

Is the Community Mortgage Program propoor?

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The Community Mortgage Program (CMP) is a government financing program that enables organized informal settler families (ISFs) to purchase land. The goal is for the poor/near-poor ISFs, which have no access to housing loans from private banks, to be able to borrow through the program. Established in 1988, the CMP is being administered by the Social Housing Finance Corporation (SHFC), a wholly owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC).¹ The government has allocated at least PHP 12.78 billion for its implementation.²

Several studies consider the CMP as an innovative housing program most responsive to the needs of the low-income sector (Porio et al. 2004; UN-HABITAT 2009, 2011). It provides ISFs with affordable financing through which they can secure tenure on the land they wish to occupy or they currently occupy. It also promotes a self-help,

participatory, and community-based housing scheme. Loans are granted to community associations (CAs), where ISFs must belong in order to enjoy the benefits of the program. Consequently, ISFs must work together to be successful with their objectives in the enrollment to the CMP.

The CMP implements a gradual financing strategy from land acquisition, site development to house improvement. CAs with good repayment performance can apply for additional loans for site development and home improvement. This strategy allows

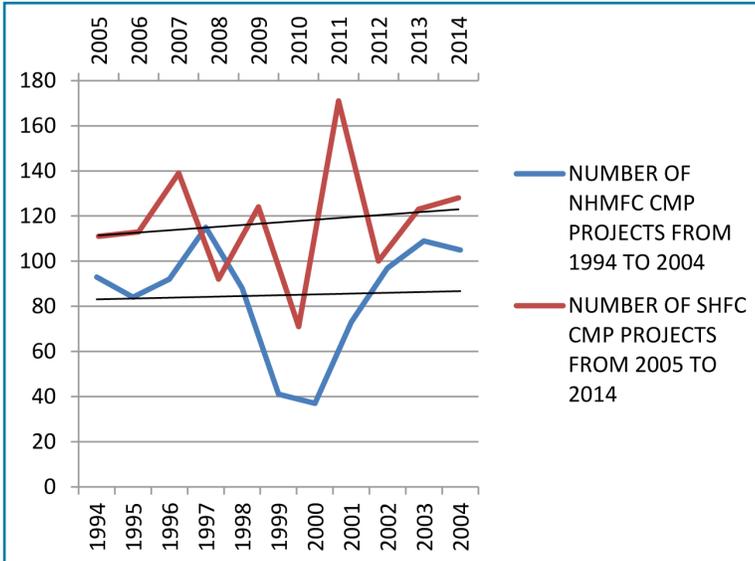
¹ CMP was initially managed by the NHMFC. In 2004, President Gloria Macapagal-Arroyo signed Executive Order No. 272, creating the SHFC and its mandate to manage the implementation of CMP starting 2006.

² The PHP 12.78 billion is funded through Republic Act (RA) 7835 of 1994 and originally intended for regular CMP projects. An additional PHP 20 billion is provided through the ISF Housing Program of 2014–2017 intended for the High-Density Housing Program projects of the SHFC.

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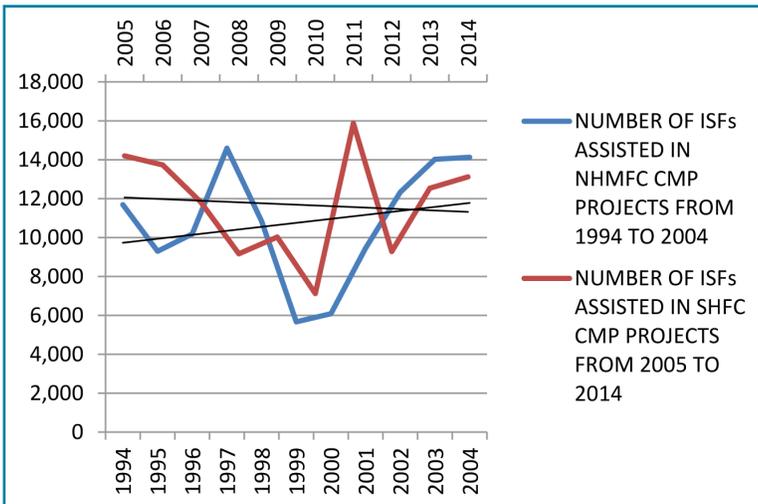
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Figure 1a. Number of CMP projects from 1994 to 2014



Source: Adapted from the Social Housing Finance Corporation (SHFC) database

Figure 1b. Number of ISFs assisted in NHMFC and SHFC CMP projects



Source: Adapted from the SHFC database

³ Removed bridge financing items from the original SHFC database

ISFs to access loans based on their present financial capacities. The program likewise grants the payment of housing loan on a fixed interest rate of 6 percent annually for 25 years. This interest rate is not risk based and remains constant for the 25-year tenure of the loan.

Compared to other government housing programs, the CMP has one of the highest, if not the highest, overall repayment performances. However, its sustainability, especially at the member-beneficiary (MB) level, remains in question.

For instance, 52 percent of the CMP accounts at the MB level are already past due as of February 2015. Of these accounts, 61 percent can already be considered dormant, i.e., accounts that are past due for more than three years (Ballesteros et al. 2015).

Given the government’s significant subsidy to the CMP, it is crucial to assess whether the program is really targeting the interests of the poor and their communities. This *Policy Note* discusses the service delivery of the CMP and examines whether its conditions are propoor or not.

CMP accomplishment

In terms of coverage, 2,403 CMP communities were already granted loan assistance as of December 2014, benefiting around 270,160 ISFs.³ Except for the pilot years of 1989–1993, the annual accomplishments of the CMP have remained constant, with roughly 13,000 household beneficiaries annually for the

past 20 years. This number covers about 5 percent of the estimated annual housing need from ISFs for the period 2011–2016.⁴

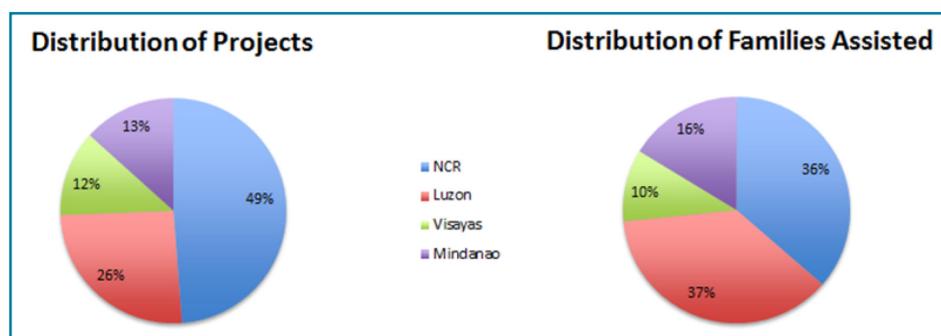
Figures 1a and 1b compare the accomplishments of CMP under the managements of NHMFC (1994–2004) and SHFC (2005–2014). It shows that neither the organizational change nor the implementation of a localized CMP (LCMP) process has resulted in a significant increase in size or quantity of outputs.⁵

Projects funded by SHFC are highly concentrated in the National Capital Region or NCR (Figure 2). This is noteworthy as it shows that CMP projects are highest in areas with high volume of ISF communities. However, the issue is whether the communities and ISF families are well targeted and whether the program has transformed poor communities into better neighborhoods. The next section examines further the design and implementation process of the program.

Size of membership in CMP communities

It has been observed that SHFC accepts applications from homeowners associations (HOAs) even if they only have 10 members or less (Table 1).⁶ These small-sized projects were probably easier to process and can better increase the outputs of SHFC in terms of the completion of CMP projects. However, such

Figure 2. Distribution of projects and families assisted in NCR, Luzon (sans NCR), Visayas, and Mindanao as of December 2014



Source: Data taken from the SHFC database

Table 1. Distribution of CAs by size of membership under the NHMFC (1994–2004) and SHFC (2005–2014)

Size of Community Association	NHMFC (1994–2004)		SHFC (2005–2014)	
	Number of CAs	Distribution by Number of CAs (%)	Number of CAs	Distribution by Number of CAs (%)
At most 10 MBs	47	5.0	67	5.7
11–20 MBs	96	10.3	129	11.0
21–30 MBs	81	8.7	99	8.4
31–50 MBs	85	9.1	146	12.5
51–100 MBs	188	20.1	241	20.6
101–200 MBs	223	23.9	370	31.6
Greater than 200 MBs	214	22.9	120	10.2
Total	934	100.0	1,172	100.0

Note: Removed bridge financing items from the original data

Source: Data adapted from the SHFC database

servicing defeats the purpose of CMP; small-sized HOAs can directly negotiate with their landowners for direct purchase or with their respective local government units (LGUs) for

⁴ The Philippine Statistics Authority defines ISFs as households occupying lots and or housing without consent of landowner.

⁵ LCMP is a modified version of the CMP initiated in 2007 to institutionalize a decentralized approach to CMP.

⁶ Minimum size is five households.

Box 1. Loan ceiling and maximum amortization by phase

Purpose	Maximum Loan Amount	Maximum Monthly Amortization
Lot acquisition	PHP 100,000.00	PHP 685.30
Site development	PHP 30,000.00	PHP 205.59
Housing materials	PHP 120,000.00	PHP 834.60
Loan package	PHP 250,000.00	PHP 1,725.49

Note: This is the CMP loan package updated in August 2014.
Source: Authors' compilation

financial support as had been done in several cases before. This practice hinders development of large-scale and strategic informal settlement communities that have greater impact on addressing the housing problem.

CMP loan processes and requirements

An assessment of the CMP guidelines and processes shows that the poor can be excluded from the program due to the following: (1) the equity requirement for amounts exceeding the maximum loanable amount per beneficiary, (2) the CAs' rule on member inclusion and exclusion, and (3) the rule on beneficiary substitution after loan takeout.

Equity requirement

The maximum loan amount for land acquisition is PHP 100,000.00 per household. With this amount, a maximum monthly payment of PHP 685.30 is expected per beneficiary, based on the amortization of 6-percent interest per annum for 25 years (Box 1).

⁷ Loanable amount higher than selling prices has been observed but a rare case.

However, SHFC rules that the loanable amount must only be equivalent to, if not less than, the lowest amount among the following: (1) appraisal value of the lot the CA intends to purchase, (2) its selling price, or (3) maximum loanable amount. Should the approved loanable amount be lower than the actual selling price of the lot, the CA must be able to raise the equity for the portion not covered by the loan. Usually, the members of the CA are the ones shelling out the money to cover the required equity.

The level of equity varies across projects. However, prices of lots in the NCR under the CMP illustrate the equity implications. Of the total projects in NCR, only about 14 percent of CAs did not pay equity, probably because the selling prices were equivalent to or less than the approved loanable amounts (Table 2).⁷ On the other hand, the remaining 86 percent had to pay equity ranging from PHP 1 to more than PHP 100,000 per MB (assuming same plot size per household). Thirty-two percent of these CAs had to pay PHP 20,000 or more.

Equity requirements tend to push the poor or those with volatile income away from the program. More often, the poor households exclude themselves from communities that access CMP loans because they are unable to raise the equity. Eventually, these households may give up their land rights to the debtors.

The CA rule on inclusion/exclusion

It is important to highlight that application to the CMP is mainly demand driven. The

communities are the ones approaching landowners and selecting mobilizers, which can be the LGUs or nongovernment organizations, to initiate the loan application process.

The SHFC does not target specific ISF communities or households. Instead, targets are set based on a minimum takeout value for each year. Moreover, SHFC rarely interacts with ISF communities. Should there be any interaction, it is limited to the background investigation on CAs with loan applications.

The mobilizers' role is to assist the community in the registration of CAs and in accessing loan from the CMP. Once the CA has been registered, its officers are mainly responsible for the approval of its membership.

The CMP allows a CA to apply for the purchase of its currently occupied land, considered as an on-site project. For such project, SHFC requires that the community has an occupancy rate of at least 85 percent. Furthermore, at least 85 percent of these inhabitants must be residing at the site for at least five years.

However, the CA can also apply for the purchase of lot in another location, considered as an off-site project. SHFC imposes stricter rules on this kind of project. For instance, at least 30 percent of the members must have come from informal or low-income inhabitants of the same city. The CA must likewise be formally organized a year before, with the members having common characteristics. These requirements are intended to protect the

Table 2. Equity to be paid by each MB in NCR

Equity to Be Paid by Each Member*	Number of CAs	Percentage to Total
0	33	13.8
More than 0 to less than 5,000	49	20.5
5,000 to less than 10,000	31	13.0
10,000 to less than 15,000	32	13.4
15,000 to less than 20,000	18	7.5
20,000 to less than 25,000	27	11.3
25,000 to less than 30,000	8	3.3
30,000 to less than 100,000	35	14.6
100,000 and above	6	2.5
Total	239	100.0

Notes:

* Equity = Selling Price - Total Loan Amount for Land Acquisition

Adjusted selling prices within the date of coverage of the Technical Services Department (TSD) databank have been taken into account.

Only added items which both have a selling price and a size of CMP area indicated in the TSD databank

Removed items with selling prices that differ in the two or all of the following documents: Project Basic Information Sheet, Intent to Sell, memorandum of agreement (MOA)

For items with different selling prices for lots along the road and those in the interior, those with higher amounts are the ones subtracted from the total loan amount (land acquisition)

Source: Authors' estimate. Basic data from the SHFC database (selling price and size of CMP area from TSD databank as of April 6, 2015; total loan amount for land acquisition and number of MBs from main database--CMP Taken-out Projects as of December 20)

CMP from communities that may deliberately organize to merely access the fund.

The CMP also allows that 15 percent of CA members in on-site projects and 70 percent in off-site projects to be nonresident households. With this, there is a high chance of inclusion of households specifically in off-site projects that are really not the target beneficiaries of the program.⁸

⁸ Recent CMP monitoring reports do not categorize accomplishments by type of site. Past records show that between 1994 and 2007, there are about 117 CAs with off-site projects or 10 percent of total CMP projects.

Table 3. Approved substitutions of takeout years 1994 to present (as of April 30, 2015)

Area	Approved MB Substitutions	Percent to Total (Philippines)	Total Number of MBs of Projects Taken Out from 1994 to 2014**	Approved MB Substitutions to Total Number of MBs (%)
NCR	8,636	57.3	82,743	10.4
Luzon*	4,881	32.4	87,281	5.6
Visayas	768	5.1	26,153	2.9
Mindanao	797	5.3	37,510	2.1
Philippines	15,082	100.0	233,687	6.5

Notes:

* Approved substitutions in Luzon do not include those in the NCR.

** Removed bridge financing items from the total number of CMP MBs of each area

Source: Data adapted from the SHFC database

There are other factors at play in the membership of the associations, which tend to exclude the poor. Since project approval depends largely on the members' capacity to pay, the CA officers tend to be selective. For instance, they have to look into the capacity and willingness of the ISFs to pay the monthly repayment fees. Kinship may also be a major factor in the membership to CAs.

⁹ There are other cases of substitution such as "Denial of MRI claim", a situation where the MBs are denied of mortgage redemption insurance (MRI) because of old age. "Substitution of lots" is a case wherein the MBs settled in the wrong lot and the SHFC just allowed an exchange through lot swapping; it must be noted that no beneficiary leaves the community in such a situation. "Generated lots" may result from reblocking wherein the property is divided again, giving rise to some changes in the lot sizes. The Project Individualization Department of SHFC, however, notes that some of the categories found in the records are very similar to each other. For instance, there is not much difference between the categories "death of MB" and "assumption of obligation", and between the categories of "violation" and "ejectment".

¹⁰ An SHFC database from June 1994 to September 2012 was used by Victor Dumas of the World Bank Group. It includes data on amortization payments of 15,575 individual beneficiaries in 130 projects and aggregated amortization payments of nearly 1,800 projects.

Rule on beneficiary substitution after loan takeout

Substitution involves the transfer of rights and membership of the original member MB to a new member. It can be done in three ways: (1) execution of waiver of rights, (2) default in payment, and (3) assumption of obligation.⁹

Titles are under the name of the CAs and could only be transferred to the members registered in the CMP loan list. Therefore, those eligible to get

land titles aside from the original MB are the substitutes whose names are in the records of the SHFC. It must be noted that the names of substitutes will only be listed in the records of the SHFC upon the approval of the CA officials and the agency.

Data show that as of April 30, 2015, there have been 15,082 SHFC-approved substitutions since the takeout year of 1994 (Table 3). Around 57 percent of these occurred in NCR, 32 percent in the rest of Luzon, 5 percent in Visayas, and another 5 percent in Mindanao.

There are positive consequences to these substitutions. Dumas (2015) reveals that based on a sample of beneficiaries from June 1994 to September 2012, these substitutions improved the collection efficiency rate (CER) of CMP projects.¹⁰ However, it also has negative implications.

Ideally, CMP is intended to benefit those who really are in need of shelter. However, these MBs may also be the ones evading payments and getting substituted in the program.

Furthermore, one requirement in the approval of substitution for all cases is the settlement of accountabilities of the original MB, if any. The problem here is that the poor may not be able to afford to make such payments and thus are excluded as substitutes. The program prevents the entry of other poor households in the community in cases when lots are vacated by the previous beneficiaries (Ballesteros et al. 2015).

Community transformation

The CMP was one of government's responses to the ISF problem. The legal basis for the CMP (Section 31, Article VIII of RA 7279) states that the primary objective of the CMP is to "assist residents of blighted or depressed areas to own the lots they occupy, or where they choose to relocate to, and eventually improve their neighborhood and homes to the extent of their affordability."¹¹ In other words, the program gives priority to residents of blighted areas to acquire ownership of the occupied land and legitimize the settlements. The law also makes known the expectation that the CMP will pave the way for the improvement of the homes and the community itself.

The program leans on the theory of property rights. Owning and improving land rights lead to gaining freedom from eviction, access to loans by gaining collateral, or the ability to

transfer the land. Consequently, there would be an increase in investment. Studies have shown that tenure security has had a positive correlation with community and residential investment (Besley 1995; Field 2005).

However, many CMP communities remain blighted, lack basic services, and are not integrated into the city's road network. Using a qualitative measure of a community's transformation, we assessed the overall improvement of CMP projects based on indicators of the physical, sociocultural, economic, environmental, and institutional aspects of the community.¹² Each indicator consists of several dimensions that are rated based on self or community assessment. For each dimension, a maximum score of 10 is assigned; 1 being the lowest and 10 being the highest score.

The selected CMP projects are those that have been existing for about 10 years such that improvements and social effects should already be felt or observed by the members of the association. The scoring was done by at least 10 non-officer MBs. All scores were added to get the average score for each dimension. The result of this exercise is presented in Table 4.

Of the six CMP sites visited, around three sites can be considered transformed communities given the total score of 8 to 10. These

¹¹ "Blighted and depressed areas" are also known as slums.

¹² This tool was developed through the collaborative efforts of the following agencies: (1) School of Government, Ateneo University; (2) Institute of Educational Institution; (3) Transformative Urban Resettlements in Metro Manila; and (4) Informal Cities Dialogue.

Table 4. Scorecard of selected CMP communities

Community Transformability Indicators	Antipolo City, Rizal	Marikina City	Quezon City		Parañaque City	
	VELS HOA	Tabing-Ilog, Nangka HOA	Lunduyan HOA, Inc.	Virgilio Delos Santos HOA, Inc.	Sitio Fatima Kawayanan Parenthood HOA, Inc.	Villa Paraiso HOA, Inc.
Physical environment	9.79	9.17	7.58	9.33	5.78	3.11
Mobility and access	8.82	8.11	6.58	8.63	4.35	1.00
Social network and safety nets	9.09	8.55	7.41	9.11	5.19	5.00
Community governance	8.11	8.44	6.78	9.27	5.39	-
LGU/Institutional integration	4.45	7.78	5.58	9.53	5.62	1.33
Total	8.50	8.53	6.96	9.17	5.32	2.74
Qualitative scoring	Good	Good	Satisfactory	Good	Poor	Poor

Transformability Indicators:

Physical environment – availability of electric power and potable water, drainage system, and waste and collection disposal

Mobility and access – efficiency in movement of people in the community, and unobstructed pathways and connection of the community to local roads

Social network and safety nets – neighborliness and safety within the community

Community governance – election, transparency, and feedback from HOA officers; opportunity to give comments on the performance of the HOA officers; and presence of community activities (e.g., youth and women organization)

LGU/Institutional integration – LGU support on the community

Qualitative scoring: 8–10 = Good; 6–7: Satisfactory; 5 below = Poor

Source: Authors' compilation

communities mentioned major improvements of their physical environment, mobility, and community governance post-takeout.

Communities with scores of 6 to 7 are not yet fully transformed. There is still a need to improve on the physical environment (e.g., surface drainage) and mobility within the community. Community governance is also shaky with beginnings of discontent reflected in the scores. Unresolved issues on the land, i.e., the land is a forest land, making it unalienable, and that the land is on top of a fault line, have led to a relatively low CER for Lunduyan HOA, Inc. The unresolved land issues of Lunduyan HOA, Inc. are also the reasons for the absence of subdivision plan. Basic services, such as electricity and water, nevertheless, are

available because of the proximity of the HOA to the arterial road.

The two sites with scores of 5 and below are the communities that have low transformability despite secure land tenure. In these two communities, a common problem observed is the absence of a road right-of-way. Both communities are accessible only by foot. Comparatively, Sitio Fatima Kawayanan Parenthood HOA, Inc. is just a few meters away from the local road; while Villa Paraiso HOA, Inc. is several meters away from the main road, the pathway to the site is narrow and wet due to surface water, gets flooded during heavy rains, and electricity and water are supplied through bulk meter. The supply of electricity to the community is cut off

whenever some households do not pay their electric bills.

The site visits also revealed that the CA may have an approved subdivision plan and subdivided titles but have not been fully transformed. This is because the approved subdivision plan is not necessarily implemented in the post-takeout due to community factions or problems, and environmental issues of poor subdivision planning.

Conclusions and policy recommendations

The SHFC has set a number of qualifications and requirements to ISFs that tend to prevent the poor from becoming beneficiaries of the CMP. It also focused on land tenure and failed to lead communities to transform into better neighborhoods. Necessary actions must therefore be undertaken to improve the program.

The SHFC should be proactive in the identification of ISF communities. This would require the SHFC to map out the location of ISFs and the areas where poverty rate is highest. This should be done to improve the prioritization of areas and the targeting of ISF communities.

Meanwhile, the exclusion of poor ISFs due to the equity requirements of the CMP is bound to increase as urban land prices increase. The engagement of SHFC in high-density housing projects requiring loan amounts of around

PHP 450,000 per household may also worsen the situation. This condition requires the agency to design and implement an income-based subsidy scheme to enable access of the poor to community projects.

CMP is a program designed to enable a self-help, community-based housing strategy. Therefore, there is a need to strengthen CAs, which requires the SHFC to include capacity building as an integral part of the CMP process. Capacity building should not simply be an additional task of mobilizers. The growth of CA should be included in the planning and monitoring process of the SHFC.

Overall, the CMP has addressed only one aspect of adequate shelter, which is securing land tenure. The expected transformation of CMP communities into safe and habitable communities did not happen in some of the CMP projects. The average effects cannot be ascertained in this study as we mainly relied on case studies and key informant interviews. Nevertheless, it can already be said that the focus of the program on financing and land ownership and the neglect of subdivision planning and city level planning as well as community development have created

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difficulties in site improvements in the later stage and resulted in blighted conditions. The CMP is intended to produce better housing communities for the poor and disadvantaged sector with financing as a tool to achieve this objective. This development objective should be the heart of the program. A transformative approach will have multiplier effects in terms of funding and will effectively contribute to increase affordable housing because better CMP communities will also be able to provide shelter to other lower-income households through rental arrangements. 📄

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