



**SOCIAL HOUSING FINANCE CORPORATION**  
a subsidiary of National Home Mortgage Finance Corporation

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**CORPORATE CIRCULAR NO. LCMP- 001**  
**27 July 2007**  
**Series of 2007**

**TO: ALL CONCERNED**

**SUBJECT: IMPLEMENTING GUIDELINES FOR THE  
LOCALIZED COMMUNITY MORTGAGE PROGRAM**

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As a result of a nationwide consultation with various stakeholders from the ranks of Non-Government Organizations (NGOs) and the Local Government Units (LGUs) and in accordance with the approval by the SHFC Board of Directors, in its meeting held on July 27, 2007, the following Guidelines are hereby adopted to govern the implementation of the Localized Community Mortgage Program (LCMP):

**A. RATIONALE**

To institute a systematic reduction of the local housing backlog consistent with the Social Housing Finance Corporation’s (SHFC) mandate to undertake social housing programs that will cater to the formal and informal sectors in the low income bracket, an LCMP is hereby adopted by SHFC in partnership with the Local Government Units (LGUs).

The LCMP seeks to contribute to the fulfillment of the LGUs mandate (per R.A. 7160 and R.A. 7279) of implementing a comprehensive and continuing urban development program and uplift the conditions of the underprivileged and the homeless in their respective localities.

## **B. OBJECTIVES**

The LCMP aims to strengthen partnership between SHFC and LGUs to effect a more systematic and focused approach in reducing local housing backlog.

LCMP specifically intends to:

1. finance prioritized socialized housing projects based on actual housing need in the locality;
2. facilitate the development and empowerment of local housing stakeholders to actively participate and work together for a more focused reduction of housing backlog in their areas; and
3. effectively leverage and align national and local social housing funds to increase resources available for shelter and make homeownership within reach to the greatest number of families in partner-LGUs with substantial housing backlog.

## **C. OVERVIEW**

The LCMP is an innovative scheme whereby qualified partner-LGUs may apply for an Omnibus Commitment Line (OCL) made available by SHFC to accommodate priority social housing projects identified by the partner-LGUs. The projects, that may be enrolled under the partner-LGU's OCL, shall primarily be for purposes of acquiring the land occupied by their constituents or the land where they will be relocated through the concept of community ownership, with the land primarily mortgaged to SHFC.

The partner-LGU provides counterpart assistance equivalent, but not limited, to at least 25% of the project cost, which can be in the form of any of the following:

**C.1** land owned by the partner-LGU to serve as site of the project

- SHFC will determine the value of the land owned by the partner-LGU. Up to 75% of the total value of the land will be the basis for OCL application.

**C.2** co-financing of the lot acquisition

**C.3** site development and/or construction/improvement of residential units or Medium Rise Residential Buildings (MRRBs)

- SHFC will validate the total value of the contributed plan based on the requirements approved by the city/municipal engineer.

**D. ELIGIBLE PARTNERS**

**D.1** Cities

**D.2** Municipalities

Provinces may participate in joint venture undertaking with the Municipalities/Cities for the implementation of the project. Provinces may also extend some assistance to the Municipalities/Cities.

**E. PROGRAM PARTNERSHIP:**

**E.1 Role of SHFC**

**E.1.1** SHFC shall grant the qualified partner-LGU an OCL, not to exceed P50-Million, based on partner-LGU's identified priority urban poor community / social housing projects as contained in its Comprehensive Shelter Plan (CSP); and

**E.1.2** SHFC shall release the amount-portion based on project need and/or housing project's development and construction provided that the initial release shall not exceed 50% of the project value or pro rata for turn-key project. Provided, further that the total amount for all projects shall not be more than 75% of the total project cost/value (project cost/value is the total land acquisition cost for on-site projects to be funded under the LCMP).

## **E.2 Memorandum of Agreement (MOA) with the Department of Interior & Local Government (DILG) and Partner-LGU**

The DILG shall enter into a MOA with SHFC to ensure the observance of the scope and limitations of the partner-LGU's prescribed powers of functions.

The partner-LGU shall enter into a MOA with SHFC to assume its role in the LCMP undertaking and to abide with the guidelines as well as with future policy issuances of the Program.

## **E.3 Role of the Partner-LGU**

**E.3.1** The partner-LGU, through its Local Housing Board (LHB), shall identify priority urban poor communities / social housing projects as contained in its CSP;

**E.3.2** The partner-LGU shall enroll priority LCMP projects under the OCL indicating the basic information on the projects' targeted beneficiaries;

**E.3.3** The targeted priority LCMP project for the year should be included in the Annual Investment Plan (AIP) approved by the City Development Council and ratified by the City Council;

**E.3.4** The partner-LGU shall perform all functions pertaining to the implementation of the LCMP from accreditation, loan and mortgage examination, loan release, collection of monthly amortization to unitization of accounts and titles consistent with the existing SHFC Community Mortgage Program (CMP) guidelines;

**E.3.5** The partner-LGU shall put-up at least 25% of the total project cost as counterpart contribution, which can come in the form of real estate property, site development or cash financing to pay-off at least 25% of the lot price;

**E.3.6** The partner-LGU shall allow the institutional representation and participation of local housing partners i.e. People's Organizations (POs), Non-Government

Organization (NGOs), Key Shelter Agencies (KSA) regional branches, in the LHB;

**E.3.7** The monthly amortization collected by the partner-LGU from its LCMP projects shall be remitted directly to the SHFC account with Land Bank of the Philippines (LBP);

**E.3.8** There shall be an array of Guaranty to secure the OCL granted to the partner-LGU. It shall be composed of the following: assignment of receivables and/or Internal Revenue Allotment (IRA), Negative Pledge or LGU Guaranty to which the partner-LGU shall enter into any, some or all with SHFC; and

**E.3.9** Assist the CA to open a savings account which will have a balance equivalent to six (6) months amortization of the LCMP loan which will also form part of the array of guaranty that will secure the OCL granted to the partner-LGU.

#### **E.4 Role of the Local Housing Partners**

**E.4.1** The partner-LGU shall accredit Government Agencies (GA), NGOs and POs to act as its local partner and perform origination functions;

**E.4.2** As local partner-originator, GA/NGO/PO shall assist the partner-LGU in the social preparation stage of the CA up to whatever stage the partner-LGU may deem necessary; and

**E.4.3** The local housing partners shall be accountable to the partner-LGU particularly in areas pertaining to origination.

#### **E.5 Role of the CA**

**E.5.1** The CA, composed of the local informal settlers shall be the program beneficiaries and may avail of a loan with SHFC, through its LGU;

**E.5.2** The CA shall be responsible in maintaining itself as a viable organization and instilling financial discipline among its members by setting up a savings account to be utilized in defraying pre and post take-out expenses;

**E.5.3** The CA shall be responsible for collecting the monthly amortizations from its Member-Beneficiaries (MB) and remitting the aggregate amount to its LGU;

**E.5.4** The CA shall assume and pay all collection related penalties of the association and shall be responsible in replacing defaulting MBs in coordination with the partner-LGU or its designated local housing partner; and

**E.5.5** The CA shall be responsible in opening a savings account to be called the Community Fund equivalent to six (6) months amortization. The said fund shall form part of an array of guaranty to secure the OCL granted to partner-LGU and to be documented by an agreement among SHFC, LBP/Development Bank of the Philippines (DBP) and CA.

## **F. INTEREST RATE / LOAN REPAYMENT:**

**F.1** The amount portion of the OCL released to the CA covering 75% of a specific project cost shall bear a rate of six percent (6%) per annum. One (1%) to two percent (2%), depending on the viability of the project, shall go to the partner-LGU as processing fee.

If the partner-LGU contributes more than 25% counterpart contribution, then the same distributive ratio shall apply.

**F.1.1** The same amount shall have a maximum term of 25 years payable in equal monthly payments to SHFC commencing one (1) month after the release of loan proceeds by the trust bank to the landowner or its designated payee, or to any other payee legally entitled thereto and regardless of whether or not the amortizations from the CA are collected by the partner-LGU;

**F.1.2** The partner-LGU shall be responsible for the payment of the CA loan until it is fully paid regardless if

the individual titles of the lots are transferred in the names of the individual beneficiaries and the corresponding mortgages primarily in favor of SHFC have been annotated thereon;

As such, the partner-LGU shall ensure collection of the monthly amortizations of all projects enrolled under its OCL; and

**F.1.3** The partner-LGU shall have the option to pre terminate the CA loan provided that it will shoulder the advance amortizations that may result from the reduction of loan term.

**F.2** The CA loan shall have an interest rate of six percent (6%) per annum payable in equal monthly amortizations for a maximum period of 25 years.

**F.2.1** The CA shall collect the shares of its MBs in the monthly amortization of the community loan and remit the same to the partner-LGU; which the latter shall deposit to the LBP account of SHFC within the prescribed period; and

**F.2.2** In cases where a MB defaults in the payment of the monthly amortization-share, the CA, and the partner-LGU shall find a substitute MB who shall assume the obligation of the defaulting MB. The substitute must come from the tagging and census list to be provided by the partner-LGU. To effect such replacement, a certification under oath by the CA that the substitution came from such list and endorsed by and submitted to the partner-LGU.

## **G. ELIGIBILITY REQUIREMENTS:**

### **G.1 LGU-PARTNERS (Cities/Municipalities)**

**G.1.1** An updated inventory of local housing backlog;

**G.1.2** An updated Comprehensive Land Use Plan (CLUP) and CSP approved by their respective LHB;

**G.1.3** Functioning LHB. Creation of LHB should be a concern at the local level with equitable multi sectoral representation and must have a NGO/PO representative involved in housing and urban development unless stated by law;

**G.1.4** Functioning structure / unit / department in-charge of socialized housing or other housing programs;

**G.1.5** Regular budget allocation for housing approved by the Sanggunian;

**G.1.6** Has not exceeded the allowable 20% credit carrying capacity;

**G.1.7** Approved AIP indicating the prioritized LCMP project/s for the year; and

**G.1.8** An updated list of present and previous beneficiaries of National and local Government Housing Programs (e.g. National Housing Authority housing programs, etc.).

## **G.2. CA**

**G.2.1** Registered with the Housing and Land Use Regulatory Board (HLURB);

**G.2.2** Prioritized target of the LCMP as reflected in the CSP and in the AIP; and

**G.2.3** Financially capable as evidenced by a one (1) year historical statement of its bank account showing regular and disciplined savings, as a form of continuing requirement.

## **G.3 MB**

**G.3.1** A bonafide resident of the partner-LGU and member of the CA;

**G.3.2** Has not availed of a housing loan from any public or private lending institutions;

**G.3.3** Not a registered owner or co-owner of any housing unit; and

**G.3.4** Eligible to avail of a loan under the SHFC's CMP, and not a beneficiary of other government housing programs.

## **H. ALLOWABLE CA-LOAN PURPOSES:**

**H.1** Purchase of the lot occupied by the informal settlers or the property where they will be relocated to for a maximum amount of P80,000 for properties located in Metro Manila (MM) and in other Highly Urbanized Areas (HUAs); and P45,000 for undeveloped properties and P60,000 for developed properties located outside MM.

**H.2** In case the partner-LGU's counterpart contribution of 25% or more consists of cash, then the proper allotment shall be resorted to using the same allocation mentioned in this section.

## **I. PROGRAM AVAILMENT PROCESS:**

### **I.1 Pre-Qualification Stage**

**I.1.1** The partner-LGU shall have an inventory of its local housing backlog, update its CLUP and incorporate all updated inputs into its CSP;

**I.1.2** The partner-LGU shall have a functioning LHB which shall ensure effective implementation of the CSP and a functioning structure/unit/department in charge of implementing social housing programs or other housing programs by the LGU;

**I.1.3** The partner-LGU shall show financial soundness, such as loan/credit carrying capacity and other similar indicators as evidenced by Commission on Audit (COA) Audited Reports and Financial Statements for the past three (3) years;

**I.1.4** The partner-LGU's debt servicing ceiling should not exceed the Department of Budget and Management (DBM) - defined portion of its regular income as certified by the Department of Finance - Bureau of Local Government Finance (DOF-BLGF); and

**I.1.5** In Lieu of the loan/credit carrying capacity, the Collection Efficiency Rating (CER) of the partner-LGU with CMP origination experience maybe submitted. For partner-LGUs without CMP origination experience, the 20% credit carrying capacity is required.

## **I.2 Application for OCL**

**I.2.1** The partner-LGU shall formally submit an application to SHFC and enroll its priority housing projects for an LCMP-OCL indicating the OCL amount it would require and backing it up with the list of households covered by census and tagging and the schedule of line availment;

**I.2.2** The priority housing projects targeted for the 1<sup>st</sup> / current year implementation of LCMP should be included in the AIP approved by the City/Municipality Development Council and ratified by the Sanggunian;

**I.2.3** The partner-LGU shall perform all project pre-qualification and accreditation requirements as contained in SHFC's CMP policy guidelines. Upon enrolment, the partner-LGU should also submit a list of households' beneficiaries (covered by census and tagging and not included in the list of previous beneficiaries) and the schedule of loan availment;

**I.2.4** Upon evaluation of documents and appropriate validation of the partner-LGUs compliance to LCMP criteria, SHFC shall grant the partner-LGU an OCL not to exceed P50-Million; and

**I.2.5** The partner-LGU and SHFC will execute a MOA which shall stipulate the project's specific conditions and agreements.

### **I.3 Availment of the Approved OCL**

**I.3.1** The partner-LGU shall process prioritized projects strictly adhering to LCMP guidelines and consistent with the submitted project inventory and scheduled line availments. It shall accredit local housing partners (such as NGOs, POs, etc.) to act as project originators/program partners;

**I.3.2** The Local Council shall then issue a Sanggunian Ordinance stipulating the following:

**I.3.2i** Ratifying the AIP;

**I.3.2ii** Authorizing the Local Chief Executive to assign the IRA or other forms of acceptable guaranty [Local Government Unit Guarantee Corporation (LGUGC), Home Guarantee Corporation (HGC)] in favor of SHFC as well as sign, negotiate and transact with SHFC and other LCMP partners to fully operationalize and implement LCMP in the locality;

**I.3.2iii** Specifying the amount and period of IRA assignment and detailing the terms and conditions of partner-LGUs participation/obligation in LCMP;

**I.3.2iv** Ratifying the MOA executed by and between SHFC and the DILG; and

**I.3.2v** Furnishing LBP/DBP a copy of subject resolution and authorizing partner-LGU's execution of agreements with LBP/DBP as stipulated in the LCMP MOA.

**I.3.3** Upon completion of the full LCMP processing cycle for each project, the partner-LGU shall submit all loan documents required under the CMP guidelines to SHFC for validation. The partner-LGU shall warrant that all documents submitted to SHFC are authentic, valid, binding and enforceable;

**I.3.4** SHFC shall also validate the contribution requirements of each project constituting at least 25% of the total project cost. The contribution may be in the form of any or a combination of the following:

**I.3.4i** Land owned by the partner-LGU to serve as site of the LCMP project;

**I.3.4ii** Co-financing of the lot acquisition; and

**I.3.4iii** Site developed and/or construction/improvement of residential\units or MRRBs.

**I.3.5** On the basis of the above, SHFC shall advise the partner-LGU to have the CA establish a Community Fund with LBP/DBP in an amount equivalent to six (6) months amortization of the CA loan.

SHFC, on the other hand, shall have established a Trust Fund (SHFC-Trust) with LBP to serve as vehicle from which the loan proceeds shall be released to the landowners or its designated payee; and

**I.3.6** Upon advice by partner-LGU on the existence of the Community Fund and as confirmed by LBP, or upon SHFC's receipt of proof of partner-LGU's availment of other security arrangements in the form of IRA and/or receivables assignment or other modes similar thereto, SHFC shall deposit the corresponding 75% of the total project cost to the SHFC-Trust.

The amount for specific project shall be released to the account of the landowner only upon submission / surrender of the original Transfer Certificate of Title (TCT) of the property subject of the CA-loan and as validated by SHFC, with LBP to be the sole custodian or the Original Owner's Duplicate TCT.

#### **I.4 Post-drawdown Stage**

**I.4.1** The partner-LGU shall observe the scheduled loan maturity of the drawdowns and shall support the scheduled loan maturity with corresponding direct payments to SHFC through SHFC's LBP account. Payment default shall automatically authorize SHFC to demand the deduction of the corresponding portion of the scheduled payment against the Community Fund and/or IRA / Receivables assignment established by the partner-LGU;

**I.4.2** For the projects taken out against the OCL, the partner-LGU through the LHB, is responsible for the account individualization and title unitization within 10 years from date of the release of the CA-loan proceeds to the CA;

**I.4.3** SHFC shall allow the partial release of the portion of the IRA and/or Community Fund in proportion to the payment of the CA loan obligation;

**I.4.4** The partner-LGU-owned property subject of the LCMP CA-loan shall not be sold, leased or encumbered without the prior written consent of SHFC. For this purpose, the partner-LGU shall submit to SHFC, or its designated custodian, the Original Owner's Duplicate TCT, and it shall also execute a Deed of Negative Pledge with an undertaking that in the event that the subject property/ies is/are sold/leased/encumbered, the proceeds thereof shall be assigned to SHFC to cover the CA's outstanding loan obligations; and

**I.4.5** SHFC shall conduct a post audit of the project's loan documents, land titles, site, and land valuation to validate and determine compliance with CMP loan guidelines.

## **J. OTHER PROVISIONS:**

### **1. Special Lane for LCMP accounts**

Projects availing of the LCMP shall have a separate processing lane at SHFC created specially for LCMP. Hence, processing time shall not exceed one (1) month from receipt of the complete LCMP documents.

### **2. Penalties**

SHFC shall call on the partner-LGUs guaranty if it fails to remit the loan obligations of their constituent-CA for a maximum period of three (3) months. A penalty 1/30 of one percent (1%) of the unpaid amount for each day of delay shall be charged and shall be drawn against the Community Fund Account or the partner-LGU guaranty.

It does not, however, preclude SHFC from declaring the total loan obligation due and demandable. In such case, SHFC has the option to call on the partner-LGUs guaranty and waive its rights and claim as first mortgagee in favor of the partner-LGU.

In lieu thereof, SHFC shall also have the right to take over the subject property.

The same rate of penalty shall be imposed on delinquent CA/constituent-beneficiary except when the partner LGU rules and regulations provide for stiffer penalties, but in no case should such penalty exceed 1/15 of one percent (1%) of unpaid amount for each day of delay.

### **3. Incentives**

As a form of appreciation and to encourage faster repayments, the SHFC may offer incentives to CAs that makes advance payments (as remitted to the partner-LGUs) on their loans. The form and type of incentives to be given will depend on the degree and extent of advance payments (e.g. frequency of advance payments, percentage of advance payments to total loan, etc.) made by the CA.

### **4. SHFC Participation in LHB**

SHFC shall be an interim observer of the LHB within a period of six (6) months to one (1) year with the option to cut the observation period short if convinced that the partner-LGU has appropriately put up appropriate systems of control for the program and is capable of implementing LCMP within the guidelines of CMP.

SHFC reserves the right to conduct field and financial audit of projects enrolled in LCMP.

SHFC shall have the right to disqualify future project financing of partner-LGUs found to have committed lapses such as misrepresentation in loan documentation, authenticity of title, reasonableness of appraisal and suitability of project site for settlement purposes, without prejudice to reinstatement upon rectification of such deficiencies at the discretion of SHFC.

## **K. Documentary Requirements**

### **K.1 Pre-Qualification Stage**

- K.1.1** Inventory of Housing Backlog;
- K.1.2** Updated CLUP and CSP;
- K.1.3** COA Audited Financial Statements for the past three (3) years;
- K.1.4** DOF-BLGF certificate of partner-LGU debt service ceiling; and
- K.1.5** Sanggunian Ordinance confirming the existence of an operating LHB and a functioning structure/unit/department in charge of implementing social housing programs or other housing programs in the locality.

### **K.2 Application of OCL**

- K.2.1** Application for OCL backed up by a list of households covered by census and tagging and schedule of line availment; and
- K.2.2** Approved AIP including the proposed LCMP projects.

### **K.3 Availment of the Approved OCL**

- K.3.1** Sanggunian Ordinance stipulating I.3.2 of this Circular;
- K.3.2** At least 25% counterpart contribution of the partner-LGU in the form of any of those enumerated in Section I.3.4 of this Circular;
- K.3.3** Certification of Existence of a Community Fund by the CA as enumerated in Section I.3.5 of this Circular;

**K.3.4** Submission of Title to the property subject of the LCMP to SHFC; and

**K.3.5** Submission of copy of all pertinent loan documents and appraisal of project site.

This Circular shall take effect immediately.

  
**ATTY. FERMIN T. ARZAGA**  
President