

The HGC Charter
**RULES AND REGULATIONS IMPLEMENTING
REPUBLIC ACT NO. 8763
Otherwise known as**

**THE HOME GUARANTY CORPORATION
ACT OF 2000**

Second Regular Session

(As approved by the HGC Board of Directors under Board Resolution No. 14-2000 dated 13 th October 2000 and concurred by the Monetary Board of the Banko Sentral Ng Pilipinas (BSP) under monetary Board Resolution No.2007 dated 17 th November 2000)

RULE I

TITLE AND DECLARATION OF POLICY

ARTICLE 1. Title. These Rules shall be known as the Rules and Regulations Implementing the Home Guaranty Corporation Act of 2000.

ARTICLE 2. Purpose. These Rules are promulgated pursuant to Sections 9 (d) and 37 of Republic Act No. 8763 and shall prescribe the policies and procedures that will guide the operations of the Home Guaranty Corporation particularly the implementation of a credit guaranty system for housing.

ARTICLE 3. Declaration of Policy . It is hereby declared the policy of the State to undertake, in cooperation with the private sector, a continuing nationwide housing program that will make available decent housing at affordable cost.

In recognition of the role of housing as catalyst of economic growth and development, it is hereby declared a State Policy to strengthen, promote and support the component activities of housing production and finance.

ARTICLE 4. Statement of Objectives. Towards this end, the State shall integrate all laws providing for housing credit guaranty to attain the following Objectives:

- a. Ensure continuous funding support to vigorously implement the government's programs for urban and rural housing, resettlement, the development of sites and services, and the renewal of blighted areas;
- b. Enhance the capability of low income groups to acquire decent and low-cost housing units through the introduction of support mechanisms and facilities which shall render affordable such acquisition;
- c. Provide for a strong and sustainable housing finance program with complementary support systems, which will pump prime, build-up and strengthen available resources of cheap and long-term capital;

- d. Increase the private sectors' participation in the investment of their funds into the mainstream of housing finance for developmental and end-user financing requirements;
- e. Encourage the flow private funds for mass housing development and homebuyers' financing through a viable system of mortgage and credit guaranty;
- f. Enjoin the active participation of local government units in socialized housing program through adequate measures for housing development in their respective areas;
- g. Strengthen the capital base and optimize the resources of the National Government and the Corporation to ensure the homeless families across the nation can enjoy the benefits that can be derived from the Government's guaranty facilities;
- h. Serve the housing requirements of all the underprivileged and those gainfully employed especially those who are not members of any funding agencies such as the Government Service Insurance System (GSIS), Social Security System (SSS), and Home Development Mutual Fund (HMDF); and,
- i. Institutionalize and promote the aided self-help approach in home ownership and introduced support mechanisms and facilities that will enhance the capability of low-income groups to acquire decent housing.

RULE II

ARTICLE 5. Definition of Terms. As use in the Act, and the implementing Rules unless the context otherwise requires, the following terms shall carry the meanings as defined hereafter:

- a. "Act" refers to the Home Guaranty Corporation Act of 2000;
- b. "Appraised Value" refers to valuation of collateral on loans subject for guaranty coverage based on generally accepted appraised methodology.
- c. "Bond guaranty coverage" refers to the type of guaranty coverage that entitles the guaranteed entity to claim payment in the form of debenture bonds upon call of the guaranty;
- d. "Builder/developer" refers to the person or entity who develop raw land for housing and/or constructs dwellings or housing units;
- e. "Building and Loan Associations (BLA's)" are non-bank financial intermediaries or entities organized for the purpose of accumulating capital or savings to facilitate home acquisition by members;

- f. "Cash guaranty coverage" refers to the type of guaranty coverage that entitles the guaranteed entity to cash payment upon call on the guaranty;
- g. "Certificate of Guaranty" refers to the certificate evidencing the amount of loan or credit guaranteed as to principal and interest by the corporation.
- h. "Contract of Guaranty" refers to the contract between the corporation and the guaranteed entity containing the terms and conditions of the guaranty.
- i. "Corporation" refers to the Home Guaranty Corporation;
- j. "Developmental Loan" is a type f loan, the proceeds of what shall be used principally for the development of residential subdivisions and/or construction of dwellings;
- k. "Dwelling or Housing Units" refers to a place used primarily for residential purposes;
- l. "Guaranty" refers to the promise/undertaking given by the Corporation to an entity for the settlement or payment of an obligation of a borrower in the event of default, as provided in the contract of Guaranty;
- m. "Guaranty Capacity" refers to the aggregate amount of all outstanding mortgages and accounts that the Corporation can guaranty which in no case, shall exceed twenty times (20) the net worth of the Corporation.
- n. "Guaranty premium" refers to the fee to be charged by the Corporation for the granting of guaranty coverage;
- o. "Housing finance" refers to the comprehensive funds flow system covering the entire housing provision cycle from identification of financial requirements to fund sourcing for various aspects of the housing program, such as lot acquisition, development/construction and end-buyers' financing;
- p. "Housing Packages" shall refer to socialized, low-cost, medium-cost and open housing packages. The cost ceiling for each type of package shall be jointly determined by the Housing and Urban Development Coordinating Council (HUDCC) and the National Economic and Development Authority (NEDA); provided that, the ceiling for open Housing Packages shall in no case exceed Five Million Pesos (P 5,000,000). Review and revision of ceilings for each classification of housing package shall not be undertaken more than once every two(2) years;

- q. "Maturity Date" means the date on which the mortgage indebtedness would be extinguished if paid in accordance with the periodic payments provided for in the mortgage
- r. "Mortgage" shall mean a first mortgage on real estate in fee simple, or on the interest of either the lessor or lessee thereof under a lease for not less than twenty(20) years to run from the date the mortgage was executed, upon which there is to be constructed a building(s) designed principally for residential use; and the term "first mortgage" shall mean such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate, together with the credit instrument(s), secured thereby, if any, and may be in the form of bonds, notes, stocks, mortgage and asset-backed securities, trust mortgages or mortgage indentures or deeds of trust securing notes, bonds, or other credit instruments;
- s. "Mortgagee" shall refer to the original lender under a mortgage, and its successors and assigns, and include the holder of the bonds, notes, stocks mortgage and asset-backed securities, and other debt instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named;
- t. "Mortgagor" shall refer to the original borrower under a mortgage as defined herein, and its successors and assigns;
- u. "Multi-family housing" is a type of residential structure with two(2) or more dwelling units in the same building or structure
- v. "Necessary Support Facilities" shall refer to the community facilities and other infrastructure components of guaranteed housing projects that are intended to provide social and economic services to the residents. This may include: church, school, market, multi-purpose centers, hospitals/clinics, sport centers and livelihood support facilities;
- w. "Net worth of the Corporation" shall refer to the paid-up capital plus fifty percent (50) of the retained earnings of the Corporation.
- x. "Net worth of the Guaranteed Entity" shall refer to the excess of assets over liabilities based on the audited financial statements of the immediately preceding calendar or fiscal year as submitted to the Bureau of Internal Revenue (BIR);
- y. "Off-Market Wind-Up" shall be deemed to have occurred in the following instances:
 - o If there is a 25% slippage on each of the following: construction timetable/cost/quality; marketing in terms of units sold: or cash inflows in terms of equity payments and/or buyers' takeout; or,
 - o If the slippage items above reaches a total of 50%.

- z. "Open End Mortgages"- refers to any mortgage guaranteed by the Corporation Pursuant to the act which covers a property with a single family dwelling and upon which advances for the improvement or repair of the said property shall be made. The amount of such advances shall be added to the original principal obligation in determining the value of the mortgage.
- aa. "Prudent production cost" of the project shall mean, with respect to the relevant project, the relevant cost of the builder of the proposed physical improvements, including buildings, utilities within the boundaries of the subject property, cost of land, architect's fees, taxes and interest accruing during the construction, but not including builder's profit nor other charges, except for estimated depreciated cost of any existing utilities;
- ab. "Rental Housing" shall mean housing project, the occupancy of which is permitted by the owner thereof in consideration of the payment of agreed charges, whether or not by the terms of the agreement, such payment over a period of time will entitle the occupant to the ownership of the premises;
- ac. "Retail Loans" pertain to a type of loan for the purchase or construction of a single family residence;
- ad. "Secondary mortgage market" is the mechanism available to buy and sell mortgages, mainly residential first mortgages;
- ae. "Single family residence" is a type of residential structure designed as one family-dwelling; and,
- af. "Slum or blighted area" shall refer to an area where dwellings predominate, which by reasons of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors, are detrimental to safety, health, or morals.

RULE III

THE HOME GUARANTY CORPORATION

ARTICLE 6. Re-Naming of the Corporation. The Home Insurance and Guaranty Corporation is renamed as the Home Guaranty Corporation. It shall have its principal office in Metropolitan Manila.

ARTICLE 7. Corporate Term. The term of the Corporation **has** been extended for another period of fifty (50) years from the expiration of its original term on December 15, 2000.

ARTICLE 8. Corporate Powers and Functions. The Corporation, in addition to the regular powers and functions provided under section 36 of the Corporation Code, shall have the following powers and functions, subject to the limitations hereinafter provided:

- a. To promote Home building and land ownership, giving primarily preference to the homeless and under privileged sectors of the society;
- b. To guaranty the payment in favor of any natural or juridical person, of any and all forms of mortgages, loans and other forms of credit facilities and receivables arising from financial contracts exclusively for residential purposes and the necessary support facilities thereto;
- c. To assist private developers to undertake socialized, low and medium-cost mass housing projects by encouraging private funds to finance such housing projects through a viable system of long-term mortgages, guaranties and other incentives;
- d. To pursue the development and sustainability of a secondary mortgage market for housing as the primary strategy to encourage private sector participation in housing finance. The Corporation shall undertake such programs and measures using the guaranty cover as enhancement to encourage trading by the public in a secondary market for housing mortgages, bonds, debentures, notes and securities;
- e. To underwrite purchase, own, sell, mortgage or otherwise dispose of stocks, bonds, debentures, securities and other evidence of indebtedness issued in connection with the powers enumerated in the Act: Provided, it shall not engage in direct mortgage lending activities;
- f. To borrow money and/or to issue bonds, debentures, securities, collaterals, notes and other obligations, in both local and foreign currencies, subject to the limitations provided in Art. 19 hereof;
- g. To promote housing by the aided self-help method whereby families with some outside aid build their own houses with their own houses with their own labor; to provide technical guidance to such families; to guaranty loans to such families on first liens on the house and land with such other security and conditions as the Corporation shall determine, providing at least for ultimate recovery of principals; and to do all other activities as are relevant and significant in such a program of aided self-help for housing;
- h. To adopt, alter and use a corporate seal; to enter into contracts; and to sue and be sued in its Corporate name in any court of competent jurisdiction;
- i. To acquire , purchase, own, hold, manage, administer, operate, develop, lease, pledge, mortgage, exchange, sell, transfer or otherwise dispose of real and personal property with every kind and description, monies and funds, or any

interests therein as may now be necessary to effectively carry out the purposes, objectives and functions of the Corporation;

- j. To do any and all acts and things and to exercise all powers, which maybe necessary or convenient to the accomplishment or furtherance of its purposes and objectives, or which a natural person can do and exercise and which may now be or hereafter authorized by law.

RULE IV

BOARD OF DIRECTORS AND CORPORATE OFFICERS

ARTICLE 9. Composition of the Board.

The Corporation shall be governed and its activities be directed, controlled and managed by a Board of Directors, which shall be composed seven (7) members, as follows:

- a. The secretary of the Department of Finances as the ex-officio Chairman;
- b. The chairman of the Housing and Urban Development Coordinating Council (HUDCC), as the ex-officio vice chairman;
- c. The Director General of the National Economic and Development Authority (NEDA), as ex-officio member;
- d. The President of the Corporation; and
- e. Three (3) other members to be appointed by the President of the Philippines, who shall serve for a term of five (5) years: *Provided*, that the person appointed shall be of good moral character, of unquestionable integrity, of known probity and patriotism and with expertise and experience of at least ten (10) years in business, finance and other relevant professions: *Provided, further*, that in the event of a vacancy, the successor appointed to fill the same shall serve only the unexpired portion of the term of the members he succeeds to.

The three (3) incumbent directors appointed by the president prior to the effectivity of this Act shall serve the unexpired portion of their five year term, unless re-appointed, or sooner removed or replaced by the President. The successor appointed shall serve the unexpired portion of the term of the member he succeeds to.

ARTICLE 10. Meetings of the Board. The Chairman shall preside over meetings of the Board of Directors. The Vice Chairman of the Board shall assist the Chairman and act in his stead in case of the latter's absence or incapacity.

The decisions of the Board shall be made by a vote of the majority of all its members.

The Chairman, Vice Chairman and the members of the Board shall be entitled to per diem for each meeting actually attended at such amount as may be fixed by the Board in accordance with existing laws, rules and regulations.

ARTICLE 11. Powers, Functions and Duties of the Board of Directors. The Board of Directors shall exercise the following powers, functions and duties:

- a. To adopt the by-laws of the corporation and revise or amend the same as may be expedient;
- b. To direct the management, operations and administration of the Corporation;
- c. To authorized such expenditures by the Corporation as are in the interest of the effective administration and operations of the Corporation;
- d. To formulate, revise or adjust periodically all policies, plans and projects and to promulgate the necessary rules and regulations and manuals of procedures for the effective implementation of the provisions of this Act, in any event to conform to the prevailing economic and financial conditions: *Provided*, That anything contained herein to the contrary notwithstanding, all such policies, rules and regulations, manuals of procedures, on ceilings and limitations shall be subject to the concurrence of the monetary Board of the Banko Sentral ng Pilipinas.
- e. To create offices or positions necessary for the efficient management, operation and administration of the Corporation: *Provided*, that all positions in the Home Guaranty Corporation (HGC) shall be govern by a compensation and position classification system and qualifications standards approved by the Corporation's Board of Directors based on a comprehensive job analysis and audit of actual duties and responsibilities: *Provided, further*, That the compensation plans shall be comparable with the prevailing compensation plans in the private sector and which shall be exempt from Republic Act No. 6758, otherwise known as the Salary Standardization Law, and from other laws, rules and regulations on salaries and compensations; and to establish a Provident Fund and determine the Corporation's and the employees' contributions to the Fund;
- f. To exercise such other powers as maybe necessary and proper for the effective enforcement of the Act and accomplish the purposes for which the Corporation was organized; and to do and perform any and all the acts and deeds as are necessary and incidental to the attainment of the purposes of the Corporation.

ARTICLE 12. President of the Corporation. The President of the Corporation shall be appointed by the President of the Philippines for a term of five (5) years unless sooner removed for cause. He shall be a person of good moral character, of unquestionable integrity, of known probity and patriotism, and with expertise and experience of at least ten (10) years in business, finance and other relevant professions. He shall receive such compensation, allowances and other emoluments as may be determined by the Board.

ARTICLE 13. Powers and Duties of the President. The president of the Corporation shall:

- a. Prepare the agenda for meetings of the Board of Directors, and to submit for its consideration the policies and measures which are necessary to carry out the purposes and provisions of the Act;
- b. Execute and administer the policies and measures approved by the Board;
- c. Represent the Corporation in all dealings with other offices, agencies and instrumentalities of the Government and with all persons and entities, public or private, domestic or foreign; and,
- d. Exercise such other powers, functions and duties as may be delegated by the Board.

ARTICLE 14. Executive Vice President and General Manager of the Corporation. The Board of Directors shall appoint an Executive Vice President, who shall be the General Manager of the Corporation and who shall act as President of the Corporation in the latter's absence.

ARTICLE 15. Legal Counsel. The office of the Government Corporate counsel shall be the General Counsel of the Corporation. The Corporation may, however, maintain an in-house Legal Counsel and Legal Department pursuant to Section 9 (e) of the Act.

ARTICLE 16. Resident Auditor. Resident Auditor of the Corporation shall be appointed by the Chairman of the Commission on Audit, who shall also appoint and for cause, remove, upon the recommendation of the Resident Auditor, the personnel of the Auditing Office.

The Auditor shall submit, through the Commission, an annual report on the financial condition and the result of the operations of the Corporation to President of the Republic of the Philippines, each member of the Senate and the House of Representatives, the National Economic and Development Authority, and the Chairman of the Commission on Audit.

RULE V AUTHORIZED CAPITAL OF THE CORPORATION

ARTICLE 17. Authorized Capital Stock. The authorized Capital of the Corporation, to be subscribed by the Government of the Republic of the Philippines, is increased from two Billion Five Hundred Million Pesos (P2,500,000,000.00) to Fifty Billion Pesos (P50,000,000,000.00). This is equivalent to Fifty Million (P50,000,000.00) shares of common stock with a par value of One Thousand Pesos (P1,000.00) per share. Out of the increase and the authorized capital stock of Forty-seven Billion Five Hundred Million Pesos (P47,500,000,000.00) the amount of Seven Billion Five Hundred Million Pesos (P7,500,000,000.00) shall be subscribed and paid in cash by the Government of the Republic of the Philippines upon the approval of the Act, and accordingly the said

amount of Seven Billion Five Hundred Million Pesos (P7,500,000,000.00) shall be appropriated out of the funds of the National Treasury not otherwise appropriated. Succeeding National Government equity contribution to the Corporation shall be included in the annual General Appropriations Act following the usual budgetary process. Requests for such additional equity shall be initiated by the Corporations. No portion of the authorized capital stock of the Corporation shall accrue to any agency or instrumentality of the National Government, including government-owned or controlled corporations.

ARTICLE 18. Use of Net Worth. The use of the net worth of the Corporation shall be subject to the following limitations:

- a. At least forty percent (40%) shall be allocated exclusively for socialized housing, to be distributed equitably among all the regions, to the extent practicable;
- b. At least thirty percent (30%) shall be allocated exclusively for low-cost housing, to be distributed equitably among all the regions, to the extent practicable;
- c. At least twenty percent (20%) shall be allocated exclusively for medium-cost housing, to be distributed equitably among all the regions, to the extent practicable; and,
- d. Not more than ten percent (10%) may be allocated for open housing.

Investments, if any, by the Corporation in any establishment or enterprise, whether public or private, shall be subject to the same limitation, herein above provided as well as those specified in Chapter iii of the Act and Rule VIII of this IRR.

Compliance with this provision shall be closely monitored in accordance with Article 27 of this IRR.

RULE VI FISCAL MANAGEMENT

ARTICLE 19. Corporate Borrowings The Corporation, under Section 5 (f) of the Act, is authorized to borrow money and/or to issue bonds, debentures, securities, collaterals, notes and other evidence of indebtedness in both local and foreign currencies, here and abroad.

The total of such obligations shall not, at any time, exceed the aggregate amount of the principal obligations of all mortgages and accounts granted by the Corporation. To ensure the compliance herewith, the President of the Corporation shall issue a Certification that the proposed borrowing is still within the prescribed ceiling on Corporate Borrowings.

Such obligations shall be secured by the assets of the Corporation including the Stocks, bonds, debentures and other securities underwritten, purchased or held by it under the provisions of the Act.

Likewise, such obligations may be issued and offered for sale at each price as the Corporation may determine, and shall be exempt from taxation as to principal and interest, except estate, inheritance and gift taxes.

Borrowings, both in local and foreign currencies, are subject to the approval of the Board of Directors with the final approving authorities as follows:

- a. Corporate Borrowings in Local Currencies are subject to the approval of the President of the Philippines, in consultation with the Monetary Board of the Bangko Sentral ng Pilipinas.
- b. Corporate Borrowings in Foreign Currencies are likewise subject to the approval of the President of the Philippines, in the consultation with the Monetary Board of the Bangko Sentral ng Pilipinas and the Secretary of Finance.

The Corporation shall obtain the necessary clearances from the Department of Finance (DOF) and the Bangko Sentral ng Pilipinas (BSP), subject to the rules and regulations governing the domestic and foreign borrowings imposed on Government-Owned and Controlled Corporations (GOCCs). The Corporation must comply with the pertinent provision of Republic Act 4860, as amended, otherwise known as the Foreign Borrowings Act and BSP Circular 1389, as amended.

ARTICLE 20. Guaranty Reserved Fund. The Corporation shall set aside five (5%) percent of its annual net operating revenues before interest as reserve or sinking fund to answer for guaranty calls. This fund shall be called the Guaranty Reserve Fund (GRF).

The primary purpose of the GRF is to assure the long-term financial viability of the guaranty program. The amount set aside for the reserve fund shall be subject to the conduct of an actuarial study to determine the appropriate requirement, but in no case shall it be lower than 5% of the annual net operating revenue prescribed in the Act. The GRF shall be subject to annual review by the Corporation in consultation with an actuary consultant.

In setting-up the GRF, sound actuarial principles and practices shall be observed.

Said fund shall be deposited in any government bank or invested in any marketable securities, bonds or other evidence of indebtedness of the Government of the Philippines .

ARTICLE 21. Investments of Funds . The Corporation shall manage its funds with skill, care, prudence and diligence all the times. Corporate funds not needed to meet the current administrative, operating and financial expenses, as well as unpaid guaranty claims shall constitute the Investible Funds of the Corporation.

These investible funds shall be deposited with any government bank or invested in any marketable securities, bonds, or other evidence of indebtedness of the Government of the Philippines, as may be approved by the Board.

The Corporation may purchase in the open market debentures issued under the provisions of the Act which debentures shall be cancelled and not reissued.

ARTICLE 22. Fund Sources for the Operation. The Bangko Sentral ng Pilipinas may extend to the Corporation advances which may be needed for its operations and/ or grant loans secured by any assets which are defined as acceptable securities by the Monetary Board.

RULE VII GUARANTY OF THE REPUBLIC OF THE PHILIPPINES

ARTICLE 23. Guaranty of the Republic of the Philippines on Corporate Borrowings. The Republic of the Philippines fully and unconditionally guaranties to payment by the Corporation both of the principal sums and interest of the bonds, debentures, collateral, notes or other obligations of the Corporation, issued or incurred by virtue of the Act and shall pay such principal sums and interest in the event the Corporation fails to do so: Provided, That such guaranty shall be expressed on the face of certificate of indebtedness: Provided, further, That the aggregate amount of such bonds, debentures, collateral, notes or other obligations of the Corporation does not exceed at any time, the limit prescribed under Article 19 of this IRR.

To implement the foregoing, the pertinent provisions under Administrative Order No. 10 dated 14 August 1998 and Department of Finance (DOF) Circular No. 2-99 dated 07 September 1999 and subsequent amendments thereto shall be strictly adhered to.

The republic of the Philippines shall succeed to all the rights of the holders of such bonds, debentures, collateral, notes or other instruments to extent of the payments made, unless the sum so paid by the Republic of the Philippines shall be refunded by the Corporation within a reasonable time.

ARTICLE 24. Guaranty of the Republic of the Philippines on Guaranty Obligations. The Republic of the Philippines fully and unconditionally guaranties the guaranty obligations of the Corporation incurred in accordance with the act both as to principal, and as to interest up to eleven percent (11%) for socialized housing, ten percent (10%) for low-cost housing, nine and one-half percent (9.5%) for medium cost-housing, and eight and one-half percent (8.55) for open housing: Provided, that such guaranty shall be expressed on the face of the debenture bonds: Provided, further, that the aggregate amount of the outstanding obligations shall not, at any time, exceed twenty (20) times that capital and surplus of the Corporation.

In the event of call on the guaranty of the Republic, the provisions under Administrative Order.10 dated 14 August 1998 and Department of Finance (DOF) Circular No. 2-99 dated 07 September 1999 and subsequent amendments thereto shall be strictly adhered to.

The Republic of the Philippines shall succeed to all the rights of the holders of such bonds, debentures, collateral, notes or other instruments as a security to the extent of the payments made, unless the sums so paid by the Republic of the Philippines shall be refunded by the Corporation within a reasonable time.

RULE VIII CREDIT GUARANTY SYSTEM

ARTICLE 25. Guaranty Programs. The Corporation shall pursue its mandate to guaranty the payment of credits and receivables from financial contracts utilized primarily for residential purposes through any or all of the following programs and such other programs that maybe formulated in accordance with the intent of the Act:

- a. **Developmental Loan Guaranty** - guaranty facility covering loans extended for the development of subdivisions, townhouses, dormitories, apartments and other residential dwellings in accordance with Article 28 (a) of the IRR.

Loans or credits to be utilized for the purchase of construction materials for the development of a specific mass housing project qualified for developmental guaranty may be guaranteed by the Corporation.

- b. **Retail Loan Guaranty** – guaranty coverage on loans/credit facility extended for the purchase/ acquisition or lease of a single-family residence in accordance with Article 28 (b) of this IRR.
- c. **Guaranty for Securitization Schemes** – guaranty cover on securities or financial instruments or on the receivables backing-up the securities pursuant to Sections 5 (b) and 23 (h) of the Act. The issuance is backed-up by a pool of assets, such as receivables from loans/mortgages, and/or real estate properties. The proceeds of the issuance shall be utilized exclusively for residential purposes and the necessary support facilities thereto.

ARTICLE 26. Composition of Guaranteed Accounts. The Corporation shall ensure that the composition of guaranteed accounts comply with the following allocation for each type of housing package.

- a. At least forty percent (40%) of guaranteed accounts shall be allocated for socialized housing packages;
- b. At least thirty percent (30%) of guaranteed accounts shall be allocated for low-cost housing packages;
- c. At least twenty percent (20%) of the guaranteed accounts shall be allocated for the medium-cost housing packages; and
Not more than ten (10%) of guaranteed accounts may be allocated for open housing packages.

For the foregoing purpose, the respective ceilings for socialized, low-cost, medium-cost, and open housing shall be jointly determined by the Housing and Urban Development Coordinating Council and the National Economic Development Authority; Provided that at any time, but not more often than once every two (2) years, such ceilings may be reviewed or revised to conform to prevailing economic conditions.

The Corporation, as they deems necessary to ensure that the intent of the Act is realized, may prescribed a distribution or allocation in the composition of guaranty accounts being enrolled by guaranteed banks and financial institutions.

Compliance of the Corporation with the prescribed allocation will be measured on an annual basis in terms of total enrolments for coverage.

ARTICLE 27. Monitoring Compliance.

To implement and monitor compliance to the guaranty capacity and the prescribed allocation, the Corporation shall prepare quarterly reports on the volume of guaranty enrollments of availments. The report shall be submitted to the Board of Directors, Department of Finance, National Economic and Development Authority, the Department of Budget and Management, and the Bangko Sentral ng Pilipinas.

The quarterly reports shall consist of two (2) separate reports: (a) Status Report on Guaranty Capacity; and (b) report on compliance to the prescribed Allocation.

(a) **Status Report on Guaranty Capacity.** This report shall present the total outstanding guaranties as of the end of the reporting period or quarter. The total outstanding guaranties shall not, at any time, exceed twenty times (20x) the net worth of the Corporation, which is the prescribed Guaranty Capacity in accordance with Section 16 (c) of the Act.

Changes in total guaranty capacity as s result of changes in total net worth through additional equity infusion from the National Government

Or increase in paid-up capital and increase in the surplus or retained earnings of the Corporation shall be reflected in the report.

Status Report on Guaranty Capacity

As of _____

1. Guaranty Capacity (Net worth x 20)		P
Net Worth, As of _____	P	
2. Outstanding Guaranty (2.1+2.2)		P
2.1 Retail	P	
Cash		
Bond		
2.2 Developmental	P	
Cash		
Bond		
3. Available Capacity (1-2)		P

(b) **Report on Compliance with the Prescribed allocation.** This report shall be presented as follows:

Type Package	Housing	Allocation of Guaranty Capacity	Volume of Enrollment	Balance
		Percentage	Volume	
Socialized		Not less than 40%		
Low-Cost		Not less than 30%		
Medium-Cost		Not less than 20%		
Open Housing		Not more than 10%		
Total		100%		

The terms used shall be defined as follows:

1. Type of Housing Package – refers to socialized, low cost, medium cost and open housing packages.
2. Allocation of Guaranty Capacity – refers of the allocation of the guaranty capacity by type of housing package prescribed under article 26 of this IRR
3. Volume of Guaranty Enrollment – shall be based on the selling price of the dwelling unit(s) financed by the guaranteed loan or account. As such, the reduction in outstanding balances of the loans guaranteed due to payments made by the borrower shall not be taken into account.
4. Balance – refers to the difference between guaranty allocation and guaranty enrollment by type of housing package.

ARTICLE 28. Requirements for Guaranty.

- a. **Developmental Loan Guaranty.** To be eligible for guaranty, the developmental guaranty account shall involve a principal obligation not to exceed:
 1. Seventy percent (70%) of the prudent production cost of the project for bond guaranty coverage; and,
 2. Sixty percent (60%) of the prudent production cost of the project for cash guaranty coverage.

Equity of the mortgagor-developer shall at least be 30% of prudent cost.

The Developmental Loan is intended for the production of residential lot or house and lot as well as mass housing projects. Specifically, this refers to:

3. Development of subdivision project (lot only, house and lot), townhouse and condominium that consist of not less than twenty (20) dwellings under a single mortgage with a release clause permitting the subsequent sale of each individual dwelling unit; and,
4. Development of apartment, dormitories and other rental dwellings of at least twenty (20) units.

The Corporation may likewise guaranty loans or credits secured for the purchase of construction materials for the development of a specific mass housing project qualified for developmental guaranty.

The prudent production cost of the project shall be determined in accordance with the prevailing industry standards: Provided that the builder shall submit certified bills of sale and other evidences of prudent production cost of the project and the Corporation shall be the sole judge of the prudence of the expenditure as necessary to comply with the plans and specifications.

- b. **Retail/Single Family Dwelling Guaranty.** To be eligible for guaranty, the retail/single-family dwelling account shall involve a principal obligation not to exceed.

1. 100% of the appraised value of the property for socialized housing packages;
2. 100% of the loan but not more than 90% of the appraised value of the property for low-cost housing packages;
3. 90% of the loan but not more than 80% of the appraised value of the property for medium cost housing packages;
4. 85% of the loan but not more than 70% of the appraised value of the property for open-housing packages;

The Retail/Single Family Dwelling Loan is intended for the acquisition of residential lot or house and lot, and improvement or repairs of existing housing units. Specifically, this refers to any of the following:

5. Purchase of house & lot, townhouse, condominium unit and any other single family dwelling.
6. Purchase of lot and construction of house;
7. Construction of house on lot already owned;
8. Purchase of lot only;
9. Purchase of lot on which the house of the borrower presently stands
10. Major repair, improvement or expansion of an existing house or dwelling unit; and,
11. Refinancing of an existing loan.

The Corporation, as a matter of sound business policy, may set downward limits on the total amount to be guaranteed for the foretasted Retail/Single Family Dwelling Guaranty and Developmental Loan Guaranty Programs which limits may be adjusted to conform with the prevailing economic and financial conditions subjected to concurrence of the Monetary Board of the Bangko Sentral ng Pilipinas.

ARTICLE 29. Other Requirements for Guaranty.

- a. Term of Loan. Loans or credit to be eligible for guaranty must have a term or maturity satisfactory to the Corporation, as follows:
 - 1. For Development Loans, the term for the loan shall be co-terminus with project completion, as contained in the feasibility Study/Business Plan approved by the Corporation.
 - 2. For Retail/Single Family Dwelling Loans, the term of the loan shall not exceed thirty (30) years.
- b. **Provision of the Loan.** To be eligible for guaranty, the account shall:
 - 1. contain such terms and provisions with respect to insurance, repair, alterations, payment of taxes, default, reserves, delinquency charges, foreclosure proceedings, anticipation of maturity, additional and secondary liens, and other matters as the Corporation may in its discretion prescribe; and,
 - 2. contain complete amortization provisions satisfactory to the Corporation requiring periodic payments by the borrower not in excess of his reasonable ability to pay the loan which shall comply with the required loan to collateral ratio as determined by the Corporation.

ARTICLE 30. Required Collateral/ Security on Guaranteed Accounts.

- a. First mortgage lien on the real estate property, and the improvements thereon, subject of the loan held by a qualified lender or trustee determined by the Corporation as responsible and able to service the guaranteed account. Such mortgage rights are annotated on the title to the real estate, or otherwise effectively protected;
- b. Other rights in *rem* including leasehold rights under a contract of lease for not less than twenty years from the date the guaranty was executed held by a qualified lender or trustee determined by the Corporation as responsible and able to service the guaranteed account. Such mortgage rights are duly annotated on the title to the real estate, or otherwise effectively protected.
- c. Contract Receivables/Rights under contracts to sell covering the residential dwelling subject of the sale; and,

- d. Real estate and other properties comprising trustee or pooled assets backing-up securities issued for residential purposes.

ARTICLE 31. Open-End Mortgages.

Notwithstanding any other provisions of the Act, in connection with any mortgage guaranteed pursuant to any Section of the Act, which covers a property upon which is there is located a dwelling designed for residential use, the Corporation is authorized, upon such terms and conditions as it may prescribe, to guaranty the amount of any advances for the improvement or repair of property made to the mortgagor pursuant to an "open-end" provision in the mortgage and to add the amount of advance to the original principal obligation in determining the value of the mortgage for the purpose of computing the amounts of debentures to which the mortgage be entitled. The Corporation may require the payments of such charges, including charges in lieu of guaranty premiums, as it may consider appropriate for the guaranty of such "open-end" advances. Only advances for such improvements or repair as will substantially protect or improve the basic liability or utility of the property involved shall be eligible for guaranty under this Section. No such advances shall be guaranteed under this article if the amount thereof plus the amount of the unpaid balance of the original principal obligation of the mortgage would exceed the amount of such original principal obligation unless the mortgagor certifies that the proceeds of such advance will be used to finance the construction of additional rooms or other enclosed space as part of the dwelling. The guaranty of "open-end" advances shall not be taken into account in determining the aggregate amount of principal obligations of mortgages which may be guaranteed under the Act.

ARTICLE 32. Eligible Properties

- a. To be eligible for credit guaranty, the account shall involve real properties held by the following:
 - 1. The National Government, Provincial, City or Municipal Governments, Government-Owned and Controlled Corporations and Agencies;
 - 2. Private Corporations, Banking Institutions, Trust Companies, Personal Finance Companies, Mortgage Companies, building and loan associations, savings and loan associations, installment lending companies, insurance companies, developmental builders, associations and cooperative societies which are legal agents of owner-occupants, or trust formed or created for the purpose of rehabilitating slums or blighted areas or providing housing for rent or sale, and which possess powers necessary therefore the incidental thereto; and,
 - 3. An individual owner or joint-owners.
- b. Location of the Property. The mortgaged property must be located in a developed subdivision or in an area that is classified as residential near centers of business, commerce and employment or means of livelihood. Said property must be directly accessible by transportation facilities through developed roads or right of

way, and must have direct access to permanent power and water facilities as well as sewerage and drainage systems.

- c. **Minimum standard.** The subdivision where the mortgaged property or the proposed housing project is located must be developed in accordance with standards and technical requirements provided under Batas Pambansa blg.220, Presidential Decree No.957 and other laws, rules and regulations governing land development. For developmental guaranty project, the proposed housing project must have the required licenses, permits in clearances issued by the appropriate government authorities.
- d. **Viability of the Project.** The mortgage shall be executed only with respect to a project that, upon evaluation of the corporation, is economically sound.

ARTICLE 33. Guaranty Premiums and Other Fees/Charges

- a. **Guaranty Premium.** The guaranteed Entity shall pay the annual premium upon enrollment or renewal of the guaranty coverage. The payment may either be in cash or debentures issued by the corporation, which shall not be less than:
 - 1. One-half of one percent (1/2 of 1%) of the outstanding principal obligation for socialized housing;
 - 2. Three-fourths of one percent (3/4 of 1%) of the outstanding principal obligation for low cost-cost housing;
 - 3. One percent (1%) of the outstanding principal obligation for medium cost housing; and
 - 4. One and one-half percent (1.5%) of the principal obligation for open housing.

The Corporation, as it deems necessary, may adjust the rates of guaranty premium in accordance with sound actuarial practice and the risk characteristics involved with the mortgage or credit that is subject of guaranty.

- b. **Other Guaranty Fees and Charges.** In addition to Guaranty Premiums, the Corporation may charge and collect from the guaranteed entity other fees as may be reasonable and actuarially feasible to implement its guaranty programs.
- c. **Fees for Appraisal Services.** The Corporation may fix charge and collect such fees and amounts as may be reasonable for the appraisal of a property or project offered for guaranty.

ARTICLE 34. Extent of Guaranty Cover.

In the event of default by the borrower or mortgagor, the Corporation shall guaranty payment of the balance outstanding and due on the guaranteed principal obligation plus interest and yields on the defaulting mortgage. The extent of guaranty cover is based on the type of housing package, as follows:

Type of Housing Package	Guaranty on Outstanding Principa	Guaranty on Interest or Yields Earned
Socialized Housing	100%	Up to 11.0%
Low-Cost Housing	100%	Up to 10.0%
Medium-Cost Housing	90%	Up to 9.5%
Open Housing	85%	Up to 8.5%

In case the rate of interest or yield charged on the guaranteed loan or credit instrument is lower than the applicable guaranteed interest or yield, the guaranty cover shall be to the extent of the interest or nominal yield as indicated in the credit instrument.

ARTICLE 35. Limitations on the Extension of Guaranty

Any and all the guarantees issued by the Corporation shall be subject to the following limitations, anything to the contrary notwithstanding:

- a. The extension of guaranty for developmental projects including advances/loans for construction materials for the account of any institution or entity shall not, at any one time, exceed three (3) times the worth of such institution or entity;
- b. The extension of guaranty shall not exempt banks and other financial institutions regulated by the Bangko Sentral ng Pilipinas from complying with the pertinent single borrowers limit as provided by the Monetary Board of the Bangko Sentral ng Pilipinas;
- c. The aggregate amount of outstanding obligations shall not, at any one time, exceed twenty (20) times the capital and surplus of the Corporation;
- d. All guaranteed bonds, debentures, commercial papers and other securities issued by individual person which are sold to the public shall still be subject to the registration requirements under the Revised Securities Act or any amendments thereto.

- e. The Corporation shall set aside five (5%) percent of its annual net operating revenues before interest are reserve or sinking fund to answer for guaranty calls; and,
- f. All rules and regulations on ceiling and limitations under the Act shall be subject to the occurrence of the Monetary Board of the Bangko Sentral ng Pilipinas.

ARTICLE 36. Nature of Guaranty Coverage

Guaranty Coverage maybe in any of the following forms:

- a. Cash Coverage: a type of guaranty coverage that entitles the guaranteed entity cash payment in the event of call on the guaranty.
- b. Bond Coverage: a type of guaranty coverage wherein the call payment is in the form of debenture bonds.
- c. Mixed Cash/Bond Coverage: a type of guaranty coverage wherein the call payment is a mixture of cash and debenture bonds.

The Corporation shall determine the form of guaranty that will be granted to the guaranteed entity based on the Corporation's evaluation of the latter's request.

For guaranty for Retail/Single-Family Dwelling Loans, the guaranteed entities shall have the option to choose the type guaranty coverage as follows:

- 1. Standard Coverage- HGC shall pay in the form of debenture bonds should default occur within the first five (5) years of guaranteed obligation, and in the form of cash if default occurs after the first five (5) years of the guaranteed obligation.
- 2. Pure Bond Coverage- HGC shall issue debenture bonds as payment for any retail guaranty claims regardless of when default occurs during the term of the guaranteed obligation.

ARTICLE 37. Events Guaranteed Against

The guaranteed entity may claim for the guaranty benefits upon default by the mortgagor or borrower. For this purpose, the borrower or mortgagor shall be considered in default upon non-payment of amortization due based on the following repayment mode:

- a. Retail/Single Family Dwelling and Development Loans

1. Monthly	6 consecutive unpaid amortizations
2. Quarterly	2 consecutive unpaid amortizations
3. Semi-annual/Annual	1 unpaid amortization
- b. Securitization

1. Failure to redeem securities at maturity; or
2. Failure to service guaranteed interest on the securities; or
3. Off-mark wind-up.

ARTICLE 38. Procedure in the Payment of Guaranty Calls.

- a. **Notification of Guaranty Claim** . The guaranteed entity must file its guaranty claim within a maximum period of sixty (60) days from date of default by the borrower or mortgagor provided the guaranty coverage is still in the effect.

The guaranteed entity must submit the following documents for the Corporation's evaluation:

1. A written claim informing the Corporation of the default and requesting payment of guaranty proceeds;
2. Copy of mortgage and loan documents, including Transfer Certificate of Title (TCT), CTS, Tax Declaration, etc.
3. A complete and detailed Statement of accounts;
4. Fender's credit Approval/Evaluation Sheet;
5. Appraisal Report at the time of loan release and latest appraisal report of the security/collateral;
6. Copy of the Notice to Borrower that the Mortgage is covered by an HGC guaranty;
7. Copies of demand letters to the borrower;
8. Technical plans, if applicable;
9. Special Power of Attorney authorizing the Corporation to take over the project, in case of developmental account under the Guaranty for Securitization Schemes.

- b. **Evaluation and Approval of Guaranty Claim.**

1. The Guaranty and Credit Insurance Group (GCIG) shall evaluate the validity of the guaranty claim and duly-notify the guaranteed entity on the action taken on their request within thirty (30) working days from receipt of complete documents.
2. The GCIG shall recommend to the Management Committee and/or to the Board of Directors approval of guaranty claim and the disbursement of funds covering the claim. The final approving authorities on the claim for guaranty and disbursement of funds are as follows:

Approving Authority	Amount of Guaranty Claim
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Management Committee	Below P10.0 Million
Board of Directors	P10.0 Million and above

Guaranty Claim approved by the Management Committee shall be submitted to the Board for notification.

- c. **Payment of Guaranty Claim.** The guaranteed entity shall be notified in writing of the approval of its guaranty claim the guaranteed entity must submit the following documents within sixty (60) calendar days from receipt of notification of approval of guaranty claim.

1. Deed of Assignment and Conveyance of the guaranteed entities' rights and interest over the mortgage, Contract to Sell, Lease Contract to Sell or Lease Contract;
2. Original copies of all contracts, such as, Real Estate Mortgage, Contract to Sell or Lease Contract;
3. Owner's copies of the TCT, Original Certificate of Title (OCT), Condominium Certificate of Title (CCT), OCLTs with annotation of Deed of Assignment and Conveyance, whichever is applicable;
4. Mortgage redemption Insurance and fire Insurance policies duly indorsed in favor of the Corporation;
5. Tax Declarations and Official coverings tax payments on the mortgaged property.

Upon submission of complete documents, conveyance and assignment of the guaranteed entity's right over the mortgage, the obligation of the guaranteed entity to pay premium charges shall cease. The Corporation shall pay in cash and/or issue to the guaranteed entity, debenture bonds equivalent to the guaranteed obligation.

- d. **Grounds for Denial of Claim.** The occurrence of the following events shall be considered grounds for the denial of guaranty claim.

1. Violation(s) by the guaranteed entity of any of the warranties and representations contained in Rule XII; and,
2. Failure of the guaranteed entity to file the notice of guaranty claim with the Corporation within 60 days from default of the mortgagor.

- e. **Cancellation of Approval of Guaranty Claim.** The Corporation shall cancel the approval of guaranty claim if any of the following events occur:

1. Failure of the guaranteed entity to convey the required documents for call payment within six (6) months from the receipt of the notification of approval of claim; and,
2. If the TCT covering the property for conveyance contains any liens, lis pendens or any other encumbrances.

ARTICLE 39. Debentures as Payment of Guaranty Calls

The characteristics of the debentures to be issued by the Corporation as payment of guaranty calls pursuant to Section 17 (d) of the Act are as follows

- a. The debentures are in series and in bearer or registered form and in such denomination and at interest rate as may be determined by the Corporation.
- b. The debenture shall bear interest not exceeding the interest rate established for the principal obligation.
- c. The debentures are negotiable, exempt from taxation to the extent specified in the Act, and exempt from attachment, execution, or seizure;
- d. The debentures are redeemable at or before the maturity at the option of the Corporation.
- e. The date of issuance of the debenture shall coincide with the date the mortgagee or the guaranteed entity conveys and assigns to the Corporation its rights over the mortgage or loan;
- f. The interest is payable semi-annually on the first day of January and first day of July of each year;
- g. The debentures have a maturity of ten (10) years after date on which the debenture were issued or three (3) years after July first following the maturity of the mortgage or the loan, whichever is shorter.
- h. The debenture may be used in the payment of guarantee premium to the Corporation.

The aggregate amount at any time of all such debentures, securities and other evidences of indebtedness issued under this Section, shall be determined by the Corporation with the approval of the President of the Philippines after consultation with the Monetary Board of Bangko Sentral ng Pilipinas, which shall in no case exceed the aggregate amount of the outstanding principal obligations of all mortgages insured under the Act.

If the net amount realized from the sale or disposition of any property conveyed to the Corporation and the claim assigned therewith, after deducting all expenses incurred by the Corporation in handling, dealing with, and disposing of such property and collecting such claims, exceeds the face value of the debentures, such excess after deducting profits that may be derived by the Corporation, if any, in the development or rehabilitation of the Property, shall be paid to the mortgagor of the property.

However, if the Corporation, and the mortgagor enter into settlement agreement whereby the mortgagor agrees to off-set, or tender by way of dacion en pago, or under any other similar agreements, any or all of the properties conveyed as full settlement of the Corporations Guaranty exposure, then the title to, and all rights and interests in the properties so conveyed by way of off-setting or dacion en pago, shall be deemed transferred and conveyed, and consolidated in the name of the Corporation. Only the excess property not covered by the off-setting or dacion en pago arrangement shall be returned to the mortgagor.

ARTICLE 40. Substitution of Lost Debentures

The law of the Philippines and pertinent regulation of the Bureau of Treasury governing relief on account of the loss, theft, destruction, mutilation or defacement of Philippine Government securities, so far as applicable to debentures, are hereby adopted as the regulations of the Corporation for the Issuance of substitute debentures or the payment of lost, stolen, destroyed, mutilated or defaced debentures and/or coupons.

ARTICLE 41. Termination of Guaranty Coverage on Particular Enrolled Accounts

The guaranty coverage shall be terminated upon the occurrence of either of the following events, only with respects to any particular enrolled accounts:

- a. Non-payment of premium fees and other charges prescribed by the Corporation;
- b. Violation of warranties and representations pursuant to Rule XII and as stipulated in the Contract of Guaranty.
- c. Transfer or assignment of the guaranty in favor of another entity without prior written consent of the Corporation. However, transfer of Mortgage- and- Asset-Backed Securities is excluded from this provision;

ARTICLE 42. Cancellation of Unavailed Guaranty Line.

The guaranty lie granted by the Corporation to an entity eligible for guaranty may be withdrawn under the following conditions:

- a. The credit evaluation guidelines and procedures of the guaranteed entity are no longer acceptable to the Corporation.
- b. The guaranteed entity is unable to perform the accounts management and credit supervision functions required by the Corporation.
- c. The guaranty has been unavailed for six (6) months.
- d. The guaranteed entity has been declared insolvent or has failed for suspension of payment with the Securities and Exchange Commission or other appropriate government agencies.

RULE IX TAX EXEMPTION

ARTICLE 43 Tax Exemption of Guaranteed Accounts

Interest and yields earned or accumulated on mortgage, debentures, bonds, notes, mortgage and asset-backed securities, interest under a lease, and other credit instruments, covered by the guaranty of the Corporation in favor of natural or juridical person, in cash or in bonds, shall be exempt from all taxation to the same extent provided in Section 15 (a) of the Act, as follows:

Type Housing Package	Tax Exemption on Interest Income
Socialized Housing	Up to 11.0%
Low-Cost Housing	Up to 10.0%
Medium-Cost Housing	Up to 9.5%
Open Housing	Up to 8.5%

In case the rate of interest or yield charged on the guaranteed loan or credit instrument is lower than the applicable tax exempt rate, the tax exemption shall be to the extent of the interest or nominal yield as indicated in the credit instrument.

Yield, as used under this Article, shall refer to the nominal yield that is expressed as a percentage of par value of the credit instrument.

ARTICLE 44. Tax Exemption on Corporate Borrowings

Corporate obligations on mortgage, debentures, bonds, notes and other credit instruments issued by the Corporation shall be exempt from all taxation, as to principal and interest, except estate, inheritance and gift taxes. The utilization of Corporate Borrowings shall determine the extent of the tax exemption, as follows:

- a. For Corporate Borrowings for a specific program, project or purpose and the utilization of the proceeds may be segregated by type of housing package, the extent of exemption shall conform with the Tax Exempt Rate provided in the preceding Article.
- b. For Corporate Borrowings to be utilized for capital information purposes, the extent of tax exemption on the interest or yield earned shall be to the extent of the weighted average of the tax exempt rate provided in the preceding Article. This shall be computed as follows:

Type Housing Package	Guaranty Allocation	Tax Exemption	Weighted Average
Socialized	40.0%	11.0%	4.40%
Low-Cost	30.0%	10.0%	3.00%
Medium-Cost	20.0%	9.5%	1.90%
Open Housing	10.0%	8.5%	0.85%
Total	100.0%		10.15%

In case the rate of interest on the funds borrowed or on the credit instrument issued by the Corporation is lower than the weighted average tax exemption rate, the applicable tax exempt rate shall be the interest or nominal yield as indicated in the credit instrument.

Any upward revision in the limit of tax exemption in such varying amount shall be reflective of the social concerns of the state authorized by the Board of Directors is subject to the final approval of the president of the { Philippines , upon the recommendation of the Monetary Board of the Bangko Sentral ng Pilipinas. The Corporation shall not exercise this authority more often than once every Five (5) years.

RULE X
SPECIAL PROVISIONS OB BUILDING AND LOAN ASSOCIATIONS

ARTICLE 45. Building and Loan Associations

In order to encourage the accumulation of savings and the financing of homes through the local mutual thrift institutions, the Corporation is authorized, under such rules and regulations as may be prescribe, to issue contracts of guaranty for the accounts of such building and loan associations in accordance with the best practices of known mutual thrift and home financing institutions.

Whenever guaranteed by the Corporation and where the loan is intended for housing development, such associations shall lend their funds only on the Security of first liens upon real estate located within the area to be determined by the Corporation.

ARTICLE 46. Tax Exemption

When guaranteed by the Corporation, BLAs including their franchises, capital, reserves, surplus, and their loans, receipts and income shall be exempt from all taxation now and thereafter imposed by the Government.

ARTICLE 47. Subscription by the Corporation

The Corporation is authorized to subscribed to preferred shares in BLAs which shall be preferred as to the assets of the association and which shall be entitled to a dividend, if earned, after payment and expenses and provision for reasonable reserves, to the same extent as other shareholders: Provided, however, That no such subscription shall be made unless in the judgment of the Corporation the funds are necessary for the encouragement of reasonable local home financing in the community to be served. In case of the liquidation of any such association, the shares held by the Corporation shall be retired on the same basis as payment is made to other shareholders in accordance with existing laws.

ARTICLE 48. Requirement and Procedures for Coverage

BLAs, which avail of the guaranty programs or facilities of the Corporation, shall be subject to all the other guaranty requirements as provided in this IRR.

BLAs duly registered in accordance with law shall qualify for the guaranty incentives set forth in Article 46 herein.

ARTICLE 49. Application for guaranty Coverage

Application for guaranty coverage shall be filed with the Corporation according to the procedures prescribed hereunder:

- a. Submit letter of application
- b. Pay application fees, as approved by the Board.

- c. Submit the required documents that will serve as basis for evaluating the grant coverage.

Upon submission of the application for guaranty coverage, the Corporation shall evaluate the account for guaranty and thereafter process the same within thirty (30) working days from submission of complete documents.

All processed and qualified applications shall be elevated to the Corporation's Board for approval, after which, notice of the Board's decision shall be issued in writing.

ARTICLE 50. Execution of Contract of Guaranty

The contract of guaranty shall be executed subject to the standards terms and conditions as approved by the Board of Directors of the Corporation.

ARTICLE 51. Enrollment of Accounts

In enrolling accounts for coverage, the guaranteed institution or entity shall submit a Letter of Enrollment together with the requirements stipulated in the respective Contracts of Guaranty. The payment for guaranty premium and all other fees shall be remitted to the Corporation.

- a. **Issuance of Certificate of Guaranty.** Upon enrollment of an account against an approved guaranty facility, the Corporation shall issue the Certificate of Guaranty (COG) evidencing that the loan or credit is guaranteed as to principal and interest by the Corporation.

The Republic of the Philippines fully and unconditionally guarantees the guaranty obligations of the Corporation incurred in accordance with the Act both as to principal, and as to interest up to eleven percent (11%) for socialized housing, ten percent (10%) for low-cost housing, nine and one-half percent (9.5%) for medium-cost housing, and eight and one-half percent (8.5%) for open housing: provided, That such guaranty shall be expressed on the face of the debenture bonds: Provided, further, that the aggregate amount of the outstanding obligation shall not, at any time, exceed twenty (20) times that the capital and surplus of the Corporation.

For Retail/Single Family Dwelling loans, the COG is processed immediately upon enrollment. However, for Developmental Guaranty Lines, the COG per Developmental loan enrolled is issued upon completion of the project evaluation or audit to be undertaken by the Corporation.

ARTICLE 52. Renewal of Guaranty Coverage.

- a. For Retail/Single Family Dwelling Loans, the Corporation shall consider the coverage to be automatically renewed and in full force and effect provided that:
 - 1. The account is not on default at the time of renewal; and,
 - 2. The annual guaranty premium for the succeeding year is paid on or before the anniversary date or within the grace period of 30 days from anniversary date.

3. There has been no violation of the warranties under the Contract of Guaranty.
- b. For developmental loans, the Corporation shall renew the guaranty coverage provided that:
 1. Audit findings on the overall status of the project show compliance with the warranties required for renewal of coverage enumerated in Rule XI hereof;
 2. The account is not in default at the time of renewal; and,
 3. Guaranty Premium for the succeeding year is paid on or before the anniversary date within the grace period of 30 days from anniversary date.

ARTICLE 53. Reinstatement of Guaranty Coverage.

The Corporation may, upon the request of the guaranteed entity submitted within sixty days from anniversary date, reinstate the lapsed guaranty cover provided that all the requirements for renewal have been complied except for non-payment of the premium fee including penalties should be paid upon request for reinstatement, since the effectivity of the coverage shall retroact to the anniversary date.

ARTICLE 54. Re-enrollment of Accounts

Accounts where guaranty coverage has been terminated due to default in payment of the amortization which were updated or restructured may be re-enrolled for guaranty coverage subject to payment of higher premium fees as may be determined by the Corporation. The premium rates for the re-enrolled accounts may be reverted to the regular rates after one year of coverage. Requests for re-enrollment shall be considered if received by the Corporation within sixty days from termination of the guaranty coverage.

RULE XII REPRESENTATIONS AND WARRANTIES

ARTICLE 55. Warranties of Guaranteed Entity

Upon enrollment/renewal of loans for guaranty coverage, the guaranteed entity shall issue the following warranties:

- a. The documents evidencing the loan and the Mortgage/collateral securing the repayment thereof are valid, binding and enforceable against the borrower;
- b. The guaranteed entity has undertaken all requisite credit investigation, appraisal and credit analysis in approving the loan in accordance with the evaluation procedures and guidelines mutually agreed upon between the Corporation and the guaranteed entity;

- c. The title(s) of the collateral to the guaranteed loan is free from all liens, charges, claims, and other encumbrances other than the one constituted in favor of the guaranteed institution;
- d. The loan to Value Ratio on the property/project being financed does not exceed:
 - 1. For Single Family Residence
 - 100% of appraised value for Socialized Housing Packages
 - 90% of appraised value for Low-cost Housing Packages
 - 80% of appraised value for Medium-Cost Housing Packages
 - 70% of appraised value for Open Housing Packages
 - 2. For Development accounts
 - 70% of prudent production cost for Bond Coverage
 - 60% of prudent production cost for Cash Coverage
- e. Appraisal of the property conforms with the Corporation's appraisal standards. The loan is eligible for guaranty in accordance with the eligibility requirements of the Corporation:
- f. The guaranteed loan, including the original loan in case of financing, is in current status or not in payment default prior to its initial enrollment/renewal for guaranty coverage;
- g. The guaranteed entity has notified the borrower that the loan is covered by the Corporation's guaranty; and,
- h. The developers/builders, sellers, or funders and such other entities as maybe required by the Corporation to become warrantor shall warrant to the purchaser or owner of the property that the dwelling units are constructed, sold and delivered to end-buyers conform with the plans and specifications, or any amendments thereto, as approved by the Housing and Land Use Regulatory Board (HLURB) and other regulatory agencies having appropriate jurisdiction.

ARTICLE 56. Additional Warranties for CTS Accounts

The following additional warranties are required for CTS accounts:

- a. The borrower has made the minimum required down payment that is based on the selling price of the subject property, provided that the loan value does not exceed prescribed loan to value ratios under Article 28(b)
- b. Within two (2) years of the guaranty, any defaulting account shall be substituted with an account of current status.

ARTICLE 57. Additional Warranties for Developmental Account

Additional warranties shall be required from Developmental Accounts, as follows:

- a. The guaranteed entity shall undertake credit supervision of the project;
- b. Loan releases are in accordance with the project's requirements, and shall not exceed 70% of the prudent production cost of the project for the bond coverage and 60% of the prudent production cost of the project for Cash Coverage;
- c. The schedule of Development and disposition/marketing of the project are in accordance with the approved business plan;
- d. The loan and sale proceeds shall be used exclusively for the development and payment of related costs and expenses of the projects;
- e. Releases of the titles are in accordance to the redemption formula prescribed by the Corporation;
- f. All permits and license and clearances from appropriate government agencies necessary for the development of the project have been obtained by the developer;
- g. The Balanced Housing requirement provided under Section 18 of Republic Act No. 7279 otherwise known as the Urban Development Housing Act of 1992 that mandates subdivision developers to develop socialized housing component equivalent to 29% of the total land area or project cost of the main subdivision project shall be complied with.

ARTICLE 58. Additional Warranties for Guaranty for Production or Purchase of Construction Materials

As the Corporation deems necessary, it may impose additional warranties for guaranty coverage on loans or credits secured for the purchase of construction materials for the development of mass housing projects qualified for guaranty by the Corporation.

ARTICLE 59. Breach of Warranty

The guaranteed entity shall be liable for any breach of warranty. As a consequence, the Corporation shall have the right to cancel or terminate its guaranty on the particular account where the breach is committed.

RULE XIII

PARTICIPATION OF FINANCING INSTITUTIONS AND OTHER INVESTORS

ARTICLE 60. Investment of Funds in Housing Loans

The following entities are authorized to invest part of their funds for the purpose of giving loans and credit contemplated and provided in the Act, as well as on the purchase of the obligation presenting loans and advances of credit made pursuant to

the provisions of this Act, any provision of their respective Charters by-laws to the contrary notwithstanding:

- a. The Government Service and Insurance System (GSIS), the Social Security System (SSS), the Development Bank of the Philippines (DBP), other government financing institutions, and other government-owned and controlled corporations;
- b. Private Banking Institutions;
- c. Private Trust Companies;
- d. Personal Finance Companies;
- e. Mortgage Companies;
- f. Building and Loan Association;
- g. Savings and Loan Associations;
- h. Installment Lending Companies; and,
- i. Insurance Companies.

All housing loans, within the loan ceiling fixed by the Corporation to be granted by the foregoing government institutions shall be guaranteed by the Corporation under the provision of this Act.

These entities, in participating in any of the guaranty programs implemented by the Corporation, shall be bound by the terms and conditions stipulated in this Implementing Rules and Regulations and in the Contract of Guaranty approved by the Corporation.

ARTICLE 61. Participation in the Secondary Market for Guaranteed Mortgages

The aforementioned government financing institutions are authorized to constitute the secondary market for guaranteed mortgages shall:

- a. Purchase, service or sell mortgages guaranteed by the corporation in accordance with the provisions of the Act.
- b. Subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas, issue bonds, debentures, securities, collaterals and other obligations against the security of mortgages guaranteed under the Act, in such amount and in such proportion to the face value of such mortgage as their respective boards may designate and such obligations may be issued and offered for sale at such price or prices as the particular government institution may determine, and shall be negotiable and exempt from taxes both as to principal and interest in accordance with Rule IX of this IRR.

RULE XIV
TRANSFER OF POWERS AND FUNCTIONS OVER HOMEOWNERS ASSOCIATION

ARTICLE 62. Transfer of Powers

By virtue of, and by the operation of the Act, the powers and functions of the Corporation over the franchising and registration of homeowners associations; the adjudication of intra-corporate disputes; and the other powers, authorities and responsibilities with regard to the homeowners association (HOA) granted to the Corporation under Paragraph 2(a) of Executive Order No. 535 had been transferred to HLURB effective March 29, 2000.

ARTICLE 63. Transition Period

Pending the release of budgetary allocations for HLURB Revised Staffing and Organizational Plan, the Corporation shall extend technical, operational and administrative assistance to HLURB as may be mutually deemed necessary to ensure smooth turn-over of functions. However, such assistance shall not extend beyond a period of one (1) year from March 29, 2000, the date of the effectivity of the Act.

During the period, the concerned HGC Officers and Staff have been deputized by HLURB under the Memorandum Circular No. 25 dated April 12, 2000 to perform the HOA powers and functions. During the said period, such Officers and Staff shall remain as HGC officers and employees and shall continue to receive the same compensation and benefits now being received them.

ARTICLE 64. Transfer of Plantilla Positions to HLURB

After the expiration of the one (1) year transition period, or on March 29, 2001, the Plantilla Positions comprising the Homeowners Association and Franchising and Adjudication Department, which was created by the Corporation to handle the HOA functions, shall by operation of the Act, be deemed automatically transferred to HLURB, as follows:

Position	Salary Grade
Department Manager III	26
Assistant Department Manager II	25
Secretary III	10
Attorney IV	23
Attorney IV	23
Attorney IV	23
Licensing Officer II	18
Registration Officer II	14

Stenographic Reporter III	11
Stenographic Reporter III	11
Clerk IV	8

ARTICLE 65. Transfer of affected Personnel

The employment of the HGC officers/employees affected by the aforementioned transfer of plantilla positions to the HLURB shall be deemed transferred to the HLURB effective March 30, 2001. The HLURB shall cause the creation of additional positions and augment its present budget allocation as may be needed for the operation and maintenance of the unit or office for HOA franchising and adjudication.

RULE XV PENALTIES

ARTICLE 66. Penalties.

- a. Whoever, for the purpose of obtaining any loan or advance of credit from any person, partnership, association, or corporation with the intent such loan or advance of credit shall be offered to or accepted by the Corporation for guaranty, or for the purpose of credit, or mortgage granted by the said Corporation, or the acceptance, release or substitution of any security on such loan, advance or credit, or for the purpose of influencing in any way the action of the said Corporation under this Act, (1) makes, passes, utters, or publishes, or causes to be made, passed, uttered or published any statement, knowing the same to be false, or (2) alters, forges, or counterfeits, or causes or procures to be altered, forged, or counterfeited, any instrument, paper or documents, Or (3) utters, publishes, or passes as true or causes to be uttered, published or passed as true, any instrument, paper or documents, knowing it to have been altered, forged or counterfeited, or (4) willfully overvalues any security, assets, or income, shall be punished by a fine of not less than the amount of the loan or loans involved or by imprisonment for not more than ten (10) years or both.
- b. Whoever (1) falsely makes, forges, counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued under authority of this Act, or (2) passes , utters, or publishes, or attempts to pass, utter, publish, any false, forged, or counterfeited obligation or coupon purporting to have been so issued knowing the same to be false, forged or counterfeited, or (3) falsely alters any obligation or coupon so issued or purporting to have to have been so issued, or (4) passes, utters, or publishes, as true, any falsely altered or spurious obligation or coupon , so issued or purporting to have been so issued, knowing the same to be falsely altered or spurious shall be punished by a fine of not less than the amount of loan involved, or by imprisonment for not more than five (5) years, or both.

- c. Any person (1) who willfully and knowingly makes, circulates, or transmits to another or others any statement, or rumor written, printed or by word of mouth, which is untrue in fact and is directly or by inference derogatory to the financial condition or affects the solvency or financial standing of the Corporation, or (2) who knowingly counsels, aids, procures, or induces another to transmit, or circulate any such statement or rumor, is guilty of felony punishable by a fine of not less than the amount of loan involved or by imprisonment of not exceeding one year, or both.

RULE XVI MISCELLANEOUS AND FINAL PROVISIONS

ARTICLE 67. Exemptions

The Corporation is exempt from the coverage of the regulation of Bangko Sentral ng Pilipinas governing the quasi-banking functions.

ARTICLE 68. Reports.

The Corporation shall submit a quarterly report to the President of the Philippines and to each member of the Congress of the Philippines , within the first forty-five (45) days of the seceding quarter, regarding its activities under the Act for the previous quarter.

ARTICLE 69. Report on the Development of the Secondary Mortgage Market

The Housing and Urban Development Coordinating Council and the Corporation shall submit to the President of the Philippines and to the Congress a program for the development of the Secondary mortgage market.

ARTICLE 70. Applicability of the Implementing Rules and Regulations.

These Implementing Rules and Regulations shall only to account guaranteed after March 29, 2000. Including amendments and supplemental agreements that may be agreed upon by the parties shall continue to be governed by the terms and conditions of the existing Contract of Guaranty .

ARTICLE 71. Transitory Provision.

Any and all policies, guidelines, programs, ceilings and limits currently in effect with respect to the issuance of guaranty shall be submitted to the Monetary Board of the Bangko Sentral ng Pilipinas for concurrence within six (6) months after the effectivity of this Act.

ARTICLE 72. Sunset Review

Every year after the effectivity of this Act, Congress shall conduct a sunset review which shall entail a systematic evaluation of the Corporation to determine whether or not its performance, impact or accomplishment with respects to its mandate merits its continued existence. Such review shall be undertaken by the Committee on Housing and Urban Development and the Committee on Government Corporations and Public Enterprises of the Senate and the Committee on Housing and Urban Development and the Committee on Government Enterprises and Privatization of the House of Representatives which have legislative jurisdiction over the Corporation.

ARTICLE 73. Suppletory Application of the Corporation Code.

The provisions of the Corporation Code shall have suppletory application in matters not provided in this Act.

ARTICLE 74. Repeal.

Republic Act Nos. 580, 1557 and 5488, and Executive Order No. 535 are hereby repealed. The provisions of the Republic Act Nos. 6846, 7279 and 7835, and Executive Order No. 90 and all other laws, orders and proclamations, rules and regulations, or parts hereof, inconsistent with or contrary to the provisions of this Act or its purposes are hereby amended or modified accordingly.

ARTICLE 75. Separability Clause.

If or any reason, any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remaining provisions not affected thereby shall continue to be in full force and effect.

ARTICLE 76. Effectivity.

The Home Guaranty Corporation Act of 2000 Act shall take effect on 29 March 2000. This is the 15 th day after the publication of the Act in three (3) newspapers of general circulation- the Manila Bulletin (13 March), Kabayan (13 March) and the Philippine Star (14 March).

APPOVED this 13th day of October, 2000. Makati City Metro Manila , Philippines .

WILFREDO F. HERNANDEZ
President