microfinance not under the said program have to present the relevant product manual for BSP consideration and approval.

The approved product has the following salient features:

1. It has the following basic characteristics:

Subject	Particulars
Purpose	✓ House construction ✓ House and/or lot acquisition ✓ Home improvement/repairs
Eligibility	✓ Existing microfinance clients ✓ New clients without access to formal housing finance institutions (but with verifiable proof of income)

PANANALAPING MATATAG, BANSANG PANATAG

Loan Amount	✓ Up to P300,000 for house construction and/or lot acquisition (must show tenure security) ✓ Up to P150,000 for home improvement/repairs
Loan Value	✓ Up to 90% of the appraised value in case of REM ✓ Acceptable valuation in cases of usufruct, leases, etc. ✓ Capacity to pay based on cash flow analysis
Payment	✓ Frequent amortization ✓ With savings component ✓ Loan payments should not exceed 60% of clients income as determined by cash flow analysis
Terms	✓ Up to 10 years for house construction and house and/or lot acquisition ✓ Up to 5 years for home improvement/repairs

2. The product shares the characteristics of the microfinance loan except for the following:

- a. The maximum loan amount is PhP 300,000 (microfinance loans have a maximum of PhP 150,000)
- b. The loans have longer terms with a maximum of five years for home improvement/repairs and ten years for house construction and house/lot acquisition.
- c. While most clients for housing microfinance are existing microfinance clients who have demonstrated a track record with the financial institution, new clients may also be accepted subject to certain requirements.
- d. For House construction and house/lot acquisition loans, secure tenure instruments will be used as collateral.

3. Due to the features that are different from the typical microfinance loan, the following additional risk management features are embedded in the product:
 - a. Clients ability to repay based on cash flow analysis and affordability (loan payment < 60% of income) especially the new clients. In addition, the new clients have to demonstrate that they can not access any other formal housing finance facility;
 - b. Savings typically a requirement;
 - c. Secure Tenure instruments as collateral/ collateral substitutes;
 - d. Additional risk cover may be availed from HGC cash flow guarantee program;
 - e. Adequate loan monitoring, collection, control, provisioning;
 - f. Accreditation from the HUDCC with standards approved by the BSP and formalized by a Memorandum of Agreement between HUDCC and BSP to be signed following the approval of the proposed product; and
 - g. Mortgage redemption insurance provided in case of death and permanent disability.

The Monetary Board approved the following incentives in addition to existing incentives available for microfinance:

- a. Housing microfinance loans shall be eligible as alternative compliance to mandatory credit allocation to agrarian reform and other agricultural credit.
- b. The loans shall have an assigned risk-weight of 50% risk when not guaranteed and as low as 0% when guaranteed by the Home Guarantee Corporation (HGC).
- c. When the volume of loans achieved a desirable level, business transaction by larger banks (i.e. securitization, outright purchase, etc.) shall be considered as an alternative Agri-Agra compliance.

- d. For housing microfinance loans secured by REM, a 90 percent loan valuation may be allowed considering the guarantee component.
- e. Secure tenure instruments such as freehold, usufruct, leasehold and right to occupy and/or build shall be recognized as collateral/collateral substitute subject to approved loan valuations (Annex "A").
- f. Housing microfinance loans shall not exceed 30 percent of the total loan portfolio.
- g. Recording of portfolio at risk (PAR) and the provisioning requirement under Circular 409 for home improvement/repairs. Provisioning for house construction and house/lot acquisition follows those of regular loans under Appendix 18 of the Manual of Regulations for Bank (MORB).

In addition, the Monetary Board requires that the banks which will adopt the Microfinance Housing Product must meet the following:

- 1. Loan product is included in the bank's microfinance manual as one of the types of services or products offered to prospective clients; and
- 2. The housing microfinance product must have sub-control ledger.

For information and guidance.


NESTOR A. ESPENILLA, JR.
Deputy Governor

19 March 2008

**APPRAISAL AND LOAN VALUATION FRAMEWORK
FOR RIGHTS-BASED SECURE TENURE ARRANGEMENTS
AS COLLATERAL SUBSTITUTES**

In the appraisal of real properties or rights offered as collateral substitutes under this housing microfinance program, the form of the secure tenure instrument must be considered. Generally, two (2) appraisal methodologies or approaches may be applied: the **Market Value** must be determined using the Market Data or Sales Comparison Approach for properties under freehold and right to occupy and/or build (in respect of the housing unit or improvement to be used as collateral substitute), and for properties under Lease Agreement and Usufruct, the **Value of the Leasehold** interest of the borrower must be determined.

Market Value

Market value is the most probable price that a property should obtain in a competitive and open market under all conditions requisite of a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus. In determining the market value of the property, the appraiser must use the Market Data or Sales Comparison approach. This approach attempts to compare the subject property's value with similar properties and adjust its value according to the presence or absence of value determining characteristics. This approach is based upon the principles of supply and demand and upon the principle of substitution.

Valuation of Leasehold

A leasehold is the real right of the lessee acquired from an owner (the lessor) of a piece of real estate to occupy and use it for a fixed term or period at a stipulated rental rate, and subject to conditions set forth in a written document of lease. The lease may include the right of the lessee to improve the land, mortgage the building, sublet all or part of the property, and assign or sell his leasehold.

The task of the appraiser is to estimate the present worth or "market value" of the imputed rental income of the lessee derived from the property over and above the rent required to be paid by him to the lessor under the terms of the lease and his interest in any improvements made by him. In evaluating a leasehold, the appraiser must have a thorough knowledge of all the salient terms and conditions of the primary or main lease and any subleases, for these affect the value of the leasehold considerably, such as:

- **Rental.** If the rental to be paid under the terms of the lease is below the rental prevailing in the market, the leasehold may have a substantial value. Where the rental actually paid is the prevailing rental value of the property, the leasehold may have no value. Prevailing rental rates refer to the rental rates of comparable properties within comparable locations.

- Term of Lease. A long-term lease or the right of the lessee to renew the lease at the expiration of the original term of the lease may add value to the leasehold.
- Payment for Improvement
- Option to Purchase
- Leasehold Restrictions

Loan Valuation based on Appraisal Valuation Framework or Methodology

The valuation of properties under the housing microfinance loan program will be based on prevailing market values of real estate properties (freehold and right to occupy and/or build) or prevailing rental rates (leasehold/usufruct). The standard practice of participating banks in determining the loan to collateral ratios shall be adopted.

The following terms provided in the table below may be applied:

Form of Secure Tenure or Property Right	Nature and Description of Acceptable Instrument	Terms and Conditions	Appraisal Methodology	Loan Valuation
Usufruct	<i>Usufruct agreement or contract</i> – Duly executed contract executed by the owner of the property granting the usufructuary/ beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> – Duly executed contract granting the lessee the right to use and	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral

Form of Secure Tenure or Property Right	Nature and Description of Acceptable Instrument	Terms and Conditions	Appraisal Methodology	Loan Valuation
	possess the real property for a fixed long-term period in consideration of rental payments			
Freehold	<i>OCT/TCT</i> – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property <i>Interim Title, Contract to Sell or Conditional Sale</i> – Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach Market Data Approach	90% of the appraised value of the collateral 90% of the appraised value of the collateral

Form of Secure Tenure or Property Right	Nature and Description of Acceptable Instrument	Terms and Conditions	Appraisal Methodology	Loan Valuation
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/ client has the right to occupy, build and/or acquire the property he/she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/ client has the owner's consent and permission to occupy and build on such property	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral