DISCUSSION PAPER

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THE ANALYSIS OF MULTIPURPOSE NATIONAL HOUSING AUTHORITIES

by

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ABSTRACT

There is increasing awareness that the efficiency of public enterprises in developing countries must be improved. The multipurpose national (government) housing authority or housing corporation exists in almost every developing country with its number of functions varying from the complete array of producing and selling houses to only a few of the functions. Because these agencies are often running inefficiently with heavily subsidized funding and are often subject to destabilizing political influence, most current thinking is that as many of the NHA functions as possible should be spun off to the private sector. However, there are strong arguments for exercising first some level of intervention in a national housing authority where one exists, developing a basic approach to analyzing the authority, and being able to reach conclusions as to its effectiveness and making recommendations to improve its operations. What has been developed in this paper is an analytical checklist or, if one prefers, the basis for terms of reference for the analysis of a National Housing Authority that will: (a) identify the right questions; (b) provide the basis for determining and proposing priority actions given the history of the institution within the current economic and political context of its country; (c) outline alternative measures and how they might impact on all participants. Examples are taken from available studies and reports of the Philippine National Housing Authority (PNHA) to illustrate certain points. But it must be kept in mind that this is not a case study of the PNHA and that most of the points discussed date back to 1983 or earlier and may not reflect the current situation of PNHA in 1986.

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PREFACE

During the second decade of World Bank activities in the housing sector the focus has shifted from project specific activities -- particularly demonstration projects for low-income housing-- to a more systematic focus on the policies and institutions affecting the dynamics of housing markets. With the financial difficulties of recent years it has also become abundantly clear that heavily subsidized welfare state approaches to housing in developing countries are simply not feasible. The productivity and efficiency of public agencies and enterprises is often called into question and a new division of labor between the public and the private sector is also being sought.

In housing, the public sector has three major functions and activities: production, regulation and finance. In particular, direct production of low income housing has been the dominant mode of public intervention over the last decade. Financial austerity, budget deficits, as well as a better understanding of the constraints inherent to direct public sector production of housing are leading to a desire to redirect government intervention away from direct production to the improvement of the regulatory and financial environment. Obviously, any lasting improvement must be based on an accurate and operational knowledge of the actual working conditions of the public sector agencies operating in the housing sector because experience shows that institutional arrangements have more staying power than formal policies. Besides, these agencies take an overwhelming share of the policy makers' attention and they are themselves often influential in shaping policies and regulations.

In developing countries, the public sector operates through agencies covering every phase of the housing development process. In some countries, they are specialized into land agencies, housing agencies and financial agencies; in others, these functions are assigned to single multi-purpose agencies or authorities whose roles vary according to country and time. The present discussion paper is about multipurpose housing authorities. It is part of an on-going effort by WUD to improve our understanding of the decision-making environment of housing institutions. It is a working paper and not a definitive paper on the subject for two reasons: first, it is WUD's first paper on the subject; second, the comparative analysis of about six NHAs which was originally intended could not be carried out due to constraints beyond the control of the author and WUD. Illustrations are drawn from information available on the NHA of the Philippines. However, it is important to keep in mind that this is not a case study of that particular institution. Many of the issues illustrated with the case of the Philippines are frequently encountered elsewhere and this is our primary concern. Not everyone may agree with all aspects of the analysis presented, but if this paper helps in improving our views on multipurpose housing authorities it will have met its purpose. We would appreciate comments and suggestions for its improvements.

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I. INTRODUCTION AND PURPOSE

There is an increasing awareness that the efficiency of public enterprises in developing countries must be improved. There is also a growing awareness that the housing sector in most developing countries must be self-financing; the resources of most governments do not permit much in the way of subsidization. It is in this context that this paper is written.

The multipurpose national (government) housing authority or national housing corporation exists in almost every developing country with the number of its functions varying from the complete array of producing and selling houses to only a few of the functions. Thus, such an agency can be involved in acquiring land, developing it, designing projects, constructing houses, marketing the houses, providing the long term financing for the eventual recipients of the houses and servicing the loans or some combination of these functions.

Because these agencies are often inefficient with heavily subsidized programs and are often subject to political influences, most current thinking is that as many of the functions as possible should be spun off to the private sector. Another more pessimistic view is that there's little you can do about such agencies in many countries; therefore, just assume they'll exist and work around them. A variation of the latter, often emanating from aid agencies, is to create a new organization or unit with new staff and without the "baggage" of the existing NHA and its political pressures.

But there are strong arguments for exercising some level of intervention in a national housing authority where one exists and developing a basic approach to analyzing the authority, being able to reach some conclusions as to its effectiveness and making recommendations to improve its operations.

First, there are a number of reasons why the NHA or some variation of it will remain on the scene in most developing countries for the foreseeable future. One, conditions in a given country such as lack of long-term financing or an atmosphere not conducive to risk-taking or innovations are often such that the private sector can play only a limited role in the delivery of housing, at least across a wide income spectrum. There may, in fact, be a legitimate role for the housing authority at the lowest income levels to provide for at least some of the functions listed above if not all. In the case of successful NHA's, they have helped introduce technical, managerial and regulatory improvements, especially during the take-off of urbanization. Very often NHA's play a key role in the formulation of building standards for the sector.

Second, the provision of housing is and always will be subject to political motivations and pressures. The NHA provides the government with a convenient tool to intervene in this area and it is unlikely that this will be given up completely even though there may be acknowledgment that the government must utilize the private sector more.

Finally, most NHA's represent a very strong entrenched bureaucracy, often with influential individuals at their head who have a vested interest in maintaining the agency in its present form.

Therefore, in looking at the housing sector across the board in any given country, there must be a thorough examination and understanding of the housing authority or corporation if it exists, where it fits in the system and whether its operations can be changed for the better. If changes can be effected they will probably be incremental; its unlikely that an agency will accept wholesale changes in some sweeping reorganization of activities and how it goes about them. But some refocussing of activities in many NHA's would appear to be necessary.

The purpose of this paper was originally to set forth guidelines for an analyst to undertake a management and financial review of an NHA which would tie-in operating activities, financial analysis and policy and program objectives. The intent is to structure an analysis from the perspective of both a board member or CEO of an NHA and an institution that is contemplating assistance to the NHA or assistance to the sector of which the NHA is a part; that is, an analysis that would be useful to an appraising organization and the NHA itself as a management tool. The method was to identify the most frequently encountered problems of NHA's through international comparisons. However, lack of time and availability of relevant information led the examination to focus on the real estate development process with data illustration limited to the Philippines NHA.

This paper provides a first cut at a comprehensive checklist, an appraisal format, to be used in analyzing a multipurpose national housing authority from the programmatic, management and financial sides. It will give the analyst a point of reference in gaining an overview of the institution to a depth necessary to identify trouble spots or where more detailed analysis is necessary. This recognizes that the NHA in each country will be different and that it will be operating in a different context. Such an analysis should result in conclusions as to whether the NHA is playing the role it should and doing so effectively. Recommendations could then flow as to improvements in operations but which include the potential for revising the NHA's role, e.g., to spin off some of its functions to, for instance, the private sector and, if so, what the conditions are that might be necessary to do this.

The analysis of the internal operations of an NHA remains incomplete without a review of its role in the sector. Included, therefore, should be, 1) any duplication of the agency's functions by other agencies of government and, 2) how the development process works for the private sector. To provide a point of reference, a general description of the housing development process in the U.S. from the standpoint of the typical private developer is provided. This includes some comments on the type of analysis of a developer undertaken by a construction lender prior to providing financing. This is then contrasted with the situation that exists in developing countries, supplemented by a more specific example of the Philippines.

There is no implication here that the US is the perfect model to follow. What we are attempting to show are the limitations of the LDC housing market where many market functions taken for granted in developed countries are not available or functioning in LDC's.

The appraisal format that has been developed is presented using examples taken from available studies and reports of the Philippines National Housing Authority (PNHA) to illustrate certain points. However, it should be pointed out that most of the points presented date back to 1983 and may no longer reflect the situation of the PNHA in 1986. The concluding section suggests the next steps that can be taken to further develop the work.

In summary, what has been developed in this paper is an analytical checklist or, if one prefers, the basis for a terms of reference for the analysis of a national housing authority that will:

a) identify the right questions;
b) provide the basis for identifying and proposing priority actions given the history of the institutions within the current economic and political context of a country; and
c) outline alternative measures and how they might impact on all participants.

The conclusions in any such analysis must be developed in sufficient depth to be able to persuade people that some change might be necessary and to monitor such change. In many cases heretofore the focus of analyses by international lenders or bilateral lending agencies often appears to have been on the structure of programs and affordability to low income families and, perhaps, the need to move more functions to the private sector. Not enough attention has been paid to the institutional effectiveness of the NHA itself, the trade-offs among its various functions, and, in particular, the quality of its financial management as a reflection of all its operations.

II. ANALYTICAL REQUIREMENTS OF A NATIONAL HOUSING AUTHORITY VERSUS THE APPRAISAL OF A US DEVELOPER

What is the relationship of the development process in the US to how one looks at a multipurpose national housing authority in developing countries?

First, the comparable steps the developers go through is roughly analagous, whether it is a private developer in the US or a national housing authority in a developing country. This is particularly true of the large US developer with their building materials subsidiaries, mortgage financing subsidiaries, etc.

But the method of analysis is completely different and this really relates to the purpose of the institution. In one case you're looking at developers whose primary purpose is to earn a profit for their owners and in the other you're looking at an institution whose purpose is presumably to carry out public policy and often is assisted in this endeavor by obtaining cheap (or sometimes free) land, cheap money and operating subsidies.

Thus, the institutions that are most concerned with appraising a developer or its activities in the U.S. are investors/lenders whose main concern is profitability; their analysis is very narrowly based and financially-oriented. To the extent that public agencies are involved, say, a county government that wants to make sure a developer carries out its

responsibilities with regard to putting in streets in connection with a housing development, it achieves this by requiring performance bonds and not by analyzing the developers.

On the other hand, the need to examine multipurpose national housing authorities is entirely different because their purpose is to achieve government housing objectives and they receive public funds to achieve this. Thus, the requirement to ascertain whether they are carrying out this function as effectively as possible merits analysis in depth.

Nevertheless, it is useful to provide a brief exposure to the US system and contrast it with what goes on in the case of private builders in the Philippines as a point of departure in looking at National Housing Authorities.

III. AN OVERVIEW OF THE HOUSING DEVELOPMENT PROCESS

A. Developed Countries

1. The Development Process

The development process is a complicated one. The sequence of steps and considerations leading up to a completed project have many variations and considerable overlap in terms of timing. The larger the project the more complex become the steps, particularly with any changes that may occur in financing. Improvements in management techniques by the larger developer have become imperative. In addition, as complexity grows, developers are tending to become more and more specialized in their activities, especially in terms of market; both locations and type of dwellings.

Outlined below are the general steps that would be undertaken in the development of a housing project and the factors that enter into these steps. They are listed in the approximate sequence that they would occur but there is a lot of overlap in timing; time is of the essence to the developer so as many things as possible must get underway simultaneously.

a. Determination of overall market potential.

As stated above, developers are tending to carve out their own niche in the market, both as to location and income level of the market they will try to reach. To determine the annual effective demand in a market the developer must stay current on demographics, incomes, employment outlook, county and regional planning trends, other residential building activities, etc.

b. Decision on market selection.

Selection of general location and type of project. The latter would include the price range of the units, size of the project, style of the project and phasing.

c. Specific site selection

Cost of raw land
Cost of infrastructure/availability of utilities

Accessibility as to schools, transport, shopping, employment and other community facilities
Zoning considerations
Physical, environmental and legal considerations

d. Selection of design team including architect, engineer, landscaping, etc.

e. Preliminary project feasibility

Preliminary designs, site layout, etc.
Estimated costs
Land and development
Design
Construction
Financing assumptions and costs
Overhead and profit
Marketing plan
Projected sales revenues
Implementation schedule, preliminary budget, cash flows and profit estimate

f. Financial arrangements

Determination of internal funds that the developer will commit
Decision on outside equity partners, if any
Financing for land and development
Construction loan
Commitment for long term (mortgage) financing

g. Final project design

Determination of project components i.e., final mix of house types and any other project components
Final site, engineering, architectural and landscape designs and preparation of contract documents
Final cost estimates
Financial plan including budget, projected revenues, cash flow and profit.

h. Decisions and approvals
Internal decision to proceed
Decisions as to equity partnership arrangements, if any
All necessary approvals by public agencies
Final financing commitment by lending institution

i. Contracting and construction management

Decisions on competitive/negotiated contracts
Developer as the general contractor with series of contracts or a general contract with sub-contracts
Contract management

j. Marketing

Outside broker or developer's own sales force
Marketing plan including pricing strategy.

2. The Appraisal Process - The Lender's Perspective

In looking at the analysis of housing developers in the US, profitability is the bottom line. Those factors which go into profitability also enter into the analysis. Obviously, profitability is more difficult to isolate in looking at the multi-purpose housing authorities in developing countries who are usually owned by government, often receive subsidies in one form or the other and also usually pursue specific government policy objectives. Such elements are lacking when analyzing a US housing developer.

Analysis of developers in the US is carried out by investors and lenders, both of whom ultimately look to the profitability of the firm and/or a specific project. Some of the financing required by developers is done internally, particularly the large corporations, and through joint ventures or limited partnerships. Other than internal financing, developers get financing either through lines of credit from commercial banks or through construction loans for specific projects where the lenders include savings and loan associations. In recent years, the high cost of financial capital has led to increased emphasis on equity participation.

Generally, the larger developers don't deal with project specific construction loans; they finance internally or get a line of credit from a commercial bank. A number of major builders are owned by a parent company which provides financing.

When commercial banks make a line of credit available to a developer they look at the firm's financial statement; they do not evaluate a particular project. Such lines of credit are unrestricted as to use; they can go to finance payroll, equipment, land, housing construction. They are much cheaper than what a developer would have to pay for a construction loan for a specific project and normally carry floating rates in today's market. However, in order to secure such a line of credit the developer must put all of its assets on the line as guarantees, something many developers do not like to do.

The alternative is for a developer to go the construction loan route. The advantage to the developer is that the exposure is much less since the loan is secured by the real estate. The negative to the developer on a construction loan is the logistics; getting the financing on a periodic draw basis. In making disbursements on a construction loan, a lender will closely monitor the application of funds. There are always many procedures associated with a construction loan which result in lag time; there are also all of the pre-loan project appraisals to go through. Although the construction loan process is cumbersome for the developer, most building is done on the basis of construction or project loan financing, not lines of credit.

Project loans can be all inclusive but, to clarify the level of risk, most typically are split into separate loans for the acquisition of land, land development, actual construction of buildings and ultimately individual loans for the long term financing of the housing units. Typically, loans for land or a development loan which includes the provision of infrastructure will be made for 75-80% of the raw land value. For construction financing the loan will usually be for 80% of the estimated cost of the construction. These loans can be progressive in the sense that a loan for acquisition and development of land will be converted into a loan for construction which in turn is broken down into a series of draws based on work progress and finally the long term financing.

As to appraisal of loan applications, at least many of the lenders do not have some formal checklist against which a construction loan application is appraised. Nor are specific financial ratios examined. In describing the process one lender indicated that it applies "prudent underwriting" considerations. It must be noted that with disinflation and some problem loans, much tighter underwriting standards are being applied.

Listed below are the factors considered most important in appraising a construction loan application.

- The form of ownership of the developer. Is it a legally incorporated entity?
- What is the capitalization of the firm? An examination of financial statements, particularly cash, but these are usually unaudited.
- How are decisions made within the firm?
- What is the track record on previous projects? Does it appear the firm can handle diversity and set-backs? What is the firm's staying power over market cycles?
- An examination of the credit history and Dunn and Bradstreet rating of the firm if publicly owned.
- A follow-up with other organizations that have done business with the firm; other lenders, suppliers, sub-contractors. A check on the firm's general reputation in the community, with any consumer agencies if there are any or other agencies of government with which the firm must deal in getting approvals. Interestingly, a survey of customers i.e., buyers of homes in other projects, is considered of limited value.
- Are there a lot of limited partners in the project?
- An appraisal of the project. A review of the plans, specifications and cost estimates; the financial projections as to timing and sales prices. What is the market and what are current inventories of similar types of housing in the area? What's been built and how fast is it selling? What's on the market now? All of these elements are eventually summarized into cash flow and profitability estimates. This constitutes the feasibility study which the lender will review.
- Most lenders will also provide a commitment for the long term (mortgage) financing so these factors are also important from that aspect.

- Is the firm proposing a project that it is well experienced in or is it trying something new for the firm? If the latter, what are the implications?
- Is the project in a location where the lender can monitor construction easily so that decisions on disbursements can be made?
- Has the developer obtained all of the required local government and utility agency approvals? This can be an extremely crucial consideration. A developer can go broke if, say, a sewer easement hasn't been obtained and construction is well underway.

Although most of the above considerations involve questions of fact there is a considerable amount of judgment involved,particularly on questions of market and the staying power/reputation of the developer. Consequently, most decisions on large construction loans are made at a senior level in the lending institution. As one lender described it, there must be a good "gut" feeling about the project and the lender. The lender must know the developer and trust him. Every developer is different, developes and manages its projects differently and it is difficult to develop a comparative check list. Besides, as noted above, most financial statements are usually unaudited.

In the final analysis, it's the project that underlies the loan as security; if the developer fails the lender can foreclose on the project. If the project is bad the lender can lose. Thus, to stay on top of a project, a construction loan will usually be spread out over, say, five draws and construction will be monitored by inspectors.

As stated earlier, most residential building in the US at the development stage is financed through construction loans. For line of credit financing to the larger developers many of the same considerations apply but without the project considerations. Here the focus is on capitalization, assets, management, profitability and overall market. Many of these firms are diversified with subsidiaries including building materials manufacturers, mortgage financing, etc.

In this sense they could be similar to the multipurpose national housing authority that is the focus of this paper. But the analysis of such firms by a lender, as stated, will be focussed more narrowly rather than the more broad-based analysis of NHA's being proposed in this paper because they do not have the various types of support by government. By way of example, several analytical sheets of large residential housing firms by the Value Line Investment Survey are attached as Annex C to indicate the financial review that is applied.

3. Recent Trends in the US

What does the current homebuilding industry look like in the US and how does it compare to a developing country?

The home building industry in the U.S. includes individuals and firms who build anywhere from a single home to hundreds of homes per year. The industry accounted for an estimated $105 billion in new housing construction activity in 1984, providing new homes for an estimated 1.7 million families.

No single firm or small group of firms dominates the industry. The largest firm accounted for fewer than 1 percent of the total housing starts in 1983. In the U.S. small builders (producing fewer than 25 homes annually) predominate among the slightly less than 100,000 firms categorized as residential builders. There is, however, a trend toward greater concentration of home building among larger builders.

Recently, changes in the mortgage finance market have favored larger producers with greater access to the capital markets. The sharp housing recession of the early 1980's led to an overall 28 percent decline among all home building firms -- from almost 130,000 to fewer than 94,000 from 1977 to 1982. The factors that led to increased concentration of the home building industry during the early 1980s are expected to continue for the balance of this century. Recent trends in the housing industry suggest a changing role for the medium-sized builder who builds 26 to 100 homes a year, an expanding role for the large builder with annual production exceeding 100 units and rising opportunities for the small builder whose annual production is fewer than 25 homes a year.

Although the number of large builders has decreased fairly steadily as a share of the nation's total building firms during the past two decades, their portion of the market in terms of the percentage of units built has increased significantly.

In 1982, they comprised only 10 percent of builders who were members of the National Association of Home Builders (NAHB) but increased their market share to 68 percent of all units started. The share of large builders starting more than 500 homes annually increased from 1.3 percent in 1979 to 1.7 percent in 1982.

Larger builders have traditionally concentrated their efforts on smaller subdivision homes with prices at the middle to the low end of the market. They have been able to attain economies of scale in the acquisition and development of land and the use of manufactured components supplied by their own companies. Centralized quality control, large sales and marketing forces and well-trained management have enabled them to reduce the cost of administrative overhead per unit. In a market where consumers have become increasingly sensitive to the issue of affordability, larger builders have become highly competitive by shifting into more cost-efficient, higher-density production and optimizing the use of prefabricated components. More recently, many large corporate builders have phased down their land development operations to reduce the risks and upfront costs of residential construction. Instead, they purchase finished lots from local developers and builders.

This response to market factors usually does not occur in developing countries as rapidly as in developed countries, often because the market information is not there. In the case of National Housing Authorities there can be great resistance to change, particularly if they are operating with subsidized money.

The big builders' greatest advantage in the US has been their access to the credit markets. Several large building firms have their own mortgage companies and enjoy direct access to the secondary mortgage market. They are thus able to issue builder bonds and raise capital through public offerings. Easy access to financing is a crucial factor since long term "take-out" finance dictates the actual success of a project.

Small builders, whose strength has traditionally been larger custom or specialty homes at the high end of the market, have successfully adapted to changing economic and financial conditions because they have low overhead and carrying costs. Small builders increased from 57.6 percent of NAHB's builder membership in 1969 to 72.9 percent in 1982.

Medium-sized builders face the greatest challenge in the decades of the '80s and '90s because they are competing for virtually the same market as large builders -- without economies of scale, a strong competitive footing in the financial markets and the resources to weather long downturns in the economy. Unlike small builders, they are less able to move into side-line construction activities when market conditions turn bad. Medium-sized builders accounted for almost one-third of NAHB's builder membership in 1969; by 1982, they had declined to 17.6 percent. While difficult market conditions undoubtedly forced many medium-sized builders into the small builder category in 1982, the decline in the ranks of these builders has been a trend for more than 20 years and can be expected to continue.

Although much interest has focused on builders' efforts to raise capital to finance mortgages, less has been said recently about builders' needs for their own operating and expansion capital. Most building companies are closely held companies, usually owned entirely by an individual, a family, a holding company or a small group of stockholders or partners. This may change, according to some observers. Well-capitalized public companies may well come to dominate the nation's housing industry in this decade, eroding the number of small entrepreneurs engaged in home building. The builder's role is evolving into that of a middle-man between financial institutions and building contractors.

Middle-sized builders, particularly in urban areas, will come under increasing pressure to focus on a special niche in the marketplace, diversify into related markets such as remodeling or light commercial construction, enter into joint ventures with financial institutions or do a combination of the three. The future of middle-sized builders may depend on their ability to diversify.

Deregulation and the evolution of America's financing system have opened the door to direct involvement by financial institutions in the business of residential construction. Although no firm figures are available, it is estimated that financial institutions participated in the construction

of 20 percent of the homes started in 1984. Financial institutions could double their 1984 participation share to attain 40 percent of the housing market over the next decade.

For middle-sized builders in direct competition with large corporate builders, sharing profits with financial institutions may be a fair exchange for a more competitive financial position in the marketplace. But the trend toward joint ventures or the direct participation of financial intermediaries in residential development may have a negative result for small and medium-sized builders who value their ability to operate as risk-taking, profit-earning entrepreneurs.

Diversification of business operations has been a trend among the nation's home builders since the mid-1970s. The sharp recession of the early 1980s, coinciding with sweeping financial changes that favoredthe larger builder, accelerated the trend toward diversification. While builders who build single-family homes for sale to the general public remain in the majority today, increasing numbers are moving into other housing-related enterprises, including custom building, commercial-industrial construction and remodeling and rehabilitation.

C Developing Countries

1. Some General Comments

A general characterization of the housing development process in LDC's must take into account the split between urban-rural and formal and informal housing.

Although it varies from country to country, the share of the housing supply produced which is in the formal sector; that is, produced by a builder or through formal self help means in an urban setting with legal land tenure, is a relatively small percentage of the units produced. Usually more than half of a nation's housing is rural-based, much of it constructed informally on a self-help basis.

In the urban areas, an often sizeable percentage is squatter housing constructed on an informal basis or, in some countries, contractor built housing on illegally occupied land without infrastructure. Because this paper deals with the multipurpose national housing authority, it is focussed on housing constructed legally through formal mechanisms but paradoxically, not necessarily on housing conforming to existing law and regulations.

In this regard housing constructed by the private sector tends to be for the higher income segment of the population. This is primarily because of the lack of long term housing finance or the terms attached to such finance that is available i.e., high interest rates, high down payments, short repayment periods so that large equity contributions by purchasers are very frequent. Thus, the housing that is built is for families that can afford such terms or, in the case of individually constructed housing, who can afford to pay cash. Another reason is that land owners often enter into partnership with a developer or builder, bringing the land as an equity share in the

project. Such participants do not want low income projects because the return to the land is low and the profit on the land is often the dominant, if not exclusive, determinant of a project's financial success. For the most part developers will build for any market where the long term financing is available on reasonable terms and produce an affordable house that will sell.

There are, of course, some countries where "affordable" housing types may have some difficulty gaining acceptance. That leaves the public sector, which usually includes national housing corporations or authorities, which is the focus of this paper. Problems associated with the multipurpose housing authorities include inefficient operations, project delays, cost overruns on projects, production of expensive units, too large a subsidy component in sales prices, poor collection practices and various others. The national housing authority's purpose is usually to address the housing needs of lower income families but it often ends up producing, at least partly, for the same market as the private sector. Yet one often finds that the detailed analysis or appraisal of such an organization which is necessary to make specific judgments or to recommend changes is lacking or only partly done. That is one of the primary premises of this paper.

2. The Philippines as an Example

To put the Philippines housing development process into perspective it is necessary to look at the total production of housing units and separate this into production by government agencies and the private sector, a phenomenon that doesn't exist for all intents and purposes in, say, the US.

In the Philippines in 1983, some 250,000 housing units, including upgraded units and serviced sites were produced. Of these, government agencies produced and financed about 33,000 units, with the National Housing Authority being the leading supplier. An additional 30,000 units were produced by private developers with long term financing provided by the government. The remaining 187,000 units were built and financed by the private sector. Many of the latter would, of course, be rural housing units.

Thus, despite significant government activity, almost 75% of the housing units built in the Philippines in 1983 were built and financed within the private sector. When private developer built-government financed housing is included the figure rises to almost 87% Further, there is a gradual shift occuring from direct production by government agencies to production by private developers aided by the provision of long-term government financing.

Historically, the participation of the private sector in formal shelter production in the Philippines has traditionally been confined to the high and upper - middle income market which accounts for approximately 16% of the total need for shelter. Construction finance and long term mortgage finance has been both scarce and expensive. Government regulations plus a fragmented, lengthy approval process resulted in unpredictable delays and increased costs to private developers. In addition, the supply of building materials was also unpredictable and their costs continually

escalating. Consequently, private banking institutions were inclined to lend only to the "best" or "known" developers and only for high or upper-middle income housing to minimize their short term and long term risk. Although there were about 1000 private real estate developers in the National Capital Region of Manila for 1983, very few were continually in the shelter buiness due to these constraints.

Examples of government sector activity in the Philippines is contained in the next section on the appraisal format for a NHA. This section sets out the operations of a representative group of nine private developers and is taken from a report "Manila Low Income Shelter Implementation Review: The Private Sites and Services Project" by F.C. Terzo for the World Bank (1983). The developers interviewed all had long experience in either sales, development or finance and represented housing production volumes of from 400 to 1200 units annually. The market segments served were from P39,000 to P350,000 but most were geared to delivering housing packages at the P100,000 levels. 1/ Three of the developers were affiliated with religious orders, and were committed as part of their mission to deliver housing for low income families.

Without exception, developers cited both the difficulty of obtaining development finance and the high cost of this finance as major stumbling blocks in the development process. Some development organizations have interlocking directorates with financing institutions, thus providing them with a ready source of funds. Most go into the private markets and, at that time (1983), paid rates of between 18 and 26% for development funds with some as much as 34-36%. Banks which provide such financing are generally unwilling to look to the project itself as collateral. Instead, lines of credit must be established in which the leading institution is secured between 50 and 100% of the line, depending on the financial position and experience of the developer.

The availability of land for development also poses problems for developers. Landowners are generally unwilling to pledge their land as collateral for financing and thus enter into arrangements with developers in which the developer serves merely as a general contractor and marketing agent. Profits are shared, but the business relationship is less structured on the basis of mutuality of interest and more on the relative advantage that the landlowner has in a market where well located developable land is in short supply.

There was general agreement among the developers interviewed that in Manilla the process of land development was fairly free of problems. The process of subdivision review and recording did not appear to pose any major problem, although all developers cited the significant bottleneck at the Bureau of Lands, where titles are verified against subdivision plans and the engineering geometry of the subdivision is checked.

1/ The exchange rate went from P 8.45 to $1 in September 1982 to P 14 = $1 in November 1983. In February 1986 it was P 22.05 = $1.

The existence of government programs for home finance has appreciably affected the way in which developers indentify target markets. Broadly speaking, all members of the government's compulsory savings program are eligible for home financing, but in practice, developers direct their efforts to the upper income households, and higher priced housing.

The government's secondary financing scheme provides for financing at the rate of 48 times an eligible buyer's monthly income. It was hoped that developers would program their projects on the assumption that two eligible members, each earning P1000 per month, would be included in each household, this yielding a financing package of around P100,000. Accordingly, housing schemes would be formulated to maximize the profitability at these levels, since to achieve a similar scale of profitability at a lower unit sales price would require greater turnover in the number of units. However, developers at that time, with few exceptions, did not produce at that level.

Delays in developer takeout appear typical in the sale and title transfer process. Delays are also common in originating banks in the disbursement of end user loan proceeds to the developer. This situation further erodes profitability levels, since developers carry the completed units on development loans until take-out. Marketing costs ranged between 5% and 12% of sales price, depending on the market segment served and speed of sales. At the lower end of the income scale, the problem was less marketing and more assistance with the documentation associated with the government financing application.

The developers who expressed interest in and willingness to participate in programs for the lower income groups were a) those already in that market, i.e., the religious organizations which develop low cost housing as part of their mission, and b) the smaller development organizations which experienced growth in recent years and were still searching for a profitable formula to be followed in the years ahead. All developers seemed to recognize that time will force them down from the narrow and saturated upper end markets to lower cost schemes. The key issue is whether developing at the lower end can be made profitable. In this regard, there is a perceived shift in the development community from large scale, long term projects to smaller, less risky, short term projects that can be completed rapidly so that profits can be quickly reinvested in subsequent schemes.

There is clearly capacity to develop for the lower income levels, if developers can be convinced that their low cost stripped down products will sell. The various problems with costly financing and delays in processing generate unnecessary cost to the developer, which is merely built into the final sales price. If these stumbling blocks can be removed, then sales prices can be lowered.

IV. THE ANALYSIS OF MULTIPURPOSE NATIONAL HOUSING AUTHORITIES - AN APPRAISAL FORMAT

Annex B provides an outline of the appraisal format that is being suggested. This section of the paper expands on that outline and indicates the type of information and analysis that is required with some explanation. Using information made available from a number of World Bank reports concerning the Philippines National Housing Authority over the past several years as a typical example, it seeks to highlight the problems and attempts at solutions often encountered with national housing authorities. This is by way of illustration and does not mean to imply that this is an actual attempt to definitively appraise the performance of the Philippines NHA.

An Appraisal Format for an NHA

A. Legal Status and Ownership

1. The Legal Framework and Form of Organization

In addition to the legislation establishing the institution, it is necessary to examine other laws, regulations and decrees which bear on its operations. This would include factors affecting such things as land use, land transfer and titling, mortgages, interest rates, etc.

Assuming that the institution being examined is a government agency, government-owned corporation or predominantly government-owned corporation the exact form of its organizational status needs to be determined.

That is, does the institution have the status of a government ministry, a department within the ministry or a para-statal corporation? It needs to be established where the institution fits within the government hierarchy, what its authorities are within this hierarchy and what freedom it has for independent action.

Illustration: In the case of the Philippines, the National Housing Authority (NHA) is a government-owned corporation created by Presidential Decree in 1975. The Authority took over the functions of six existing but separate housing agencies.

However, a Ministry of Human Settlements (MHS) was created in 1978, also by Presidential Decree. The NHA was one of a number of government agencies placed under its jurisdiction. Thus the MHS became an even larger "umbrella" agency, "in a sense repeating the process which surrounded the creation of the NHA in 1975." The MHS has a presidential mandate to coordinate all aspects of housing production in the Philippines; in reality it became the nation's "national housing authority." The NHA had its "responsibilities narrowed to implementing only low income housing programs" although, in fact, it proceeded to implement commercial and industrial developments, market rate apartments and economic or moderate income apartment and row housing.

2. Capitalization and Ownership (if a corporation)

Is the institution formally capitalized and, if so, what is the authorized and paid-in capital, types of shares and who holds them? What is the capacity of the institution to increase its capital? If there is some private ownership, how was this determined and what rights do the private shareholders have?

To what extent would NHA managers be concerned with financial structure and, if so, why? Does financial structure, for instance, limit the organization's ability to borrow?

If the organization is a government ministry, department or para-statal not formally capitalized, what is the basic financial underpinning and how is it determined or modified? Where does it fit within the overall public enterprise sphere and how do the possible financial deficits of these organizations in total affect the NHA?

Illustration: An initial capitalization of P500 was authorized for the Philippines NHA be subscribed by the Government. P50 million was to be released on final approval of the agency and the remaining P450 million released equally over nine subsequent fiscal years. The assets and balances of the absorbed agencies were transferred to the Authority. In addition the NHA was authorized to issue bonds and other securities valued up to a maximum of ten times its paid in capital and surplus, with the Social Security System and the Government Service Insurance System absorbing all or part of these.

A later Presidential Decree in 1978 increased the authorized capitalizaion of the NHA to P2000 million. This amount, also to be subscribed by the Government, was to be paid in an initial subscription of P200 million with the balance paid over nine years.

Total government interest in the NHA as of December 31, 1982 amounted to P1940 million comprising the paid in capital of P1265, direct payments in the form of subsidies for special projects (P433 million) and the surpluses taken over from agencies absorbed by the NHA and its own retained earnings (P232 million).

3. Board of Directors or Equivalent

What's the composition, how are they selected or who appoints, how frequently does it meet and what's the term of board members? What is the authority of the board and how much direction does it provide. If the board is perfunctory where does policy direction come from?

Illustration: The Philippines NHA is governed by a Board of Directors with the Human Settlements Minister, the wife of the current President of the Philippines, as its chairperson. The remainder of the Board is composed of the Minister of Public Works and Highways as Vice Chairman, the Ministers of Trade and Industry, Labor and Employment and Finance, the Director-General of the National Economic and Development Authority and the General Manager. It is not clear from available World Bank reports exactly

what power the Board holds. Although the NHA has come under the jurisdiction of the MHS, it seems to have a good degree of autonomy. The exact relationship between these two identities is not clear from the information available. Nor is their individual or combined status (or "clout") clear vis-a-vis the hilippine government hierarchy as a whole. Such information is necessary if recommendations concerning change are to be made concerning any NHA.

B. Background of the Institution and Its Place in the Shelter System

1. Underlying Rationale for the Institution's Existence

A typical NHA is often a consolidation of various government bureaus, programs or a predecessor agency. As such it may be a stage in the evolution of public sector shelter policy. Therefore it's necessary to look at the current stated or implied rationale of the institution and that underlying its creation. For instance, was there some perceived gap in the provision of low income housing, a need to consolidate a proliferation of agencies or functions, or a need to abolish an inefficient agency that provided the basis or impetus for creating the NHA. Depending on the age of the agency, the analysis might include an examination of predecessor agencies, if any, or functions and the process of evolution that resulted in the creation of the NHA.

Although the analysis of today's situation is clearly of paramount importance, a good historical perspective may be extremely important in determining the constraints on what can be recommended to improve today's operation. This is amply demonstrated in the case of the Philippines.

Illustration: Between 1947 and 1970 in the Philippines, none of the seventeen national development plans addressed housing needs, and as a result, housing production by the government was negligible. The construction and financing of housing was left to the private sector which almost exclusively benefitted upper income households. Regulatory agencies and public corporations concerned with shelter sector problems were established on an ad hoc basis, rather than in response to a coordinated and articulated public policy. Public agencies did not focus adequate attention on the housing needs of lower income families, and in fact, the government's intervention in the low income sector was largely regulatory and even punitive, primarily characterized by slum clearance and forced relocation of squatter families.

By 1975, the government's housing policies began to change. The overwhelming number of families living in impoverished conditions, and their growing demands for basic services and land tenure, brought about the establishment of the National Housing Authority (NHA) which represented the first effort to rationalize the existing bureaucracy and reorient policy with regard to low income households. Six housing agencies were consolidated by the NHA which began to coordinate, plan and implement a wide range of shelter related activities. Government policy shifted away from slum removal to on site improvements, and low income settlements were expanded through planned sites and services projects.

In 1978, greater priority was given to the housing sector with the establishment of the Ministry of Human Settlements (MHS). All government functions related to housing were placed under MHS. MHS formulated a more comprehensive approach to the entire shelter sector, giving particular attention to the potential of mobilizing private sector resources and utilizing market mechanixms to stimulate housing production. By 1980, MHS had developed a long-term housing strategy embodied in its National Shelter Program and established an institutional delivery system for its implementation. New housing finance institutions were created to fill functional gaps in the overall delivery system, complementing the activities of existing agencies. In contrast to the situation prior to the mid-1970's, the responsibilities of the different housing agencies were clearly defined, and in the process, NHA's responsibilities were supposed to have been narrowed from a broad coordinating and policymaking role to only the provision of basic services and housing for low income families. In fact, NHA's responsibilities did not narrow.

2 The Current Government System for Shelter

It is necessary to include a section on the overall government shelter system sufficient to set the context within which the national housing authority operates. This should include the policy framework, regulatory and supervisory function, the overall coordinating role and the other key agencies of production and finance.

A description of the government shelter system in the Philippines highlights its complexity and underscores the necessity to understand such systems if an analysis of an NHA is to be complete.

Illustration: In the Philippines the Ministry of Human Settlements' broad areas of responsibility include environmental management, town planning, land use planning and shelter system development. In addition, MHS established as its objectives the production of low-cost housing on a large scale, the generation of long-term funds for housing finance and the creation of a secondary mortgage institution. Under MHS, housing production should be integrated with other shelter-related services, such as water, power and roads; in practice, there are operational difficulties which affect PNHA's performance. Prior to the establishment of MHS, public sector housing initiatives had been concentrated in Metro Manila, and the creation of MHS was intended to coordinate and target housing resources to other areas in the country. In practice, however, the overwhelming need for housing and related services in Manila has meant that most assistance continues to be focused in the metropolitan region.

MHS performs a central planning, policymaking and coordinating role. Substantive functions are delegated for the most part to other corporate entities or agencies. By 1980, the Ministry's three-fold objectives of increased housing production, generation of long-term finance and establishment of a secondary mortgage market had become the key elements in a National Shelter Program. Underlying the National Shelter Program is a recognition of the need to expand the output of lower and middle income

housing by the private sector. To implement this program, MHS formed the National Shelter Program Secretariat with representatives from seven key housing agencies. These agencies cover three major functional aspects in the provision of housing: financing (Home Development Mutual Fund, Home Financing Corporation and National Home Mortgage Finance Corporation); production (National Housing Authority, Human Settlements Development Corporation and National Housing Corporation) and regulatory (Human Settlements Regulatory Commission).

By establishing these functional divisions, with clearly delineated responsibilities for each agency, MHS laid the foundation for a rational housing delivery system. The National Shelter Program Secretariat is supposed to function as a committee to facilitate coordination and information sharing between shelter-related programs.

To address deficiencies in the availability of finance in the shelter sector, MHS established a new finance system centered around the introduction of a secondary mortgage institution, which is intended to leverage long-term financial resources from the private sector and provide a permanent incentive for housing production at lower costs. With the exception of NHA, all of the housing agencies represented in the National Shelter Program Secretariat play a role in this new finance system. The provision of low income housing remains the sole responsibility of NHA, and to date it has not benefitted from MHS' initiative. NHA's exclusion from the new finance system results more from the fact that the system has been in a start up or developmental period, during which it has strived to achieve certain initial objectives which have not given priority to the low income shelter sector, rather than from a concious decision to limit NHA's accessibility to its resources over the long run. A major challenge presently facing MHS is to create mechanisms whereby NHA's low income constituents have access to the new finance system's resources to ensure that the intitutional framework becomes responsive to their needs.

Outside of NSPS's network, two other governmental institutions, the Social Security System (SSS) and Government Service Insurance System (GSIS), play significant roles in housing finance. SSS and GSIS are both provident or retirement funds for formal sector employees which offer housing loans to their contributing members. Prior to the advent of MHS' new system, these two funds, together with the government-owned Development Bank of the Philippines, represented the major sources of mortgage financing in the Philippines for moderate and upper-middle income families.

Annex D contains an organizational chart of the Philippines government shelter system.

C. Policies and Operating Guidelines

1. Statement of Policies, Goals and Objectives

Are there a clear set of written policies, goals and objectives contained in the legislative framework, the national development plan or national shelter policy? This is important in that it defines the framework against which the institution's performance can be measured, not as to efficiency, but whether it is carrying out its mission. Is the national policy framework reduced to a specific set of policies to govern the operation of the NHA? How are these policies developed and how can they be modified or changed? Are they widely disseminated so that it's clear to everyone what the policies of the institution are? Are the policies subject to outside pressure, i.e., outside of the board of directors? Where does the policy direction come from?

Illustration: In the case of the Philippines, a comprehensive, articulated national housing policy had not been developed prior to NHA's establishment. With regard to low income settlements, government intervention consisted of slum clearance and forced relocation of squatter families, and did not encompass any comprehensive approach to meet their growing needs.

The creation of NHA represented a shift in government policy. NHA was explicitly mandated to undertake programs to upgrade slums and marginal communities, and to develop sites and services projects, signalling a change in policy away from slum removal in favor of on site improvements. When the Ministry of Human Settlements was established in 1978, NHA's responsibilities were narrowed to implementing only low income housing programs and away from a policy-making role.

Stated policies, goals, and the objectives of the Philippines NHA are contained in its "institutional profile" (similar to an annual report) and for the most part are taken from the Presidential Decree that established the agency in 1975. According to this decree, the NHA was set up to "establish, maintain, and ensure adequate social services in the field of housing. . . to guarantee enjoyment by the people of a decent standard of living." Specific objectives and NHA's approach are clearly spelled out.

2. Operating Guidelines

What are the operating guidelines used to implement policy? For instance, precise income levels to be served, housing standards, use of private contractors, types of programs to be developed, collection guidelines. Who develops these guidelines, influences them, what are the procedures to institute change?

Is the institution to be profit-making; that is, will its operations envision some return on investment or is it to operate at cost only? Are subsidies to be provided, if so, at what level and how are they to be determined. How does this factor tie-in to overall government budgetary

considerations and what would be the impact of government budgetary constraints if applied. These elements obviously relate to capitalization, resource mobilization and the financial analysis.

Illustration: No specific information was made available on the detailed operating guidelines which implement policy for the Philippine's NHA. The available analysis covers such things as affordability, cost recovery, return on investment etc., but doesn't indicate whether the NHA is operating against a specific set of guidelines. Nor does the available set of reports contain guidelines or operating procedures covering such things as land acquisition, contracting, administration of rental properties, etc. although presumably such guidelines/procedures exist. There is, for instance, a Manual of Operations for the MHS Private Sites and Services Project.

D. Description of Activities Carried Out by the Institution

1. The Institution's Programs and Functions

This part of the appraisal should contain programs or functions carried out by the institution on its own behalf; that is, by type of activity. Examples are listed below:

(a) Land Acquisition and Assembly

How is land acquired, is it government land, by expropriation, by market purchase, etc? What is the inventory compared to annual use?

Illustration: For instance, the Philippines NHA conducts its own land acquisition and assembly program in order to carry out its major programs. However, "land acquisition in the public sector is a major problem. NHA has considerable difficulty in acquiring land, despite having the powers of eminent domain and the willingness to use them. It is constrained by existing laws, by government regulations and lack of sufficient funds. Before any land can be purchased, NHA is required to obtain the approval of its Board and of the Executive Committee, a cabinet level committee that must approve government land acquisition. Present laws and regulations require NHA to acquire land by first negotiating and then, if necessary, use eminent domain powers." The process is often a lengthy one.

Securing public land has also proved to be time consuming. Presidential action is required at two stages both of which require Bureau of Lands' clearance which takes a long time.

(b) Program and Project Development

Does the institution undertake to provide infrastructure itself as part of its overall project development or to directly provide serviced land as an independent program? Does it engage in upgrading programs?

What kind of projects does the institution build; residential projects, completed units, core units? Does it provide community facilities as part of its projects? Does it develop and invest in commercial properties? Does it undertake both design and implementation functions?

How is program and project planning carried out? Is such planning supported by studies? Are projects started before studies are complete because of political pressures?

Illustration: The NHA's primary objective in the Philippines is to provide housing for lower income families. Therefore its projects focus on this objective.

Shelter projects fall into three categories: upgrading of squatter areas; provision of serviced sites; and construction of completed units. Its housing programs are adequately described in the many reports.

However, in addition to its primary objective of housing, NHA carries out several other programs. First, it conducts a "Livelihood Program" which aims to provide employment opportunities to residents of its upgrading and sites and services program. The program includes small business loans and job training in cottage and light industries as well as building materials loans to complete housing.

Finally, to generate income for the Authority and to creat economic opporunities for the beneficiaries of the various projects, NHA developes, markets and operates commercial and industrial estates. The intent is to utilize profits from this endeavor to cross-subsidize low cost residential areas to make them more affordable.

In summary, slum upgrading which in 1980 accounted for over 40% of total activity slipped dramatically to just over 20% in 1982. On the other hand the activity on the squatter relocation program increased significantly from 5% of total capital outlays in 1980 to 25% in 1982. Investments in sites and services housing increased steadily throughout the period although its share of total investment declined marginally. In total, social housing programs accounted for just over three quarters of capital outlays with the Joint Venture, Commercial and Industrial Development and the Economic Housing programs accounting for the majority of the remainder.

The geographical concentration of the capital program is predominantly for the residents of Metro Manila, about 80% of investment is for projects within Metro Manila and for the relocation of squatters from the National Capital Region. The share of investment placed in the regions is decreasing in proportion and amounts.

It is essential in appraising an NHA to obtain at least four years of good data of the kind cited above so that trends can be ascertained and analyzed.

(c) Studies and Research

In considering the capacity of an NHA to play a role in the policy process, it is necessary to examine its internal capability to undertake studies and generate data. The type and quality of such work needs to be evaluated early. If the NHA does have this capacity, what is it used for? A research and studies department clearly can be more than a market survey department. For instance, an NHA can often control or strongly influence building standards by virtue of its research work.

In many NHA's the research and studies department plays a major role in the speed of implementation and the efficiency of a project. Quite often the review of a poor project will indicate initial project studies that were incomplete or poorly done during the design stage.

Illustration: There is a Research and Analysis Division in NHA which apparently carries out studies and research on housing needs on its own. For instance, within the past several years it made an independent analysis of the housing needs of the low and marginal income groups of 73 urban centers. The survey concluded that the need for housing in those communities during the next 10 years to be approximately 600,000 units, most of it for upgrading existing units. Sites and services solutions were recommended to accommodate the families that were to be displaced during the process of upgrading, as well as provide solutions to satisfy population growth. These estimates identified a need for an average output of close to 50,000 units per year for the low and marginal income families of the selected 73 urban centers, which cover an estimated 26.5 percent of the total population in the country. This study formed the basis for the preparation of NHA's Five Year Plan.

(d) Production of Building Materials

Is the NHA a fully integrated operation, producing its own building materials or producing for the market?

Illustration: In the case of the Philippines, the NHA does not produce any building materials itself. Within the government system, building materials are produced by the National Housing Corporation, one of the agencies under the Ministry of Human Settlements.

(e) Technical Assistance to Purchasers of Housing Solutions

This is an important aspect if national housing authorities are to engage in successful low income programs.

Illustration: There was no information available in the existing reports on whether the Philippines NHA provided technical assistance to the beneficiaries of is upgrading or sites and services programs although building material loans are made. The latter are made "in-kind" rather than as cash loans but no information was available on whether help in their use is provided.

Apparently job training is provided, however, as part of the "Livelihood Program" described earlier and in conjunction with small business loans.

(f) Marketing and Sales

Does the institution develop and build projects and then turn over the projects to other agencies or does it carry out the function of marketing and selling the plots and units as well?

Illustration: Information on how the Philippines NHA markets and sells its own production also was not available although the presumption is that it does.

(g) Residential Rental Properties

Does the institution maintain and administer a stock of residential properties for rent? If so, how is it administered, how are rents determined, what is the collection rate?

Illustration: In the Philippines, there was no discussion of NHA rental properties in the available reports although the Financial Review and Plan prepared by consultants indicates NHA was carrying on its books rental properties of some 1500 units. No information as to rental charges or how such charges were determined was provided although figures on overall return on rental properties is provided in the above report. That report also makes the recommendation that NHA divest itself of its rental properties.

(h) Commercial Activities Other Than Housing

Does the institution invest in commercial activities such as hotels, independent contracting activities, and operate commercial properties? Does it construct other than residential properties?

Illustration: It appears that NHA develops, sells and operates commercial properties and industrial estates as part of its housing projects for purposes of cross subsidizing low income beneficiaries. It's not clear, however, whether it intends to operate such facilities on a long term basis as part of the on-going operations of the Authority. As far as the reports indicate, NHA does not invest in hotels or in the general contracting business, endeavors that do attract national housing authorities in other countries, often to the detriment of their housing activities.

2. Activities Carried Out for Other Agencies

Does the institution do work for other government agencies? That is, does it construct water and sewer facilities for a Water Board as part of its project or land development activities? If so, why? Do procedures differ? How is this work paid for and how is it coordinated?

Illustration: A significant portion of NHA investment in projects is for components normally falling under the jurisdiction of other agencies, in particular water and sewer systems, community facilities and major infrastructure development. So far, NHA has been slow to recover this investment from the agencies concerned. Too often facilities are turned over for maintenance and operating purposes with no provision made either to assure maintenance responsibilities or to pay for them. Firm rules and procedures should be established through the NHA and the concerned line agencies concerning financial and maintenance/operating responsibilities for specific components in all projects. Deeds of Turnover of these facilities involving the transfer of all assets and liabilities should be prepared and speedily executed.

3. Financial Activities

(a) Mobilization of Resources

Does the institution engage in the mobilization of its own resources, i.e., sale of bonds? Does it have borrowing authority, capacity to obtain, say, construction financing or does it rely on government appropriation or some combination of the above? Are profits a factor in financing future programs or does it cross-subsidize between projects? What is the degree of dependence of the NHA on multilateral and/or bilateral financing?

Illustration: The Philippines NHA, in addition to its capitalization which is being released in annual increments, also receives government budget appropriations on an irregular basis and loans for special non-programmed projects. Loans are normally related to World Bank-funded projects. Recently (1983) NHA was authorized to issue up to P150 million in government-guaranteed bonds and has also gradually extended its credit lines with private banks to about P200 million. As discussed in the following section, NHA wants to be able to sell its beneficiary loans to the NHMFC so that its development funds can be constantly rolled over.

The goverment has a shortage of funds to invest and a number of competing priorities from other sectors. The budgetary process itself is lengthy, requiring that budget submissions literally be made one year prior to the first funds being released. Often the release of funds does not coincide with the Philippines' dry season when NHA attempts to do most of its construction and site development. At other times, NHA's appropriation has only been partially released by the Treasury.

With the uncertainty attached to government as its primary source of funds and with part of its capital tied up in long term loans extended to is beneficiaries, it is incumbent on NHA to increase its flow of receipts through prompt sale of its projects, elimination of rental properties, a good collection record on its loans and collection of amounts due by other government agencies.

In addition to the unpredictability of government funding NHA has other problems with resource mobilization. It now finds itself unable to meet the debt service requirements of any substantial future bond issues. Better achievement on collection of receivables, quicker turn-over of

completed works to local authorities responsible for infrastructure maintenance, the prompt recovery of costs incurred on behalf of other agencies -- these and other measures might have avoided this particular constraint.

(b) Long-term Financing

Does the institution provide long term financing to purchasers of its housing or serviced sites? That is, does it originate mortgages (or housing loans), service these loans and hold them.

Illustration: In the Philippines, the NHA provides long-term financing to buyers of its units from its own resources, thus, tying up these resources for a long period of time. By way of example, NHA makes home improvement loans at 12% over ten years in one of its upgrading projects up to a P3000 maximum. In an adjacent sites and services project, loans up to P15,000 are offered at 12%, 15 years. Although no other specific figures were cited, the 12% rate appears also to be standard for loans for new construction but with longer repayment periods. As a comparison, four-fifths of the mortgages the government's National Home Mortgage Finance Corporation (NHMFC) buys are made at 9%, the remainder at 16% (as of 1983). The current market rate at the time was 26%.

The NHA apparently would like to use its funds only for development purposes and, consequently, has been attempting to negotiate the sale of its loans to NHMFC. This would enable it to increase production because it would not have its funds tied-up in long term loans. In general, though, NHMFC sees purchasing loans made for home improvements in slum upgrading areas or for sites and services units as premature at this time because of very limited experience to date on repayments and the effect such loans in its portfolio might have on sales of its mortgage-backed securities. In any event NHA would probably have to sell its loans at a considerable loss on their book value because of their low interest rate and, in some cases, delinquency.

Finally, as mentioned earlier, NHA is also making loans to small businesses in its projects but no indication was given on the terms of these loans.

4. Competition or Overlap

This relates partly to section 2 above. What does the institution do that other government agencies or the private sector also do? Why? Is there a clear delineation or is there overlap and competition? For example, is there more than one government agency doing residential housing or upgrading, including municipal housing authorities doing the same kinds of programs? Is the institution in direct competition with private developers for certain types of housing?

The appraisal should ascertain the rationale behind the program activities. Is there a conscious policy to engage in commercial activities as a means of cross-subsidizing or obtaining profits to undertake other programs? Is there pressure to expand into a larger organization, a

need to keep excess staff employed? Are there pressures by staff to engage in more grandiose projects? Again, the answers to this part of the analysis will help structure feasible recommendations.

Illustration: In the Philippines, the NHA, the Human Settlements Development Corporation (HSDC), and the National Housing Corporation (NHC) all under the MHS, share responsibilities in the production of shelter programs. NHA is by far the largest of the three institutions and although it concentrates its programs at the lower income levels, both NHA and HSDC undertake "economic" housing projects in the form of 4-story cluster-type apartments and row houses affordable to high and middle income groups. The NHC produces building materials and also some pre-fabricated housing.

In addition, NHA and MHS overlap their efforts in one part of the sites and services program. The NHA has a large sites and services development program as part of its activities. The Private Sites and Services Project (PSSP) is being administered directly by the MHS and has gotten more emphasis with the recent move toward public/private sector co-operation.

5 Coordination With or Approval By Other Government Agencies

Ascertain what government regulations, federal and municipal the institution must comply with which affect its operations: building codes, compliance with master plans or zoning regulations, etc.

What role has the NHA been playing in improving the regulatory framework? Is it just a passive user of special waivers? Is it actively involved in producing better regulations for affordable standards?

Illustration: "Inter-agency coordination would seem an advantage of the public sector but in the case of the Philippines, experience has shown that an agency such as NHA has little leverage over other involved agencies with regard to meeting their responsibilities for on-site and off-site supporting infrastructure, particularly for large-scale projects."

Tondo Foreshore, the first and largest of the slum improvement projects, although now complete, was adversely effected by the delays in water supply provision, construction of a sewerage outfall and the delays in construction of trunk roadways. Dagat-Dagatan, a large sites and services project has also been effected by delays in water supply and trunk water mains, trunk roads and major river (drainage) improvements. Coordination is particularly important for larger projects, where major off-site works are required to complete the project. These delays not only delay project implementation, but also effectively delay cost recovery and the sale of commercial and industrial serviced land. The provision of the National Shelter Secretariat is intended to improve some of these coordination problems.

The NHA is also undertaking projects as joint venture partners with local governments. For instance, within the National Capital Region, NHA, through its Metro Manila Projects Department (MMPD), undertakes slum upgrading projects in coordination with and on behalf of the local governments and the Metro Manila Commission (MMC). The local government role

is presently limited to participation in project identification and community development. Upon completion of each project, its assets and liabilities are turned over to the local governments concerned, who are then responsible for estate management and cost recovery under the general guidance of the MMC.

E Organization and Operations

1. Organizational and Functional Descriptions

This section should lay out the complete organization of the institution and provide a functional statement for each major organizational unit. This section should look at the activities described in Section B. 4 and relate these activities to the organization and functional statements.

Illustration: Below board level the Philippines NHA is organized as shown in the chart contained in annex E. Its staff functions are handled in five groups:

(a) Executive Services - including Corporate Planning, Monitoring and Evaluation, and the Corporate Secretary's Office.

(b) Project Technical Services - including Physical and Socio-Economic Planning, Engineering and Architecture, and Contracts administration.

(c) Project Support Services - Community Relations and Livelihood Development.

(d) Corporate Support Services - Personnel, Legal and General Services.

(e) Financial Services.

NHA's line functions are organized broadly by client groups - for local government projects, for private sector involvement projects (joint venture programs and commercial and industrial estates), and for NHA's own construction projects.

Within the Local Government Projects Group there is a Metro Manila Projects Department (MMPD) which operates four District teams to undertake slum upgrading projects in coordination with and on behalf of the local governments and the Metro Manila Commission (MMC). For sites and services, projects are undertaken directly by NHA through the MMPD Site and Services Division. On the other hand, the initial slum upgrading and sites and services projects are being implemented directly by Special Projects Departments within NHA's In-House Projects Group.

There is a certain amount of overlap of responsibility among the several departments, but this is not uncommon in an institution as large and diverse as the NHA. In the NHA this overlap has not been identified as a problem. None of the reports reviewed provided any details on the specific duties of the individual departments.

2. Operations

This section should describe how each of the activities is carried out. For instance, how is land acquired, what's the process, how are project approvals obtained, what kind of market analysis is done, how are cost elements developed, is design done in-house or contracted out, is construction done with force account or contracted and, if the latter, is there competitive bidding or direct negotiation, is there an overall feasibility plan for a project, how are housing units marketed, applications appraised, mortgages serviced? In summary, for each activity performed by the institution there should be a complete description of how it is carried out.

In the case of the Philippines NHA, there was no information available on how each of its activities is carried out.

F. Management

1. General Management

Specific attention should be focussed on management and its effectiveness. For instance, does the institution decentralize decision making or is it highly centralized? Is there a branch structure and what degree of autonomy do the branches have?

Illustration: According to one consultant report, management of NHA is centralized with little or no delegation of authority or responsibility taking place. Such centralization of all decision-making can erode the level of responsibility of technical staff and particuarly middle management levels, slowing down decision-making, delaying projects and programs.

A broad delegation of authority and accountability/ responsibility is necessary if operations are to be expanded and the speed and volume of shelter delivery increased. NHA's centralized management system and consequent lack of staff accountability has effectively prevented regionalization of its activities and resulted in delayed decision-making at each stage of the project cycle including land acquisition, project design, bidding, occupancy and cost recovery.

2. Corporate Plan

A corporate plan is necessary if an NHA is to be able to objectively evaluate its success in achieving some agreed upon goals. Such a plan permits an assessment as to how realistic the assumptions are which underlie the plan. If the plan is properly developed and discussed, it enables other affected agencies an opportunity to provide their inputs. It should also be consistent with overall government activities and policies in the shelter sector.

Illustration: As an example, an abbreviated Philippines NHA Five Year Plan covering the years 1983-87 was reviewed as part of the preparation of this paper. According to one consultant's report, "Based on current experience and the acceptability of its product, NHA has drafted a five-year national program that targets 87,500 plots for upgrading and 197,200 plots of sites and services in Metro Manila and the regions over this period. The program would require some P1 billion pesos per year to achieve and is highly optimistic. Based on NHA performance to date (thru 1982) of 12-14,000 units per year this program, averaging 38,000 units per year appears highly optimistic.

Apparently planning involves preparation of a plan by the Corporate Planning Office based on estimates provided by individual departments of their programs. Such figures tend to be optimistic when combined as a whole. The Financial Management Department then reviews the plan for funding sources. As set forth above, the cost apparently significantly outstripped likely resources.

The conclusion would appear to be that the process requires some considerable revamping to be useful.

3. Staff and Personnel Analysis

This analysis should include staffing patterns, numbers of people by function and skills, a judgment as to the overall quality of the staff, salary levels, experience, rate of expansion and turnover rate. Are support (administrative) staff growing at a faster rate than are total personnel? This analysis should be compared, where possible, to similar types of organizations in the private sector. Is the institution able to attract and hold good people? How does it recruit? What kind of in-house training does it provide? Does it lose people to other government agencies or the private sector and, if so, why?

Illustration: According to a consultant's report in 1983, NHA has suffered from a high turnover of its best trained and most-highly skilled staff to the private sector and has had difficulty in recruiting. With a less experienced staff but accelerating programs and projects, it was difficult for NHA to maintain productivity and program schedules.

A more recent report, however, notes that NHA's personnel resources appear to have improved. NHA has been assisted by a review done in connection with the current five-year program which set personnel levels for the Authority's different departments. The task of manning the various departments has been simplified by a policy of matching personnel strength to construction workload. NHA is seriously concerned about the development of its manpower, and runs a large number of programs for its managerial, professional and support staff.

4. Management Information Systems, Controls and Procedures

What type of management reporting system is there and what is its quality? Does it provide for the key information that is necessary? How timely, detailed and reliable are periodic reports and what areas do they cover? Has the institution developed any measurements by which it monitors project performance, and are there additional such measurements which the appraisal indicates could be applied?

The ability of an NHA to present its operations clearly and consistently from year to year is one indicator of the quality and stability of its management.

Illustration: There have been a series of outside consulting reports of the PNHA (see also Section H, Financial Analysis) financed by the World Bank, either exclusively concerning the PNHA, or where the PNHA has been part of the report.

There was no information within the material provided as to specific means that PNHA has developed to monitor performance. It is also not clear what type of a management reporting system is used.

A persistent criticism of NHA, particularly in recent years, has related to repeated time and cost overruns on projects. In fact, serious delays have themselves contributed to financial problems, firstly because of high interest costs during the construction period;secondly, because of sharp inflation, leading to contractor demands for escalation in agreed rates and prolonged disputes; and thirdly, because construction delays hold up allotments to beneficiaries and therefore recovery of their dues.

Chronic time overruns can be a symptom of inadequate systems and procedures. For instance, so far as construction is concerned, according to a recent review of NHA, the preparation stage, the acquisition of land, the monitoring, the settlement of bills for work done - all need to be carefully studied and improved. (See earlier section on Studies.)

For example, much of the work in infrastructure projects is repetitive, and therefore lends itself to standardization of designs. NHA has standardized designs, but does not apply them widely. Secondly, schedules of rates need to be prepared and adopted for composite construction items that include both materials and labor; this speeds up the preparation of contract documents and restricts the scope for malpractice. Thirdly, contract documents themselves need to be reviewed, and provision for items like automatic rate escalation with price inflation introuced. Fourth, the procedures for payment of contractors' bills need improvement. They now can require nearly 15 clearances, with review by as many as 27 employees. Besides being enormously wasteful, this results in inflation of rates by contractors, to offset delay in the receipt of their dues and their consequent interest costs.

In fact, the systems in use throughout the Authority need careful review, to remove the built-in factors and practices that make for delay, waste and high cost. The Financial Review and Plan states that "The current operating expenditures are high relative to output with the main office costs increasing significantly".

Although improvements have been made with the allocation of operating costs between projects since the introduction of a Project Accounting system in 1981, the real costs of administration and design and supervision remain high and are likely to remain so unless a greater productivity is achieved.

G. Specific Programs and Projects (As distinct from Section 4, Description of Activities.)

There should be a detailed description and analysis of all major programs and projects, by program and project, being carried out or completed within the last couple of years. This should be comprehensive in nature e.g., types of units or facilities, costs, income levels or market being served, geographical locations, how well the project was received, how the project compared with original plans as to types of units, costs, and time, status of project if still underway, how the project fits into the announced policies and goals of the institution.

For instance, was there a feasibility study of the project? What is the internal review process? What kind of project implementation management is there? Is there a reporting system for management? Are the projects consistent with the policy statement of the organization; with its corporate plan?

Illustration: The Philippines NHA utilizes a number of different programs to carry out projects involving its primary functions of slum improvement, sites and services development and construction of new units.

Slum improvement projects can include upgrading, sanitary core houses and even some row housing units and vary from the huge Tondo Foreshore project in Manila to individual smaller projects.

The latter include a series of slum improvement projects in an overall program known as the Zonal Improvement Program (ZIP). In this program the NHA plays the role of developer. After completion, the projects are turned over to local governments who assume all assets and liabilities and responsibility for reovery of costs from beneficiaries, repayment of these costs to NHA and maintenancy of the projects. This program assumes a larger role for local government and community organizations.

There is also a Regional Cities Slum Improvement and Resettlement (SIR) Program where NHA on-lends funds to several cities for project implementation. A small number of rural projects completes the upgrading category. These projects are intended to give tenure and upgrade the facilities of tenant-farmers residing on estates owned by private landowners. The sites and services program is composed of a series of fifteen projects in urban areas concentrated on eight sites.

NHA tends to classify its projects by source of funding (which could suggest low levels of financial management): those which are assisted by foreign lenders, primarily the World Bank but including some German foreign aid funds; those which are joint ventures with local governments; and those which are funded solely by the NHA itself but in cooperation with other government agencies involved in housing development. Such a classification usually arises because of the impact of the financing agency's requirements and specific rules relating to such things as procurement, reporting, etc.

Finally, NHA has a small joint venture program whose main objective is to encourage and promote private sector participation in the housing effort. The NHA has five sub-programs in this category: construction of apartment units; construction financing on individual houses in NHA-identified sub-divisions; sub-division development, dormitory housing for students and private sites and services projects.

Annex F provides a list of projects with units constructed or upgraded from 1975-84 by program category to provide an overview of the mix of programs.

H. Financial Analysis

1. Financial Statements

A review and an analysis of balance sheets and operating statements for past five years.

2. Financial Plans

Is there a financial plan? How far out? Is this based on an overall corporate plan and, if so, how are they coordinated? Where are the financial staff located organizationally? What role do they play in the decision process?

3. Accounting

How up-to-date is the accounting data? Is it comprehensive? Does it provide management with information that it needs on a timely basis? Is accounting computerized? How is data obtained?

Illustration: With regard to financial statements and plans, the only detailed study of the Philippines NHA by outside consultants which appears to have been done in the past five years was a Financial Review and Plan done in early 1983 which examines data for FY's 1979 through 1982 and projects a plan period through FY 1988. The balance sheets and profit and loss statements for both periods are contained in Annexes G and H. A Source and Application of Funds projection is contained in Annex I.

The report draws conclusions and makes recommendations which appear to have been utilized by follow-on consultants. It also suggests that the Plan should be a "rolling" plan; that is, it should be updated each year. There is no indication that this has been carried forward. One point which the consultants make is that the NHA needs to prepare a complementary physical plan which should be better related to the development of the financial plan.

The report's summary of findings and recommendations are contained in Annex J. Highlights of the findings are contained below.

4. Cost Recovery

An NHA basically recovers costs through sales of the housing units it produces. It can do this either through cash sales or by engaging in long term financing of the units.

An analysis of this aspect of an NHA is obviously critical to any overall appraisal of the institution. If the NHA is not recovering full production costs, it will clearly need to be subsidized by government. If it is making mortgage loans and its collection record is poor, it will also need outside infusions of money. If this is not forthcoming, then the institution is in financial trouble.

Illustration: Cost recovery in the case of the Philippines NHA has not been given the support from management that is has needed. Collections from projects and loan repayments are too small and costs incurred on behalf of other agencies have not been reimbursed.

More efficient recovery of costs needs to be instituted. A Cost Recovery Action Plan was developed in 1984 to improve the pace of recoveries, but it needs systematic direction and follow-up. In addition to direct recovery from individual beneficiaries, there is a serious problem which arises out of the somewhat complex financial arrangements made with local governments under the Zonal Improvement Program (ZIP).

Finally, there are delays in payment for work NHA does on other agenices' behalf. Project agreements must be reached with all line agencies concerning the recovery of costs, ownership and ongoing maintenance and operating responsibilities of facilities to be constructed by the NHA but normally falling under the jurisdiction of these agencies.

I. Major Issues and Recommendations

This section should contain the overall appraisal of the institution based on the information obtained under Sections A-H above, identify the issues needing resolution and make recommendations. Suggested issues that will need to be dealt with include: Multiplicity of role - inefficiencies, conflicts, impact on financial viability.

Productivity - comparison with private sector, single purpose agencies.

Actual role in sector vs. mandate - performance in markets assumable by private sectors.

Potential for scaling up - growth potential with or without unlimited funds, need for focusing role, separating functions.

Increasing financial leverage - cost recovery/recycle, mobilization of housing finance, secondary markets, private participation.

Overall management capacity

Illustration: The consultants engaged to undertake a financial review of the Philippines NHA and prepare a five year plan for the future identified a series of issues and constraints arising out of the financial review. These are summarized below and listed in detail in Annex J:

-- The NHA continues to experience funding difficulties partially as a result of low corporate receipts and through the uncertainty in the amount of Government support and the timing of its releases.

-- The real costs of administration and design and supervision are high in relation to output.

-- Cost recovery has not been given the support it has needed. Collections from projects and loan repayments are too small and costs incurred on behalf of other agencies have not been reimbursed.

-- Obligations for debt servicing are projected to increase significantly during the next five years over the past levels. Over P150 million per annum will be needed to service all current domestic and foreign obligations from 1985 onwards.

-- Projections of financial resource availability indicate that between P787 million and P1178 million could be raised in 1984 with the high estimate based on the assumption that Government support for the Authority and its programs is given and that there is a significant improvement in the corporate receipts of the NHA. Under the same assumptions the available resources are estimated to be between P582 million and P1199 million in 1988.

-- The total capital program, representing the sum of the departmental programs, has been estimated at P1471 million for 1984 rising to P1773 million in 1988. With the addition of the projected debt service requirements and administration, maintenance and other current operating expenditures, the total financial requirements are projected at P1820 million in 1984 increasing to P2188 million in 1988.

-- On the basis of past performance and in view of the current implementing capacity it is unlikely that the NHA can in the future obligate more than P800 million per annum for new capital works thus requiring reductions to the capital programs to reduce the resource gap.

In a situation as complex as the Philippines it is beyond the objective of this paper, given the timeframe, to make very informed judgements as to the proper role of the NHA in this system. Thus, a summary of recommendations from the various reports is provided in this section and represent, for the most part, a consistency of views. Although there has been general agreement that NHA has a number of shortcomings and has not reached its potential, there is also agreement that it has demonstrated its capacity to produce a significant amount of housing. Further, it should be noted that there is an on-going effort in the World Bank recently to examine in considerable detail the role of the NHA and its effectiveness. One set of views has emerged that, given the context in which NHA has been operating, i.e., the political/bureaucratic environment with the always highly politicized nature of housing and a revamped shelter system with new agencies and new program, NHA has done a reasonably good job.

Perhaps a better understanding of all of NHA's operations and programs and a more careful review and anaysis of the climate in which it exists would have led to this conclusion sooner. Such an analysis should result from carrying out the appraisal format proposed. It is not covered, however, in the existing studies, with the possible exception of the Financial Review, although World Bank project personnel undoubtedly are (were) aware of the kinds of problems which clearly affected NHA's capacity to function effectively.

What conclusions can be reached relative to the available information and a test of the appraisal format. It appears that the institutional organization of the system is reasonable. There are clearly some areas of overlap. For instance, it would appear more efficient to have only one government agency involved in the production of housing, no matter what the income level cutoff the government aims at. In the Philippines you have several. It would also appear that it might be more effective if the NHA could divest itself of its mortgage servicing function and even the origination function. That is, stick to development and production of shelter and get out of the banking function. Another observation in this regard is the production of infrastructure facilities for other government agencies which should probably be avoided.

With regard to spinning off to the private sector those activities that the private sector can do, Philippine shelter strategy already appears to be headed in this direction with its HDMF/NHMFC secondary financing program for mortgages originated by private insitutions financing certain levels of housing built by private developers. In addition, the Ministry of Human Settlements' Private Sites and Services Program is aimed at private developers. At some point the NHA might continue to contract its efforts to even lower cost programs but this element appears to be about where it ought to be at present. There is, however, another area where NHA is carrying out functions that should be discontinued which is industrial estate development.

It would also appear that improvements in NHA's management operating effectiveness are clearly possible and a more in-depth analysis

could point these up. What shows up in the available reports are statements such as even with a concentration of "managerial resources on fewer tasks" which "is badly needed", "more managerial talent may be needed, especially in making sure that collection efficiency is adequate." There is no detailed analysis, however, of how loans are originated, the selection of borrowers, and ultimately the collection process and what delinquencies amount to. That is, why is the problem there?

Relative to personnel, one report states that "although jobs are secure, low pay scales, unclear career paths and the lack of other incentives results in a high turnover of the best trained and most-highly skilled staff who can easily find more rewarding opporunities elsewhere, particularly in the private sector". A later report suggests there is no problem. It would appear that more detailed analysis and specific recommendations are needed if the problem is as serious as is implied.

Following is a summary of recommendations made by the reports which dealt with NHA in some detail. Because the Financial Review and Plan contained the most detailed examination of NHA, the major recommendations of that study are set forth first. Following this, recommendations are set forth which are additive or modify the first set. However, as mentioned above, there was a significant consistency in recommendations by the various consultants.

The major recommendations contained in the NHA Financial Review and Plan, July 1983, are listed below. The more detailed recommendations are contained in Annex J.

- The NHA should request the Government to increase its authorized capital and obtain assurances that regular annual subscriptions of at least P200 million are made.
- The NHA should reorient its activities to those of a real estate developer and reduce its role as an end financing agency.
- Regarding the Financial Plan itself, the NHA should prepare a complementary physical plan and update the plan annually.
- In planning and budgeting, the first year of the plan should form the basis of the annual budget proposals for that year.
- Corporate receipts should be increased by the following means:

(1) improvements in productivity and output,

(2) prices to be charged for the benefits should be the maximum possible so long as basic affordability criteria are satisfied for social housing lots;

(3) collection efficiency must be improved,

(4) the NHA, with government support, should actively pursue the recovery of costs incurred on behalf of other agencies;

(5) project agreements with all line agencies should be entered into to recover costs made on their behalf prior to development;

(6) speed-up the turnover to local governments of roads, footpaths, drainage, public open-space and community facilities on all completed projects for maintenance and operation;

(7) the NHA, supported by the MHS, should make arrangements with the NHMFC for the purchase of residential mortgages on all sites and services and joint venture projects;

(8) bonds should be used to fund development where outright sale is proposed or short term credit is to be provided;

(9) the outright sale of economic or open market residential lots, commercial and industrial land should be encouraged;

(10) subsidized interest loans to beneficiaries should be phased out;

(11) disposal of the properties held for rent should be encouraged, but where this if not possible the introduction of economic rents should be undertaken;

(12) active steps should be taken to recover the costs invested in the resettlement program.

Among the other consultants there appears to be major support for having NHA concentrate its activities on slum upgrading and sites and services and divest itself of its economic housing (new construction) programs, industrial estate development and other side activities, e.g., operating a rental housing program.

There was also general agreement that the government should commit itself to the regular provision of funds, particularly its commitment to equity capital until NHA can get its cost recovery up, both from beneficiaries and other agencies for infrastructure. This recommendation is tied in to making these funds available even at the expense of Human Settlements Development Corporation which is developing programs at higher income levels.

Although dependent on improving collections and perhaps getting interest rates up or recognizing a loss, there is also general agreement that HMFC should give serious consideration to purchasing NHA loans so that NHA becomes a development agency only and not a long term financing agency with its capital unavailable for development of new projects.

Procedures and implementation capacity need to be significantly improved to cut down the back log of projects underway and enable the funds tied-up in the fashion to be productively employed. Related to this is this need to streamline land acquisition procedures and the need for shelter coordination mechanisms with other agencies, both local government joint venture partners and agencies providing infrastructure.

Overlying all of the above is the quality of management. Most of the consultants concluded that an upgrading of middle management, both in the extent of training and in the degree of responsibility delegated is essential to more efficient program and project execution. Decentralization of authority and responsibility across the board appears needed.

NHA should adhere to its policy of full cost recovery, and all costs not reimbursable from other agencies should be identified as recoverable costs, including administrative expenses. To the extent that administrative

expenses are excessive, as a result of such factors as a highly centralized bureaucracy which delays decision making, then changes in its operations should be implemented to lower these expenses in order to keep project costs within the affordability range of low income families. Moreover, the government should ensure that other government agencies reimburse NHA in a timely fashion for those project costs which are their responsibility.

V. CONCLUSIONS

The Philippine shelter sector, both programmatically and institutionally, is a very complex situation. Reviewing the available literature, mostly in the form of various reports, typically commissioned by the World Bank and attempting to do a sample appraisal of the NHA, is a difficult task.

One conclusion does emerge, however. Most of the reports/studies, etc., tend to deal with the Philippine shelter sector programs across the board; that is, with all of the agencies or with those agencies most immediately involved in a project and were done in 1983. Most are not completely self contained in that they assume the reader is very knowledgeable about all of the players in the game in the Philippines (this is not necessarily a criticism but rather an observation).

Of the reports that were provided, only three focussed primarily on the NHA and, as mentioned previously, one of these was a detailed financial review and plan. Two were done in 1983 using 1982 data and one, more of a summary of existing work, was done recently.

Nowhere is there one comprehensive report or study of the NHA that comes close to the appraisal outline of this paper. The only study which devotes itself exclusively to the NHA, the NHA Financial Review and Plan by Kinhill Pty, Ltd. in July 1983, concentrated on financial analysis although the report drew some broad-based conclusions and made related recommendations based on that analysis. Most of the analyses, observations, comments and recommendations concerning the NHA are usually included in reports dealing with the Philippine shelter sector in a broader context. The question is whether this is a shortcoming.

This paper has accomplished several objectives:

- it has proposed a systematic outline to be used in analyzing an NHA
- it has illustrated this outline with examples
- using the Philippines NHA as a typical example it demonstrates that many NHA's operate under serious constraints.

    (1) the decision making environment is often complex and unstable; there is a need to clarify housing policies of government
    (2) internal information systems are often very poor
    (3) there is poor financial structure and performance
    (4) there are complex and overlapping functions leading to programming/operational constraints

But the paper also demonstrates that this environment and internal operations can probably be improved. Such things as more definitive responsibility and accountability and greater managerial autonomy and stability can be made more explicit.

Annex A

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Annex B

OUTLINE FOR

THE TERMS OF REFERENCE FOR ANALYZING A MULTIPURPOSE

NATIONAL HOUSING AUTHORITY

I. Legal Status and Ownership

- A. The Legal Framework and Form of Organization
- B. Capitalization and Ownership
- C. Board of Directors

II. Background of the Institution and Its Place in the Shelter Sector System

- A. Underlying Rationale for the Institution's The Current Government System for Shelter

III. Policies and Operating Guidelines

- A. Statement of Policies, Goals and Objectives
- B. Operating Guidelines

IV. Description of Activities Carried Out By Institution

- A. The Institution's Programs and Functions
  1. Land Acquisition and Assembly
  2. Program and Project Development
  3. Studies and Research
  4. Production of Building Materials
  5. Technical Assistance to Purchasers of Housing
  6. Marketing and Sales
  7. Residential Rental Properties
  8. Commercial Activities Other Than Housing
- B. Activities Carried Out for Other Agencies
- C. Financial Activities
  1. Mobilization of Resources
  2. Long-Term Financing
- D. Competition or Overlap
- E. Coordination With or Approval By Other Government Agencies

V. Organization and Operations

A. Organization and Functional Descriptions
B. Operations

VI. Management

A. General Management
B. Corporate Plan
C. Staff and Personnel Analysis
D. Management Information Systems, Controls and Procedures

VII. Financial Analysis

A. Financial Statements
B. Financial Plans
C. Accounting
D. Cost Recovery

IX. Consolidated Evaluation of the Institution and Major Issues

X. Major Issues and Recommendation

NATIONAL HOMES NYSE-NHX

RECENT PRICE 3.3 | P/E RATIO NMF (Trailing: NMF; Median NMF) | RELATIVE P/E RATIO NMF | DIV'D YLD Nil | 192

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
High	30.5	24.3	38.4	33.4	12.0	4.5	5.6	8.0	5.5	4.4	3.9	2.9	4.6
Low	15.4	7.2	21.8	10.0	2.0	1.8	1.9	3.8	2.8	2.3	1.9	1.8	2.0

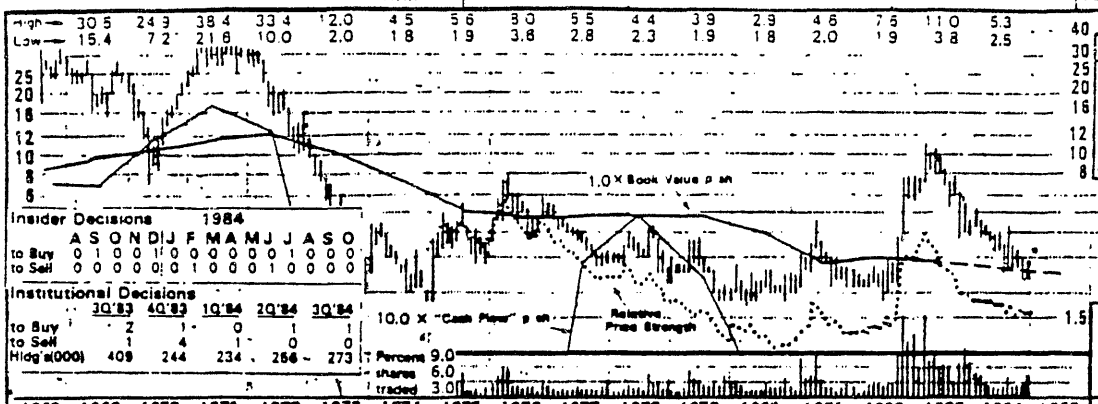
	7.6	11.0	5.3	1986	1987	1988	1989
High	1.9	3.8	2.5				
Low							

February 1, 1985 Value Line

TIMELINESS 3 Average (Relative Price Performance Next 12 Mos.)

SAFETY 5 Lowest (Scale: 1 Highest to 5 Lowest)

BETA 1.15 (1.00 = Market)



Insider Decisions 1984

	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
to Buy	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0
to Sell	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0

Institutional Decisions

	3Q'83	4Q'83	1Q'84	2Q'84	3Q'84
to Buy	2	1	0	1	1
to Sell	1	4	1	0	0
Hld's(000)	409	244	234	256	273

1987-89 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	7	(+110%)	27%
Low	3	(- 10%)	-2%

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1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		1987-89E
15.85	21.92	26.64	31.89	34.81	28.87	19.41	14.60	17.76	17.66	18.05	15.28	12.21	11.23	7.13	9.41	10.15	8.55	Sales per sh	13.50
.71	.70	1.19	1.74	1.23	d1.32	d2.47	d1.89	d.12	.29	.49	.24	d.70	d.89	d.96	d.13	d.10	.05	"Cash Flow" per sh	.65
.46	.47	.85	1.39	.80	d1.82	d2.87	d2.29	d.40	.04	.18	d.08	d.97	d1.11	d.98	d.27	d.25	d.15	Earnings per sh (A)	.40
--	--	--	.05	.20	.10	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Div'ds Decl'd per sh (B)	Nil
.44	.90	.62	.68	2.31	.36	.37	.10	.04	.32	.51	.23	.12	.08	.05	.19	.15	.15	Cap'l Spending per sh	.30
8.55	9.42	10.29	11.64	12.05	10.13	7.34	5.05	4.65	4.68	4.92	4.84	3.80	2.82	3.01	2.91	2.66	2.58	Book Value per sh	3.25
5.39	6.52	6.70	6.97	6.97	6.97	6.78	6.78	6.79	6.81	6.83	6.84	6.84	6.84	6.85	6.89	6.90	7.00	Common Shs Outst'g (C)	7.10
38.5	49.8	18.1	22.3	23.9	--	--	--	--	94.7	17.9	--	--	--	--	--	--		Avg Ann'l P/E Ratio	12.0
2.32	3.03	1.30	1.43	1.64	--	--	--	--	12.40	2.44	--	--	--	--	--	--		Relative P/E Ratio	1.00
--	--	--	2%	1.1%	1.9%	--	--	--	--	--	--	--	--	--	--	--		Avg Ann'l Div'd Yield	Nil

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		1987-89E
131.5	99.1	120.5	120.3	123.3	104.4	83.5	76.8	48.8	64.8	70.0	60.0	Sales ($mill)	95.0
NMF	NMF	.3%	4.3%	4.0%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	Operating Margin	5.5%
3.3	2.7	2.0	1.7	2.1	2.2	1.8	1.5	1.2	1.0	1.1	1.2	Depreciation ($mill)	1.5
d20.0	d15.5	d2.7	.3	1.3	d.5	d6.6	d7.6	d7.7	d1.9	d1.7	d1.0	Net Profit ($mill)	3.0
--	--	--	49.8%	47.9%	--	--	--	--	--	NMF	NMF	Income Tax Rate	46.0%
NMF	NMF	NMF	.2%	1.0%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	Net Profit Margin	3.2%
35.9	22.0	18.3	20.2	17.4	17.5	9.8	5.9	7.8	8.6	7.5	9.0	Working Cap'l ($mill)	15.0
86.0	77.8	73.2	69.0	57.2	32.1	32.8	42.5	40.7	37.0	34.5	34.5	Long-Term Debt ($mill)	35.0
49.8	34.3	31.5	31.9	33.6	33.1	26.0	19.3	20.6	20.0	17.5	16.5	Net Worth ($mill)	23.0
NMF	NMF	NMF	2.9%	4.4%	1.2%	NMF	NMF	NMF	NMF	NMF	NMF	% Earned Total Cap'l	8.0%
NMF	NMF	NMF	9%	3.7%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	% Earned Net Worth	13.0%
NMF	NMF	NMF	9%	3.7%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	% Retained to Comm Eq	13.0%
--	--	--	--	--	--	--	--	--	--	Nil	Nil	% All Div'ds to Net Prof	Nil

CAPITAL STRUCTURE as of 9/30/84
Total Debt $47.5 mill. Due in 5 Yrs. $34.0 mill.
LT Debt $32.7 mill. LT Interest $2.8 mill.
Incl. $18.5 mill. 4¾% sub. debs. ('96) callable $102.85 conv. into 24.10 com. shs. at $41.50. Incl. $.6 mill. capitalized leases. (Interest not covered.) (64% of Cap'l)

Leases, Uncapitalized Annual rentals $.8 mill.

Pension Liability $.6 mill. in '83 vs. $1.6 mill. in '82

Pfd Stock None

Common Stock 6,904,100 shs. (36% of Cap'l) as of 7/31/84 (7.4 mill. fully diluted shares)

CURRENT POSITION ($MILL.)	1982	1983	9/30/84
Cash Assets	2.0	2.7	1.9
Receivables	14.5	11.7	13.8
Inventory(FIFO)	11.8	12.0	16.0
Other	.4	.3	.4
Current Assets	28.7	26.7	32.1
Accts Payable	4.7	3.5	2.9
Debt Due	9.7	8.1	14.8
Other	6.5	6.5	7.8
Current Liab.	20.9	18.1	25.5

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '81-'83 to '87-'89
Sales	-11.5%	-12.5%	6.5%
"Cash Flow"	—	—	NMF
Earnings	—	—	NMF
Dividends	—	—	Nil
Book Value	-12.5%	-9.5%	2.0%

Cal-endar	QUARTERLY SALES ($ mill.) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	14.9	24.7	22.3	14.9	76.8
1982	8.7	11.2	11.1	17.8	48.8
1983	11.3	18.1	21.1	14.3	64.8
1984	13.6	19.5	18.8	18.1	70.0
1985	12.0	16.0	18.0	14.0	60.0

Cal-endar	EARNINGS PER SHARE (A) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	d.49	d.18	d.13	d.31	d1.11
1982	d.25	d.25	d.31	d.17	d.98
1983	d.21	.05	d.04	d.07	d.27
1984	d.15	.06	d.07	d.09	d.25
1985	d.20	.06	.05	d.06	d.15

Cal-endar	QUARTERLY DIVIDENDS PAID (B) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	NO DIVIDENDS BEING PAID				
1982					
1983					
1984					
1985					

BUSINESS: National Homes Corporation is a leading manufacturer of prefabricated (panelized) single- and multi-family homes. Complete home "packages" are sold to local builders, who erect the units. National operates four plants serving 39 states east of the Rocky Mountains. Sold 6,842 units in '83. Develops and operates resort and retirement communities and real estate. Labor costs about 12% of sales. '83 depreciation rate: 2.9%. Estimated plant age: 25 years. Has 900 employees, 9,725 shareholders. Directors own 12% of common stock. Chairman: F.P. Flynn, Jr. President: D.R. Price. Incorporated: Indiana. Address: Earle Avenue at Wallace Street, Lafayette, Indiana 47904.

National Homes will almost certainly report its sixth straight annual deficit for 1984, and its tenth in the last 12 years. The company had a deficit of 16¢ a share for the first nine months, excluding nonrecurring items. With new orders for the seasonally weak fourth period probably not too much changed from a year ago, we think a fourth-quarter loss is quite likely.

The string of deficits has sapped National's financial strength. In 1972, the company had net worth of $84 million and long-term debt of $47 million. At the end of the September quarter last year, National's equity was $18 million and its long-term debt was $33 million. We rate the company C (Lowest) for Financial Strength, and the stock 5 (Lowest) for Safety.

We estimate National will log another, albeit smaller, deficit this year. We think National will be operating in a homebuilding environment slightly weaker than a year ago; however, National's margins will benefit from shuttering the Lafayette, Indiana plant late last year and moving operations to a smaller plant.

Prospects for other National businesses in 1985 are not favorable. Sales of university housing units built last year as tax shelters were not as successful as anticipated, and additional units probably won't be built. Uncertainty caused by the Treasury's proposal to cap the interest deduction on the Federal tax return for second homes could well dent demand at National's Lake Travis community outside Austin.

National must build another revenue source if it is to compete effectively over the 3- to 5-year period. Its assays into building office condos and rental housing to be sold as tax shelters to small investors have not been particularly productive, and would be less so if the Treasury's tax plan were passed (not assumed in our projections). Our 1987-89 projections for National *do* assume about $20 million in new real estate and residential construction revenues, an assumption that's not at all assured. Risky National shares, which rank 3 (Average) for Timeliness, are not currently recommended. *A.K.B./H.S.K.*

CASH POSITION	5-Year Av'g	9/30/84
Current Assets to Current Liabilities:	146%	126%
Cash & Equiv's to Current Liab'ties:	15%	7%
Working Capital to Sales:	13%	10%

(A) Based on average shares. Includes loss from discontinued operations: '73, $1.09; '74, 37¢; '77, 26¢. Gains: '79, $1.60; '81, 13¢. Excludes extraordinary nonrecurring gains (loss): '78, 7¢; '82, $1.12; '84, (19¢). Excludes gains on repurchase of debentures: '82, 14¢; '83, 18¢; '84, 9¢. Next earnings report due mid-Feb. (B) Last dividend paid July 17, 1973. (C) In millions.

Company's Financial Strength	C
Stock's Price Stability	5
Price Growth Persistence	30
Earnings Predictability	30

PULTE HOME NYSE-PHM

RECENT PRICE 20 | P/E RATIO 23.8 (Trailing: 30.9; Median: 6.5) | RELATIVE P/E RATIO 2.16 | DIV'D YLD 0.6% | 886

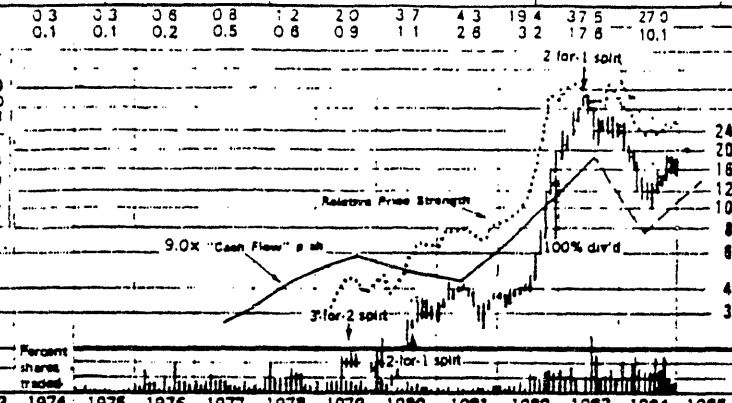
High	1.3	1.1	1.5	1.4	0.6	0.3	0.3	0.6	0.8	1.2	2.0	3.7	4.3	19.4	37.5	27.0						
Low	1.0	0.4	0.8	0.6	0.1	0.1	0.1	0.2	0.5	0.6	0.9	1.1	2.6	3.2	17.6	10.1						

Insider Decisions 1984

	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
to Buy	0	1	0	0	0	0	0	0	1	0	1	0	0	0	0
to Sell	1	1	0	0	1	0	0	0	0	1	2	1	1	2	1

Institutional Decisions

	3Q'83	4Q'83	1Q'84	2Q'84	3Q'84
to Buy	19	19	16	16	20
to Sell	16	19	21	23	11
Hld's(000)	4201	4088	4068	4082	4617



February 1, 1985 Value Line

TIMELINESS 3 Average (Relative Price Performance Next 12 Mos.)

SAFETY 3 Average (Scale: 1 Highest to 5 Lowest)

BETA 1.35 (1.00 = Market)

1987-89 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+100%)	19%
Low	25	(+25%)	6%

1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	© Value Line, Inc.	87-89E
--	--	1.90	2.11	3.07	3.27	2.29	2.21	3.46	5.65	8.74	12.56	14.33	16.70	20.36	36.73	35.70	34.25	Sales per sh	44.25
--	--	.04	.04	.08	.04	.02	.02	.11	.31	.48	.65	.58	.49	1.00	2.18	.85	1.60	"Cash Flow" per sh	2.65
--	--	.03	.04	.07	.02	--	.01	.09	.23	.42	.57	.47	.38	.78	1.84	.65	1.30	Earnings per sh (A)	2.50
--	--	--	--	--	--	--	--	--	.01	.02	.03	.05	.05	.06	.09	.12	.12	Div'd Decl'd per sh (B)	.15
--	--	.37	.53	.59	.59	.60	.61	.72	.95	1.40	1.98	2.47	2.81	3.71	5.70	6.15	7.35	Book Value per sh	12.75
--	--	16.40	22.95	22.95	24.39	24.39	24.39	24.43	24.47	23.28	23.42	22.74	22.96	23.50	23.50	23.50	23.50	Common Shares Outst'g (C)	26.50
--	--	23.5	30.0	13.7	16.8	45.0	17.1	4.5	2.8	3.0	2.6	5.0	9.7	8.7	14.7	24.7		Avg Ann'l P/E Ratio	13.0
--	--	1.69	1.92	.94	1.66	6.30	2.28	.58	.37	.41	.38	.66	1.18	.96	1.24	2.31		Relative P/E Ratio	1.10
--	--	--	--	--	--	--	--	--	1.3%	1.4%	2.2%	1.9%	1.4%	.8%	.3%	.7%		Avg Ann'l Div'd Yield	.5%

CAPITAL STRUCTURE as of 9/30/84
Total Debt $32.1 mill. Due in 5 Yrs $18.0 mill.
LT Debt $23.6 mill. LT Interest $2.4 mill.
(LT interest earned: 2.0x; total interest coverage: 1.7x) (14% of Cap'l)

Pension Liability None in '83 vs. None in '82

Pfd Stock None

Common Stock 23,508,793 shs. (86% of Cap'l) (26.5 mill. primary shs.)

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		87-89E
55.8	53.8	84.6	138.3	203.4	294.1	325.8	383.5	478.5	863.3	839.1	[illegible]	Sales ($mill)	1175
1.9%	2.6%	6.6%	9.9%	10.1%	8.9%	5.5%	1.6%	6.4%	9.3%	2.0%	5.0%	Operating Margin	8.0%
--	54.8%	52.6%	55.4%	51.8%	49.1%	46.8%	20.9%	38.3%	44.6%	48.5%	48.0%	Income Tax Rate	48.0%
.1	.3	2.4	5.9	10.5	14.5	11.9	9.6	22.0	48.9	17.3	34.5	Net Profit ($mill)	66.0
.2%	.5%	2.8%	4.3%	5.2%	4.9%	3.7%	2.5%	4.6%	5.7%	2.1%	4.3%	Net Profit Margin	5.6%
26.8	23.3	19.3	24.1	33.1	70.6	86.4	94.8	84.9	118.8			Homes Inventory ($mill)	
19.3	17.0	9.6	10.7	22.4	35.8	30.1	24.9	22.3	57.3			Land Inventory ($mill)	
21.7	22.1	19.6	32.4	55.9	88.9	111.2	102.7	108.3	173.0	170	185	Working Cap'l ($mill)	280
10.0	10.0	10.0	14.5	29.0	39.1	48.7	28.9	28.8	26.4	23.5	20.5	Long-Term Debt ($mill)	18.0
14.5	14.8	17.5	23.2	32.8	46.4	56.1	64.6	87.2	133.9	150	180	Net Worth ($mill)	325
2.2%	3.0%	10.6%	17.2%	18.5%	19.2%	13.6%	16.5%	20.1%	31.3%	10.5%	17.5%	% Earned to Total Cap'l	19.5%
.6%	1.9%	13.4%	25.5%	32.4%	31.4%	21.3%	14.9%	25.2%	36.5%	11.5%	18.0%	% Earned Net Worth	19.5%
.6%	1.9%	13.4%	24.7%	31.1%	29.7%	19.5%	13.1%	23.8%	34.9%	9.5%	17.5%	% Retained to Comm Eq	18.5%
--	--	--	3%	4%	5%	9%	12%	6%	4%	18%	9%	% All Div'ds to Net Prof	6%

CURRENT POSITION ($mill.)	1982	1983	9/30/84
Cash Assets	54.5	61.7	38.1
Receivables	2.0	5.0	5.2
Inventory (c)	107.2	175.9	198.8
Other	4.4	10.8	7.1
Current Assets	168.1	253.4	249.2
Accts Payable	28.2	34.6	35.4
Debt Due	6.1	7.8	8.5
Other	25.5	38.0	47.0
Current Liab.	59.8	80.4	90.9

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '81-'83 to '87-'89
Sales	24.0%	33.0%	10.5%
"Cash Flow"	37.0%	33.0%	14.0%
Earnings	36.5%	32.0%	16.5%
Dividends	—	38.0%	13.5%
Book Value	21.5%	32.0%	21.0%

Cal-endar	QUARTERLY SALES ($ mill.) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	63.5	107.4	103.6	109.0	383.5
1982	82.0	102.3	127.3	186.9	478.5
1983	155.0	210.6	219.7	278.0	863.3
1984	193.5	214.0	203.4	228.2	839.1
1985	145	205	225	230	885

Cal-endar	EARNINGS PER SHARE (A) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.03	.15	.03	.17	.38
1982	d.05	.11	.24	.48	.78
1983	.31	.47	.53	.53	1.84
1984	.09	.12	.15	.29	.65
1985	.15	.25	.40	.50	1.30

Cal-endar	QUARTERLY DIVIDENDS PAID (B) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.012	.012	.012	.012	.05
1982	.012	.012	.012	.012	.05
1983	.017	.017	.025	.025	.08
1984	.025	.03	.03	(E) .06	(E) .15
1985					

BUSINESS: Pulte Home Corporation is a major builder of single-family homes and developer of residential subdivisions. The company operates in 10 states through two regional offices (eastern and western). Single-family detached homes provide 68% of total settlements. Sold 11,008 units in 1984. ICM Mortgage Corp., a wholly-owned subsidiary, provides mortgage financing. '83 depreciation rate: 14.4%. Has 1,700 employees; 2,101 shareholders. Directors control 65% of the outstanding stock. Incorporated: Delaware. Chairman and Chief Executive Officer: James Grosfeld. President: Roy F. Krag. Address: 5400 Farmington Road, West Bloomfield, Michigan 48033.

Pulte's operating margin widened in the December quarter, from less than 1% in the first nine months to 3.9%. The improvement stems mainly from stringent cost-cutting measures taken during the year, especially in the third quarter. That's when Pulte closed its Seattle and Orlando operations and decided to cut back or close divisions in Detroit, Pennsylvania, and Puerto Rico. Pulte begins 1985 with 15 ongoing divisions (vs. 24 in early 1984) and about 20% less employees than a year earlier. The cost savings will be reflected in better operating margins in 1985. We believe the number of subdivisions, a key element in generating sales, is now not substantially below the year-ago level.

However, buydowns continue to weigh heavily on earnings, despite the drop of about 200 basis points (two percentage points) in conventional mortage rates since mid-1984. Buydowns (payments to homebuyers to reduce their mortgage rate) cost Pulte about 25¢ a share in the fourth quarter, not too much less than the 30¢ in the third quarter. Pulte emphasizes large growth markets in the South and Southwest so the company can gain efficiencies of scale. However, other majors like Ryan and Ryland have also moved into these markets, creating more competition for available buyers. We look for only a moderate reduction in buydowns for Pulte in 1985, when we forecast that conventional mortgage rates will average about 100 basis points below the 14% logged in 1984.

We estimate Pulte's profits will recover to $1.30 a share this year, mainly because of the cost-cutting measures cited above. The slide in mortgage rates since mid-1984 has not been reflected in a quickening of new orders. They totaled 2,171 in the fourth quarter, 23% below the year-ago level. We expect new orders for Pulte in 1985 to follow the national experience and be down modestly. Pulte started 1985 with a backlog of 1,559 units, 29% below the year-ago amount. We estimate Pulte will deliver at least 10%-15% fewer homes this year than last. Pulte shares, now selling at 23.8 times earnings, appear to discount the projected recovery in net. Our estimates for Pulte do not assume passage of the Treasury's tax simplification plan, which, in our opinion, would be a negative for housing initially.

A.K.B./H.S.K.

(A) Primary earnings. Next earnings report due late Apr. Excludes nonrecurring gain: '82, 13¢. (B) Next dividend meeting about Mar. 5. Goes ex about Mar. 13. Dividend payment dates: Apr. 2, July 2, Oct. 1, Dec. 27. (C) In millions, adjusted for stock splits & dividends. (D) Specific identification. (E) Just a timing difference. First quarter 1985 div'd paid on Dec. 27, 1984.

Company's Financial Strength	B++
Stock's Price Stability	15
Price Growth Persistence	100
Earnings Predictability	40

RYAN HOMES, INC.

NYSE RYN | RECENT PRICE 28 | P/E RATIO 17.2 (Trailing: 14.9; Median: 12.0) | RELATIVE P/E RATIO 1.56 | DIV'D YLD 3.6%

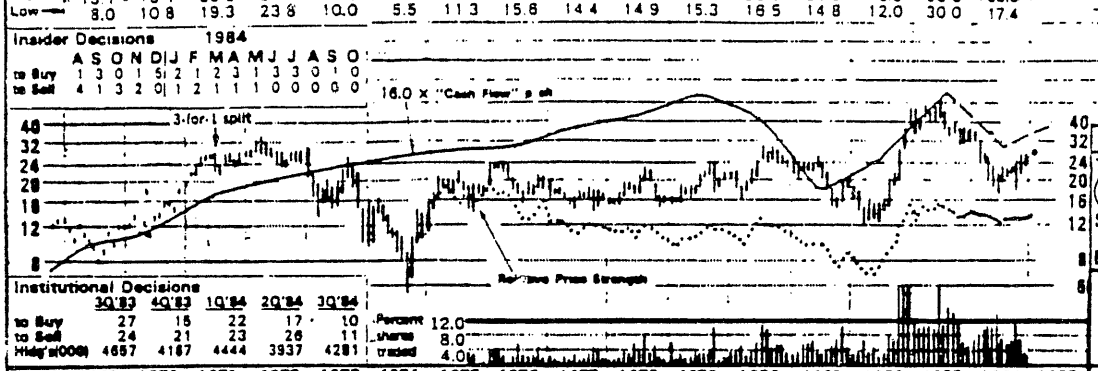
	1984	1985	1986	1987	1988	1989
High	13.1 - 18.1	28.8	34.4	29.8	16.8	22.6
Low	8.0	10.8	19.3	23.8	10.0	5.5

	1984	1985	1986	1987	1988	1989
High	25.8	20.0	23.8	25.4	30.0	26.9
Low	11.3	15.8	14.4	14.9	15.3	16.5

	1984	1985	1986	1987	1988	1989
High	14.8	46.0	50.0	35.6		
Low	12.0	30.0	17.4			

Insider Decisions 1984

	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
to Buy	1	3	0	1	5	2	1	2	3	1	3	3	0	1	0
to Sell	4	1	3	2	0	1	2	1	1	1	0	0	0	0	0



February 1, 1985 Value Line

TIMELINESS 3 Average (Relative Price Performance Next 12 Mos.)

SAFETY 3 Average (Scale: 1 Highest to 5 Lowest)

BETA 1.25 (1.00 = Market)

1987-89 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+150%)	28%
Low	45	(+60%)	16%

Institutional Decisions

	3Q'83	4Q'83	1Q'84	2Q'84	3Q'84
to Buy	27	15	22	17	10
to Sell	24	21	23	26	11
Hld's(000)	4657	4187	4444	3937	4281

Percent shares traded 12.0 8.0 4.0

1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	© Value Line, Inc.	'87-89E
11.85	13.67	14.28	18.91	24.14	29.48	30.86	30.59	35.31	47.60	61.57	76.05	64.79	55.94	59.44	88.00	85.90	88.10	Sales per sh	128.50
.47	.65	.89	1.08	1.38	1.48	1.61	1.74	1.90	2.40	2.74	3.43	2.71	1.16	1.58	3.44	1.95	2.45	"Cash Flow" per sh	5.25
.47	.60	.87	.97	1.26	1.42	1.48	1.60	1.74	2.23	2.49	3.09	2.32	.72	1.10	2.94	1.55	2.00	Earnings per sh (A)	4.50
--	--	--	--	--	.20	.20	.20	.43	.58	.85	1.05	1.23	1.30	1.15	1.00	1.00	1.00	Div'd Decl'd per sh (B)	1.35
2.19	2.79	3.73	4.09	5.24	6.57	7.87	9.26	10.69	12.43	14.13	16.26	17.37	16.80	16.35	18.69	19.75	20.70	Book Value per sh (C)	26.50
6.74	6.71	6.70	6.30	6.23	6.41	6.32	6.35	6.40	6.45	6.49	6.52	6.57	6.64	6.69	6.80	6.81	6.81	Common Shares Outst'g (D)	7.00
26.8	17.7	20.3	25.7	22.1	13.6	7.8	11.3	11.9	7.5	7.3	6.2	10.1	29.6	18.8	13.4	15.6		Avg Ann'l P/E Ratio	13.0
1.60	1.08	1.46	1.64	1.52	1.34	1.09	1.51	1.52	.98	1.00	.90	1.34	3.60	2.07	1.13	1.45		Relative P/E Ratio	1.10
--	--	--	--	--	1.0%	1.7%	1.1%	2.1%	3.5%	4.7%	5.5%	5.3%	6.1%	5.6%	2.5%	4.1%		Avg Ann'l Div'd Yield	2.3%

CAPITAL STRUCTURE as of 9/30/84
Total Debt $104 mill. Due in 5 Yrs $96.0 mill.
LT Debt $15.7 mill. LT Interest $1.3 mill.
Incl. $6.2 mill. 8% debs. ('91) callable at 100, cv. into 32.79 shs. at $30.50.
Incl. $11.0 mill. capitalized leases.
(LT interest earned: 24.5x; total interest coverage: 4.7x) (11% of Cap'l)

Pension Liability None in '83 vs. None in '82

Pfd Stock None

Common Stock 6,813,218 shs. (89% of Cap'l)

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		'87-89E
195.0	194.2	225.9	306.9	399.6	496.1	425.9	371.4	397.6	598.2	585	600	Sales ($mill)	900
9.9%	10.5%	9.5%	9.0%	8.1%	8.2%	7.0%	3.5%	.3%	4.5%	2.0%	3.0%	Operating Margin	5.0%
51.3%	51.4%	50.1%	49.4%	49.3%	48.8%	48.5%	52.5%	--	36.3%	50.0%	50.0%	Income Tax Rate	50.0%
9.5	10.4	11.4	14.7	16.4	20.5	15.5	4.9	7.5	20.9	10.5	13.5	Net Profit ($mill)	31.5
4.9%	5.4%	5.1%	4.8%	4.1%	4.1%	3.6%	1.3%	1.9%	3.5%	1.8%	2.3%	Net Profit Margin	3.5%
40.3	38.8	46.4	68.1	95.8	--	--	--	--	--			Homes Inventory ($mill)	
9.1	6.6	8.0	9.5	14.2	--	--	--	--	--			Land Inventory ($mill)	
40.1	42.7	49.6	48.4	47.3	57.1	54.7	76.3	91.0	126.1	125	130	Working Cap'l ($mill)	170
11.3	11.0	10.8	11.3	19.7	20.8	17.7	18.0	19.1	17.5	15.5	13.5	Long-Term Debt ($mill)	10.0
49.8	58.8	68.4	80.2	91.7	106.0	114.2	111.5	109.4	127.1	130	135	Net Worth ($mill)	185
16.2%	15.5%	14.9%	16.5%	15.3%	16.8%	12.4%	4.4%	6.9%	15.0%	7.5%	9.5%	% Earned to Total Cap'l	16.5%
19.2%	17.7%	16.7%	18.3%	17.9%	19.3%	13.6%	4.4%	6.9%	16.5%	8.0%	10.0%	% Earned Net Worth	17.0%
16.6%	14.5%	12.7%	13.7%	11.9%	12.9%	6.5%	NMF	.3%	11.1%	2.5%	5.0%	% Retained to Comm Eq	12.0%
13%	18%	24%	25%	34%	33%	52%	NMF	95%	32%	65%	50%	% All Div'ds to Net Prof	30%

CURRENT POSITION ($MILL.)	1982	1983	9/30/84
Cash Assets	1.7	.6	2.1
Receivables	7.6	26.9	23.9
Inventory (E)	114.5	117.5	137.1
Other	48.0	133.7	110.8
Current Assets	171.8	278.7	273.9
Accts Payable	22.2	23.1	25.3
Debt Due	41.7	105.6	88.3
Other	16.9	23.9	21.0
Current Liab.	80.8	152.6	134.6

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '81-'83 to '87-'89
Sales	11.0%	7.0%	11.0%
"Cash Flow"	4.5%	-2.5%	18.5%
Earnings	2.5%	-6.0%	21.0%
Dividends	19.0%	13.0%	2.5%
Book Value	12.5%	7.0%	7.5%

Cal-endar	QUARTERLY SALES ($ mill.) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	90.8	108.5	89.1	83.0	371.4
1982	62.0	104.8	103.6	127.2	397.6
1983	121.0	164.6	155.9	156.7	598.2
1984	119.3	164.8	148.4	152.5	585
1985	120	150	155	175	600

Cal-endar	EARNINGS PER SHARE (A) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.27	.33	.18	d.08	.72
1982	d.44	.38	.33	.85	1.10
1983	.38	1.03	.77	.78	2.94
1984	.36	.38	.38	.45	1.56
1985	.35	.45	.50	.70	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID (B) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.325	.325	.325	.325	1.30
1982	.325	.325	.25	.25	1.15
1983	.25	.25	.25	.25	1.00
1984	.25	.25	.25	.25	1.00
1985	.25				

BUSINESS: Ryan Homes, Inc. is a major builder of single-family and multi-family housing. Primary markets: Wash. D.C. area, Ohio, Pennsylvania, and New York. Also operates in Indiana, Georgia, Kentucky, Tennessee, Florida, Virginia, North Carolina and Texas. Single-family detached homes account for 62% of unit sales. Ryan Financial Services, a 100%-owned subsidiary, provides mortgage financing. 1983 depreciation rate: 7.2%. Has 4,795 employees; 1,510 shareholders. Directors control 3% of outstanding stock. Incorporated: Pennsylvania. Chairman & Chief Executive Officer: Malcolm M. Prine. President: Steven J. Smith. Address: 100 Ryan Court, Pittsburgh, Pennsylvania 15206.

An unexpected, sharp upturn in interest rates torpedoed net last year; Ryan's deliveries were only modestly below the year-ago level. Mortgage interest rates rose about 200 basis points (two percentage points) in 1984's first half, after Ryan Financial Services had passed on to the parent company expected brokerage income that didn't materialize. Ryan's equity in the net income of its mortgage subsidiary fell by two-thirds in the first nine months to about $2 million. Also, gross margins at the home-building operations suffered. Ryan had to pass on to customers an additional $2 million in mortgage points in the second and third quarters in order to remain competitive.

We expect Ryan's margins to improve considerably in 1985. Mortgage rates are currently about where they were near the beginning of 1984. However, U.S. real economic growth has slowed since then, reducing chances for another sharp upswing in mortgage rates this year, in our opinion. We look for mortgage rates in 1985 to average about one percentage point below the year-ago level. If we're right, Ryan Financial Services' income will rise substantially. Also, buydowns (mortgage payments to customers to induce the sale) should lessen. Indeed, in the fourth quarter, when interest rates declined sharply, Ryan conceded $1.5-$2.0 million less in buydowns not already in the selling price than in the third quarter.

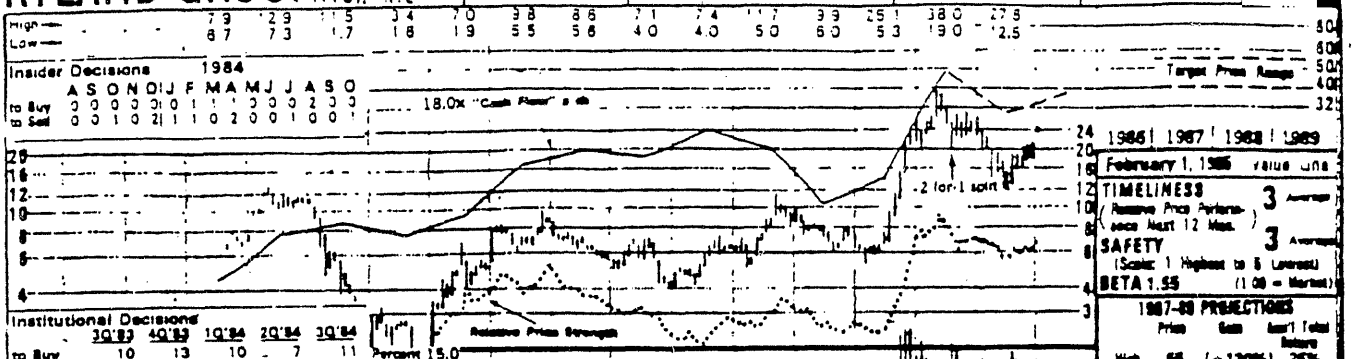
We estimate that Ryan's income will recover to around $2 a share in 1985, almost entirely as a result of margin improvement. Ryan started 1985 with a backlog that was 15%-20% below the year-ago level, in our estimation, and we look for 1985 deliveries to decline 5%-10%. Revenues will be aided this year by deliveries from last year's start-up operations in Florida and Texas. Business will also be helped by the introduction of newly designed facades (the American Portfolio line of homes), which increase the curb appeal of Ryan's Northern product line. We think Ryan shares will perform as well as the average stock in the year ahead. They have considerable capital gains potential to 1987-89, buoyed by the company's use of industrialized construction (which saves on costs), its sound capitalization, and expected continued expansion into the faster growing Sunbelt. *A.K.B./N.T.*

(A) Primary earnings. Next earnings report due early Feb. Excl. nonrecurring loss: '82, 44¢. (B) Next dividend meeting about Mar. 26. Goes ex about Apr. 3. Dividend payment dates: Jan. 25, Apr. 27, July 27, Oct. 26. (C) Incl. intangibles. In '83: $5.4 mill., 79¢/sh. (D) In millions, adjusted for stock splits and dividends. (E) Specific identification.

Company's Financial Strength	B+
Stock's Price Stability	35
Price Growth Persistence	25
Earnings Predictability	25

RYLAND GROUP NYSE—RYL

RECENT PRICE 24 | P/E RATIO 14.8 (Trailing: 14.1; Median: 9.8) | RELATIVE P/E RATIO 1.35 | DIV'D YLD 2.5%



Insider Decisions 1984

	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	1	1	1	0	0	0	2	0	0
to Sell	0	0	1	0	2	1	1	0	2	0	0	1	0	0	1

Institutional Decisions

	3Q'83	4Q'83	1Q'84	2Q'84	3Q'84
to Buy	10	13	10	7	11
to Sell	17	11	17	12	9
Hld's (000)	2623	2747	2740	3102	3676

1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		87-89 E
--	--	--	5.71	7.55	11.06	11.19	11.06	17.43	22.56	35.00	38.76	42.07	39.09	34.56	65.43	62.95	70.50	Sales per sh	100.00
--	--	--	.27	.44	.47	.41	.51	.94	1.10	1.02	1.34	1.13	.57	.79	2.71	1.65	2.10	"Cash Flow" per sh	3.70
--	--	--	.30	.39	.42	.36	.49	.90	1.06	.96	1.24	1.06	.50	.70	2.52	1.50	1.95	Earnings per sh (A)	3.50
--	--	--	--	--	--	--	.04	.08	.13	.21	.26	.30	.36	.38	.51	.60	.60	Div'ds Decl'd per sh (B)	.70
--	--	--	.11	.16	.01	--	.01	.03	.06	.07	.05	.18	.84	.88	1.26	1.30	1.30	Cap'l Spending per sh	2.00
--	--	--	1.48	1.87	2.28	2.64	3.08	3.93	4.87	5.72	6.72	7.48	7.51	7.88	10.04	10.95	12.30	Book Value per sh	18.75
--	--	--	5.55	5.54	5.50	5.20	5.13	5.14	5.17	6.51	6.18	6.13	5.91	5.97	6.03	6.10	6.10	Common Shs Outst'g (C)	6.10
--	--	--	24.2	28.2	13.7	6.8	9.5	8.4	6.4	6.0	4.4	7.4	15.6	14.0	10.5	12.5		Avg Ann'l P/E Ratio	13.5
--	--	--	1.55	1.93	1.35	.95	1.27	1.08	.84	.82	.64	.98	1.90	1.54	.89	1.15		Relative P/E Ratio	1.15
--	--	--	--	--	--	--	.9%	1.0%	1.9%	3.7%	4.8%	3.9%	4.7%	3.8%	1.9%	3.2%		Avg Ann'l Div'd Yield	1.5%

58.2	56.8	89.5	116.6	227.7	245.6	258.0	230.9	206.5	394.5	390	430	Sales (Smill)	610
7.4%	8.7%	10.5%	9.3%	6.4%	8.9%	5.4%	3.4%	2.9%	6.9%	4.6%	4.5%	Operating Margin	6.5%
.2	.1	.1	.2	.3	.3	.4	.3	.5	.6	.8	.9	Depreciation (Smill)	1.7
1.9	2.5	4.7	5.5	6.4	7.9	6.6	3.0	4.2	15.7	9.2	12.0	Net Profit (Smill)	21.5
50.8%	50.4%	50.6%	49.8%	51.0%	48.2%	50.3%	46.5%	38.8%	44.1%	48.0%	48.0%	Income Tax Rate	48.0%
3.3%	4.4%	5.3%	4.7%	2.8%	3.2%	2.6%	1.3%	2.0%	4.0%	2.4%	2.8%	Net Profit Margin	3.5%
12.7	14.8	19.2	24.8	38.3	40.7	44.3	40.6	46.6	72.8	80.0	90.0	Working Cap'l (Smill)	140
--	--	--	--	--	--	--	3.5	7.2	12.5	13.0	12.5	Long-Term Debt (Smill)	45.0
13.7	15.8	20.2	25.2	37.2	41.5	45.9	44.4	47.1	60.6	66.0	75.0	Net Worth (Smill)	115
14.0%	15.7%	23.5%	22.0%	17.1%	19.1%	14.3%	8.7%	8.2%	22.1%	12.5%	14.5%	% Earned Total Cap'l	15.0%
14.0%	15.7%	23.5%	22.0%	17.1%	19.1%	14.3%	6.8%	8.9%	25.9%	14.0%	16.0%	% Earned Net Worth	18.5%
14.0%	14.4%	21.6%	19.4%	13.5%	15.1%	10.1%	1.9%	4.2%	20.9%	6.5%	11.0%	% Retained to Common Eq	15.0%
--	8%	8%	12%	21%	21%	30%	72%	53%	19%	48%	31%	% All Div'ds to Net Prof	20%

CAPITAL STRUCTURE as of 9/30/84
Total Debt $13.1 mill. Due in 5 Yrs $3.0 mill.
LT Debt $13.1 mill. LT Interest $1.0 mill.
Incl. $12.5 mill. capitalized leases.
(LT interest earned: 32.2x; total interest coverage: 24.0x) (17% of Cap'l)

Pension Liability None in '83 vs. None in '82
Pfd Stock None

Common Stock 6,049,076 shs. (83% of Cap'l)

CURRENT POSITION ($mill.)	1982	1983	9/30/84
Cash Assets	1.5	1.2	14.9
Receivables	1.0	2.9	1.3
Inventory (D)	53.1	64.1	81.8
Other	9.7	46.9	10.6
Current Assets	65.3	115.1	108.6
Accts Payable	7.2	7.5	11.6
Debt Due	.3	18.2	--
Other	11.2	16.6	15.9
Current Liab.	18.7	42.3	27.5

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '81-'83 to '87-'89
Sales	19.0%	13.0%	13.5%
"Cash Flow"	13.0%	6.0%	18.5%
Earnings	13.0%	5.0%	19.0%
Dividends	—	24.5%	9.0%
Book Value	18.5%	12.0%	14.0%

Cal-endar	QUARTERLY SALES ($ mill.) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	52.7	81.1	83.3	53.8	230.9
1982	39.2	46.4	52.4	68.5	206.5
1983	71.5	108.7	118.8	95.4	394.5
1984	76.9	103.3	113.1	96.7	390
1985	75.0	115	120	120	430

Cal-endar	EARNINGS PER SHARE (A) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.08	.16	.17	.09	.50
1982	.01	.10	.20	.39	.70
1983	.38	.78	.78	.58	2.52
1984	.17	.48	.47	.48	1.60
1985	.20	.55	.55	.60	1.95

Cal-endar	QUARTERLY DIVIDENDS PAID (B) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.09	.09	.09	.09	.36
1982	.09	.09	.09	.09	.36
1983	.105	.105	.125	.125	.46
1984	.15	.15	.15	.15	.60
1985	.15				

1986 | 1987 | 1988 | 1989

February 1, 1985 Value Line

TIMELINESS 3 Average (Relative Price Performance next 12 Mos.)

SAFETY 3 Average (Scale: 1 Highest to 5 Lowest)

BETA 1.55 (1.00 = Market)

1987-89 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+130%)	26%
Low	40	(+65%)	16%

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BUSINESS: The Ryland Group, Incorporated specializes in on-site construction of single-family attached and detached homes. Also manufactures wood building materials and modular housing. Provides mortgage financing through wholly-owned subsidiary, Ryland Mortgage Company. Major markets: Pennsylvania, Maryland, Washington, Virginia, North Carolina, Ohio, Indiana, Texas and Florida. Acquired Cross Communities in 1978. '83 depreciation rate: 3.4%. Estimated plant age: 2 years. Has 725 stockholders, 820 employees. Directors own 15.6% of stock. Chairman & President: C.E. Peck. Incorporated: Maryland. Address: 10221 Wincopin Circle, Columbia, Maryland 21044.

This year holds more promise for Ryland than 1984. At the beginning of last year, Ryland, expecting rising housing starts, geared up to deliver 1,500-1,600 conventional units quarterly, a rate that didn't materialize. Overhead reductions during 1984 put Ryland in a leaner operating position at the beginning of 1985. Also, with rapidly rising mortgage rates last year, the company was forced to increase buydowns (up front mortgage payments to customers) between the contract signing and the closing, or risk having customers walk away from deals. This year, with real U.S. economic growth cooled off (1.6% forecast vs. 6.8% in 1984), we expect mortgage rates to average about one percentage point below the 1984 level, and not to run up sharply during the year. This situation would reduce buydowns at least moderately. **We estimate Ryland will earn $1.90-$2.00 a share in 1985,** and perform as well as most stocks in the year ahead. Despite the forecasted lower rates, we look for housing starts nationwide to be a bit below the year-ago level. However, we think Ryland's conventional deliveries will be up at least modestly. They will benefit from Ryland's expansion last year into Atlanta, Oklahoma City, Phoenix and Boca Raton, operations that contributed negligible deliveries in 1984. Also, expected moderately lower mortgage rates will encourage smaller builders, purchasers of Ryland's modular homes, to become more active. We estimate that sales of Ryland's modular operation, commenced in 1982, will expand 50% to $30 million this year, and that the unit will become profitable after losing money in 1984. **Ryland's modular home operations give the company an added dimension.** Big builders like Ryland require relatively large subdivisions in order to operate efficiently. With its modular operations, Ryland can cash in on the small, local builder market. Ryland sells a local builder the modular unit, which is a lookalike for Ryland's conventional home. The small builder does the site work, erects the unit and sells it directly to the customer. **Ryland shares have worthwhile capital gains potential to 1987-89,** when we estimate the company will earn $3.50 a share. We project there'll be a positive swing of close to 50¢ a share from the modular operation by that time.

A.K.B./N.T.

(A) Primary earnings. Excl. unusual gains: 1984, 7¢. Next earnings report due late Apr. (B) Next dividend meeting about Mar. 25. Goes ex about Apr. 8. Div'd paym't dates: Jan. 30, Apr. 30, July 30, Oct. 30. (C) In mill., adj. for stock splits & div'ds. (D) Specific identification.

Company's Financial Strength	B+
Stock's Price Stability	15
Price Growth Persistence	60
Earnings Predictability	35

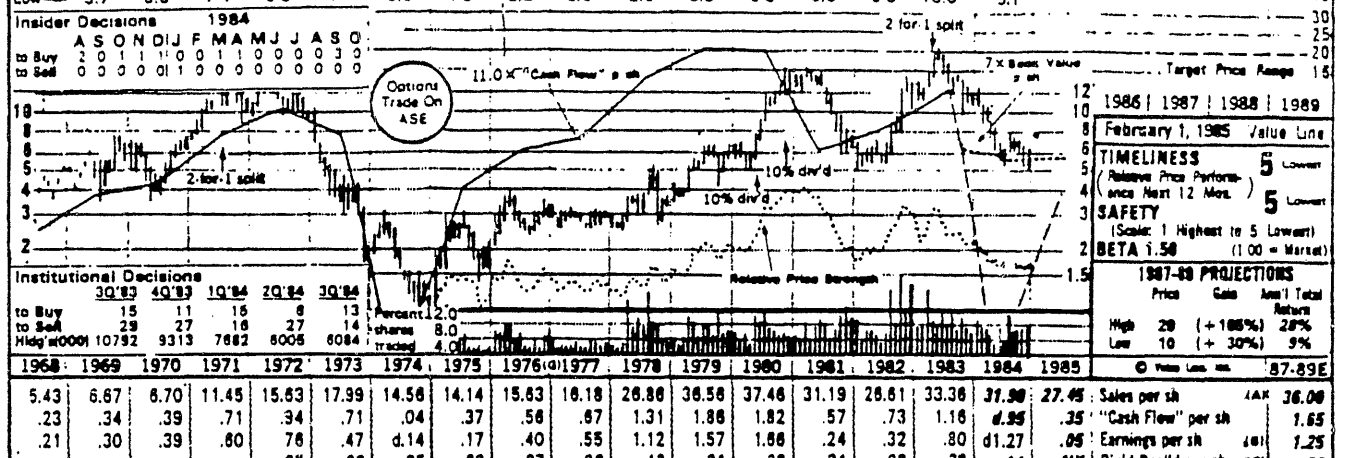
U.S. HOME NYSE-UH

RECENT PRICE 7.6 | P/E RATIO NMF (Trailing: NMF Median: 11.0) | RELATIVE P/E RATIO NMF | DIV'D YLD Nil | 894

High	7.9	7.8	16.1	15.3	10.5	3.3	3.3	4.2	3.5	5.4	8.9	16.4	16.5	14.9	20.8	13.0			
Low	3.7	3.6	7.4	8.9	1.4	0.8	1.0	2.2	2.6	2.6	3.5	5.0	6.0	5.0	10.0	5.1			

Insider Decisions 1984

	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
to Buy	2	0	1	1	1	0	0	1	1	0	0	0	0	3	0
to Sell	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0



Institutional Decisions

	3Q'83	4Q'83	1Q'84	2Q'84	3Q'84
to Buy	15	11	16	8	13
to Sell	29	27	16	27	14
Hldg's(000)	10792	9313	7682	6005	6084

February 1, 1985 Value Line

TIMELINESS 5 Lowest (Relative Price Performance Next 12 Mos.) 5 Lowest

SAFETY (Scale: 1 Highest to 5 Lowest)

BETA 1.50 (1.00 = Market)

1987-89 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	20	(+165%)	28%
Low	10	(+ 30%)	9%

1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985		1987-89E
5.43	6.67	6.70	11.45	15.63	17.99	14.56	14.14	15.63	16.18	26.86	36.56	37.46	31.19	26.61	33.36	31.90	27.45	Sales per sh	36.00
.23	.34	.39	.71	.34	.71	.04	.37	.56	.67	1.31	1.86	1.82	.57	.73	1.16	d.95	.35	"Cash Flow" per sh	1.65
.21	.30	.39	.60	.76	.47	d.14	.17	.40	.55	1.12	1.57	1.86	.24	.32	.80	d1.27	.05	Earnings per sh A	1.25
--	--	--	--	.05	.06	.05	.02	.07	.06	.12	.21	.28	.31	.08	.28	.14	Nil	Div'd Decl'd per sh B	.20
.56	1.41	2.71	3.28	4.17	4.54	4.18	4.05	3.97	4.43	5.44	6.74	8.52	8.38	8.84	9.37	8.85	8.20	Book Value per sh D	10.50
6.76	7.87	13.69	18.33	19.70	20.04	21.18	23.12	26.45	26.78	26.39	25.59	28.85	31.49	32.48	34.52	34.60	34.60	Common Shares Outst'g H	34.60
17.8	19.4	15.4	19.9	14.4	7.4	--	13.9	7.7	5.4	3.2	3.4	5.8	49.5	25.5	18.0	--		Avg Ann'l P/E Ratio	11.0
1.07	1.18	1.11	1.27	.99	.73	--	1.85	.99	.71	.44	.49	.77	6.01	2.81	1.52	--		Relative P/E Ratio	.90
--	--	--	--	.5%	1.8%	2.9%	.7%	2.1%	2.1%	3.5%	4.1%	2.9%	2.6%	1.0%	2.2%	1.9%		Avg Ann'l Div'd Yield	1.4%

308.3	327.0	413.5	433.4	708.7	935.3	1080.9	982.2	864.2	1151.8	1103.6	950	Sales ($mill) A	1250
4.8%	7.9%	8.6%	9.2%	10.8%	10.9%	9.4%	3.9%	4.5%	4.6%	NMF	.5%	Operating Margin	6.0%
--	52.4%	51.4%	50.4%	50.3%	45.4%	45.8%	31.6%	29.5%	30.3%	NMF	NMF	Income Tax Rate	40.0%
d3.0	4.2	10.6	14.7	30.0	41.0	44.3	6.8	10.1	27.6	d43.9	1.5	Net Profit ($mill)	43.0
NMF	1.3%	2.6%	3.4%	4.2%	4.4%	4.1%	.7%	1.2%	2.4%	NMF	.2%	Net Profit Margin	3.4%
112.5	99.3	112.1	145.9	223.7	289.0	321.7	190.3	203.4	273.2			Homes Inventory ($mill)	
120.5	123.6	166.7	186.4	184.2	224.9	244.8	327.6	312.7	315.9			Land Inventory ($mill)	
d63.0	d49.7	d53.3	5.6	d17.9	12.1	100.6	54.8	80.7	88.3	70.0	60.0	Working Cap'l ($mill)	90.0
58.6	49.5	72.1	141.0	99.1	164.7	207.8	254.1	231.3	228.3	275	270	Long-Term Debt ($mill)	200
89.5	95.2	106.5	119.6	144.2	172.5	245.8	263.8	280.7	323.6	275	280	Net Worth ($mill)	365
NMF	4.2%	7.6%	8.0%	14.2%	14.0%	12.6%	4.7%	5.6%	7.4%	NMF	3.0%	% Earned to Total Cap'l	9.0%
NMF	4.4%	10.0%	12.3%	20.8%	23.8%	18.0%	2.6%	3.6%	8.5%	NMF	.5%	% Earned Net Worth	12.0%
NMF	4.0%	8.5%	11.0%	18.6%	20.5%	15.0%	NMF	2.7%	5.6%	NMF	.5%	% Retained to Comm Eq	10.0%
NMF	11%	16%	12%	11%	14%	17%	NMF	25%	35%	NMF	Nil	% All Div'ds to Net Prof	16%

CAPITAL STRUCTURE as of 9/30/84
Total Debt $399.7 mill. Due in 5 Yrs $340 mill.
LT Debt $278.5 mill. LT Interest $32.0 mill.
Incl. $4.7 mill. 5½% debs. ('96) callable 103.025, conv. into 41.70 shs. at $23.97.
(LT interest earned: def.; total interest coverage: def.) (49% of Cap'l)

Pension Liability None in '83 vs. None in '82

Pfd Stock None

Common Stock 34,830,102 shs. (51% of Cap'l) as of 10/31/84

CURRENT POSITION ($MILL.)	1982	1983	9/30/84
Cash Assets	17.4	10.1	4.4
Receivables	31.2	30.1	30.0
Inventory (F)	203.4	273.3	279.0
Other	13.5	8.5	8.5
Current Assets	265.5	322.0	321.9
Accts Payable	40.3	57.5	55.4
Debt Due	78.2	93.0	121.2
Other	66.3	83.2	66.3
Current Liab.	184.8	233.7	241.9

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '81-'83 to '87-'89
Sales	7.6%	9.0%	2.5%
"Cash Flow"	0.5%	-0.5%	12.5%
Earnings	-3.0%	-8.0%	18.5%
Dividends	15.5%	23.0%	-2.0%
Book Value	8.0%	14.0%	3.0%

Cal-endar	QUARTERLY SALES ($ mill.) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	299.0	270.8	218.4	194.0	982.2
1982	173.2	223.4	201.3	226.3	864.2
1983	259.7	310.5	297.3	284.3	1151.8
1984	270.9	286.0	274.1	272.8	1103.6
1985	200	240	250	260	950

Cal-endar	EARNINGS PER SHARE (A) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.40	.18	.08	d.42	.24
1982	d.05	.07	.11	.19	.32
1983	.25	.28	.22	.06	.80
1984	d.09	d.16	d.67	d.35	d1.27
1985	d.20	Nil	.05	.20	.05

Cal-endar	QUARTERLY DIVIDENDS PAID (B) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1981	.08	.09	.09	.045	.31
1982	.02	.02	.02	.02	.08
1983	.04	.08	.08	.08	.28
1984	.08	.04	.02	--	.14
1985					

BUSINESS: U.S. Home Corporation is one of the largest U.S. builders of single-family housing, as well as multi-family residences and retirement communities. Also provides mortgage financing and manufactures wood and concrete building materials. Major housing markets: Florida, Texas, Colorado, Arizona, Minnesota, and New Jersey. Acquired Homecraft Corp. in '78; Brigadier, Interstate in '83. '83 depreciation rate: 25.6%. Has 5,500 stockholders; about 2,000 employees. Societe des Maison Phenix owns 12.7% of common stock; directors less than 5%. Chairman & C.E.O.: George H. Matters. President: Robert J. Strudler. Inc.: Delaware. Address: 1800 West Loop South, Houston, TX 77027.

U.S. Home has changed its strategy. The company's expansionary, speculative stance paid off during the highly inflationary 1970s. Between 1970 and 1980, U.S. Home's sales leaped over 1,000% to $1.08 billion and its income increased almost 860% to more than $44 million. However, this strategy, which relied heavily on rapidly increasing home and land prices, came a cropper in the last few years when high real interest rates and slowly appreciating home values made it far more costly to carry speculative inventory.

U.S. Home has cut back sharply. It reduced its standing inventory by $115 million between August and yearend, and the number of employees by 400 (20%). By December 31st, U.S. Home had about 250 subdivisions, compared with 317 at the beginning of 1984. The company also changed its top management. Chairman Guy Odom, who engineered the expansion of the 1970s, resigned, and George Matters, former President, became Chairman. U.S. Home took a write-off of $20.6 million (net of taxes) in the last half for anticipated losses in connection with its new look.

U.S. Home borrowed heavily to finance its expansion. At the end of 1970, the company had $5 million in debt, about 28% of total capital. We estimate long-term debt at the end of 1984 was $275 million, about 50% of total capital. The company's $150 million bank credit line, which expires on June 30, 1985, had about $75 million in unused credit at year-end 1984. U.S. Home has reduced its need for cash by cutting back its operations. Still, we rate the company Below Average (C+) for Relative Financial Strength, and the shares Lowest (5) for Safety.

We tentatively estimate that U.S. Home will make a small profit in 1985. Another deficit in the March quarter is likely. However, U.S. Home's new strategy and lowered costs could be producing profits by the second half. By 1987-89 we project income of $1.25 a share, considerably below the 1980 peak, but sufficient to give these shares substantial, albeit highly speculative, capital gains potential to that time.

A.K.B./N.T.

CASH POSITION	5-Year Av'g	9/30/84
Current Assets to Current Liabilities:	131%	133%
Cash & Equiv's to Current Liab'ties:	5%	2%
Working Capital to Sales:	7%	7%

(A) Fiscal year ends Feb. 28 prior to '77. (B) Primary earnings. Excludes extraordinary loss: '72, 20¢; gain: '81, 11¢; '82, 6¢. Next earnings report due late Apr. Estimated current cost egs./sh.: '83, 35¢. (C) Dividend suspended starting Oct. '84. (D) Includes intangibles. In '83: $19.8 mill., 57¢/sh. (E) Value Line classification. (F) Specific Ident. (G) Fiscal '77, 10 months. (H) In millions, adj. for stock splits & div'ds.

Company's Financial Strength	C+
Stock's Price Stability	15
Price Growth Persistence	75
Earnings Predictability	20

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Agencies Implementing the National Shelter Program

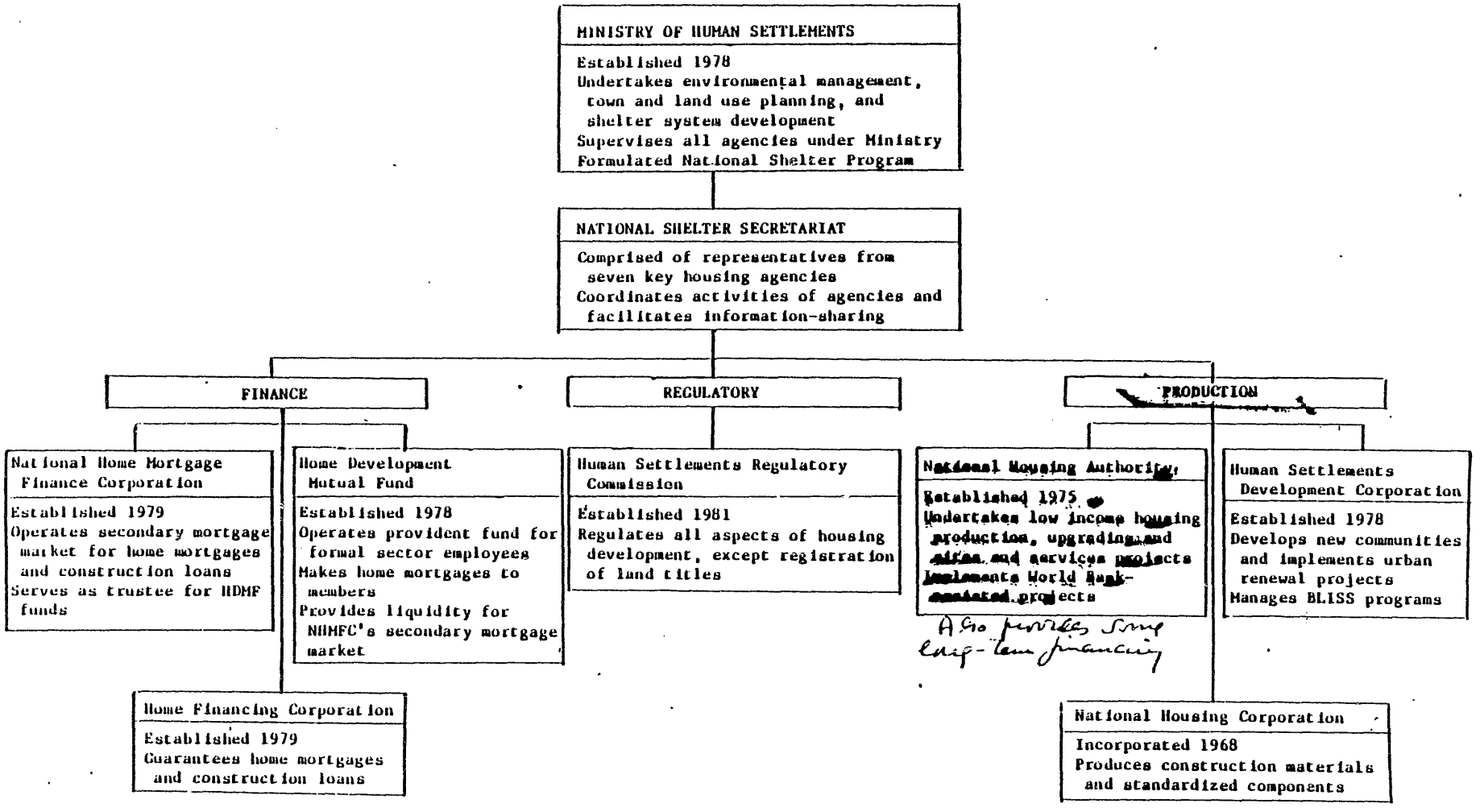


Figure 2.1

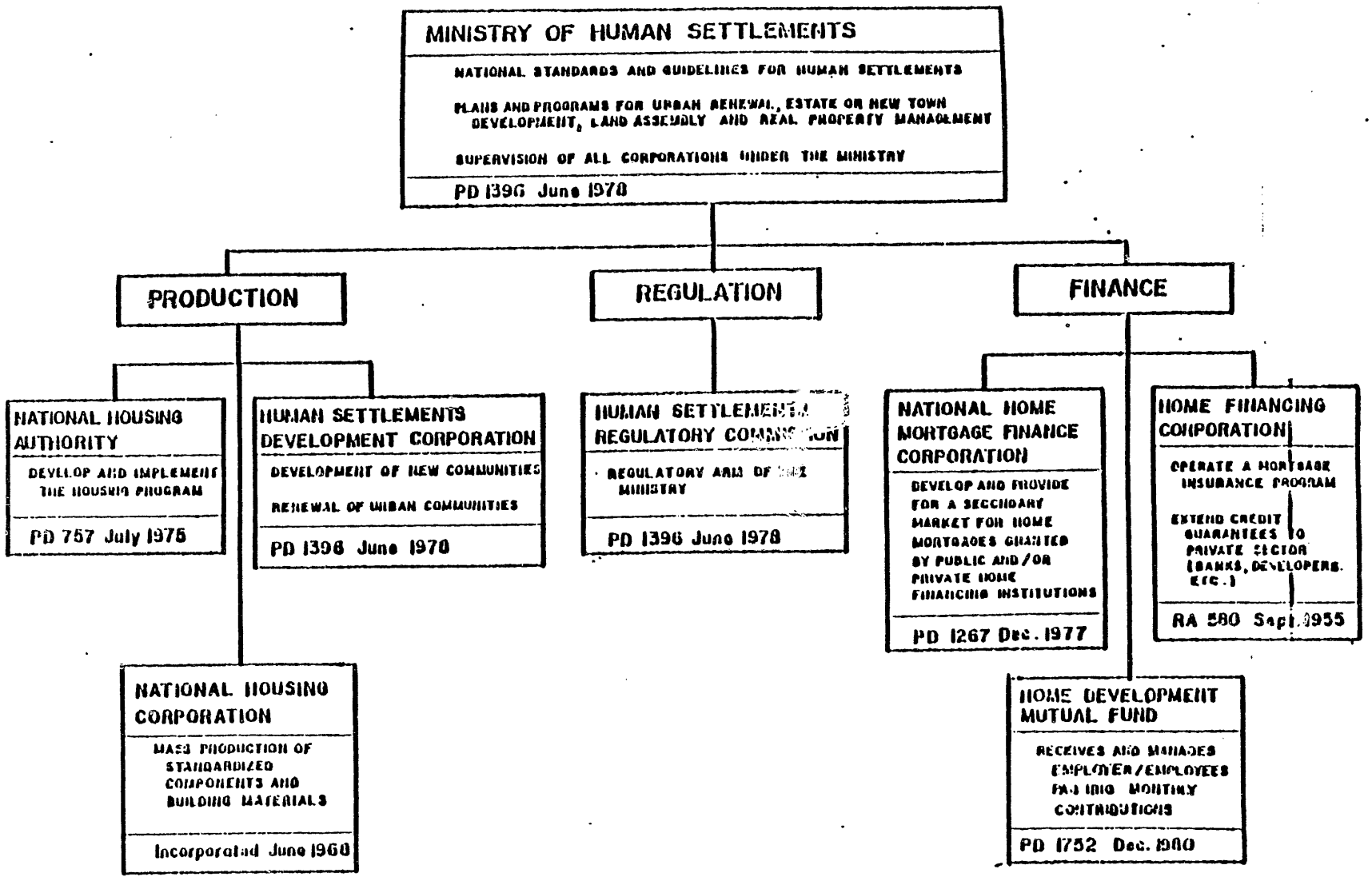


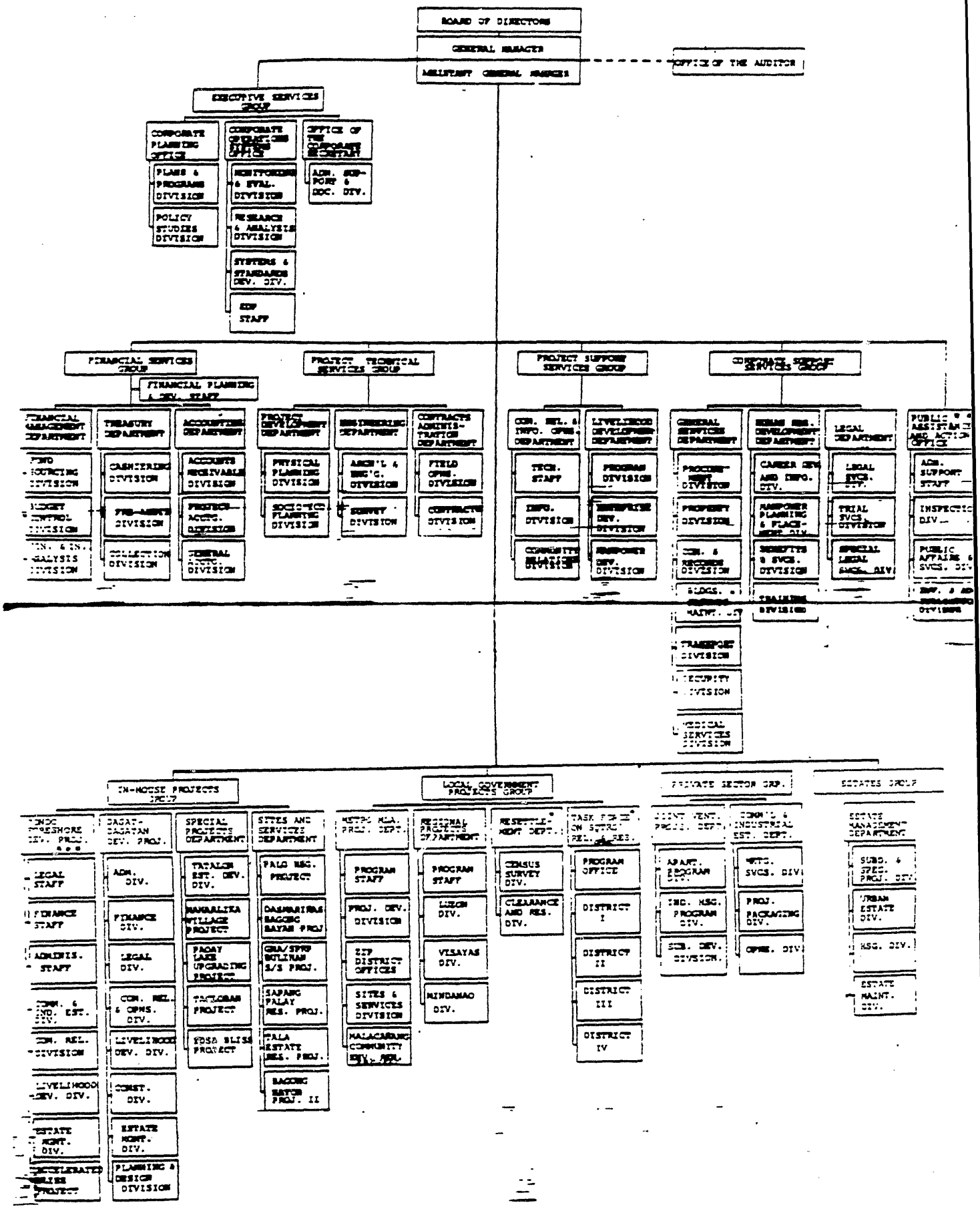
Figure 2.1 SHELTER AGENCIES UNDER THE SUPERVISION OF THE MINISTRY OF HUMAN SETTLEMENTS

NOTE: THE ABOVE AGENCIES, AMONGST OTHERS, WERE PLACED UNDER THE SUPERVISION OF THE MHS, UNDER PD 1396, JUNE 1978

Source: H. B. Henward report

NATIONAL HOUSING AUTHORITY

ORGANIZATIONAL CHART



* Merged into Resettlement and Development Services Department, per Board Resolution No. 943 effective 01 August '984.

** Dissolved per Office Order No. 4342, 26 July 1984

*** Reorganized per Office Order No. 4441, effective 01 August 1984.

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ANNEX F-1

SUMMARY OF NHA ACCOMPLISHMENTS
1975 - 1984

PROGRAM/PROJECT	YEAR 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	TOTAL
SLUM IMPROVEMENT											
A.TONDO FORESHORE						4,042	17,613 (CUM)*	1,063	-	-	18,676
SANITARY CORE HOUSES											18,327
ROW HOUSING UNITS											170
BAGONG LIPUNAN COND.											119
TULUYAN APT											60
COMM'L BUS											17
B.MM URBAN BLISS(ZIP)											
1.JUAN LUNA	-	-	-	-	-	52	364	234	5	11	666
2.LEVERIZA	-	-	-	-	-	-	-	-	115	87	202
3.BAGONG BARRIO	-	-	-	-	-	532	754	676	729	952	3,643
4.TAÑONG	-	-	-	-	-	142	222	42	-	-	406
5.TANGOS	-	-	-	-	-	61	30	87	135	411	724
6.HULO	-	-	-	-	-	97	333	543	287	7	1,267
7.CAPRI	-	-	-	-	-	-	-	710	341	79	1,130
8.SAN MARTIN	-	-	-	-	-	-	-	509	92	-	601
9.LANDLESS BARANGKA	-	-	-	-	-	-	-	-	456	9	465
10.MARICABAN	-	-	-	-	-	127	159	559	236	301	1,382
11.CAA	-	-	-	-	-	252	209	526	54	68	1,109
12.TRAMO LINE/ F.VICTOR	-	-	-	-	-	-	-	-	31	590	621
SUB-TOTAL(ZIP)						1,263	2,071	3,886	2,481	2,515	12,216
C.MM SPECIAL PROJECTS											
1.TAMBUNTING	-	-	-	-	-	-	-	19	125	31	175
2.SUNOG-APOG	-	-	-	-	-	-	-	30	194	-	224
3.BO.RODRIGUEZ	-	-	-	-	-	-	-	192	36	12	240
4.SITIO OLANDES	-	-	-	-	-	-	-	188	327	188	703
5.NHA LRT	-	-	-	-	-	-	-	23	308	30	411
SUB-TOTAL(MMSP)								432	990	288	1,710
D.REGIONAL CITIES (SIR)											
1.CAGAYAN DE ORO	-	-	-	-	-	364	672	1,367	898	120	3,421
2.CEBU	-	-	-	-	-	507	1,430	359	459	42	2,797
3.DAVAO	-	-	-	-	-	-	1,584	475	251	1,438	3,748
SUB-TOTAL(SIR)						871	3,686	2,201	1,608	1,600	9,966
E.TATALON ESTATE	-	-	-	-	-	259	-	107	64	135	1,739
F.BO.ESCOPA POD	-	-	-	-	-	150	-	-	-	-	150

*CUM - CUMULATIVE PRODUCTION AS OF YEAR INDICATED

...../

PROGRAM/PROJECT	YEAR 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	TOTAL
G.RURAL UPGRADING											
1.BO.HIPPODROMO	-	-	-	-	-	-	-	-	619	362	981
2.PAOAY LAKE	-	-	-	107	-	-	-	-	-	-	159
3.TOLOSA											31
4.BO.MAIMPIS								259			259
5.SAN FELIPE	-	-	-	-	-	-	-	-	364	-	364
SUB-TOTAL(RU)				107				259	986		1,794
SITES SERVICES											
A.DAGAT-DAGATAN						1,812	4,933 (CUM)*	567	1,800	2,156	9,456
B.DBB						2,251	7,284 (CUM)*	992	2,902	245	11,423
C.SAPANG PALAY							11,974 (CUM)*	1,043	-	-	13,017
D.TALA ESTATE							5,800 (CUM)*	2,036	3,736	2,563	14,135
E.ANDAM MOUSNAG			315	-	-	-	-	-	-	-	315
F.TATALON S.S.							60	269	21	-	350
G.BULIHAN S/S(IN-HOUSE)	-	-	-	-	-	-	-	1,845	2,310	718	4,873
H.BULIHAN S/S(JOINT VENTURE)	-	-	-	-	-	-	-	-	-	1,740	1,740
I.GMA	-	-	-	-	-	-	-	-	-	225	225
J.SPRP	-	-	-	-	-	-	-	-	-	-	-
K.BO. MAIMPIS	-	-	-	-	-	-	-	434	37	-	471
L.BO.SUAREZ ILIGAN	-	-	-	-	-	-	-	408	228	-	636
M.SIR S/S	-	-	-	-	-	-	-	-	1,940	780	2,720
N.BAGONG NAYON II	-	-	-	-	-	-	-	606	349	-	955
O.PASIG S/S	-	-	-	-	-	-	-	-	904	1,816	2,720
CONST. OF NEW UNITS											
A.NHA OWNED/ADMINISTERED PROJECTS											
1.KABITBAHAYAN	-	-	-	-	-	-	522	-	-	-	522
2.BLC I TAGUIG	-	-	-	513	-	-	-	-	-	-	513
3.BLC I PAG-ASA	-	-	-	-	-	336	176	-	-	-	512
4.MAHARLIKA VIL					232 (CUM)*	36	53	70	12	-	403
5.BAGONG NAYON	-	-	-	-	-	-	-	-	-	260	260
6.BALINTAWAK TEACHERS BLISS	-	-	-	-	-	-	-	-	220	-	220
7.TALA HOUSING PROJECT	-	-	-	-	-	100	-	-	-	-	100

PROGRAM/PROJECT	YEAR 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	TOTAL
8.NHA APT							49 (CUM)*				49
9.TATALON ESTATE:							80 (CUM)*				80
10.TACLOBAN,LEYTE:											
a.Tacloban Coastal Bliss								142			142
b.Fishermens Village									117		117
c.Palo Housing:									8		8
d.Tacloban Resettlement										400	400
11.NAGA HOUSING (MIA Teachers Bliss)								10			10
12.MIA MODULAR HOUSING								20	160		180
B.JOINT-VENTURE PROGRAM											
1.SUBDIVISON DEVT											
a.PN Roa						42	58				100
b.Sunvar						55	56				111
c.Stanfilco							105				105
d.NorthernHill:						40	118	20			178
2.APARTMENT HOUSING				6	103	109	394	335	244	75	1,266
3.DORMITORY PROGRAM											
a.Diaz-Castellamante									34		34
b.Unlad							61				61
c.Halili							136	24	38		198
d.NHA-Ilagan									10		10
e.R.LOPEZ										44	44
f.Espino										54	54
4.INDIVIDUAL HOUSING								8	17		25
5.TACLOBAN HOUSING									14	25	39
C.PAMBANSANG BAONG NAYON(PBN)											
1.CEBU						30	32	45	-	-	107
2.LEGASPI						-	-	81	121	100	302
3.MARAWI						-	-	30	383	-	413
4.TAWI-TAWI						46	77	-	-	-	123
D. ACCELERATED BLISS											
1.TONDO FORESHORE							39	31	31	11	112
2. DAGAT-DAGATAN								28	30	-	58

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Table 3.1: NHA COMPARATIVE BALANCE SHEET, 1979, 1980, 1981 AND 1982

	1979		1980			1981			1982		
	PM	%	PM	%	%Inc	PM	%	%Inc	PM	%	%Inc
SETS	1194.0	100	1518.1	100	27	1943.3	100	28	2635.0	100	36
rrent Assets	413.3	34	362.2	24	(12)	262.0	14	(28)	431.2	16	65
Cash	204.9	17	108.6	7	(47)	73.3	4	(33)	80.0	3	9
Others	208.4	17	253.6	17	22	188.7	10	(26)	351.2	13	86
vestments	653.9	55	1046.3	69	60	1488.7	76	42	1957.5	74	31
Projects under development[a]	453.6	38	704.6	47	55	1127.1	58	60	1506.3	57	34
Properties held for sale/rent	130.9	11	185.7	12	42	152.2	8	(18)	142.4	5	(6)
Interest bearing loans	59.6	5	111.1	7	86	181.8	9	64	254.0	10	67
Others	9.8	1	44.9	3	358	27.6	1	(39)	54.8	2	99
operty & Equipment	43.6	4	43.9	3	1	42.2	2	(4)	45.8	2	9
her Assets	83.3	7	65.6	4	(21)	150.4	8	129	200.5	8	33
ABILITIES	219.1	18	281.7	18	29	429.5	22	52	694.8	26	62
rrent Liabilities	71.9	6	137.4	9	91	151.8	8	10	147.7	5	(3)
erm liabilities blic debt)	69.0	6	94.5	6	37	170.9	9	81	412.0	16	141
her Liabilities	78.2	6	49.8	3	(36)	106.8	5	114	135.1	5	27
UITY	974.9	82	1236.4	82	27	1513.8	78	22	1940.2	74	28
id-in-Capital	405.7	34	590.1	39	45	865.8	45	47	1265.5	48	46
bsidy	330.4	28	425.2	28	29	418.6	21	(2)	442.9	17	6
rpluses & retained rnings	238.7	20	221.0	15	(7)	229.4	12	4	231.8	9	1
TAL LIABILITIES EQUITY	1194.0	100	1518.1	100	27	1943.3	100	28	2635.0	100	36
DICATORS											
rrent Assets/ rrent Liabilities	5.75		2.64			1.73			2.92		
blic Debt/Equity	0.07		0.08			0.11			0.21		
uity/Total abilities	4.45		4.39			3.52			2.79		

TE: (a) Comprises the Project Development Account and the TFDDP Special Financing Program
URCE: NHA Annual Audit Reports, 1979, 1980, 1981, 1982.

Table 3.8: STATEMENTS OF INCOME AND RETAINED EARNINGS, 1979 TO 1982

	DEC. 31.1979		DEC. 31. 1980		DEC. 31.1981		DEC. 31.198[illegible]	
	PM	%	PM	%	PM	%	PM	%
REVENUES	31.92	100	46.56	100	60.77	100	71.30	100
. Profits Realized	14.02	44	12.06	26	15.62	26	22.57	32
. Interest Earned	10.93	34	26.20	56	36.77	60	37.83	53
. Income from Rental	3.96	12	5.60	12	5.41	9	5.34	7
. Other Income	3.01	10	2.70	6	2.97	5	5.56	8
EXPENDITURES	29.87	100	42.68	100	54.85	100	69.00	100
. Operations	23.18	78	32.06	75	39.67	72	51.25	7[illegible]
. Interest + Bank Charges	0.02	-	1.02	2	5.85	11	8.89	13
. Depreciation	6.67	22	9.60	23	9.33	17	8.86	13
NET INCOME	2.05	-	3.88	-	5.92	-	2.30	-
Net Income after provision for tax	1.41	-	2.80	-	5.11	-	2.27	-
Net addition to retained earnings	1.22	-	2.04	-	7.54	-	2.22	-
Retained earnings (Dec. 31)	(7.33)	-	(5.29)	-	2.25	-	4.47	-
Net Income before interest	1.43	-	3.82	-	10.96	-	11.16	
INDICATORS								
Net Income after tax as % total assets	0.12		0.18		0.26		0.89	
Income before interest after tax as % total assets	0.12		0.25		0.56		0.42	
Net Income after tax as % of properties held for sale/rent + other investments	0.70		0.82		1.41		0.50	

SOURCE: NHA Annual Audit Reports, 1979, 1980, 1981 and 1982.

Table 10.1: PROJECTED BALANCE SHEET, 1983 TO 1988 (₱ MILLION)

	DEC.31 1983	DEC.31 1984	DEC.31 1985	DEC.31 1986	DEC.31 1987	DEC.31 1988
ASSETS						
Current Assets						
Cash	65	86	132	247	163	165
Others	109	114	119	123	126	128
Sub-Total (Current Assets)	174	200	251	370	289	293
Investments						
Project Development Account	1,362	1,409	1,320	1,361	1,409	1,464
Properties Held for Rent/Sale	501	760	881	962	1,088	1,193
Interest Bearing Loans	386	510	631	761	895	1,035
Others	55	55	55	55	55	55
Sub-Total (Investments)	2,304	2,734	2,887	3,139	3,447	3,747
Property and Equipment (Net)	43	40	37	34	31	28
Other Assets (Including ICR)	400	775	1,171	1,573	2,028	2,495
TOTAL ASSETS	2,921	3,749	4,346	5,116	5,796	6,563
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities	263	183	170	233	247	268
Long Term Liabilities -						
Public Debts	353	700	783	934	1,094	1,301
Other Liabilities	192	272	338	394	440	538
Sub-Total (Liabilities)	808	1,155	1,291	1,561	1,801	2,107
EQUITY						
Paid-In-Capital	1,434	1,872	2,212	2,549	2,919	3,294
Subsidy	477	545	597	643	689	735
Surplus and Retained Earnings	202	177	246	363	387	427
Sub-Total (Equity)	2,113	2,594	3,055	3,555	3,995	4,456
TOTAL LIABILITIES AND EQUITY	2,921	3,749	4,346	5,116	5,796	6,563

SOURCE: FMD Calculations, July 1983.

Table 10.2: PROJECTED INCOME STATEMENT, 1983 TO 1988 (₱ MILLION)

	DEC.31 1983	DEC.31 1984	DEC.31 1985	DEC.31 1986	DEC.31 1987	DEC.31 1988
REVENUES						
Profits Realized from Collection of ICR	31	68	192	260	123	129
Income from Rental	8	12	14	13	15	15
Int. Earned on Loans + Interest	54	49	60	69	69	83
TOTAL REVENUES	93	129	266	342	207	227
EXPENDITURES						
Operations	64	68	74	77	81	8[illegible]
Debt Service (Interest)	49	76	76	75	79	70
Depreciation	10	10	10	10	10	10
TOTAL EXPENDITURES	123	154	160	162	170	165
NET INCOME BEFORE TAX	(30)	(25)	106	180	37	62
Provision for Income Tax (35%)	-	-	37	63	13	22
NET INCOME AFTER TAX	(30)	(25)	69	117	24	40
RETAINED EARNINGS - BEGINNING	5	(25)	(50)	19	136	160
RETAINED EARNINGS - END	(25)	(50)	19	136	160	200

SOURCE: FMD Calculations, July 1983.

NHA DRAFT FIVE YEAR FINANCIAL PLAN, 1984 TO 1988 (₱ MILLION)

ITEM	1984	1985	1986	1987	1988
APPLICATION OF FUNDS					
1. Capital Program					
. Construction of New Units	80	85	85	90	100
. Sites and Services	240	250	280	310	325
. Slum Upgrading	240	250	280	310	325
. Resettlement Program	120	130	100	80	75
. Private Sector/Joint Venture	75	78	83	87	91
. Commercial/Industrial Estates	35	37	41	41	42
. Livelihood	10	10	11	12	12
Sub-Total (Capital Program)	800	840	880	930	970
2. Debt Service					
. Existing/Committed	138	258	277	171	160
. New Borrowings	1	14	39	73	109
Sub-Total (Debt Service)	139	272	316	244	269
3. Current Operating Expenditures					
. Project Administration & Maintenance	28	32	33	35	36
. Other COE	40	42	44	46	49
Sub-Total (COE)	68	74	77	81	85
TOTAL APPLICATION	1007	1186	1273	1255	1324
SOURCES OF FUNDS					
1. Beginning Balance	100	118	11	49	1
2. Credit Lines	20	40	-	50	20
3. Corporate + Other Receipts					
. Committed	216	527	679	505	519
. Additional Loan Funded Projects/Investments	-	-	3	12	54
4. Bonds	200	-	-	-	100
Sub-Total (Non Government)	536	685	693	616	694
5. Equity/Subsidy	234	246	246	246	246
6. GOP Releases for Foreign Assisted Projects	89	103	171	170	180
Sub-Total (OBM)	323	349	417	416	426
7. Foreign Exchange Component					
. Committed Loans	225	77	51	35	4
. Additional Loans	41	86	161	189	203
Sub-Total (FOREX)	266	163	212	224	207
TOTAL SOURCES	1125	1197	1322	1256	1327

Attorney Docket No. 5114

NHA Financial Review and Plan

SUMMARY AND RECOMMENDATIONS

SUMMARY

1. Total assets of the NHA as of December 31, 1982 stood at ₱2635 million of which 57% or ₱1506 million represents the value of projects under development. Net income after tax for 1982 amounted to ₱2.2 million or ₱11.1 million before interest giving a return of 0.4% on total assets. As of December 31, 1982, the total Government interest in the NHA was ₱1940 million (including paid in capital of ₱1265 million and subsidies of ₱433 million). The Authority also had liabilities of ₱695 million including long term debt amounting to ₱412 million.

2. The NHA continues to experience funding difficulties partially as a result of low corporate receipts and through the uncertainty in the amount of Government support and the timing of its releases. Nevertheless the Authority still continues to structure its budget proposals well in excess of capacity to obligate and disburse the funds raised.

3. The proportion of payments made to the obligations incurred has declined between 1980 and 1982. The payments for foreign assisted projects actually fell in 1982 over the 1981 level. Too often there have been excessive time differences between the allotment of funds and the first payment to contractors followed by significant delays over execution and completion of contracts.

4. The real costs of administration and design and supervision are high in relation to output and are likely to remain so until a greater productivity is achieved or the total staff and administrative costs are reduced or stabilised.

5. Total new allotments for the capital program amounted to ₱591 million in 1980 rising to ₱802 million in 1982. Payments for these years were ₱378 million and ₱580 million, respectively. Three quarters of the program has been directed to social housing with the remaining amounts for economic housing and other programs. Over the period slum upgrading programs have given way to those for the relocation of squatters. The geographical concentration of the program is overwhelmingly for the residents of Metro Manila with the share of investment for the regions decreasing in proportion and amounts.

6. Cost recovery from the projects of the Authority has not been given the support it has needed. Collections from projects and loan repayments are too small, costs incurred on behalf of other agencies have not been reimbursed, facilities have not been handed over for maintenance and operations once completed and pricing policies often involving subsidies at the outset have been imposed some for political purposes others out of choice.

7. Obligations for debt servicing are projected to increase significantly during the next five years over the past levels. Over ₱150 million per annum will be needed to service all current domestic and foreign obligations from 1985 onwards. Additional resources will be needed to service future borrowings.

8. Projections of financial resource availability indicate that between ₱787 million and ₱1178 million could be raised in 1984 with the high estimate based on the assumption that Government support for the Authority and its programs is given and that there is a significant improvement in the corporate receipts of the NHA. The low estimate assumes a continuation of present trends under which Government support is diminishing and only minimal improvement in corporate receipts expected. Under the same assumptions the available resources are estimated to be between ₱582 million and ₱1199 million in 1988.

9. The total capital program, representing the sum of the departmental programs, has been estimated at ₱1471 million for 1984 rising to ₱1773 million in 1988. With the addition of the projected debt service requirements and administration, maintenance and other current operating expenditures, the total financial requirements are projected at ₱1820 million in 1984 increasing to ₱2188 million in 1988.

10. On the basis of past performance and in view of the current implementing capacity it is unlikely that the NHA can in the future obligate more than ₱800 million per annum for new capital works.

11. The financial and administrative resource gap is such that the programs of the departments are unlikely to be implemented in full. Reductions to the capital programs were required to reduce the resource gap.

12. On the basis of a capital program of ₱800 million for new works in 1984, increasing at 5% per annum over the plan period, the projected debt servicing obligations and the administration, maintenance and current operating expenditure estimates, the table below summarises the draft plan: -

RECOMMENDATIONS

1. The NHA should request the Government to increase its authorized capital and obtain assurances that regular annual subscriptions of at least ₱200 million are made. With the addition of subsidies and releases of local counterpart funds for foreign assisted projects total government financial support required for the NHA is estimated at ₱323 million in 1984 rising to ₱426 in 1988.

2. The NHA should reorient its activities to those of a real estate developer and reduce its role as an end financing agency.

3. Regarding the plan itself, the NHA should:

   (i) prepare a complementary physical plan;

   (ii) submit the physical and financial plan to the NHA Board for approval and transmit to the Ministry of Human Settlements for endorsement as Ministerial policy; and

   (iii) update the plan annually.

4. In planning and budgeting:

   (i) the first year of the plan should form the basis of the annual budget proposals for that year;

   (ii) the plan should be prepared during July, August and September consistent in timing with the budget cycle;

   (iii) an Assistant General Manager should be responsible for the plan supported by the Financial Management Department and the Corporate Planning Group of the Executive Staff;

   (iv) the means of funding the foreign exchange component of foreign assisted projects requires review;

   (v) NHA should discuss with the Government the possibility of reclassifying fund releases for works undertaken on behalf of other agencies as grants.

5. Increasing Corporate Receipts is essential to the future of the NHA, to wit: -

   (i) improvements in productivity and output are needed;

   (ii) prices to be charged for the benefits should be the maximum possible so long as basic affordability criteria are satisfied for social housing lots;

(iii) collection efficiency must be improved throughout;

(iv) the NHA with Government support should actively pursue the recovery of costs incurred on behalf of other agencies, particularly from the MPWH;

(v) for future projects agreements with all line agencies should be entered into to recover costs made on their behalf prior to development; if not then costs should be charged to the beneficiaries where possible;

(vi) the turnover to local governments of roads, footpaths, drainage, public open-space and community facilities on all completed projects for maintenance and operation, should be hastened; if not then maintenance and operating charges for these facilities should be imposed on the beneficiaries until eventual turnover;

(vii) the NHA, supported by the MHS, should make arrangements with the NHMFC for the purchase of residential mortgages on all sites and services and joint venture projects;

(viii) bonds should only be used to fund development where outright sale is proposed or short term credit is to be provided;

(ix) the outright sale of economic or open market residential lots, commercial and industrial land should be encouraged;

(x) subsidised interest loans to beneficiaries should be phased out;

(xi) disposal of the properties held for rent should be encouraged, but where this if not possible the introduction of economic rents should be undertaken;

(xii) active steps should be taken to recover the costs invested in the resettlement program.

6. To improve corporate planning and performance the following studies should be conducted:

(i) a review and analysis of cost recovery from the resettlement sites;

(ii) the preparation of a long term Resettlement Program;

(iii) a financial and economic evaluation of the Commercial and Industrial Estates Development Program;

(iv) a financial and economic evaluation of the Joint Venture Program.

13. Although the program is assumed to match the Authority's likely ability to raise funds, it must be emphasized that this can only be achieved if:

(i) there is a significant improvement in the recovery of costs by the NHA from program beneficiaries;

(ii) Government support is given through the continued release of equity and subsidy at the 1983 and 1984 levels implying approval being given towards increasing the capitalization of the NHA, plus the continued releases of local counterpart funds for foreign assisted projects; approximately ₱400 million is needed each year;

(iii) the prompt and full payment by the local governments of all obligations to the NHA;

(iv) the reimbursement by the line agencies, in particular the Ministry of Public Works and Highways for costs incurred on works undertaken for components normally falling under their jurisdiction;

(v) the participation of the National Home Mortgage Finance Corporation into the social housing sector through the purchase of residential mortgages in sites and services projects;

(vi) further borrowings; and

(vii) agreements being reached regarding the release or payment of the foreign component of existing and future loans granted by the international funding agencies.

The failure to accomplish one or more of the above would mean that even the modest capital program proposed being further reduced and jeopardising the future of the Authority as a corporation. It is clear that the attainment of the plan not only rests with the Government committing both financial and political support to the programs of the NHA but also with the Authority according a far greater priority towards the recovery of all investments than it has in the past. A combination of these two would be successful, the failure of one or both would be catastrophic.